Lincoln-Sudbury Regional School District

Postemployment Benefits Other Than Pensions

School Committee Presentation

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Agenda

- What is GASB 45?
- The GASB 45 Actuarial Model
- Substantive Plan
- GASB 45 Methods
- GASB 45 Assumptions
- Projected Pay-As-You-Go Costs
- Summary of Key GASB 45 Results

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Agenda

- Options for Funding OPEB Liabilities
- Impact on Net OPEB Obligation
- How Can Lincoln-Sudbury Regional School District Control Liabilities?
- Retiree Health Care Commission
- Questions

What is GASB 45?

- Requires accrual accounting for Other Post Employment Benefits (OPEB)
- Benefit valued is retiree medical, dental, life insurance, etc.
- Currently financed on a pay-as-you-go (PAYG) basis plus nominal contribution to OPEB trust
- GASB 45 ***does not*** require funding OPEB liabilities, just reporting them

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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 *(AAL)*
- Disclose information about plan, plan assets and liabilities

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The GASB 45 Actuarial Model

- Plan benefits = Substantive Plan
  - The plan as communicated to members
- Actuarial Cost (Funding) Method
- Actuarial Assumptions and Methods
  - Explicitly applicable to postemployment benefits
  - Demographic
  - Economic

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Substantive Plan

- Eligibility
  - Attainment of age 55 with 10+ years of service
  - 20 or more years of service
  - Age 60 with 10+ years of service for hires after April 1, 2012
- Coverage through Minuteman Nashoba Health Group medical plans
- Retirees contribute 10%-30% of total premium, depending on retirement date

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Substantive Plan

- Medicare Part B Penalty Reimbursement
  - Current retirees only
- $1,000 life insurance coverage
  - District-paid premiums

GASB 45 Methods

- Actuarial cost method
  - Projected Unit Credit
    - used most often
    - Prorates liability based on service to eligibility age
- Amortization method
  - Mortgage-like method to pay off Unfunded Actuarial Accrued Liability (UAL)
  - Level dollar amount over thirty years
  - Open amortization period

GASB 45 Assumptions

- PAYG discount rate assumption - 3.5%
  - Based on feedback from auditors
  - Based on long-term rate of return on General Fund assets used to satisfy obligation
- Fully funded assumption – 8%
  - Based on long-term rate of return on Trust assets used to satisfy obligation
- Higher discount rate means lower liabilities and ARC

GASB 45 Assumptions

- Health care cost trend rate (9% - 5%)
- Participation rates – 100%
- Spouse coverage – 65%
- Demographic
  – Retirement – distinguished by employee type
  – Turnover – distinguished by employee type
  – Mortality – includes mortality improvement

GASB 45 Assumptions

Implicit Subsidy

- Benefits provided to both actives and retirees
- Projection of future retiree benefits based on age-adjusted premiums for retirees
- 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 and retirees

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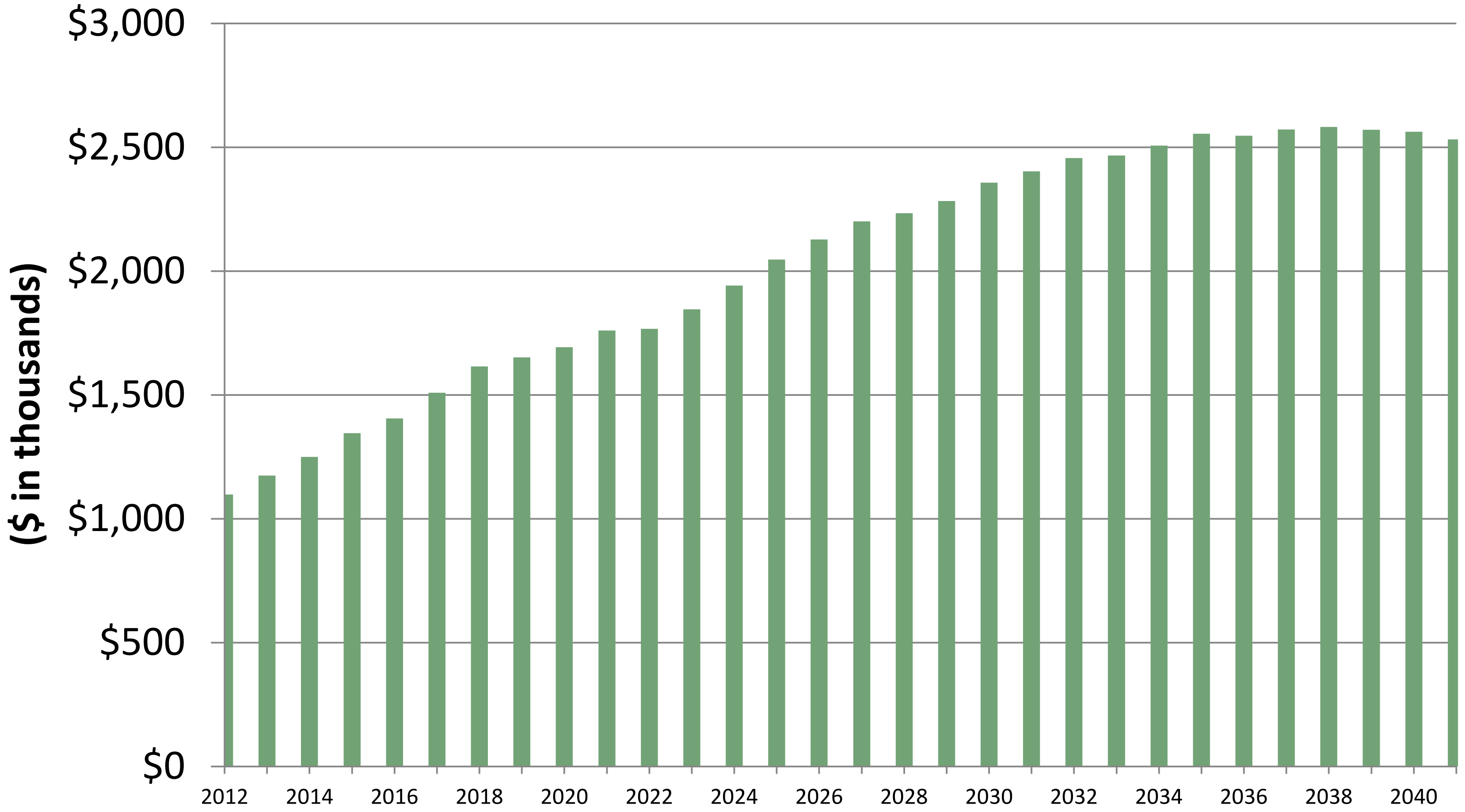
Projected Pay-As-You-Go Costs (closed group)



Summary of Key GASB 45 Results ($ in thousands)

Valuation Date	July 1, 2011		June 30, 2009	
	PAYG	Pre-Funded	PAYG	Pre-Funded
Discount Rate	3.50%	8.00%	5.00%	8.125%
Unfunded Actuarial Accrued Liability	46,124	22,242	30,875	20,350
ARC	4,458	2,596	2,141	1,615
Expected Benefit Payments	1,099	1,099	1,095	1,095

Summary of Key GASB 45 Results ($ in thousands)

Gain / (Loss) Source	Gain / (Loss)
Demographic changes and premium rates	($3,396)
Change to actuarial assumptions (except discount rate)	499
Change to discount rate from 5% to 3.5%	(11,112)
Total Gain / (Loss)	($14,009)

Summary of Key GASB 45 Results

- Annual OPEB Cost (AOC) is sum of
  - Annual Required Contribution (ARC)
  - Interest on Net OPEB Obligation
  - Adjustment
- Net OPEB Obligation (NOO)
  - difference between AOC and Contributions
  - Cumulative difference disclosed on financial statements
- NOO is $5.84 million as of June 30, 2012

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Options for Funding OPEB Liabilities

- Pay-as-you-go
  - Must use discount rate close to return on cash
  - Potential ramification on bond rating
- Fully Pre-Fund
  - Requires Irrevocable OPEB Trust
  - Allows use of higher discount rate
- Partially Pre-Fund
  - Requires Irrevocable OPEB Trust
  - Blended discount rate

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Impact on Net OPEB Obligation

Net OPEB Obligation = AOC less Contributions

- Pay-as-you-go
  - Multiplies rapidly
- Fully Pre-Fund
  - No additional Net OPEB Liabilities to report
- Partially Pre-Fund
  - Controlled

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How Can LSRSD Control Liabilities?

- Cost-sharing arrangements
- Pension Reform
  - Increases minimum retirement age
    - from age 55 to age 60 for post April 1, 2012 hires
  - Delayed retirements generally reduce costs
    - Fewer years to provide retiree medical coverage while covering replacement employee
  - Changes that impact future hires only take years to be meaningful

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How Can LSRSD Control Liabilities?

- Pre-Fund OPEB in Irrevocable OPEB Trust
  - Contribute based on adopted contribution policy or ad hoc
  - Use of slightly higher blended discount rate in the future
- Municipal Health Care Reform
  - Requires Medicare-eligible retirees to enroll in Medicare-supplement plans
  - Reimbursement for Medicare penalty diminishes over time

How Can LSRSD Control Liabilities?

- Reimbursement under Section 9A1/2 of 32B
  - Reimbursement for premiums paid by District for retirees with municipal service elsewhere
  - Will be offset by reimbursements paid by District for terminated employees retired elsewhere

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Retiree Health Care Commission

"The goal of the commission is to investigate and study retiree healthcare and other non-pension benefits. This review of retiree health care benefits offers an opportunity to reduce the cost of these benefits in the future to both preserve the benefit for public employees and to prevent budget cuts in other areas as health care costs continue to escalate."

Retiree Health Care Commission

- Consider benefit adequacy and cost
- Cost-sharing arrangements
- Other aspects of the cost to provide health care to public employees and retirees
- Recommendations expected by the end of November, 2012

Questions?