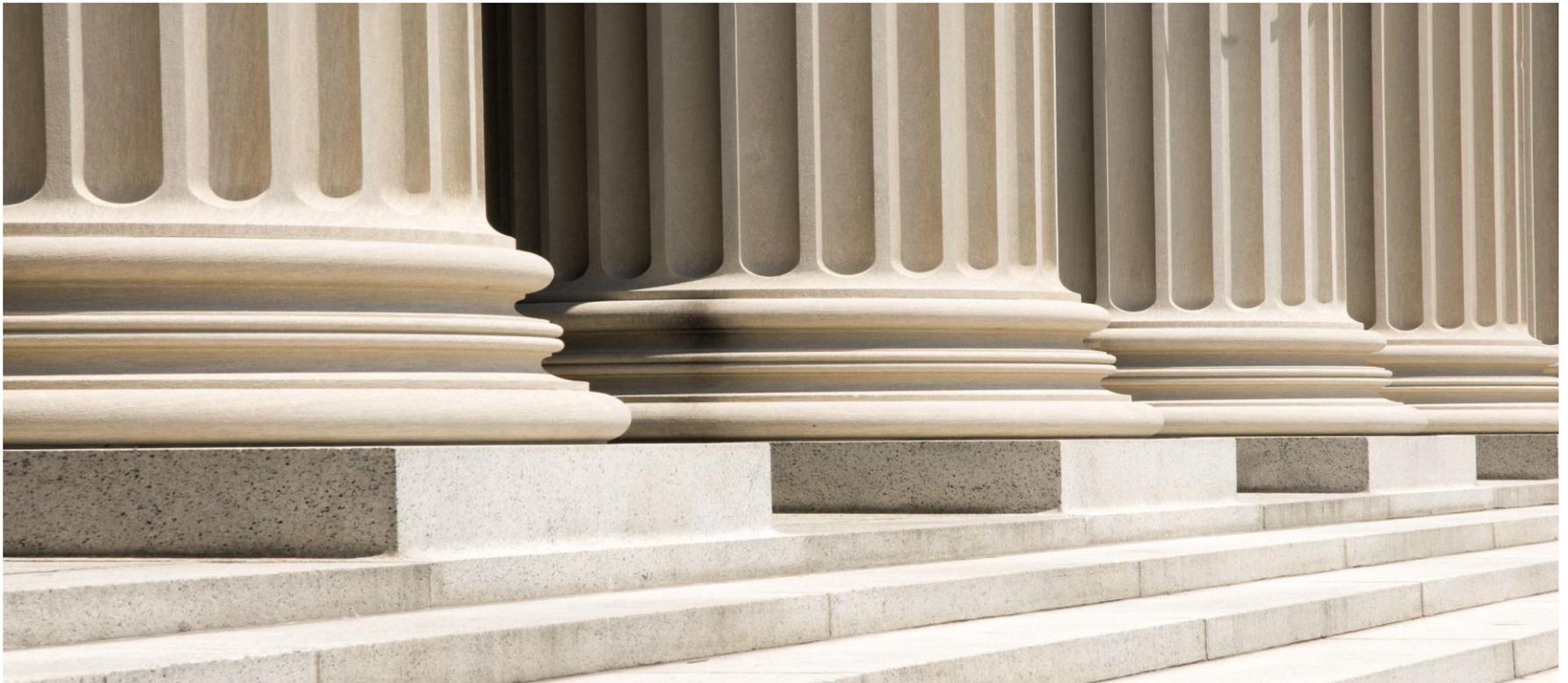


State of Utah Other Postemployment Benefit Plan December 31, 2014 Actuarial Valuation

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Meeting Agenda

- **Overview of Plan Provisions**
- **Plan Demographics**
- **Key Valuation Results**
- **Valuation Methods and Actuarial Assumptions**
 - **Valuation Methods**
 - **Economic Assumptions**
 - **Medical Assumptions**
 - **Other assumptions**

Overview of GASB 45 Actuarial Valuation

- GASB 45 valuation includes determination of actuarial liabilities for health benefits and life insurance benefits in retirement
- In order to receive retiree benefits, State employee must have been hired prior to January 1, 2006 and retire from active employment (age and service criteria apply)

Postemployment Health Benefits:

- 75% of Program I unused or converted sick leave balances accrued through 2005, converted to purchase medical and prescription drug coverage
- Eight hours of sick leave equates to one month of medical coverage for both retiree and spouse until age 65
- After age 65, an additional 8 hours of sick leave is required to continue spouse coverage
- Judges and Office of Education have alternative rules that apply

Plan Demographics

- The table below shows a historical comparison of actives and retirees included in the current and prior two valuations.
- There was a net decrease of 1,433 covered lives since the previous valuation

Number of Lives in Valuation			
	<u>12/31/2010</u>	<u>12/31/2012</u>	<u>12/31/2014</u>
Actives	11,875	10,864	9,150
Retirees	3,272	3,327	3,411
Dependents	2,600	2,235	2,432
Total Inactives	5,872	5,562	5,843
Total	17,747	16,426	14,993

Summary of Valuation Results

- The table below shows the summary of key valuation results for the current and prior actuarial valuations

	12/31/2012 Valuation	12/31/2014 Valuation
Valuation Results		
1 Present Value of Future Benefits	\$492,608,617	\$430,302,616
2 Actuarial Accrued Liability (AAL)	\$408,661,169	\$386,532,391
3 Assets as of Valuation Date	<u>\$150,107,498</u>	<u>\$205,498,084</u>
4 Unfunded Actuarial Accrued Liability (actuarial accrued liability less assets)	\$258,553,672	\$181,034,307
5 Percent Funded as of Valuation Date	36.7%	53.2%
6 Normal Cost - BOY	\$10,018,164	\$5,946,102

Annual Required Contribution (ARC)

- The table below shows the development of the ARC for the current and prior valuations
- The actuarial cost method was changed to conform with the new GASB Accounting Statements (74 and 75)
- The amortization method was changed from 20 years open to 10 years open

State of Utah State Employees

Annual Required Contribution (ARC)	Fiscal Year Ending 6/30/14	Fiscal Year Ending 6/30/16
1 Normal Cost	\$10,468,981	\$6,213,677
2 Amortization Cost	\$19,873,457	\$22,886,764
3 Annual Required Contribution (ARC)	\$30,342,438	\$29,100,441

Comparison of Actuarial Valuation Results

Key reasons for changes in liabilities and ARC since the previous valuation are:

- Active headcounts decreased by 1,714 (about 16%) since the prior valuation, while retiree and dependent headcounts increased by 281, for a net decrease in headcounts of 1,433
- The average per-capita medical and drug claims costs are higher than in the previous valuation
- Healthcare trend assumptions were changed in this valuation to a new long-term trend model, which resulted in a slight decrease in liabilities
- The actuarial cost method was changed from Projected Unit Credit to Entry Age Normal, which increased the Actuarial Accrued Liabilities but decreased the Normal Cost, for a small net decrease in the ARC

Valuation Methods

- Present Value of Future Benefits (PVFB) represents the current discounted value of all future expected benefit payments from the plan (employer)
- Actuarial Cost Method determines how the (PVFB) is allocated between past and future periods
- The State currently uses the Entry Age Normal actuarial cost method, which is the only method allowed under the new GASB accounting statements, In the prior valuation, the Projected Unit Credit method was used
- Actuarial Accrued Liability (AAL) represents the portion of the PVFB that is attributable to accumulated service as of the valuation date
- Normal Cost represents the portion of the PVFB being allocated to the year following the actuarial valuation date

Valuation Methods, cont'd

- The Unfunded Actuarial Accrued Liability (UAAL) is the portion of the AAL that is in excess of the assets in a trust fund
- GASB 45 allows the UAAL to be amortized on either an open or closed amortization period ranging from 10 to 30 years
- The ARC was determined in the current valuation using a 10 year open amortization period
- A closed amortization period means that a set number of years (such as 20) from a starting date is chosen to fully amortize the Unfunded Actuarial Accrued Liability (UAAL). Then in the next actuarial valuation, the new UAAL is amortized over the remaining years in the original period, and so on.
- An open amortization period means that a set number of years is chosen, but is a “floating” period which is re-used in each subsequent valuation

Valuation Assumptions

Discount Rate – used to calculate the present value of future cash flows

GASB 45 says the discount rate should be the estimated long-term yield on the investments that are expected to be used to finance the payment of benefits

- The discount rate used in the current and prior valuation of State Employee plan was **4.5%**

Key Valuation Assumptions, *cont'd*

Health Care Trend Rates– used to project future healthcare costs

- Trend rates are applied to State of Utah's current per-capita experience rates as of the date of the valuation
- Trend rates were changed this year to the Society of Actuaries Long-Run Medical Cost Trend (Getzen) Model. This long term trend model has gained wide acceptance by many OPEB actuaries and auditing firms

Key Valuation Methods, cont'd

Other Valuation Assumptions and Methods

- Per Capita Claims Costs by age group – developed each year based on historical claims data
- Assumed rates of electing future retiree coverage and spouse coverage (participation rates)
- Mortality tables (pre and post-retirement)
- Pre-retirement turnover rates by group, age, gender, and years of service for State Employees' plan
- Retirement rates which vary by group and by years of service