

2019 OPEB VALUATION REVIEW

State Employees OPEB Plan

State of Utah
September 2019



Agenda

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- 2 VALUATION RESULTS – STATE EMPLOYEES OPEB PLAN 7



Certification

This information was prepared for the State of Utah to provide a summary of results and key funding and/or accounting issues for the State Employees Other Post-Employment Benefit Plan. The information contained herein is based on the data, assumptions, and methods used in the GASB 74/75 Financial Accounting Disclosure report for fiscal year ending June 30, 2019. The June 30, 2019 report contains additional information that is necessary to understand this analysis.

Evi Laksana, ASA, MAAA, is a member of the Society of Actuaries and other professional actuarial organizations and meets the General Qualification Standards of the American Academy of Actuaries for purposes of issuing Statements of Actuarial Opinion, including Code of Professional Conduct Precept 7 regarding conflict of interest. Neither Korn Ferry nor any of its employees has any relationship with the Plan Sponsor that could impair or appear to impair the objectivity of this report.



A woman with blonde hair is smiling and gesturing with her hands while sitting at a table in a meeting. She is wearing a light blue patterned top. Other people are visible around the table, including a man with grey hair in the foreground and a woman with curly hair in the background. A laptop and a tablet are on the table.

1 Overview



Overview of Actuarial Valuations

- Korn Ferry provides biennial actuarial valuations for State of Utah Employees' OPEB Plan as of December 31
- Starting with the 12/31/2016 valuation, the actuarial valuation is performed in accordance with the new GASB 74/75 standards
- The results of the 12/31/2018 valuation will be used to develop the required financial disclosures and the OPEB expense for the fiscal years ending 6/30/2019 and 2020
- The results of the 12/31/2018 OPEB valuation based on updated census, claims costs, and actuarial assumptions for State Employees Plan are shown in this presentation



Updates Since Prior Valuation

Item	Description of Changes	Liability Impact
Per Capita Claims Costs (PCCC) Aging Factors	<p><u>Pre-Medicare</u> Prior valuations per capita claims costs vary by 5-year age bands. In this year's valuation, the per capita claims costs now vary by age.</p> <p><u>Post-Medicare</u> Prior valuations per capita claims costs vary by 5-year age bands. In this year's valuation, the per capita claims costs are based on the annualized premium rates provided for Medicare Supplement 100 and Enhanced Rx.</p>	Net impact: -1.8%
Assumptions – Demographic	<p>The following demographic assumptions were updated based on 2017 URS assumptions:</p> <ul style="list-style-type: none"> • Termination • Retirement 	<ul style="list-style-type: none"> • +2.2% for termination • -3.0% for retirement <p>Net impact: -0.7%</p>
Assumptions – Trend Rates	Health care trend rates have been updated based on 2019 SOA Long-Run Medical Cost Trend model	-2.1%
Assumptions – Discount Rate	Discount rate decreased from 3.75% to 3.00% based on discussion with the OPEB Board	+4.3%



A man in a dark blue suit, white shirt, and dark tie is looking down at a tablet computer he is holding with both hands. He is wearing black-rimmed glasses and a watch on his left wrist. The background is a blurred office interior with large windows.

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State Employees OPEB Plan



Comparison of Valuation Results *(Results shown in thousands)*

Valuation Date	12/31/2016	12/31/2016	12/31/2018
Participants			
Active ¹	6,739	6,739	5,592
Retirees	3,119	3,119	3,229
Total	9,858	9,858	8,821
	FY 2016/17	FY 2017/18	FY 2018/19
Market Value of Assets as of Measurement Date²	\$ 254,172	\$ 251,464	\$ 271,853
Total OPEB Liability (TOL) as of Measurement Date²	\$ 362,973	\$ 349,915	\$ 340,402
Net OPEB Liability (NOL) as of Measurement Date²	\$ 108,801	\$ 98,451	\$ 68,549
Funded Ratio	70.0%	71.9%	79.9%
Discount Rate for determining the TOL	3.75%	3.75%	3.00%

¹ Active headcounts exclude employees hired after January 1, 2006 as well as those hired prior to January 1, 2006 with no sick leave balances as they do not receive an employer subsidy for medical or life insurance.

² Measurement date is as of the end of the fiscal year (i.e. June 30, 2019 for FY 2018/19). The Market Value of Assets are currently projected from December 31, 2018 balance and will be updated once the actual balance as of June 30, 2019 is available.



Net OPEB Liability and Funded Status by Pool (Results shown in thousands)

Measurement Date	6/30/2017	6/30/2019				
Discount Rate	3.75%					
Total OPEB Liability (TOL)	Total	Total	Public Education	Public Safety	General	UDOT
Medical						
Medical – active employees	\$ 193,690	\$ 223,943	\$ 3,890	\$ 14,890	\$ 173,464	\$ 31,699
Medical – retirees	\$ 168,137	\$ 113,607	\$ 2,650	\$ 12,458	\$ 78,590	\$ 19,909
Medical – total	\$ 361,827	\$ 337,550	\$ 6,540	\$ 27,348	\$ 252,054	\$ 51,608
Life insurance – total	\$ 1,146	\$ 2,852	\$ 51	\$ 366	\$ 2,052	\$ 383
TOL for All Benefits	\$ 362,973	\$ 340,402	\$ 6,591	\$ 27,714	\$ 254,106	\$ 51,991
Fiduciary Net Position	\$ 254,172	\$ 271,853	\$ 6,089	\$ 15,820	\$ 215,498	\$ 34,446
Net OPEB Liability (NOL)	\$ 108,801	\$ 68,549	\$ 502	\$ 11,894	\$ 38,608	\$ 17,545
Funded Ratio	70.0%	79.9%	92.4%	57.1%	84.8%	66.3%



Comparison of Actuarially Determined Contributions

(Results shown in thousands)

Valuation Date	12/31/2016	12/31/2018
Assumptions for Actuarially Determined Contribution (ADC) Calculations		
Discount Rate	3.75%	3.00%
Amortization Method	Level Dollar	Level Dollar
Amortization Period	7 years	5 years
Cost Method	EAN Level %	EAN Level %
	FY 2017/18¹	FY 2018/19
Actuarial Accrued Liability (AAL) as of Valuation Date	\$ 369,176	\$ 348,081
Market Value of Assets as of Valuation Date	\$ 243,493	\$ 251,554
Unfunded AAL as of Valuation Date	\$ 125,683	\$ 96,527
Normal Cost with Interest to End of Year	\$ 5,188	\$ 5,825
Amortization of Unfunded AAL (EOY Payment)	\$ 20,740	\$ 21,077
Actuarially Determined Contribution (ADC)	\$ 25,928	\$ 26,902

¹ FY 2017/18 ADC was calculated using 12/31/2016 AAL and Assets.

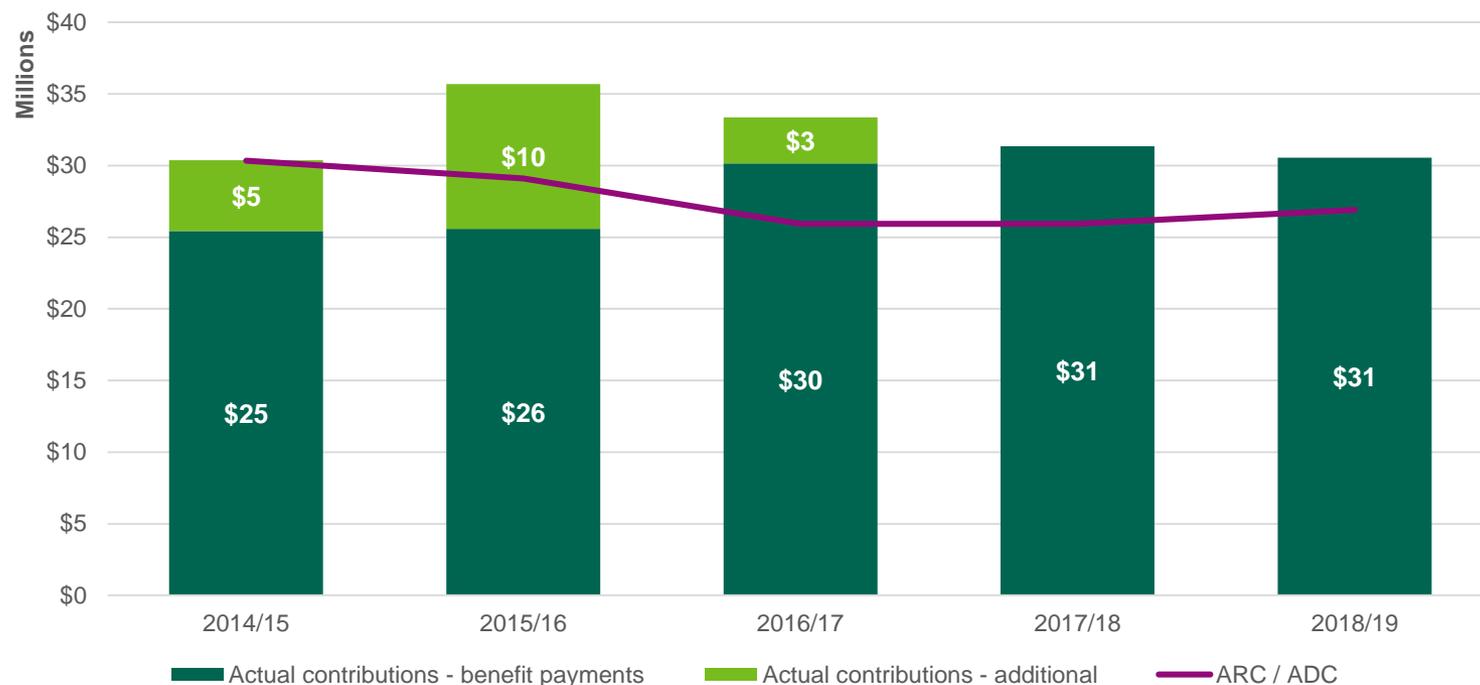


Actuarially Determined Contribution by Pool *(Results shown in thousands)*

Valuation Date	12/31/2017	12/31/2018				
Discount Rate	3.75%	3.00%				
Amortization Method	Level Dollar	Level Dollar				
Amortization Period	7 years	5 years				
	Total	Total	Public Education	Public Safety	General	UDOT
AAL as of BOY	\$ 369,177	\$ 348,081	\$ 6,955	\$ 28,422	\$ 259,767	\$ 52,937
Assets as of BOY	\$ 243,493	\$ 251,554	\$ 5,517	\$ 14,998	\$ 199,576	\$ 31,463
Unfunded AAL (UAAL) as of BOY	\$ 125,684	\$ 96,527	\$ 1,438	\$ 13,424	\$ 60,191	\$ 21,474
Normal Cost as of BOY	\$ 5,188	\$ 5,655	\$ 81	\$ 572	\$ 4,283	\$ 719
Amortization of UAAL as of BOY	\$ 20,740	\$ 20,464	\$ 305	\$ 2,846	\$ 12,760	\$ 4,553
Total Normal Cost and Amortization of UAAL	\$ 25,928	\$ 26,119	\$ 386	\$ 3,418	\$ 17,043	\$ 5,272
Interest to EOY	Included Above	\$ 783	\$ 11	\$ 103	\$ 511	\$ 158
ADC as of EOY	\$25,928	\$ 26,902	\$ 397	\$ 3,521	\$ 17,554	\$ 5,430



Historical Contributions

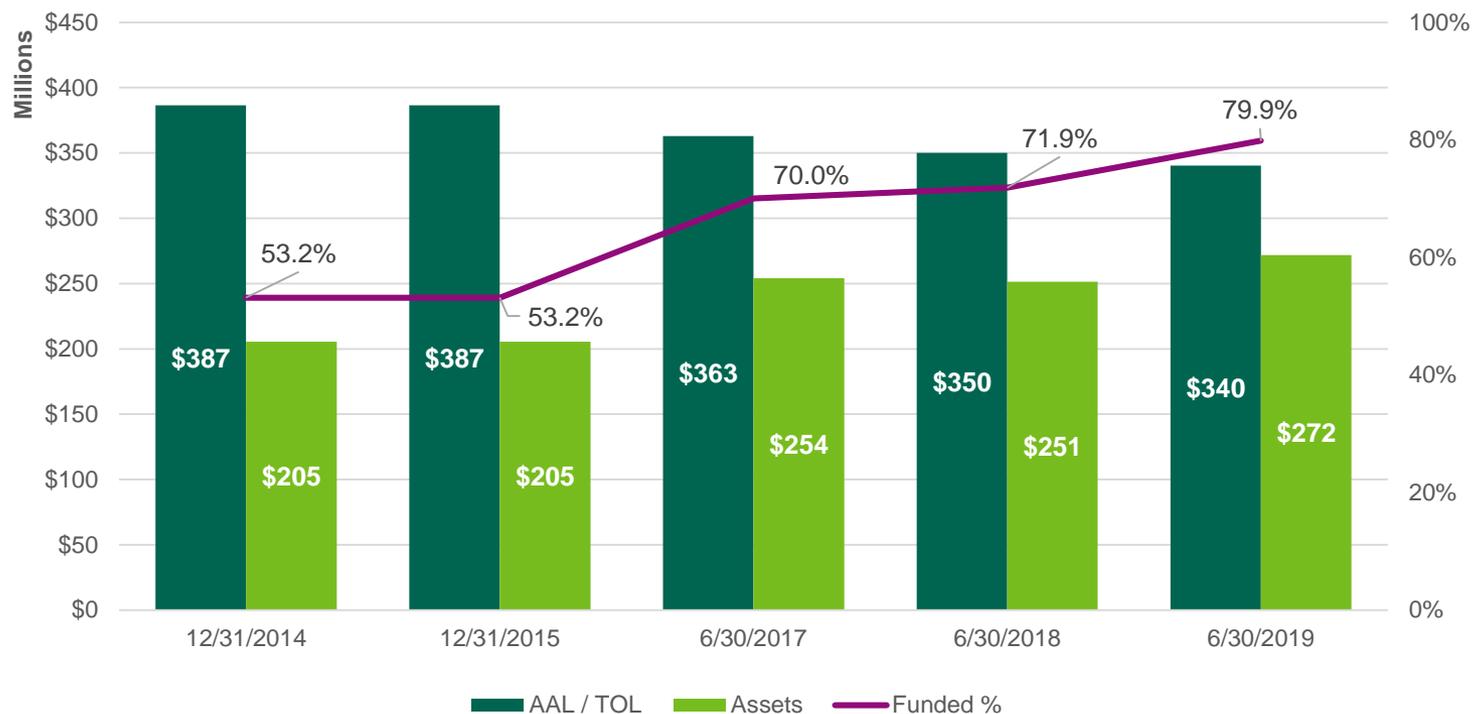


Fiscal Years <i>(Results shown in thousands)</i>	2014/15	2015/16	2016/17	2017/18	2018/19
Actual Contributions – Benefit Payments	\$ 25,423	\$ 25,597	\$ 30,158	\$ 31,339	\$ 30,560
Actual Contributions – Additional	\$ 4,941	\$ 10,086	\$ 3,203	\$ 0 ¹	\$ 0 ¹
ARC/ADC	\$ 30,342	\$ 29,100	\$ 25,928	\$ 25,928	\$ 26,902

¹ Total employer contributions made in FY 2017/18 and 2018/19 are lower than the benefit payments paid out from the Trust.



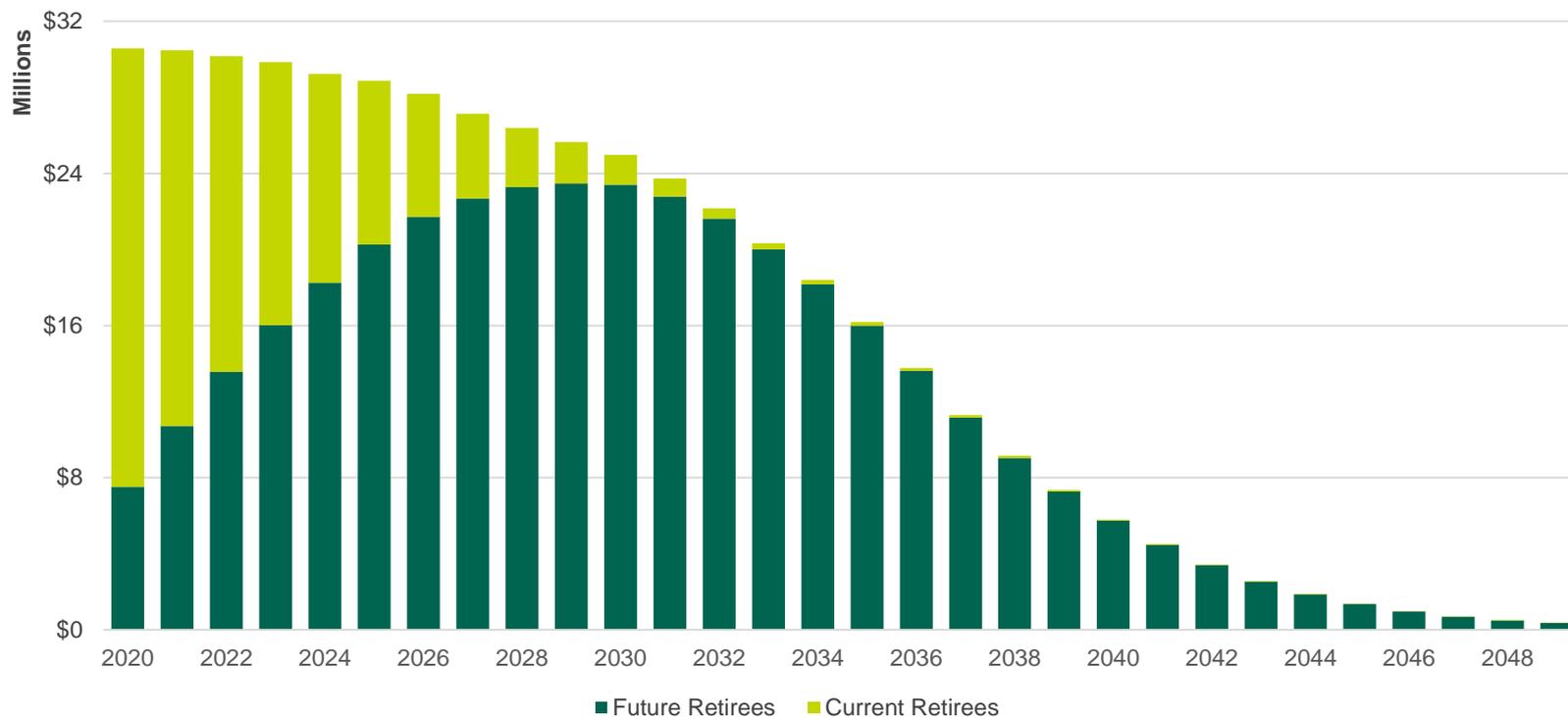
Historical Funded Level



As of (Results shown in thousands)	12/31/2014	12/31/2015	6/30/2017	6/30/2018	6/30/2019
AAL/TOL	\$ 386,532	\$ 386,532	\$ 362,973	\$ 349,915	\$ 340,402
Assets	\$ 205,498	\$ 205,498	\$ 254,172	\$ 251,464	\$ 271,853
Funded %	53.2%	53.2%	70.0%	71.9%	79.9%



Projected Benefit Payments



<i>(Thousands)</i>	2020	2025	2030	2035	2040	2045	2050
Actives	\$7,505	\$20,268	\$23,413	\$15,998	\$5,749	\$1,354	\$258
Retirees	\$23,074	\$8,610	\$1,561	\$185	\$45	\$25	\$19
Total	\$30,579	\$28,878	\$24,974	\$16,183	\$5,794	\$1,379	\$277

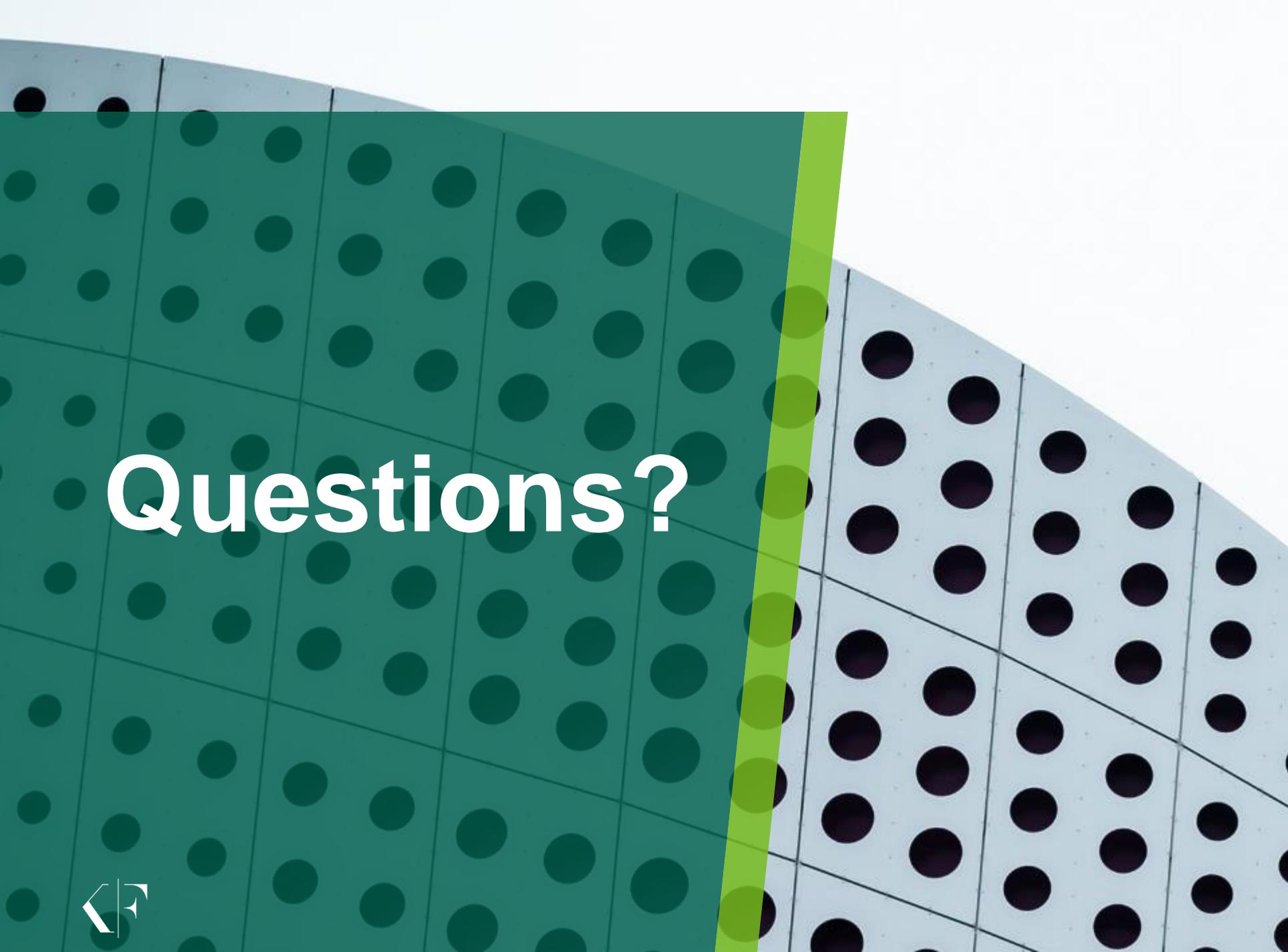


Discussion on Discount Rate

- Discount rate is used to calculate the present value of future cash flows (net of retiree contributions)
- Under GASB 74/75, discount rate for funding valuation and accounting disclosures can be different.
 - Discount rate for funding valuation is based on the expected long-term Rate of Return (ROR) of the Trust
 - GASB 75 is silent on how the Actuarially Determined Contribution (ADC) should be calculated
 - It is reasonable to use the long-term ROR of the Trust to determine the ADC since this is the return that the asset is expected to earn
 - For accounting disclosure purposes, the discount rate is determined using discounted cashflow projection method.
 - This can result in the same discount rate for funding valuation if future plan assets are projected to always be sufficient to pay for all future benefit payments
- The State's target allocation in the last valuation is based on the investment policy as well as the expected real rates of return are as shown below. Based on the expected long-term ROR on the Trust assets and the State's funding policy, the results on the State Employee Plan were developed using a 3.00% discount rate.

Asset Class	Target Allocation	Real Rates of Return
Debt Securities	90%	0.90%
Real Estate	10%	2.00%
Assumed Inflation		2.00%
Long-term Trust ROR		3.00%





Questions?



Thank you





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