

# **Post-Retirement Health Program 6/30/2015 Actuarial Valuation Report**

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**City of Fort Bragg  
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**Marilyn Oliver, FSA**

**B**ARTEL  
ASSOCIATES, LLC

## **Topics**

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# Purpose of Valuation

## ■ Determine:

- Contribution Amounts for FY 2016/17 & FY 2017/18
- 6/30/2015 Actuarial Liabilities and FY 2016/17 Expense for Financial Reporting

# Plan Benefits

	Retiree	Spouse
Tier 1	City pays: Medical + Dental	% of Medical
Tier 2	Same as Tier 1	--
Tier 3	City pays: Medical + Dental until Medicare eligibility age, City pays: only Rx premiums after Medicare eligibility age	--
Tier 4	Can elect Medical + Dental until Medicare eligibility age, but Retiree pays premiums	--
City pays Vision premiums for 5 in Tier 1, 1 in Tier 2		
Closed to new hires (7/1/2011, 1/1/2012 Police)		

# Data

	Actives	Retirees	Total
Tier 1	4	25	29
Tier 2	9	4	13
Tier 3	16	1	17
Tier 4	<u>3</u>	<u>0</u>	<u>3</u>
Total	32	30	62

# Data

	6/30/13	6/30/15
Actives	42	32
Retirees	29	30
Covered Payroll	\$2,727,581	\$2,098,996

# Key Actuarial Assumptions

## ■ Interest (Discount) Rate

- City policy of paying full Annual Required Contribution each year
- Funds invested in CERBT with election of Option 1 asset allocation – our median expected return of 7.33%
- Remained unchanged at 7.25%:
  - Margin for Adverse Deviation of 0.08%

# Key Actuarial Assumptions

## ■ Inflation Rate:

- 3.00%

## ■ Healthcare Trend:

- 8.0% increase FY 17/18, ....., 5.25% FY 22/23+
- Adjusted grading period rates and extended grading period



# Key Actuarial Assumptions

- Mortality, retirement, termination of employment:
  - CalPERS 2014 Experience Study
- Projecting Future Mortality Improvement
- Participation at Retirement:
  - Tiers 1-3: All eligible participate
  - Tier 4: 75% participate

# Key Actuarial Assumptions

## ■ Implied Subsidy

- Difference between expected claims and premiums for pre-Medicare retirees
- Paid through higher premiums for actives, but considered post-retirement benefit
- Updated aging factors for calculating age / gender claims cost factors

# Key Actuarial Methods

- Entry Age Normal Cost Method
  - Same as used in CalPERS retirement valuations
- Amortization
  - Level \$ Payments over 26 Years from July 1, 2016

# Key Actuarial Terms

## ■ PVFB – Present Value of all Future Benefits:

- Present value of all expected benefit payments to be paid in the future for current employee plan members and current retirees as of June 30, 2015

## ■ Normal Cost (NC):

- Value of benefits allocated (or “earned”) during the current year by current employees using Entry Age Normal Cost Method, level percentage of pay

# Key Actuarial Terms

## ■ Actuarial Accrued Liability (AAL)

- Portion of PVFB “earned” for past service, i.e., up to June 30, 2015

## ■ Unfunded Actuarial Accrued Liability (UAAL)

- Portion of AAL not funded as of June 30, 2015
- $UAAL = AAL - \text{Assets}$

## ■ Covered Payroll

- Payroll of Plan Members only

# Results

(millions)

Present Value of Benefits	
Actives	\$3.2
Retirees	<u>4.4</u>
Total	\$7.6
Actuarial Accrued Liability	
Actives	\$2.4
Retirees	<u>4.4</u>
Total	\$6.7

# Results

(millions)

Valuation Date	6/30/13	6/30/15
Actuarial Accrued Liability (AAL)	\$5.8	\$6.7
Assets	<u>(\$0.7)</u>	<u>(\$1.4)</u>
Unfunded Actuarial Accrued Liability (Unfunded AAL)	\$5.1	\$5.4
Funded Ratio	11.6%	20.4%

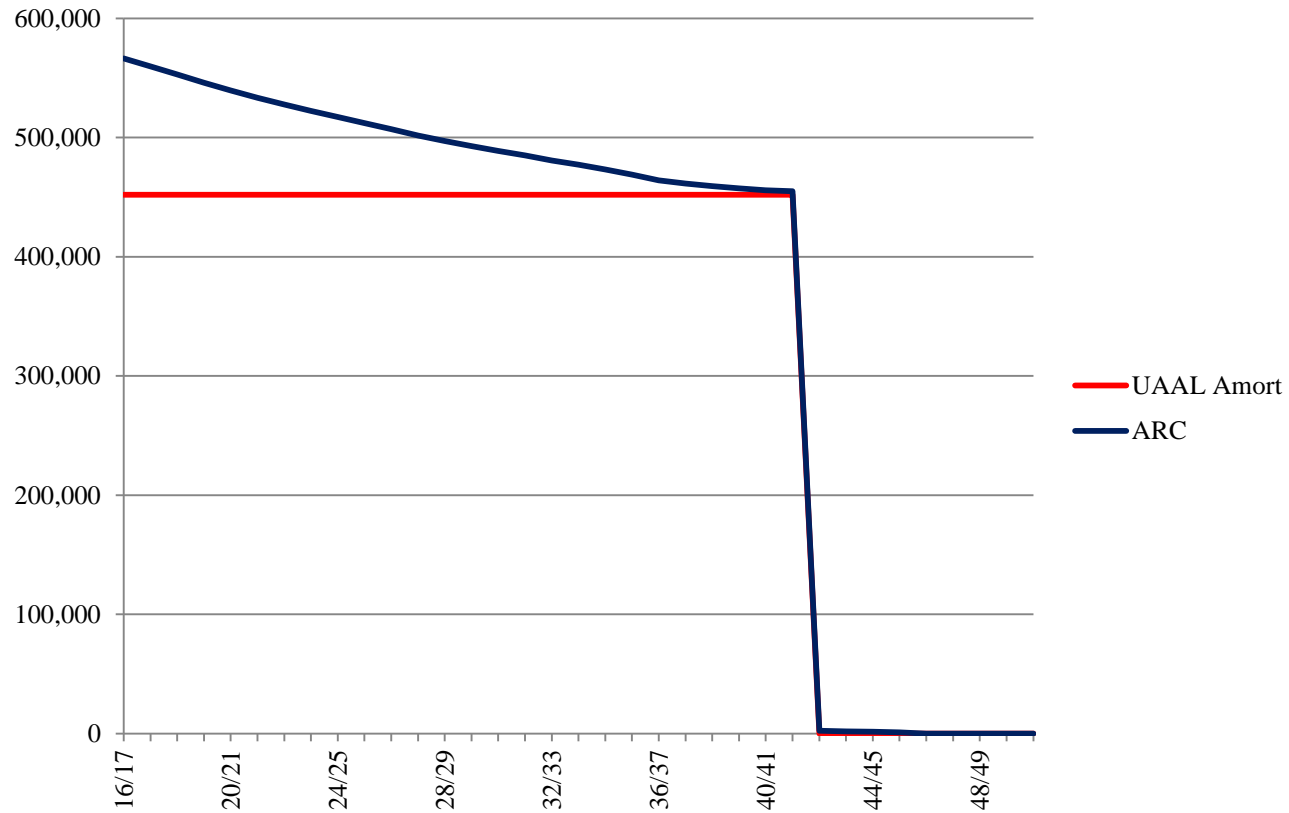
# Results

## 2016/17 Annual Required Contribution

	Amount	% of Covered Pay
Normal Cost	\$114,229	5.6%
26-year Unfunded AAL Funding	<u>\$452,007</u>	<u>22.1%</u>
Total Annual Required Contribution	\$566,237	27.7%



# Results



# Results

## Comparison to 6/30/2013 Valuation Annual Required Contribution

### % of Payroll of Employees Covered by Plan

	2014/15	2016/17
Interest Rate	7.25%	7.25%
Normal Cost	5.6%	5.6%
UAAL Amortization	<u>15.6%</u>	<u>22.1%</u>
Total Annual Required Contribution	21.2%	27.7%

# Results

## Expected versus Actual AAL (millions)

AAL 6/30/2013	\$5.8
Expected AAL 6/30/2015	\$6.4
Actual AAL 6/30/2015	\$6.7
Difference	\$0.3
Experience Gains	\$(0.1)
Assumption / Method Changes	\$0.4

# Results

## Changes in AAL (millions)

MP-2014 Mortality Improvement	\$0.3
ACA Excise Tax (Cadillac Tax)	\$0.1
Change in Pre- and Post-Medicare age/gender claims cost factors	\$(0.2)
Extended Medical Trend Grading Period	<u>\$0.2</u>
Total	\$0.4

# Results

## Projected Results

ARC 2016/2017	\$566,000
2027/2028	\$502,000
UAAL 6/30/2015 (millions)	\$5.4
6/30/2027	\$4.2

# Looking to the Future

## ■ **New GASB 75 Accounting Standards:**

- GASB 75 approved on June 2, 2015
- Requires Unfunded Actuarial Accrued Liability be reflected on Balance Sheet in June 30, 2018 financial statements