MEMORANDUM

November 13, 2006

TO: Management and Fiscal Policy Committee

FROM: Multi-Agency OPEB Work Group

SUBJECT: Update for November 27, 2006 MFP Committee Meeting

The purpose of this memorandum is to provide an update of County agencies' activities related to implementation of Governmental Accounting Standards Board (GASB) Statement 45, Financial Reporting for Other Post-employment Benefits (OPEB).

At the June 26, 2006 Management and Fiscal Policy Committee meeting on this subject, the Committee identified areas it would like to be updated on periodically. The areas identified and the current status of progress in those areas is covered below.

Status Report

- Update the actuarial valuations as of July 1, 2006, three years later than the current valuations.

  Attachment A provides a summary of the updated actuarial valuation results for the tax-supported agencies. WSSC valuation results are as of June 2005 and an updated valuation is being prepared.

  The updated results show that, assuming pre-funding, the Annual Required Contribution (ARC) for the tax-supported agencies is $240.0 million and the Actuarial Accrued Liability (AAL) is $2.6 billion. In the 2003 valuation, the pre-funding ARC was $190.5 million and the AAL was $1.8 billion.

- Assess the costs and benefits of different pre-funding options and make specific recommendations on the extent, timing, and phasing of pre-funding.

  Attachment A displays the budgetary impact of a five-year phase-in approach. The rating agencies have indicated that a phased-in approach is acceptable. While they have not specifically indicated the acceptable time frame, recent statements from the rating agencies focus on a five year period.

  Assuming a five-year phase-in approach, the budgetary impact in FY08 for the tax-supported agencies would be $38.9 million. This includes $31.9 million to meet the OBEB phase-in obligation and $7.0 million related to increased retiree benefit costs.

- Create a trust – perhaps effective July 1, 2007 – if the agency has not already done so.

  Attachment B provides an update for each agency on the work related to establishing OPEB trusts.

  M-NCPPC already has a trust in place. All other agencies are working with legal counsel to have a trust established effective July 1, 2007.

- Assess the full range of options for limiting liability, including collective bargaining implications that may vary by agency.

  Attachment B provides an update for each agency on the work related to exploring options for limiting liability.

- Use consultant assistance for the tasks that can draw on the growing body of experience from other jurisdictions.

  The agencies continue to work with their actuaries, each of which are providing OPEB consulting and related actuarial services to a number of governments, to address the requirements and options associated with implementation of the OPEB standards. The Council's consultant, Mr. Tom Lowman, attended the last meeting of the multi-agency OPEB work group and has been sharing his experiences with other jurisdictions. Several conferences held in Maryland recently by statewide groups like the Maryland Government Finance Officers Association, and by various actuarial, accounting, law, and investment banking firms have addressed and presented examples of activities going on in jurisdictions in Maryland and around the country related to plan design changes.

- Design and implement a communications plan to keep agencies, employees, and the public informed of developments on this issue.

  Agencies are currently focusing their work on developing the specific facts related to GASB 45. Once the factual foundation is developed, it can serve as the basis for communication with employees and the public.

Representatives from each agency will be present at the November 27, 2006 Committee meeting to answer questions about the material provided.

Attachments

OPEB
Actuarial Valuation Results and Key Assumptions
MFP Committee Meeting - November 27, 2006

	County	MCPS	College	M-NCPPC [7]	Subtotal Tax-Supported Agencies	WSSC [3]
Results - Incremental Cash Required for FY08:						
Full Prefunding (ARC):						
Normal PayGo increase - FY07 -> FY08 [9]	$ 1,480,790	$ 4,997,418	$ 180,000	$ 320,550	$ 6,978,758	$ -
Additional cash required to fund ARC	70,100,000	80,300,000	3,032,000	6,052,500	159,484,500	9,712,000
Total additional cash required	$ 71,580,790	$ 85,297,418	$ 3,212,000	$ 6,373,050	$ 166,463,258	$ 9,712,000
5-yr Phase-in Above PayGo - First Year:						
Normal PayGo increase - FY07 -> FY08 [9]	$ 1,480,790	$ 4,997,418	$ 180,000	$ 320,550	$ 6,978,758	$ -
1/5 phase in to the ARC	14,020,000	16,060,000	606,400	1,210,500	31,896,900	1,942,400
Total	$ 15,500,790	$ 21,057,418	$ 786,400	$ 1,531,050	$ 38,875,658	$ 1,942,400
ARC as % of PayGo [5]	3.18	2.87	2.21	3.16		2.03
Actuarial Accrued Liability (AAL) [6]	$1,100,530,000	$ 1,299,000,000	$ 57,800,000	$ 94,695,750	$ 2,552,025,750	$ 200,000,000
Assumptions						
Discount Rate, assuming Full Prefunding [1]	8%	7.50% [2]	8%	7.50% [2]		8%
Actuarial Method	Projected Unit Credit Cost	Projected Unit Credit Cost	Projected Unit Credit Cost	Projected Unit Credit Cost		Projected Unit Credit Cost
Amortization Method	Level % of Pay	Level % of Pay	Level % of Pay	Level % of Pay		Level $ [4]
Medical Cost Trend Rate (post 65)	10% -> 5%	10% -> 5.25% [8]	10% -> 5%	10% -> 5%		13% -> 5.5%

NOTES:

Council Policy Action

(1) Under a multi-year phase-in scenario, use of discount rate higher than operating investment rate (~ 4%) for accounting and budgeting purposes assumes that the County Council will have an adopted written policy of its intent to phase-in full funding of the incremental difference between PayGo and the ARC on an amortized even basis over a specific number of years (i.e., 5) beginning in FY08. Absent such a policy, County agencies would be required to record OPEB liabilities in their financial statement of almost twice as much as liabilities required with such a policy.

Differences Between Agencies

(2) Agency rate is lower than County rate, since agency has used a rate consistent with its pension plan, which is lower than County's pension plan rate.
(3) WSSC valuation is as of June 2005, prepared in March 2006; updated valuation not yet prepared.
(4) WSSC used Level Dollar amortization method, which would result in higher costs than the Level % of Pay method.

Other

(5) PayGo for this calculation includes Implicit Rate Subsidy Per Bolton Partners, Inc. 7/19/2006 GASB45 Survey range of ratio for 8 Maryland counties is 2.96 - 4.07. State of MD is about 3.2.
(6) AAL is based on full prefunding.
(7) M-NCPPC valuation is for Montgomery and Prince George's Counties combined. *This analysis assumes 45% relates to Montgomery County.*
(8) MCPS medical cost trend represents an average across medical and prescription.
(9) Assumes there will be a policy decision at the agency level to dedicate Medicare Part D subsidies to fund OPEB costs.

OPEB
Full Prefunding Calculation - and Assumed Sources of Full Funding of the ARC

Full Prefunding Calculation	Ref	County	MCPS	College	M-NCPPC - (PG & MC)	Mont Cty Portion of M-NCPPC [1]	Subtotal Tax-Supported Agencies	WSSC [9]	
Full Prefunding (ARC) [4]	A	$ 102,320,000	$ 123,300,000	$ 5,532,000	$ 19,669,000	$ 8,851,050	$ 240,003,050	$ 19,112,000	
Less: FY08 benefit payments [4] (F&G)	B	26,720,000	43,000,000	2,500,000 [10]	4,919,000	2,213,550	74,433,550	9,400,000	[7]
Less: Implicit Rate subsidy	E	5,500,000 [4]	- [6]	- [4]	$ 1,300,000 [4]	585,000	6,085,000	-	[8]
Equals: Additional FY08 funding required for ARC	C	$ 70,100,000	$ 80,300,000	$ 3,032,000		$ 6,052,500	$ 159,484,500	$ 9,712,000	
Anticipated Funding Sources for Additional FY08 Benefits:									
FY08 Benefit Payments	B	$ 26,720,000	$ 43,000,000	$ 2,500,000		$ 2,213,550	$ 74,433,550	$ 9,400,000	[7]
Less amount to be funded by:									
Medicare Part D subsidy [2]	D	730,000 [4]	2,900,000 [6]	150,000 [4]	$ 300,000 [4]	135,000	3,915,000	-	[8]
Equals total employer cash required		25,990,000	40,100,000	2,350,000		2,078,550	70,518,550	9,400,000	
Less: Approved FY07 PayGo [5]	F	24,509,210 [3]	35,102,582	2,170,000		1,758,000	63,539,792	9,400,000	[7]
Equals additional FY08 cash required for FY08 Benefits	G	$ 1,480,790	$ 4,997,418	$ 180,000		$ 320,550	$ 6,978,758	$ -	
Proof of FY08 ARC by Funding Source									
Medicare Part D subsidy [2]	D	$ 730,000	$ 2,900,000	$ 150,000		$ 135,000	$ 3,915,000	$ -	[8]
Implicit Rate Subsidy	E	5,500,000	-	-		585,000	6,085,000	-	[8]
FY07 PayGo	F	24,509,210	35,102,582	2,170,000		1,758,000	63,539,792	9,400,000	[7]
Additional Cash Required for FY08 Benefits	G	1,480,790	4,997,418	180,000		320,550	6,978,758	-	
Additional Funding for the ARC	C	70,100,000	80,300,000	3,032,000		6,052,500	159,484,500	9,712,000	
Total - FY08 ARC	A	$ 102,320,000	$ 123,300,000	$ 5,532,000		$ 8,851,050	$ 240,003,050	$ 19,112,000	

NOTES:
(1) M-NCPPC valuation is for total plan, which includes Montgomery and Prince George's employees/costs. Per M-NCPPC, Montgomery County portion is approximately 45%. ARC amounts and benefit payments per the actuary, under full prefunding scenario, have been adjusted in this column to reflect 45% of amount in the actuarial valuation.
(2) Assumes there will be a policy decision at the agency level to dedicate Medicare Part D subsidies to fund OPEB costs.
(3) County FY07 approved PayGo includes $23,924,080 NDA appropriation, plus $585k projected participating agency contibutions, for total of $24,509,210.
(4) Source: Actuarial 5-yr calculations and accompanying schedule(s).
(5) Source: Council (Sherer/Farber) spreadsheet labelled "Tax Supported Salaries and Benefits by Agency" - FY07 amounts.
(6) Source: MCPS.
(7) WSSC benefit payments represent payments for FY06. Valuation to be updated.
(8) WSSC information not yet available.
(9) WSSC valuation is as of June 2005, prepared in March 2006; updated valuation not yet prepared.
(10) MCC FY08 expected benefit payments provided by MCC rather than projected amount per valuation, which appears understated.

OPEB
5 Year Phase-In Calculation - and Assumed Sources of Funding

5-Year Phase-In Calculation	Ref	County	MCPS	College	M-NCPPC - (PG & MC)	Mont Cty Portion of M-NCPPC (1)	Subtotal Tax-Supported Agencies	WSSC (5)	
Full Prefunding (ARC)		$ 102,320,000	$ 123,300,000	$ 5,532,000	$ 19,669,000	$ 8,851,050	$ 240,003,050	$ 19,112,000	
Less: FY08 benefit payments (B&C)		26,720,000	43,000,000	2,500,000	4,919,000	2,213,550	74,433,550	9,400,000	(3)
Less: Implicit Rate subsidy		5,500,000	-	-	1,300,000	585,000	6,085,000	-	(4)
Equals: Additional FY08 funding required for ARC		$ 70,100,000	$ 80,300,000	$ 3,032,000		$ 6,052,500	$ 159,484,500	$ 9,712,000	
1/5 Phase-In Amount	A	$ 14,020,000	$ 16,060,000	$ 606,400		$ 1,210,500	$ 31,896,900	$ 1,942,400	

FY08 Total Contribution Towards ARC by Funding Source	Ref	County	MCPS	College	M-NCPPC - (PG & MC)	Mont Cty Portion of M-NCPPC (1)	Subtotal Tax-Supported Agencies	WSSC (5)	
Medicare Part D subsidy (2)		$ 730,000	$ 2,900,000	$ 150,000		$ 135,000	$ 3,915,000	$ -	(4)
Implicit Rate Subsidy		5,500,000	-	-		585,000	6,085,000	-	(4)
FY07 PayGo	B	24,509,210	35,102,582	2,170,000		1,758,000	63,539,792	9,400,000	(3)
Additional Cash Required for FY08 Benefits	C	1,480,790	4,997,418	180,000		320,550	6,978,758	-	
Additional Funding for the ARC	A	14,020,000	16,060,000	606,400		1,210,500	31,896,900	1,942,400	
Total - FY08 ARC		$ 46,240,000	$ 59,060,000	$ 3,106,400		$ 4,009,050	$ 112,415,450	$ 11,342,400	

NOTES:

(1) M-NCPPC valuation is for total plan, which includes Montgomery and Prince George's employees/costs. Per Al M-NCPPC, Montgomery County portion is approximately 45%. ARC amounts and benefit payments per the actuary, under full prefunding scenario, have been adjusted in this column to reflect 45% of amount in the actuarial valuation.
(2) Assumes there will be a policy decision at the agency level to dedicate Medicare Part D subsidies to fund OPEB costs.
(3) WSSC benefit payments represent payments for FY06. Valuation to be updated.
(4) WSSC information not yet available.
(5) WSSC valuation is as of June 2005, prepared in March 2006; updated valuation not yet prepared.

Status of OPEB Trust Establishment and Plan Design Change Considerations

Agency	Trust Establishment	Plan Design Change Considerations
County	The County is currently in the early stages of legal work in establishing a trust. Discussions have been held addressing the options involved, and the Office of the County Attorney is identifying policy decisions to be made, including the scope of activity/contributions to be included in the trust. Parallel work has been initiated to start work on drafting the trust documents. The County anticipates creation of legislation and a separate trust document, similar to the approach used in establishing the Deferred Compensation Plan. The County intends for the trust to be effective July 1, 2007.	The County has begun work with our actuary to develop short and long-term plan design strategies, and to cost out the savings associated with such strategies. For the majority of our employees, the implementation of specific strategies could be subject to collective bargaining. Regarding benefits for represented employees, those benefits would be the subject of collective bargaining.
MCPS	MCPS is working with our attorney to have the legal structure for the trust in place for July 1, 2007. We anticipate having the trust investment policy and oversight parallel our pension trust.	MCPS made significant changes to the benefit plan offered to retirees in 2002. Retirees pay 36 percent of the plan cost while MCPS pays 64 percent. MCPS mandates that Medicare eligible retirees enroll in Medicare, and are covered by a Medicare supplement plan or an HMO. The point-of-service plans are not available to Medicare eligible retirees. MCPS changed its prescription drug plan in 2002. Co-pays were increased, and use of generic drugs and mail order pharmacy for purchasing maintenance medications was made mandatory. MCPS is working with the unions and retiree association to review plan design in the context of the GASB funding challenge.

Status of OPEB Trust Establishment and Plan Design Change Considerations

College	The College has evaluated the various options available and we are in the preliminary phases of establishing a trust. The trust will not be established until July 1, 2007.	The College is evaluating ways to change the eligibility criteria for retiree group insurance benefits (i.e., make it more restrictive). Currently, employees that have worked 5 years are eligible for retiree group insurance; the College contributes 40% of the premium and the retirees contribute 60% of the premium. Employees that have 10 years of service or more are eligible for retiree group insurance, where the College contributes 60% of the cost of the premium and the retiree pays 40% of the premium.
M-NCPPC	M-NCPPC has a trust in place with a balance of approximately $130,000. There are no changes in this trust anticipated.	M-NCPPC had a study of Retirement Health Insurance benefits done in June 2006 by Aon Consulting. This study compared benefits of the Commission with Montgomery and Prince George's County Governments, Montgomery County Public Schools, Montgomery College and Washington Suburban Sanitary Commission. Based on that study, a Commission committee is reviewing possible plan design changes. However any proposed changes must first be reviewed and approved by the Commission. Amendments that legal counsel determines fall within the scope of collective bargaining will then need to be agreed upon with respective union representatives.
WSSC	Outside Counsel has advised that WSSC has the legal authority to establish a trust and the Commission plans on doing so for FY08.	Many jurisdictions are looking at revising their plans to pro-rate the employer subsidy based upon years of service at time of retirement. The Commission has already implemented such a cost sharing formula for retiree health, with 20 years of service required to receive the full employer subsidy. Also, several years ago, the Commission reduced the employer subsidy for all health plans from 85% to 80%. Additionally, the cost sharing percentage for the Point-of-Service plan, in which most retirees participate, was further reduced to 78%. We have also increased co-pays in recent years and continue to annually review plan design for further cost containment.