

State of Utah Other Postemployment Benefit Plan

December 31, 2016 Valuation and
GASB 74/75 Implementation

October 17, 2017



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Meeting Agenda

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Executive Summary

- Korn Ferry Hay Group (KFHG) provides biennial actuarial Valuations for the State of Utah Employees' OPEB Plan
- Starting with the 12/31/16 valuation, the actuarial valuation is performed in accordance with the new GASB 74/75 standards, replacing GASB 43/45
- These new accounting standards contain many changes and require a significant increase in information reported in the State's annual financial statements
- The State has adopted both GASB 74 and GASB 75 statements for the reporting period ending June 30, 2017. GASB 75 was adopted one year earlier than required



Overview of State Postemployment Health Benefits

Highlights of Plan Provisions

- State employees hired prior to January 1, 2006 who retire from the state are eligible for post-retiree medical and life insurance benefits.
- 75% of Program I unused or converted sick leave balances accrued through 2005, converted to purchase medical and prescription drug coverage
- Pre-65 retirees are eligible to choose from six different medical plan designs of the Utah Public Employees Health Program (PEHP)
- Post-65 retirees are eligible to choose from three separate Medicare Supplement plans offered through PEHP, as well as three Pharmacy plans
- 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



Demographic Data – Eligible for Retiree Medical Coverage

Number of Lives					
	<u>12/31/2008</u>	<u>12/31/2010</u>	<u>12/31/2012</u>	<u>12/31/2014</u>	<u>12/31/2016</u>
Actives	20,385	11,875	10,864	9,150	6,739
Retirees	2,886	3,272	3,327	3,411	3,119
Dependents	2,002	2,600	2,235	2,432	1,638
Total Inactives	4,888	5,872	5,562	5,843	4,757
Total	25,273	17,747	16,426	14,993	11,496

Above counts exclude employees hired after 1/1/2006. The 12/31/2016 counts shown above excluded employees with no sick leave balances since they do not receive an employer subsidy for medical or life insurance



Summary of Valuation Results

- The table below shows the summary of key valuation results for the current and prior valuations as of December 31

Postemployment Benefit Valuation Results State of Utah State Employees		
Assumptions	12/31/2014 Valuation	12/31/2016 Valuation
Valuation Results		
Present Value of Future Benefits	\$430,302,616	\$404,425,056
Actuarial Accrued Liability (AAL)	\$386,532,391	\$369,176,402
Assets as of Valuation Date	<u>\$205,498,084</u>	<u>\$243,492,752</u>
Unfunded Actuarial Accrued Liability (actuarial accrued liability less assets)	\$181,034,307	\$125,683,650
AAL Funded Status as of Valuation Date	53%	66%
Entry Age Normal Cost as of Valuation Date	\$5,946,102	\$5,000,257
Active Employee Headcount	9,150	6,739
Retiree Headcount	3,411	3,119



Comparison of Actuarial Valuation Results

Key reasons for net decrease in actuarial liabilities and normal cost since previous valuation

- Active headcounts decreased by 2,411 since the prior valuation, and retiree and dependent headcounts decreased by 1,086
- The average per-capita medical and drug claims costs increased less than anticipated since the prior valuation
- The discount rate was changed from 4.5% in the prior valuation to 3.75% in the current valuation
- The mortality assumptions were changed to reflect recent published information regarding increase in life expectancy from the Society of Actuaries



Key Valuation Assumptions

- Discount rate (3.75%) - used to calculate the present value of future cash flows (net retiree claims)
- Health Care Trend Rates– used to project future healthcare costs
 - Society of Actuaries Long-Term Medical Cost Trend (Getzen) Model
- Mortality Rates – used to discount future cash flows due to expected mortality at different ages
 - A projection scale applies “generational” improvements to longevity, based on the concept that our children will live longer than we will live
- Per Capita Claims Costs by age group – developed each year based on historical claims data



Key Valuation Assumptions, *cont'd*

Other Valuation Assumptions and Methods

- Assumed rates of electing future retiree coverage and spouse coverage (participation rates)
- Pre-retirement turnover rates by group, age, gender, and years of service for State Employees' plan
- Assumed ages at which employees will retire



Valuation Methods

Cost method for determining actuarial accrued liabilities

- The State currently uses the Entry Age Normal actuarial cost method, which is the only method allowed under the new GASB 74 & 75 statements. Under the previous standards, six possible methods could be used



Funding of OPEB Trust

Actuarially Determined Contribution method

- The new Statements GASB 74 and 75 do not require or recommend a specific actuarial method or set of assumptions to determine an employer's funding policy or strategy
- The new Statements GASB 74 and 75 allow but do not require an Actuarially Determined Contribution (ADC) to be determined.
 - The ADC, if determined, must be disclosed as part of the Required Supplementary Information schedules in the financial statements.



Funding of OPEB Trust, *cont'd*

Actuarially Determined Contribution (ADC)

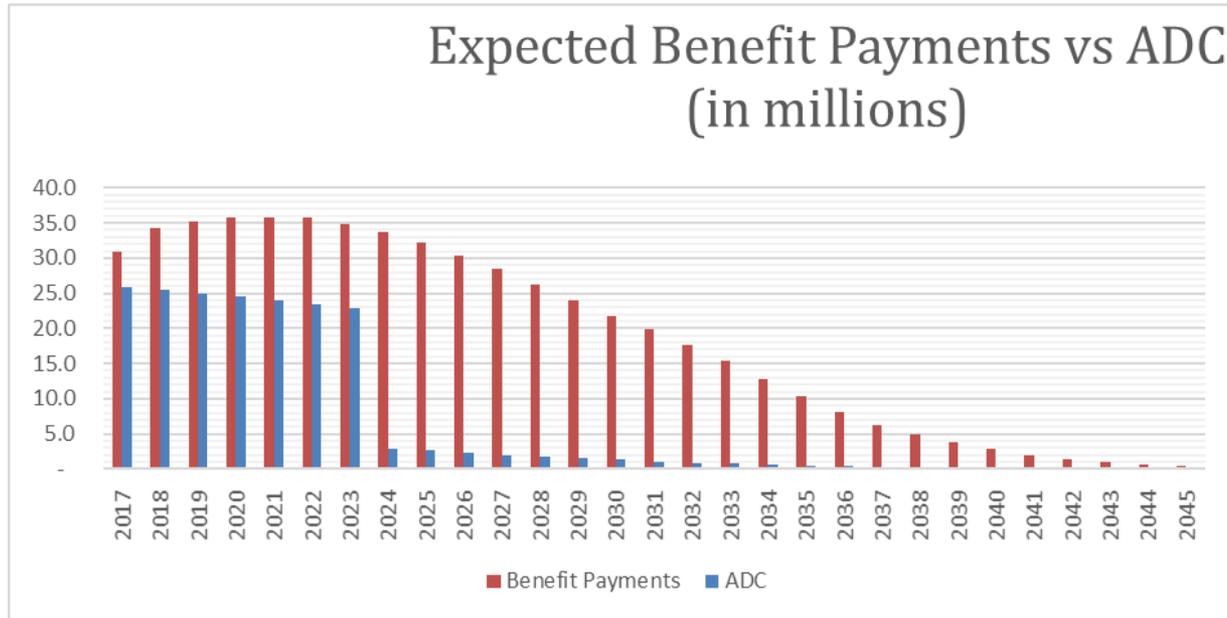
- For purposes of funding the OPEB trust, the ADC was developed as shown in the table below:

Development of Actuarially Determined Contribution (ADC)	
Entry Age Normal Cost at Beginning of Year	\$ 5,000,257
Normal Cost with 3.75% Interest to End of Year	5,187,767
Amortization of Unfunded AAL (7 yrs)	<u>20,739,876</u>
Actuarially Determined Contribution (ADC)	\$ 25,927,643

- The above ADC will be contributed to the trust for the fiscal years 2019 and 2020.
- The ADC from the December 31, 2014 valuation will be used to fund the trust in fiscal year 2018.



Projection of Benefit Payments and Contributions



Year	BP	ADC	Year	BP	ADC
2017	\$ 31.0	\$ 25.9	2032	\$ 17.6	\$ 0.9
2018	34.2	25.4	2033	15.4	0.8
2019	35.3	25.0	2034	12.8	0.6
2020	35.7	24.5	2035	10.4	0.5
2021	35.8	24.0	2036	8.1	0.4
2022	35.7	23.5	2037	6.3	0.3
2023	34.9	22.8	2038	4.9	0.2
2024	33.8	2.8	2039	3.8	0.1
2025	32.2	2.6	2040	2.9	0.1
2026	30.3	2.3	2041	2.0	0.1
2027	28.5	2.0	2042	1.4	0
2028	26.3	1.8	2043	1.0	0
2029	24.0	1.6	2044	0.6	0
2030	21.8	1.3	2045	0.4	0
2031	19.9	1.1			

