

New Castle County, Delaware

Other Post-Employment Benefits

Actuarial Review

March, 2012



Agenda

- Other Post-Employment Benefits
- Government Accounting Standards Board 43/45 Overview
- 2010 Actuarial Valuation Results Summary
- Net OPEB Obligation (NOO) Summary

OPEB Post-Employment Benefits (“OPEB”) Plan

Includes:

- Retiree medical benefits – primary
- Life insurance - secondary

Government Accounting Standards (GASB) Statements 43/45

Primary Features/Disclosures – for Plan Sponsor:

- Book actuarial cost as an expense on financial statements
- Accrue liability on financial statements – actual contributions vs. expense (Not Actuarial Accrued Liability)

Overview of GASB Rules

- Key financial statement components – GASB # 43/45
 - Annual Required Contribution (annual expense) – ARC
 - Annual OPEB Cost (adjusted annual expense) – AOC
 - Net OPEB Obligation (balance sheet liability) – NOO
- Advance funding is not required; however there are definite advantages
 - The Net OPEB Obligation will be close to zero
 - The actuarial valuation can use a more favorable discount rate to value the plan

Actuarial Valuation Process

Major Cost Drivers

- Actuarial Assumptions
 - Discount rate assumption
 - Healthcare trend rate assumption
 - Retirement
- Plan Design
 - Retiree cost sharing
 - Eligibility (Retirement)
 - Spousal coverage

Funding Basis

Discount Rate Basis

Per GASB 45: Basis for setting Discount Rate is determined by the source of funds used for paying benefits

- Assuming the Plan is pre-funded:
 - Benefits paid through Trust Fund
 - Investment portfolio similar to pension plans
 - Use Discount Rate – about 8%
- Assuming the Plan is not pre-funded
 - Benefits paid through General Fund
 - Low fixed interest return
 - Use Discount Rate – about 4%
- Partial Funding: Pro-rate Discount Rate $> 6\%$

Funding Basis

Pre-Funding is cheaper over time

- Discount Rate advantage
- Builds up fund to reduce Unfunded Actuarial Accrued Liability and amortization costs
- Reduces NOO liability on balance sheet
- Reduces AOC in future years, which will include
 - Interest on NOO
 - Amortization of NOO
- Impact on bond ratings and future fiscal capacity of the County
- Minimizing future tax increases
- Securing future retiree healthcare benefits

Potential Impact of Accounting

Bond Rating Agency views

- Looking for “funding plan”; may include:
 - Funding annual costs
 - ❖ Full
 - ❖ Partial
 - ❖ Phase In
 - Plan design revisions
- Impact may take several years to sort out

Valuation Results Summary

2010 Valuation

- Valuation Date – 7/1/2010
- Funding Approach – Partial Funding
- Discount Rate – 6%
- Level % of Pay Amortization

Number of Participants

- | | |
|---------------------|------------|
| • Actives | 1,318 |
| • Retirees | 773 |
| • Retirees' Spouses | <u>244</u> |
| • Total | 2,335 |

(\$ in thousands)

Actuarial Accrued Liability (AAL)	\$	277,571
Asset Value 6/30/2010		<u>10,713</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$	266,858

Annual Required Contribution (ARC)

Normal Cost	\$	10,993
30 Year Amortization of UAAL		<u>13,076</u>
Total ARC	\$	24,069

Annual OPEB Cost (AOC)

ARC	\$	24,069
Interest on Net OPEB Obligation (NOO)		1,678
Adjustment to ARC		<u>(2,543)</u>
Total AOC	\$	23,204

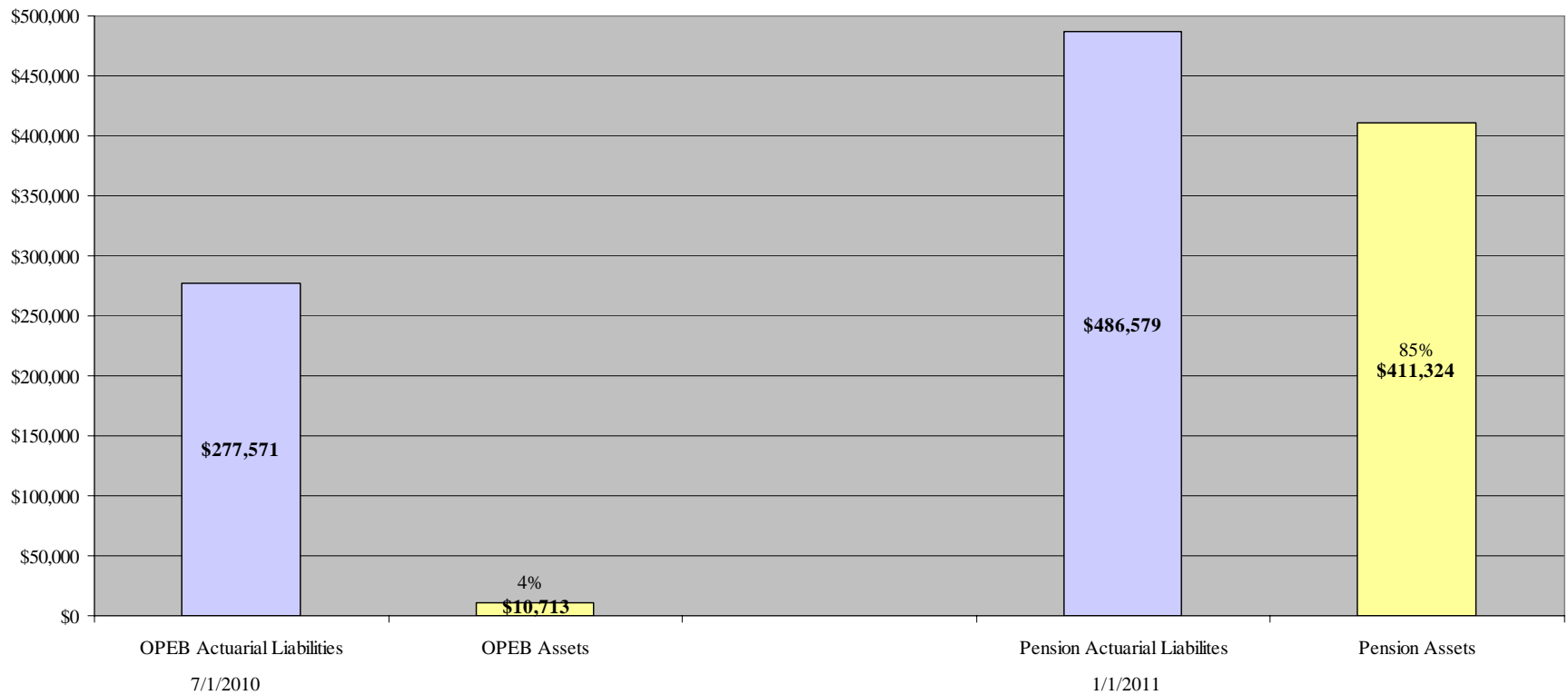
Expected Contributions

Trust Fund/Retirees Premiums	\$	8,110
Implicit Rate Subsidy Credit		<u>3,492</u>
Total	\$	11,602

Increase in NOO	\$	11,602
NOO 6/30/2010	\$	27,975
Expected NOO – 6/30/2011	\$	39,577

Actuarial Valuation

Current OPEB Funded Status
vs. Pension Funded Status
(\$ in thousands)



Net OPEB Obligation (NOO) Summary

7/1/2010 - 6/30/2011

(\$ in thousands)

Annual Required Contribution (ARC)

Normal Cost	\$	10,993
30 Year Amortization of UAAL		<u>13,076</u>
Total ARC	\$	24,069

Annual OPEB Cost (AOC)

ARC	\$	24,069
Interest on Net OPEB Obligation (NOO)		1,678
Adjustment to ARC		<u>(2,543)</u>
Total AOC	\$	23,204

Employer Contributions

Trust Fund/Retiree Premiums	\$	12,898
Implicit Rate Subsidy Credit		<u>2,354</u>
Total	\$	15,252

Increase in NOO	\$	7,952
NOO 7/1/2010	\$	27,975
NOO – 6/30/2011	\$	35,927

Questions

