

# 2008 VGFOA Fall Conference

## OPEB Trust Administration Panel:

### Part A: OPEB Update & Issues



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# Actuarial Agenda

- True-up of Retiree Pay-as-you-Go Contributions, Yes or No?
- OPEB Trust Drawdown, When and How?

# True-up of Pay-As-You-Go Contributions

- Whether pre-funding retiree costs or booking unfunded OPEB liability, the GASB expense less the net retiree costs becomes an important accounting issue.
  - Was trust (if any) “fully funded”?
  - Was the Net OPEB liability (Asset) reported correctly?

# True-up of Pay-As-You-Go Contributions

- Simple concept: How much did the Locality pay for the Retirees to be on your medical plan?
- Generally, only two possible components
  - Premium payments
  - Implicit rate subsidy (Pre-65 average retiree costs that are greater than average blended active and pre-65 premium)

# True-up of Pay-As-You-Go Contributions

- Premium payments
  - Generally, a separate “account”
  - Should be easy to collect information
  - Retiree contribution policy will determine the portion of premium payments borne by municipality
- Implicit rate subsidy (hidden additional retiree cost)
  - Generally, not tracked in the past
  - Can be a problem collecting all of the “parts”
  - Fully insured and self-funded issues
  - Working with Plan Administrator/Insurer to set up and monitor separately sub-group of retirees can significantly improve reporting

# True-up of Pay-As-You-Go Contributions

- How to determine implicit rate subsidy
  - Self-insured plans:
    - Determine total claims & expenses paid to pre-65 retirees (medical provider)
    - Implicit rate subsidy = total retiree claims & expenses – total retiree blended premiums
  - Fully insured plans
    - Seek total claims & expenses paid to pre-65 retirees (most likely, not available)
    - Ask for a “pre-65” premium from provider
    - Will need to calculate total “retiree cost” by using “pre-65” premium and number of retirees (total retiree “pre-65” premiums)
    - Implicit rate subsidy = total retiree “pre -65” premiums – total retiree blended premiums

# True-up of Pay-As-You-Go Contributions

- Issues with true-up
  - Will not have total claims until well after the end of the fiscal year
  - If funding ARC, you will have issues with “expected” compared to “actual” retiree costs to determine “final” contribution to fully fund ARC
  - May need to be prepared to “kick-in” additional contributions based on true-up calculation
  - How do you handle stop-loss reimbursements for self-insured plans?
  - This is not an exact science!

# True-up of Pay-As-You-Go Contributions

- What about the auditors
  - From our experience, have seen two scenarios
    - Good with projections from actuarial report, use as reported in valuation report
    - Have asked the localities to determine an “estimate” to support projections from report
- Does it make sense to true-up?
  - What will the auditors be satisfied with?
  - Will require additional work on someone’s part at the locality or actuary (actuary = additional \$\$\$ charges )
  - Could impact net OPEB obligation, plus or minus

# OPEB Trust Drawdown, When and How?

- Funding Policy – may be the ultimate answer
  - The minimum ARC is an accounting number and not necessarily a reasonable “funding policy”
  - What is your funding objective?
    - Usually a targeted portion of the liability at some future date
  - What has been the fund’s progress towards the original objective?
  - How should future contributions to the fund be determined?

# OPEB Trust Drawdown, When and How?

- Reasons for withdrawals
  - Reimbursement for premium payments by locality for retirees
  - Implicit rate subsidy reimbursement

# OPEB Trust Drawdown, When and How?

- Contribution method – Gross Contribution
  - Total Contribution determined by funding policy contributed during or at the beginning of fiscal year
  - Reimburse locality on a monthly or quarterly basis for municipality portion premiums and implicit rate subsidy
- Contribution method – Net Contribution
  - Net Contribution determined contribution policy less any net retiree costs during the year
  - Net Contributions made during the year or at end the fiscal year

# OPEB Trust Drawdown, When and How?

- Big question – What if we only have an implicit rate subsidy, when can we withdrawal expenses from the OPEB trust?
  - Well.....Good question
  - Ultimately the Funding Policy may dictate when contribution should come out of the fund
  - The quick answer is, Whenever you want to!
  - The actuarial answer is, Whenever you want to, within reason!
  - Review a quick 30 year forecast

# OPEB Trust Drawdown, When and How?

## 30 Year Projection

Year	Liability	ARC	Pay-go	Contribution	Withdrawal	Assets EOY	Funded %
2007	\$3,116,804	\$477,638	\$89,694	\$387,944	N/A	\$387,944	12.4%
2010	\$4,424,707	\$538,602	\$230,519	\$308,083	N/A	\$1,560,123	35.3%
2013	\$5,756,811	\$602,922	\$345,618	\$257,304	N/A	\$2,794,278	48.5%
2016	\$7,187,207	\$665,680	\$477,406	\$188,274	N/A	\$4,129,867	57.5%
2019	\$8,699,405	\$748,105	\$552,917	\$195,188	N/A	\$5,663,148	65.1%
2022	\$10,431,601	\$841,237	\$732,786	\$108,451	N/A	\$7,389,683	70.8%
2025	\$12,271,069	\$952,562	\$887,773	\$64,789	N/A	\$9,348,862	76.2%
2026	\$12,913,099	\$992,620	\$976,799	\$15,821	N/A	\$10,019,103	77.6%
2029	\$14,946,321	\$1,132,213	\$1,099,516	\$32,697	N/A	\$12,382,459	82.8%
2032	\$17,366,585	\$1,312,931	\$1,271,196	\$41,735	N/A	\$15,284,879	88.0%
2035	\$20,127,085	\$1,564,724	\$1,516,630	\$48,094	N/A	\$18,831,807	93.6%
2037	\$22,135,671	\$1,721,326	\$1,671,827	\$49,499	N/A	\$21,665,289	97.9%

### Assumptions Used for Projection:

- Assumes 7.0% discount rate and return on assets
- Funding policy target: full funding in 30 years (decreasing amortization reflected in ARC calculation)
- Contributions made on a “net” basis
- No withdrawal from assets

# OPEB Trust Drawdown, When and How?

## 30 Year Projection

Year	Liability	ARC	Pay-go	Contribution	Withdrawal	Assets EOY	Funded %
2007	\$3,116,804	\$477,638	\$89,694	\$387,944	N/A	\$387,944	12.4%
2010	\$4,424,707	\$538,602	\$230,519	\$308,083	N/A	\$1,560,123	35.3%
2013	\$5,756,811	\$599,670	\$345,618	\$254,052	N/A	\$2,787,373	48.4%
2016	\$7,187,207	\$655,361	\$477,406	\$177,955	N/A	\$4,096,282	57.0%
2019	\$8,699,405	\$725,293	\$552,917	\$172,376	N/A	\$5,563,083	63.9%
2022	\$10,431,601	\$804,144	\$732,786	\$71,358	N/A	\$7,164,288	68.7%
2025	\$12,271,069	\$899,145	\$887,773	\$11,372	N/A	\$8,919,823	72.7%
2026	\$12,913,099	\$933,251	\$976,799	\$0	\$43,548	\$9,500,663	73.6%
2029	\$14,946,321	\$1,053,184	\$1,099,516	\$0	\$46,332	\$11,516,045	77.0%
2032	\$17,366,585	\$1,182,400	\$1,271,196	\$0	\$88,796	\$13,893,475	80.0%
2035	\$20,127,085	\$1,340,485	\$1,516,630	\$0	\$176,145	\$16,580,632	82.4%
2037	\$22,135,671	\$1,463,731	\$1,671,827	\$0	\$208,096	\$18,573,852	83.9%

### Assumptions Used for Projection:

- Assumes 7.0% discount rate and return on assets
- Funding policy: contribute based on fresh start of 30 year amortization every year
- Contributions made on a “net” basis

# OPEB Trust Drawdown, When and How?

- So, what is the answer?
  - Depends on several factors
    - Funding Policy may ultimately dictate the answer.
    - What is your comfort level for the funded percentage?
    - Do you treat the trust as a possible “emergency” fund in case of bad experience years?
    - How close are the pay-as-you-go contributions to the ARC?
  - Be careful, you must be able to defend any withdrawal from the trust as reimbursement for retiree payments

# Questions?



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