



# NORTH CAROLINA COMMITTEE ON ACTUARIAL VALUATION OF RETIRED EMPLOYEES' HEALTH BENEFITS

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## OPEB Actuarial Valuation Update Topics

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# Valuation Purpose

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## ➤ GASB 45 (GASB 75 **next year**)

- Measure State Obligations to provide other postemployment benefits (OPEB)
- Determine the Annual Required Contribution (ARC) and annual OPEB cost (AOC) for fiscal 2017, and the basis for the Actuarially Determined Contribution (ADC) and OPEB Expense for fiscal 2018
- Provide exhibits useful for preparing required financial statement recognition and disclosure items
- Provide exhibits useful for OPEB plan reporting (GASB 74 **this year**)

## ➤ Financial Projections

- Project assets, obligations, benefit payments, contributions for up to ten future years

## ➤ Valuation Measurement Dates

- Prior valuation: December 31, 2015 (the “2015 valuation”)
- This valuation: December 31, 2016 (the “2016 valuation”)



# Fiscal 2017 OPEB Expense

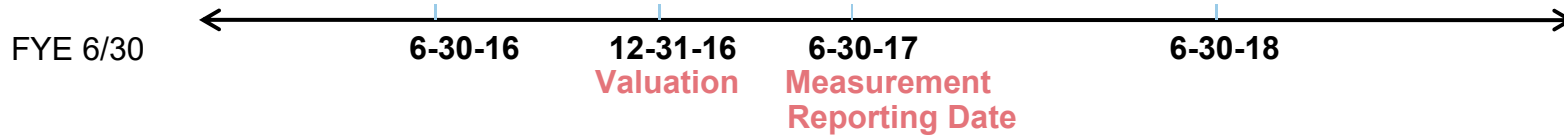
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- Still based on GASB 45
- We will measure the expense for fiscal 2018 on a different method based on this valuation as well

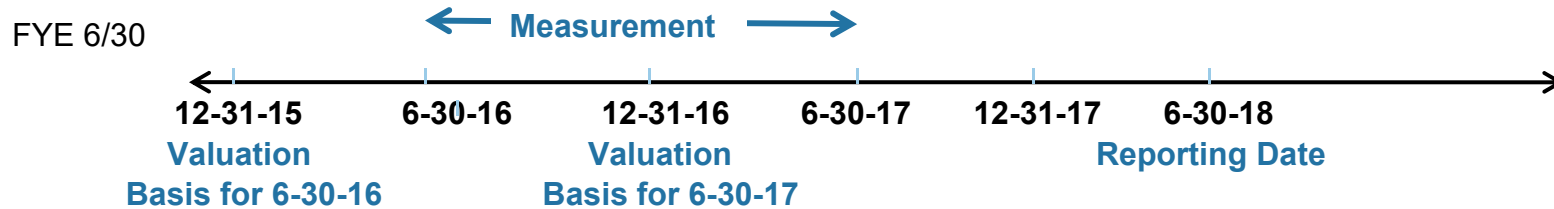
<b>GASB 45 Balance Sheet</b>	<b>GASB 75 Balance Sheet</b>
6/30/2016 Net OPEB Obligation	6/30/2016 Net OPEB Liability
Less Employer Contributions	Less Employer Contributions
Plus Expense	Plus Expense
	Plus Deferrals
6/30/2017 Net OPEB Obligation	6/30/2017 Net OPEB Liability
	<i>Recognized one year in arrears</i>

# GASB 74/75 Implementation Timeline

## GASB 74: Plan Reporting for the Year, Measurement and Reporting Date at FYE

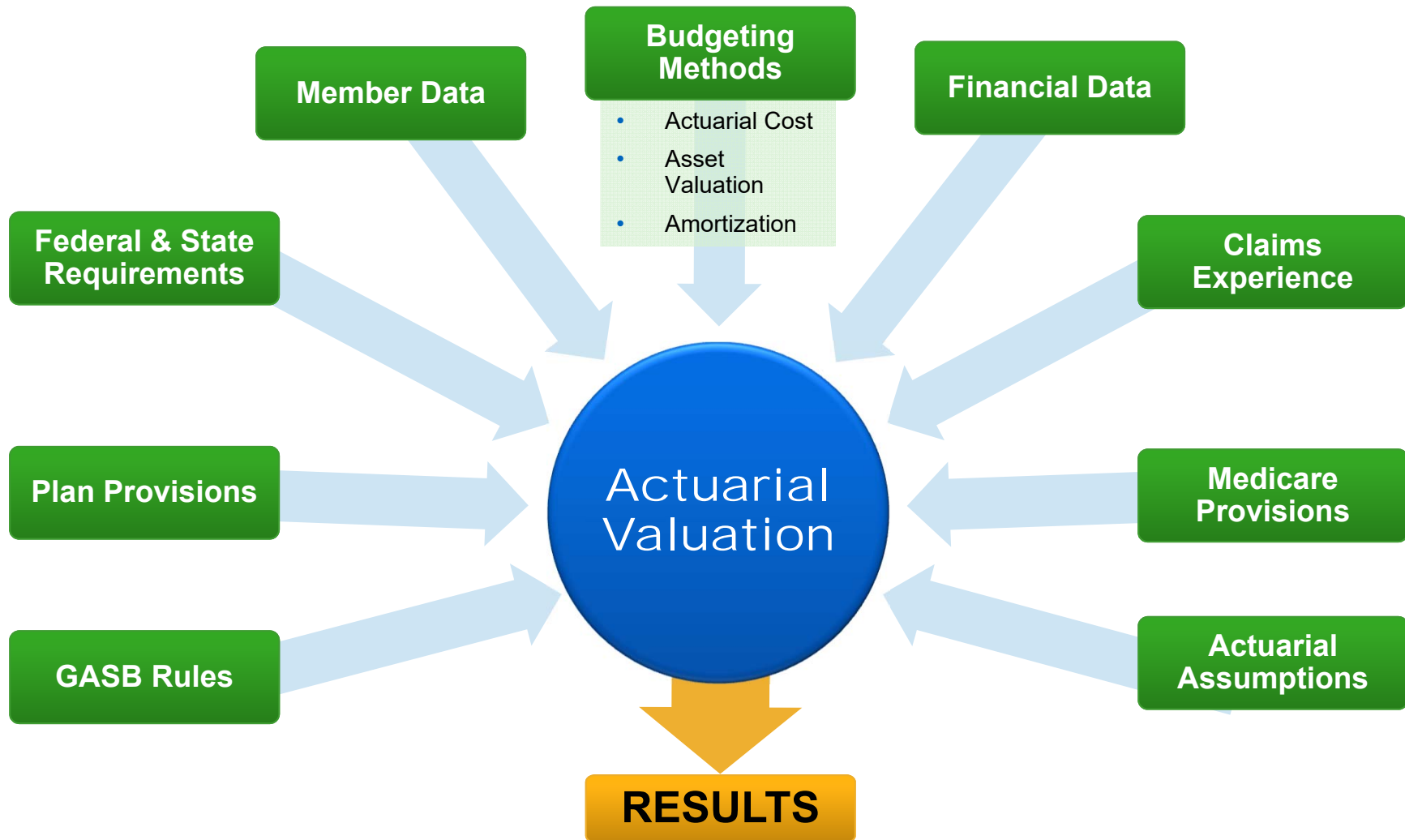


## GASB 75: Employer Reporting for Fiscal 2018



# Valuation Process

## OPEB VALUATION BASICS



# Key Valuation Calculation Components

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## ➤ Budgeting Methods for Expense

- Actuarial cost method
  - Projected Unit Credit for fiscal 2017
  - Entry Age Normal for fiscal 2018
- Asset valuation method
  - Market Value for fiscal 2017
  - Gains and losses smoothed for fiscal 2018 expense
- Unfunded Liability amortization method
  - 30-Year open level percent of pay for fiscal 2017
  - Plan changes are immediate, asset gains and losses are over 5 years, and other changes are over 6 years for fiscal 2018
- Discount Rate
  - Based on funding policy (and expected long-term return) for fiscal 2017
  - For GASB 74/75, the 20-yr General Obligation Bond Index at the June 30 Measurement Date
- Some changes in the valuation of benefit liabilities with regard to administrative expenses and the ACA Excise Tax

# Key Valuation Calculation Components *continued*

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## ➤ Economic Assumptions

- Discount rate

- 2015 valuation: 4.25%
- **2016 valuation: Discussion**

- Trend rates

- **2015 valuation:**

- 6.00% ➡ 5.00% by 2020 for medical coverages
- 10.50% ➡ 5.00% by 2028 for prescription drug coverages
- 7.00% ➡ 5.00% by 2024 for Medicare Advantage coverages

- **2016 valuation**

- Beginning trend will be determined based on plan changes and calendar 2018 premiums
- **Suggested** ultimate trend is 4.50%
- Interim values are coordinated with short-term budget projections
- Higher initial prescription drug trend is driven by specialty drug, compounded medications and an ever-increasing pipeline





# Key Valuation Calculation Components *continued*

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- Inflation
  - 2015 valuation: 3.50%
  - **2016 valuation: Discussion**
- Salary growth
  - New for GASB 74/75
- Payroll growth
  - 2015 valuation: 3.50%
  - 2016 valuation: Discussion (used 2.75% for GASB 68)
- Expense rates
  - 2015 valuation – \$301 per participant
  - 2016 valuation – based on recent experience
- Employer contribution growth (for projections)
  - 2015 valuation: Track payroll growth
  - 2016 valuation: Track payroll growth -- assuming 5.82% of pay State contribution



# Key Valuation Calculation Components *continued*

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- Salary growth
  - Mirrors the Pension Valuation
  - Separate rates based on job classification and service

Service	0	5	10	15	20	Ultimate
Teachers	7.55%	6.05%	5.10%	4.35%	3.65%	3.55%
General	5.50%	4.05%	4.00%	3.50%	3.50%	3.50%
Law Enforcement	8.10%	6.10%	4.40%	3.95%	3.65%	3.50%

# Key Valuation Calculation Components *continued*

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## ➤ Demographic Assumptions—Derived From Pension Valuations

- Pre-retirement mortality
  - Post-retirement mortality
  - Turnover
  - Disability
  - Retirement
  - Percent married
  - Spouse age difference
- Last experience update in 2015 based on five years ending December 31, 2014



# Key Valuation Calculation Components *continued*

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## ➤ Health Assumptions

- Claims costs
  - 2015 valuation: Based on experience analysis (adjusted for plan changes)
  - 2016 valuation: Based on experience analysis (adjusted for plan changes)
- Participation rates
  - Retiree – 100%
  - Spouse – 10%
- Expected Medicare status
  - 100% eligible



# Key Valuation Calculation Components *continued*

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## ➤ Expected Coverage Election

- Prior valuation short-term financial projections:

	Non-Medicare Retiree			Medicare Retiree		
Year	Traditional	CDHP	Enhanced	Traditional	MA Base	MA Enhanced
2016	37.0%	2.4%	60.5%	26.1%	61.1%	12.7%
2017	34.5%	5.6%	59.8%	24.6%	62.3%	13.0%
2018	33.5%	6.1%	60.3%	23.6%	63.3%	13.0%
2019	32.5%	6.6%	60.8%	22.6%	64.3%	13.0%
2020	31.5%	7.1%	61.3%	21.6%	65.3%	13.0%
2021	30.5%	7.6%	61.8%	20.6%	66.3%	13.0%

- 2016 valuation – Migration assumption will be simplified versions of the assumptions used for financial projections

# Key Valuation Calculation Components *continued*

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- Morbidity
  - 2015 valuation—Segal table
  - 2016 valuation—Segal table
- Retiree contributions
  - 2015 valuation: Grow with trend
  - 2016 valuation: Grow with trend
- 2020 Excise tax exposure
  - 2015 valuation: No provision
  - 2016 valuation: Required for GASB 75



# Key Valuation Calculation Components *continued*

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## ➤ Excise tax details

- Effective 2020
- 40% tax on value in excess of thresholds
- Thresholds
  - \$10,900 individual
  - \$29,400 family
  - Add \$1,650 individual (\$3,450 family) for certain Early retirees and high-risk professions
- Most plans will eventually owe the tax
- Accounting for this tax is optional under GASB 45 but will be required under the new GASB 75

## ➤ Plan changes

- 2017 were included in the prior valuation
- We will reflect the 2018 changes in this valuation by adjusting the Trend

## Other Items and Committee Concerns

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- Questions or concerns from previous valuations of which Segal should be aware
- Other State changes or directions that need to be reflected in this valuation





# Data Needed for Valuation

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- Census (Retirement Plan Valuation Data received)
- Health Plan Participation (SHP-SAS)
- Claims (SHP-SAS & Claims Reports)
- Enrollment (SHP-SAS & Reports)
- Expenses
- Premiums
- Retiree Contributions
- Employee Contributions
- 12/31/2016 & 6/30/2017 Trust Statements (Retirement System)
- Summary of Plan Provisions



# Timing—Milestones

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- 6/13—meeting with Actuarial Committee
- 6/29—all non-financial data acquired by Segal
- 8/08—all financial data acquired by Segal
- 8/15—draft report
- 8/29—final report
- September—presentation/  
discussion with Committee

# GASB Statement Nos. 74 and 75

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- In **June 2015**, GASB released two final Statements related to Other Postemployment Benefits (OPEB)
  - ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Released as GASB Statement No. 75)***
    - Supersedes the requirements of GASB Statements No. 45 and No. 57
    - Deals with employer reporting
    - Effective for fiscal years beginning **after June 15, 2017**
  - ***Financial Reporting for Postemployment Benefits Other Than Pension Plans (Released as GASB Statement No. 74)***
    - Replaces the requirements of GASB Statement No. 43 and No. 57
    - Also includes requirements for defined contribution OPEB plans that would replace the requirements for these plans in GASB Statements No. 25, No. 43, and No. 50
    - Proposes new standards for financial reporting for OPEB benefit plans
    - Effective for fiscal years beginning **after June 15, 2016**



# Questions

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