

Montgomery County Government

2019 OPEB Valuation

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Agenda

- Changes from Prior Year
- Valuation Results (ADC)
 - **Full Rebate**
 - **Phased in Rebate**
- Plan Accounting GASB74
- Employer Accounting GASB75
- Possible Changes in Amortization Period
- Actuarial Certification

Changes from Prior Year

- Higher Prescription Drug Rebates
- Cadillac Tax not included in ADC
- Updated Medical Trend
- Change from Amounts Based to Lives Based Mortality
- Experience Study with Updated Decrements

Higher Prescription Drug Rebates

- In prior year, prescription drug rebates were 11% of charges
- Starting 1/1/2020 higher negotiated rebates as a result of prescription drug RFP
 - **Increased offset from 11% to 23.3% of post-65 prescription drug costs**
 - **Increased offset from 11% to 33.0% of pre-65 prescription drug costs**
- County could consider building some conservatism in this assumption for this valuation and revisit the actual experience for the next valuation

Cadillac Tax

- Excise tax on high cost plans
- Thresholds increase by CPI and will eventually impact all plans
- The effective date of the law has been delayed twice from 2018 to 2020 and to 2022
- House repealed the tax, but not the Senate
- Required to model impact by GASB75, but there is no such requirement for funding

Updated Medical Trend

- The trend is now based on the Society of Actuaries (SOA) long-term trend model
- The model is flexible and transparent
- Drop down menu with a range of reasonable assumptions
- County selected the following economic assumption model inputs
 - **2.40% inflation**
 - **1.25% real growth**
 - **1.20% excess medical growth**
 - **Share of GDP when cost growth meets resistance 15%**
 - **In 2040 medical costs are limited to growth in GDP**
- Ultimate health care spending as a percent of GDP is 21.0%

Lives Based Mortality

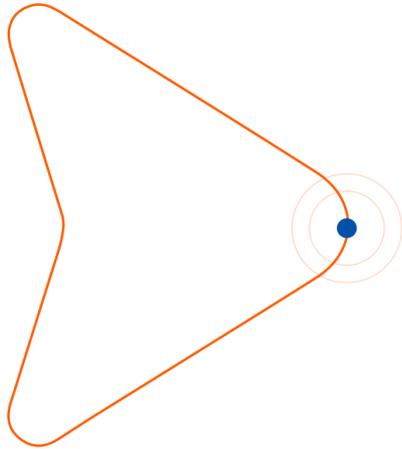
- Experience Study goal is that there are no expected gains or losses
- Those with higher pensions live longer than those with lower pensions
- Pension plan Experience Study – the amount of pension dollars that are released due to deaths
- The pension assumptions have to build in a margin for the longer life expectancy of those with higher annuities
- OPEB benefits are the same regardless of income
- OPEB plan Experience Study – the number of deaths
- The result is a higher mortality assumption for OPEB with lower liabilities

Experience Study

- Performed by pension actuary
- New retirement assumptions
 - **Separate post-DROP OPEB retirement rates for groups E, F, and G**
- New turnover assumptions
- New career salary increase assumptions (used for accounting)
- Long term expected rate of return unchanged (7.50%)

Funding and Accounting Reconciliation (\$000s)

| | FY2020 ADC | 6/30/18 to 6/30/19 GASB74 Net OPEB Liability |
|--|------------|---|
| Prior Report | \$106,166 | \$1,331,064 |
| Expected Increase | N/A | \$35,488 |
| Increase due to data, assets and change in Actuary | \$13,362 | (\$9,740) |
| Increase due to claims experience | (\$10,586) | (\$109,707) |
| Increase due to pharma RFP response | (\$16,711) | (\$201,755) |
| Increase due to elimination of Cadillac tax | (\$1,331) | N/A |
| Increase due to new trend | (\$13,429) | (\$158,901) |
| Increase due to lives based mortality | (\$1,699) | (\$13,359) |
| Increase due to OPEB Specific DROP Assumptions | (\$2,116) | (\$24,545) |
| Increase due to new demographic assumptions | (\$1,506) | (\$23,442) |
| Increase due to change in discount rate | N/A | \$28,330 |
| 2019 Report | \$72,150 | \$853,432 |



Funding the Actuarial Determined Contribution

ADC Projections – Full Rebate (\$000s)

| | Fiscal 2020 | Fiscal 2021 | Fiscal 2022 | Fiscal 2023 |
|---------------------------|------------------|------------------|------------------|------------------|
| Actuarial Liability | \$1,153,143 | \$1,219,256 | \$1,286,217 | \$1,354,029 |
| Assets | <u>\$553,756</u> | <u>\$611,165</u> | <u>\$671,321</u> | <u>\$734,250</u> |
| Unfunded Liability | \$599,387 | \$608,091 | \$614,896 | \$619,779 |
| ADC | | | | |
| Normal Cost | \$35,530 | \$36,838 | \$38,193 | \$39,599 |
| Amortizations | \$34,715 | \$35,219 | \$35,613 | \$35,896 |
| Other | <u>\$1,905</u> | <u>\$3,922</u> | <u>\$5,935</u> | <u>\$6,074</u> |
| ADC | \$72,150 | \$75,979 | \$79,741 | \$81,569 |
| Employer Subsidy Explicit | \$52,104 | \$57,273 | \$62,613 | \$68,260 |
| Employer Subsidy Implicit | <u>\$4,383</u> | <u>\$4,535</u> | <u>\$4,623</u> | <u>\$4,655</u> |
| Net Trust Contribution | \$15,663 | \$14,171 | \$12,505 | \$8,654 |

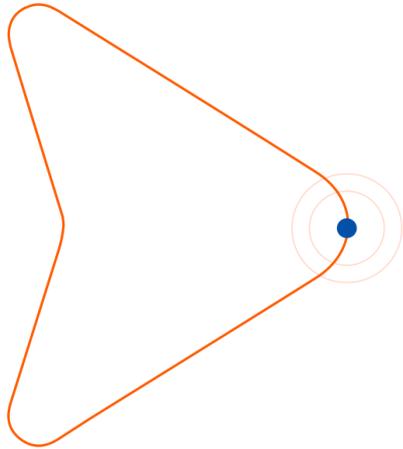
ADC Method

- Projected Unit Credit Actuarial Funding Method
- 7.5% rate of return
- 30-year open amortization
- Level percent of pay
- Payroll increasing 3.0% of pay

6-year Projection – Full Rebate

Additional Contributions for Participating Agencies
ADC minus Pay go Cost (\$000s)

| Fiscal Year | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|-------------------------|---------------|---------------|---------------|--------------|--------------|------------|----------------|
| County | 15,229 | 13,780 | 12,159 | 8,415 | 4,747 | 810 | (3,026) |
| Assessment and Taxation | 23 | 20 | 18 | 12 | 7 | 1 | (4) |
| Credit Union | 24 | 22 | 19 | 13 | 8 | 1 | (5) |
| Housing Opportunities | 308 | 279 | 246 | 170 | 96 | 16 | (61) |
| Revenue Authority | 54 | 49 | 43 | 30 | 17 | 3 | (11) |
| Strathmore Hall | 16 | 14 | 13 | 9 | 5 | 1 | (3) |
| Friendship Heights | 6 | 5 | 5 | 3 | 2 | 0 | (1) |
| Washington Suburban | 3 | 2 | 2 | 2 | 1 | 0 | (1) |
| Total | 15,663 | 14,171 | 12,505 | 8,654 | 4,883 | 832 | (3,112) |



Plan Accounting GASB74

GASB74 Accounting as of June 30, 2019

- For plan accounting (GASB75 employer accounting)
- Measurement date must be 6/30/2019
- Focus on liabilities and assets
- Liability
 - **Entry Age Normal Funding**
 - **Discount rate depends on contribution policy**

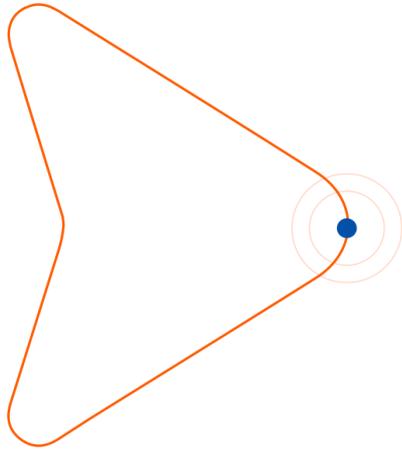
Comparison of GASB74 Results – Full Rebate

| | June 30,2018 Measurement Date (\$000s) | June 30,2019 Measurement Date (\$000s) |
|--------------------------------------|--|--|
| Long Term Rate of Return | 7.50% | 7.50% |
| Bond Rate | 3.87% | 3.13% |
| Discount Rate | 6.26% | 6.10%* |
| Liabilities (total OPEB Liability) | \$1,823,142 | \$1,407,188 |
| Assets (Plan Fiduciary Net Position) | \$492,079 | \$553,756 |
| Unfunded (Net OPEB Liability) | \$1,331,064 | \$853,432 |
| Funded Percentage | 26.99% | 39.35% |

* The discount rate if the rebate phase in were selected would decrease an estimated 9 basis points. The effect on the total OPEB Liability would be an increase of an estimated \$60 million.

GASB74 Discount Rate

- Benefit payments made when plan is projected to be solvent are discounted at 7.50%
- Benefit payments made when plan is projected to be insolvent are discounted at the bond rate (3.13% in 2019)
- Assume ADC is made in the future
- Assume 7.50% return on assets
- Plan is projected to be insolvent in 2063



Employer Accounting GASB75

Overview of GASB75

- There is a choice of measurement dates
- Montgomery County has selected the last day of the prior fiscal year as the measurement
- The 6/30/19 GASB74 results are the basis of FY2020 Employer Accounting
- The plan is a cost sharing plan
- Liabilities are allocated based on ADC

GASB75 Expense and Deferred Inflows and Outflows

- The expense should be just the change in the unfunded liability (Net OPEB position)
- Investment gains or losses are recognized over 5 years
- Plan changes are recognized immediately
- Other changes (experience and assumption changes are recognized over the expected future working lifetime, with retirees included in the weighting

GASB75 FY2020 expense

By Agency (\$000s)

| | ADC | Percent of ADC by Agency | 2019 Percent of ADC by Agency | Net OPEB Liability Allocated To Agency |
|-------------------------|-----------------|--------------------------|-------------------------------|--|
| County | \$70,154 | 97.23% | 97.06% | \$829,830 |
| Assessment and Taxation | \$104 | 0.14% | 0.14% | \$1,228 |
| Credit Union | \$112 | 0.16% | 0.10% | \$1,325 |
| Housing Opportunities | \$1,419 | 1.97% | 2.09% | \$16,781 |
| Revenue Authority | \$248 | 0.34% | 0.35% | \$2,936 |
| Strathmore Hall | \$73 | 0.10% | 0.20% | \$862 |
| Friendship Heights | \$27 | 0.04% | 0.03% | \$320 |
| Washington Suburban | \$13 | 0.02% | 0.02% | \$150 |
| Total | \$72,150 | 100.00% | 100.00% | \$853,432 |

Possible Changes in Amortization Period

- The current policy is 30 year open amortization
 - **Under this policy the liabilities are never scheduled to be paid**
 - **The unfunded is expected to increase annually**
- The considerable decrease in the target presents a window to tighten up the amortization
- Consider closing the amortization period
 - **No immediate increase in the appropriation**
 - **Initial increases would be small**
 - **The GASB discount rate would increase and might be 7.50 percent**
 - **The unfunded would not decrease until the amortization is 22 years or less**
- Consider shortening the amortization period to 25 years
 - **There would be an increase in the FY2020 appropriation from \$72,150,000 to \$75,906,000**

Required ASOP 41 Disclosure

- This presentation has been prepared for Montgomery County Government for the purposes of presenting the results of the Actuarial Valuation. It is neither intended nor necessarily suitable for other purposes. Bolton Partners is not responsible for the consequences of any other use. The draft Actuarial Valuation Report discloses the data we relied upon, the actuarial methods and assumptions, and include other required disclosures under Actuarial Standard of Practice (ASOP) #41.
- Future medical care cost increase rates are unpredictable and could be volatile. They will depend upon the economy, future health care delivery systems and emerging technologies. The trend rate selected is based on an economic model developed by a health care economist for the Society of Actuaries. Future medical trend increases could vary significantly from the model. Model inputs will be updated periodically based on the best estimate of the economy at that time. Small changes in the model inputs can result in actuarial losses or gains of 5-15% of the liabilities.