Retiree Health Benefit Liability

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Board of Trustees Meeting
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Actuarial Study

- Conducted every two years
- The study analyzes liabilities associated with current retiree health benefit program
- Contract with TCS, Inc.
- Valuation date of Feb 1\textsuperscript{st} 2012
- Purpose:
  - Comply with Government Accounting Standards Board (GASB) 43 and 45 related to “other post-employment benefits” - OPEB
  - To provide info to enable district to manage costs and liabilities
  - Communicate financial implications to internal staff, the Board, employee groups, etc.
Actuary Study

- Last performed in Feb 2010
- Compared to results in 2010, large increase to the liability in the combination of Actuarial Accrued Liability (AAL) and In Normal Cost (NC)

  *Projected Liability*: $84,858,604
  *Plan assets*: $69,037,662
  *Difference*: $15,820,942 (more than plan assets)

- Results in larger than expected increase in annual required contribution (ARC) (39.4% increase)
What normally could be expected

- If actual experience follows assumptions used in previous study, the AAL and plan assets would increase in a predictable way and by the same amount.
  - The district would pay the normal cost increase
  - This did not occur, as AAL increased beyond plan assets
Why did the liability increase higher than plan assets?

- There were more retirees, which increases retiree health benefit costs. There are increases in number of employees (future retirees).
- Retiree medical premium rates increased faster than what was assumed and total claims (actuarial losses) were higher.
- PERS and STRS tables updated (usually updated every 10 years)
  - Those tables traditionally used in actuarial study
  - Mortality tables (longer life expectancies)
  - Retirement tables (age of retirement is earlier than before)
- Turnover (has increased)
Liability – Next Steps

District will take the following steps:

- Engage in supplement to the study after enrollees for CSEA early retirement plan are known (after 10/5)
- Conduct an experience study to determine whether CalPERS and CalSTRS retirement rates and tables represent SOCCCD historical experience
- Conduct actuarial study annually and earlier in year
- When studies completed, present information to RBOA and Board of Trustees for further discussion and action
Funding the Liability

• District and Board Budget Philosophy has been to fully fund the liability

• Several funding options were analyzed
  • **Recommended option:**
    • Immediately fund $9,746,637 from Year One Portion of “Reserve for Unrealized Property Taxes” (basic aid contingency) since these were realized last year
    • Fund remainder before end of fiscal year after studies completed and liability amount confirmed
Discussion of Recommended Funding Option # 1

• This honors the district and board budget philosophy
• It partially funds the liability now but delays remainder until the liability amount is confirmed through further study
• This is more conservative
• A discussion of the results can be presented to the board when they are available and further discussion can take place before remainder of liability is funded
• Once fully funded, annual basic aid reserve will need to be refreshed for next year’s basic aid cycle
Other Options Considered:

• **Option 2**: Wait until next budget cycle to fully fund the liability

• **Option 3**: Plan for funding the liability over a longer period of time such as a 3-5 year or longer period.

• **Option 4**: Do not fund the unfunded portion of the retiree health benefit liability

• **Option 5**: Allocate the amount needed at the end of fiscal year, if the basic aid reserve is not needed this year
Questions?