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OPEB Accounting under GASB 45
How will it change financial reporting?

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2005 NASACT Annual Conference



Today's Agenda

- What's OPEB?
- Current Accounting Practice
- New Requirements
- Case Studies
- Action Steps
- Questions

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What's OPEB?



Other **P**ost **E**mployment **B**enefits

Medical
Dental
Vision
Hearing

Life Insurance
Long Term Care

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Current Accounting Practice



Current Practice

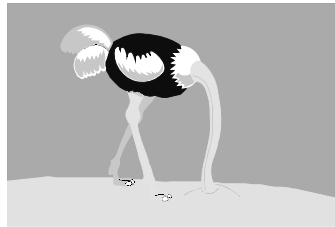
- Pay-as-you-go
 - Actual cash cost on behalf of retirees
 - Expenses reported as they occur
 - Rarely funded

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Current Practice

Does not adequately reflect
true financial impact of future
obligation



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Why the change?

- OPEB is part of compensation
- Benefits earned during employment
- Good accounting matches
 - services
 - cost of services

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New Requirements



New Requirements

- Similar to pension accounting
- Impacts ALL public employers with post employment benefit plans
- Focus on retiree medical plans
 - Most significant liability

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Financial Statement Items

Annual
OPEB
Cost

As defined by GASB

Net OPEB
Obligation

Balance Sheet
liability

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Effective Dates

Annual Revenue*

>\$100 M

\$10 - \$100 M

<10 M

Fiscal Year Beginning

December 15, 2006

December 15, 2007

December 15, 2008

* First fiscal year ending after June 15, 1999

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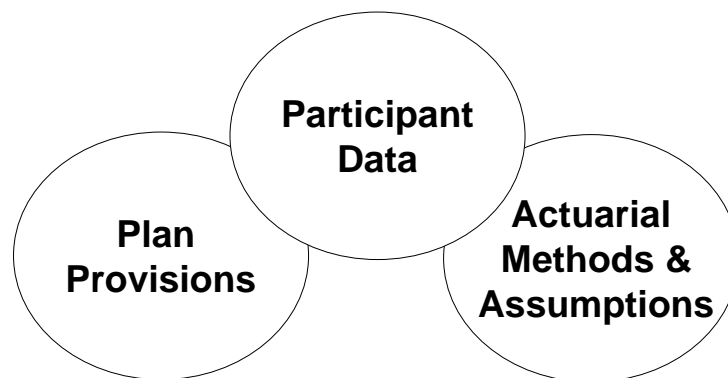
How often?

- 200+ members, at least every 2 years
- <200 members, at least every 3 years
- Annual cost can be based on a valuation date of up to 24 months prior to the beginning of the fiscal year

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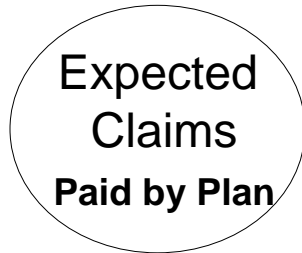
Actuarial Valuation



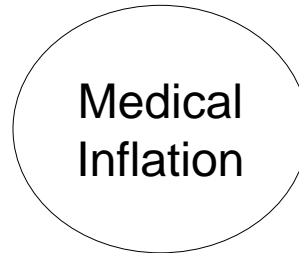
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Actuarial Assumptions



How much to pay?



How will costs increase?

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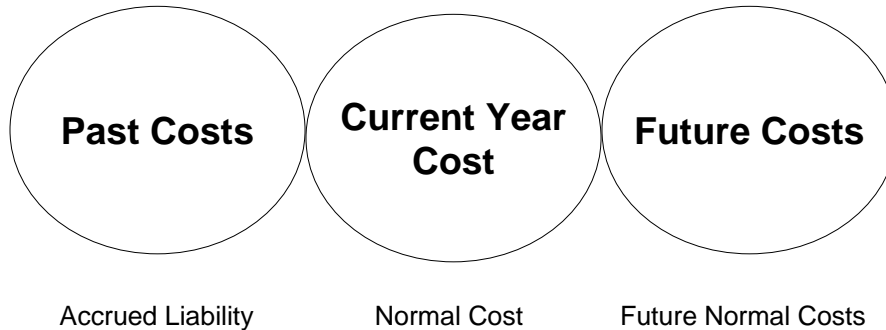
Actuarial Assumptions

- Turnover
- Retirement
- Mortality
- Covered dependents
- Discount rate

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Actuarial Cost Method



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What is a Contribution?

- **Contribution**
 - Retirees and beneficiaries
 - Irrevocably committed to trust
 - Spent on benefits
- **“Earmarked”**
 - Not contributions

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To Fund or Not to Fund

- No requirement to fund
- Only required to measure the obligation
- Consequences of not funding
 - lower discount rate
 - larger unfunded liability
 - larger net OPEB obligation on financial statements

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Case Studies



Municipal Plan

- 2,000 actives, 700 retirees
- Self insured health plan
- Employer has \$25 million in trust
- Employer pays:
 - 50% of health costs if 10 years service
 - 75% of health costs if 15 years service
 - 100% of health costs if 20+ years

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Municipal – Val Results

Med Trend	14%,...,5%	Base +1%
PVB	\$200 MM	\$250 MM
Unf. Acc. Liab.	130	155
Normal Cost	6	8
ARC	16	19
Payments Yr 1	3	3
Payments Yr 10	9	10

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Statewide Plan

- 33,000 actives, 19,000 retirees
- Five insured options for pre-Medicare retirees
- Three insured options for Medicare retirees
- Employer has \$10 million in trust
- Employer pays:
 - 50% of health costs if 10-14 years service
 - 75% of health costs if 15-19 years service
 - 100% of health costs if 20+ years or hired before 1991

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Statewide Plan Assumptions

- Discount rate: 8%
 - Assumes plan is funded
- Medical trend: 12% grading to 6% over 12 years
- Payroll growth: 3.75% per year

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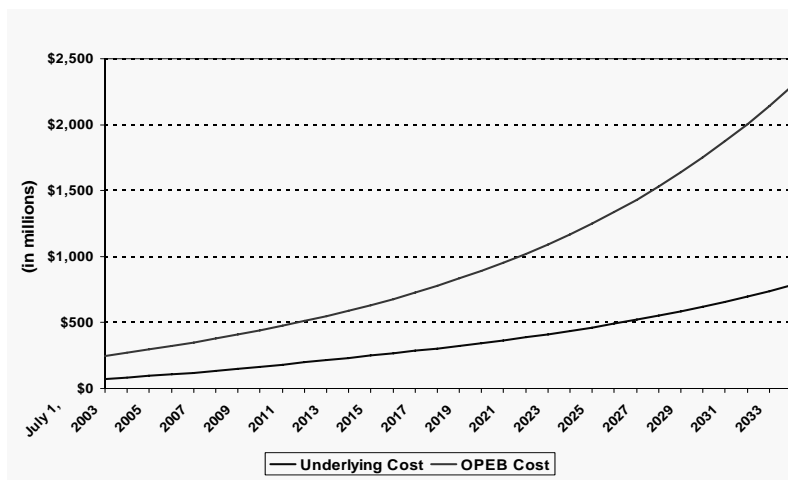
Valuation Results

	Medical	Pension
Accrued Liability	\$2,700 MM	\$4,900 MM
Unf. Acc. Liab.	\$2,690 MM	(\$100 MM)
Normal Cost	\$ 80 MM	\$110 MM
Amortization	\$ 150 MM	(\$10 MM)
Interest	\$ 18 MM	\$8 MM
Total ARC	\$ 248 MM	\$108 MM

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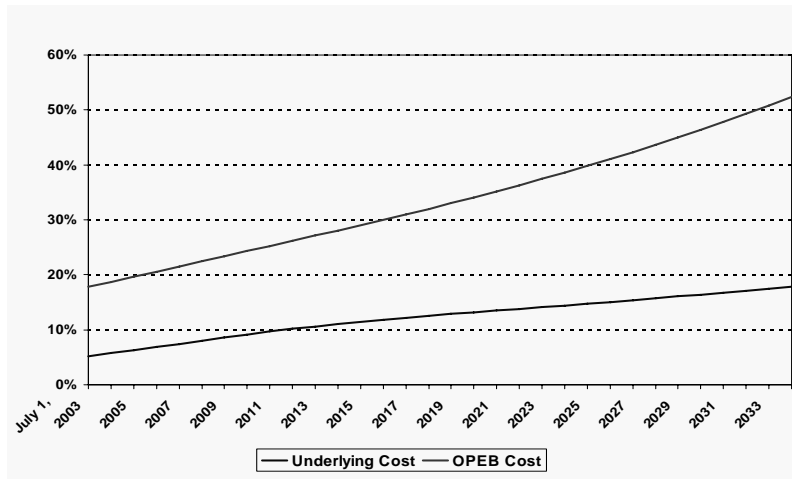
Projected Costs



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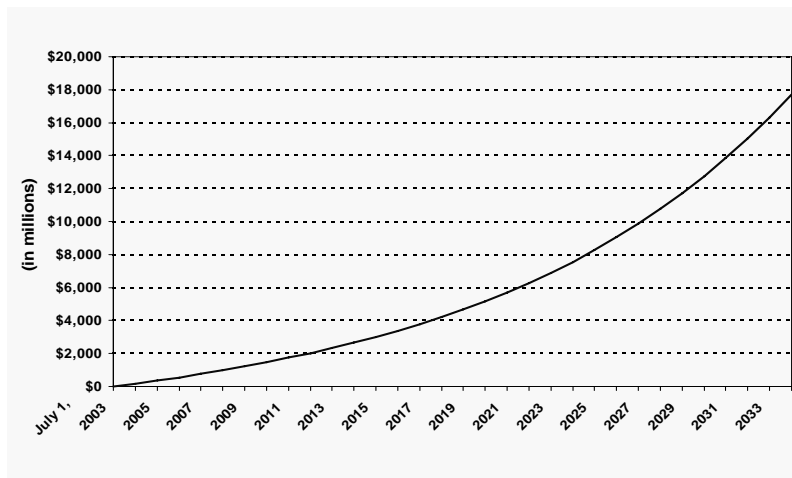
Projected Costs as a % of Pay



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Accumulation of net OPEB Obligation



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Action Steps



Action Steps

- Estimate the new cost accrual and liability
 - Collective bargaining agreements today could impact liability tomorrow
- Explore design changes
- Consider funding benefits
- Search for cost savings in delivery of benefits

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Plan Design

- Eligibility rules
- Benefit amount based on years of service
- Share some costs with retirees
- Cap employer portion of health costs
- Restrictions on changes

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Funding Options

- Can reserve general operating funds
 - often low investment return (1-2%) due to statutory investment restrictions
- Can set up a VEBA Trust
 - Voluntary Employee Beneficiary Assoc.
 - Earnings tax exempt for gov't employers
 - Irrevocable
 - Can invest in higher yielding assets
 - Funding Lowers accounting liability
 - Employee representation in managing trust
- Section 115 Trust
- NCPERS Publication (Spring 2005)

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Other Opportunities

- Savings from managed care already occurred in 1990s
- Review utilization of services
 - example: ER visits
- Disease Management Programs
- Review prescription drug program
 - Pharmacy Benefit Managers
 - Tiered co-payments
 - Medicare Part D Options

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Questions?