

# Town of Sudbury

## Postemployment Benefits Other Than Pensions (OPEB)

July 1, 2013 GASB 45 Valuation

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# What is GASB 45?

- Accrual accounting for **Other Post Employment Benefits (OPEB)**
- Benefits valued are retiree medical, dental, life insurance, etc.
- Establishes standards for measurement, recognition and display of OPEB expense and liabilities in the financial statements of governmental employers
- GASB 45 ***does not*** require funding OPEB liabilities, just reporting them

# What is GASB 45?

- Perform actuarial valuation *every other year*
- Develop expense called Annual Required Contribution (*ARC*)
  - Value of benefits earned by active employees in current year (*Normal Cost*)
  - Amortization of existing unfunded actuarial accrued liability (*UAAL*)
- Disclose information about plan, plan assets and liabilities

# Census Data

| Valuation Date   | July 1, 2013 |
|--|--------------|
| Active employees                                       | 529          |
| Retired employees, covered spouses and survivors:      |              |
| Enrolled in Pre-Medicare plans                         | 82           |
| Enrolled in Medicare Supplement plans                  | 358          |
| Life Insurance Only                                    | 0            |
| Total Retired employees, covered spouses and survivors | 440          |

# Plan Provisions

- Eligibility – General Employees (Group 1)
  - Attainment of age 55 with 10+ years of service or 20+ years of service
  - Age 60 with 10+ years of service for hires after April 1, 2012
- Eligibility – Public Safety (Group 4)
  - Attainment of age 55 or 20+ years of service
  - Attainment of age 55 for hires after April 1, 2012
- Coverage through Group Insurance Commission (GIC) medical plans
- Retirees contribute 50% of total premium
- \$1,000 life insurance coverage
  - Town pays 50% of premium

# Economic Assumptions

- Discount rate – used to calculate present value of expected future benefit payments
  - 3.5%
  - Based on feedback from auditors
  - Based on long-term rate of return on General Fund assets used to satisfy obligation
- Health care cost trend rate (HCCTR)
  - 7% year 1, declining 1% per year to ultimate 5%
  - Previously, 9% declining to ultimate 5%

# Demographic Assumptions

- Assumptions other than health care related are consistent with Middlesex County and Mass Teachers Retirement System
- Retirement, disability and turnover depend on employee type
  - General employee, public safety or teacher
- Mortality – includes mortality improvement
- Participation rates – 70%
- Spouse coverage – 55%



# Implicit Subsidy

- Benefits provided to both active employees and retirees
- Projection of future retiree benefits based on age-adjusted premiums for retirees
  - Expected medical costs increase as people age
- Exception for community-rated plan, e.g. GIC
  - Premium rates reflect projected health experience of all participating employers
  - Provider charges the same unadjusted premiums for both active employees and retirees
  - Actuarial Standard of Practice (ASOP) change removes exception for 2015 and later

# Sudbury OPEB Liability

(in millions)

- Accrued Liability as of July 1, 2011 = \$34.275
  - Based on census data, plan provisions and assumptions utilized in 2011 valuation
- Changes during period July 1, 2011 – June 30, 2013
  - Decreases to Liability
    - Premium rates less than expected (4.317)
  - Increases to Liability
    - Demographic experience 1.360
    - Excise tax imposed by Patient Protection and Affordable Care Act, effective 2018 .308
  - Total Changes to Liability (\$2.649)
- Accrued Liability as of July 1, 2013 = \$36.005

# Funding Options

- Pay-as-you-go (PAYG)
  - Must use discount rate close to long-term expected rate of return on cash (3.5%)
  - Potential ramification on bond rating
  - Many municipalities finance OPEB on a PAYG basis
  - FY14 ~ \$1,003,000
- Fully Pre-Fund the Annual Required Contribution (ARC)
  - Requires Irrevocable OPEB Trust
  - Allows use of higher discount rate, e.g. 7.5%
  - FY14 ~ \$2,148,000
  - FY14 Net OPEB Trust Contribution ~ \$1,145,000
    - \$2,148,000 less \$1,003,000 = \$1,145,000
- Partially Pre-Fund
  - Requires Irrevocable OPEB Trust
  - Blended discount rate

**Town of Sudbury – July 1, 2013 GASB 45 Valuation**

# OPEB Liability Sensitivity Analysis

## Discount Rate

|                      | Baseline    | -1%         | +1%         |
|----------------------|-------------|-------------|-------------|
| <b>Discount Rate</b> | <b>3.5%</b> | <b>2.5%</b> | <b>4.5%</b> |
| Actuarial Liability  | \$36.005    | \$43.777    | \$30.160    |
| Absolute Change      | -           | + 7.772     | - 5.845     |
| Percentage Change    | -           | + 21.6%     | - 16.2%     |

# OPEB Liability Sensitivity Analysis

## Health Care Cost Trend Rate

|                     | Baseline | -1%      | +1%      |
|---------------------|----------|----------|----------|
| Health Care Trend   | 7% - 5%  | 6% - 4%  | 8% - 6%  |
| Actuarial Liability | \$36.005 | \$30.355 | \$43.316 |
| Absolute Change     | -        | - 5.650  | + 7.311  |
| Percentage Change   | -        | - 15.7%  | + 20.3%  |

# OPEB Liability Sensitivity Analysis

## Census Data

- Every valuation is sensitive to *Census Data*
  - How many employees are working?
  - How many retirees and beneficiaries are receiving benefits?
  - How old are active employees and retirees?
  - When will employees retire?

# OPEB Liability Sensitivity Analysis

## Plan Provisions

- Every valuation is sensitive to *Plan Provisions*
  - What are the benefits promised?
  - How long with benefits continue after retirement?
  - What health plans are offered?
  - What are the costs of the plans?
  - What are the retiree cost-sharing provisions?

# OPEB Liability Sensitivity Analysis

## Actuarial Assumptions

- Every valuation is sensitive to *Assumptions*
  - Assumptions can have a significant impact on size of liability
  - Assumptions are used to project *estimated* future benefit payments
  - Assumptions are used to calculate Present Values (OPEB Liability)
- Health Care Cost Trend Rates can vary
  - 7%-10% initially, 4%-5% ultimate
- Discount rate depends on assets used to finance benefits
  - Lower discount rate means higher liabilities
- Implicit Subsidy is required by GASB 45 and ASOPS
  - Actuarial Standards of Practice
  - Included if “experience – rated”
  - Not included if “community – rated”
    - But ASOP change will require in 2015 and later



# OPEB Costs and OPEB Liabilities

- OPEB Costs
  - Plan offerings and cost-sharing provisions drive the **COSTS**
  - Periodically review health plan choices
  - Medicare-eligible retirees
    - Section 18A of Chapter 32B requires Medicare-eligible retirees to transfer to a Medicare health plan at age 65
- OPEB Liabilities
  - Costs and Assumptions drive the **LIABILITY**
  - Establish OPEB Policy
  - Establish Irrevocable OPEB Trust
  - Perform biennial OPEB Actuarial Valuation
    - Most recent valuation as of July 1, 2013
    - Next valuation required as of July 1, 2015