

Board of County Commissioners Multnomah County

Accounting and Funding Other Post-Employment Benefits

April 22, 2014





Agenda

- What does OPEB include?
- What OPEB does the County offer?
- What are the accounting requirements?
- Multnomah County's OPEB obligation
- County finance and budget policies
- Funding options for OPEB
- Questions



What Does OPEB Include?

- Other Post Employment Benefits (OPEB)
 - Not pension benefits
 - Not termination benefits
 - Generally includes:
 - Medical
 - Dental
 - Vision
 - Prescription
 - Hearing
 - Long-Term Disability (not provided through a pension plan)
 - Long-term care
 - Life insurance
- Does not include benefits while still employed



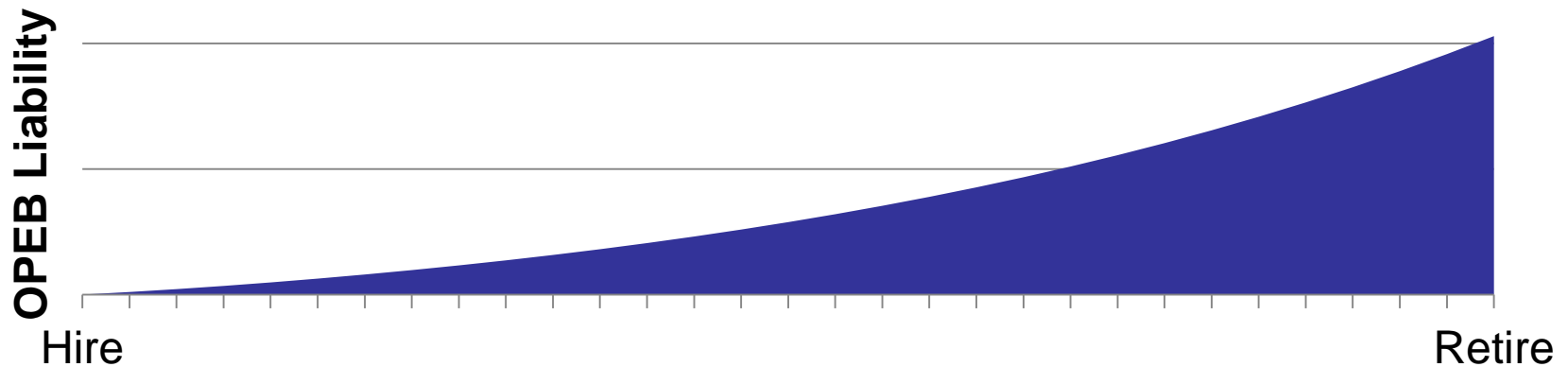
What OPEB does the County offer?

- Health Insurance
 - Section 243.303 of the Oregon Revised Statutes requires the County to make health insurance coverage available for retirees who are receiving retirement or disability benefits from PERS or OPSRP
 - The coverage must be made available until the retiree and spouse are eligible for Medicare
 - In addition to making coverage available, the County pays a collectively bargained percentage of the premium (generally 50%) depending on age and service
- Dental Insurance
- Life insurance
 - \$2,000 to \$5,000 for eligible retirees
- These benefits are collectively bargained



Accounting Requirements

Recognition of OPEB Benefits Over Career



- A Net OPEB Obligation and an Annual OPEB Expense are reported on County-wide financial statements
- Concept is to recognize the cost of the OPEB benefits earned by each employee over that employee's period of employment
- Actuarial valuation performed every other year to determine accounting and reporting amounts



County Finance and Budget Policies

- Pay benefits when due
 - Estimated amount is charged as a percentage of payroll to each department
- Long-term liability policy to pre-fund OPEB to 20% of the liability
- As of June 30, 2013, \$34M has been set aside for OPEB (25% of the liability)
- Currently held in County's Risk Management Fund
 - Investments are limited to short-term fixed income securities
 - Does not offset accounting liability in financial statements. For accounting purposes, any assets must be set aside in a trust (or other irrevocable instrument) to be recognized as an offset to the OPEB liability



Multnomah County's OPEB Obligation

- Three components
 - Life insurance
 - Premium subsidy for health insurance
 - Cost of offering health insurance coverage to retirees
- Why is there a cost of offering coverage to retirees?
 - Health insurance costs increase with age
 - Premiums represent the average cost for the covered population (including actives and retirees)
 - Offering coverage to retirees increases the average age and average cost of the covered population resulting in higher premiums for health insurance
 - This increase in premiums represents the cost of offering coverage to retirees



Illustration of Cost of Offering Coverage

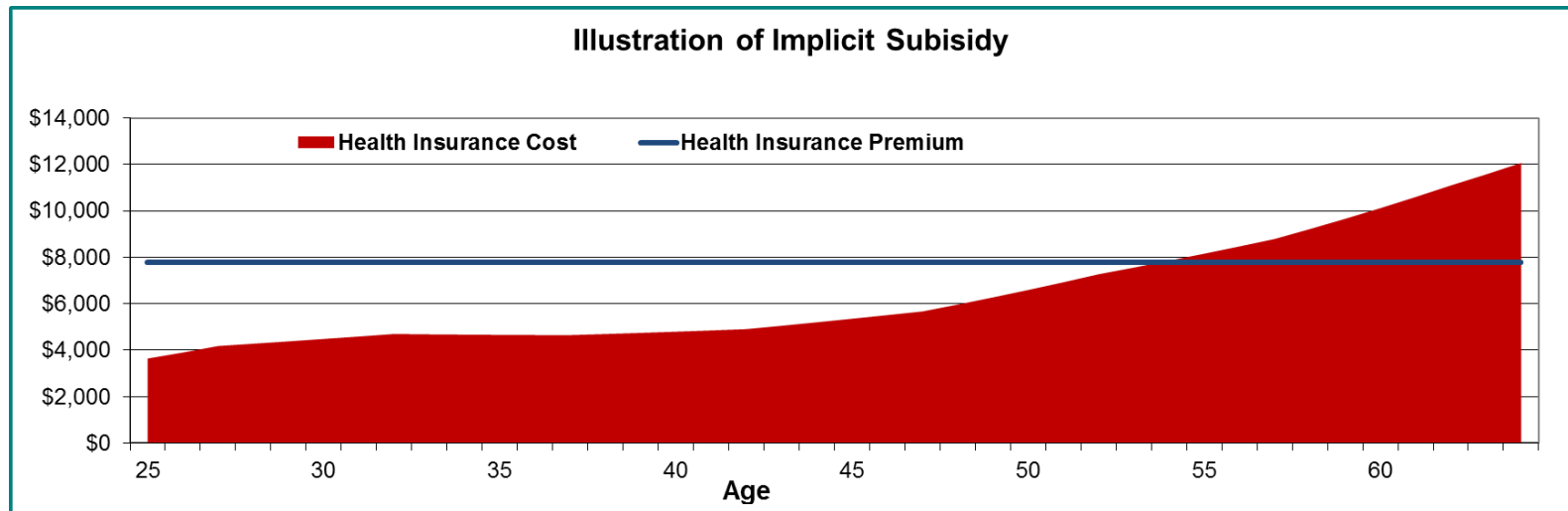
Two Person Illustration

	Active Only	Retiree Only	Active Plus Retiree
Active Cost	\$4,000	\$ 0	\$4,000
Retiree Cost	\$0	\$10,000	\$10,000
Total Cost	\$4,000	\$10,000	\$14,000
Premium	\$4,000	\$10,000	\$7,000

- Consider a situation with one active employee and one retired employee
- Assume health insurance for the active employee costs \$4,000 and for the retiree costs \$10,000
- By offering insurance to the retiree as well as the active employee, the premium is set at \$7,000 $[(\$4,000 + \$10,000)/2]$
- Even if the retiree pays the full premium of \$7,000, the retiree is not paying for the full cost of the retiree's insurance (\$10,000). The other \$3,000 is paid as part of the active employee's premium



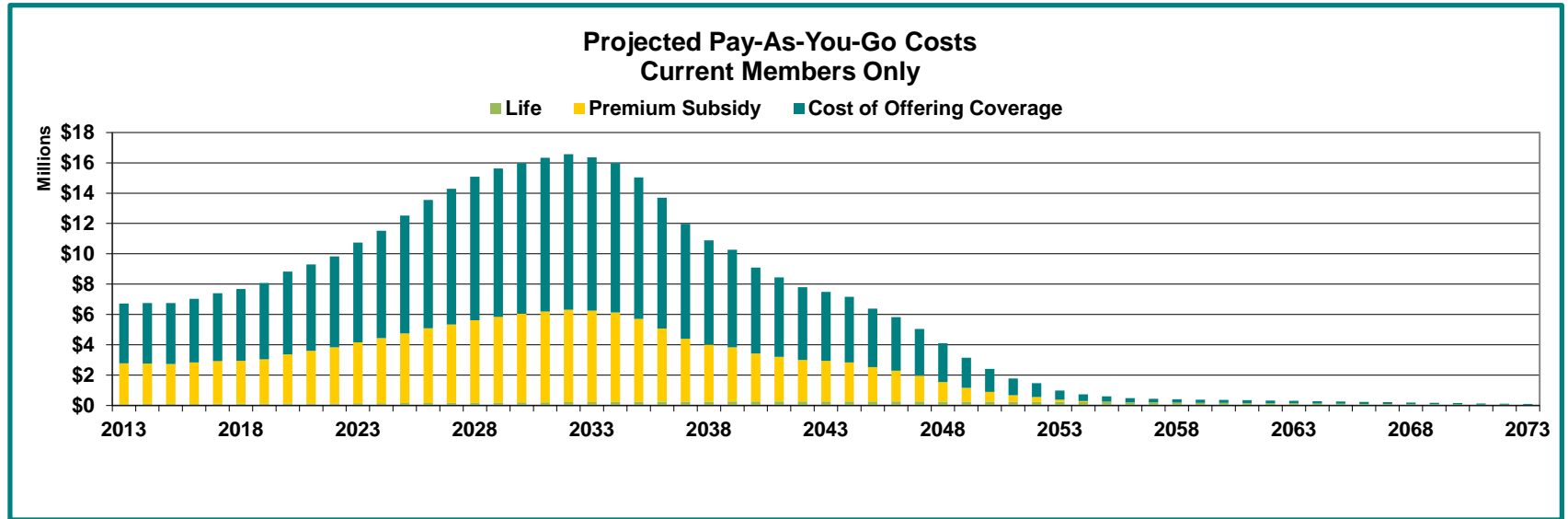
Illustration of Cost of Offering Coverage



- The red area represents the estimated cost of providing health insurance under a hypothetical plan for each age from 25 to 64
- The health insurance premium is developed by adding up the age-based cost for each person covered and dividing by the total number covered
- In this illustration, retirees over age 55 who pay the full premium do not pay enough to cover the cost of their health insurance
- Their health insurance is implicitly subsidized through the premium rates for younger employees



Multnomah County's OPEB Obligation

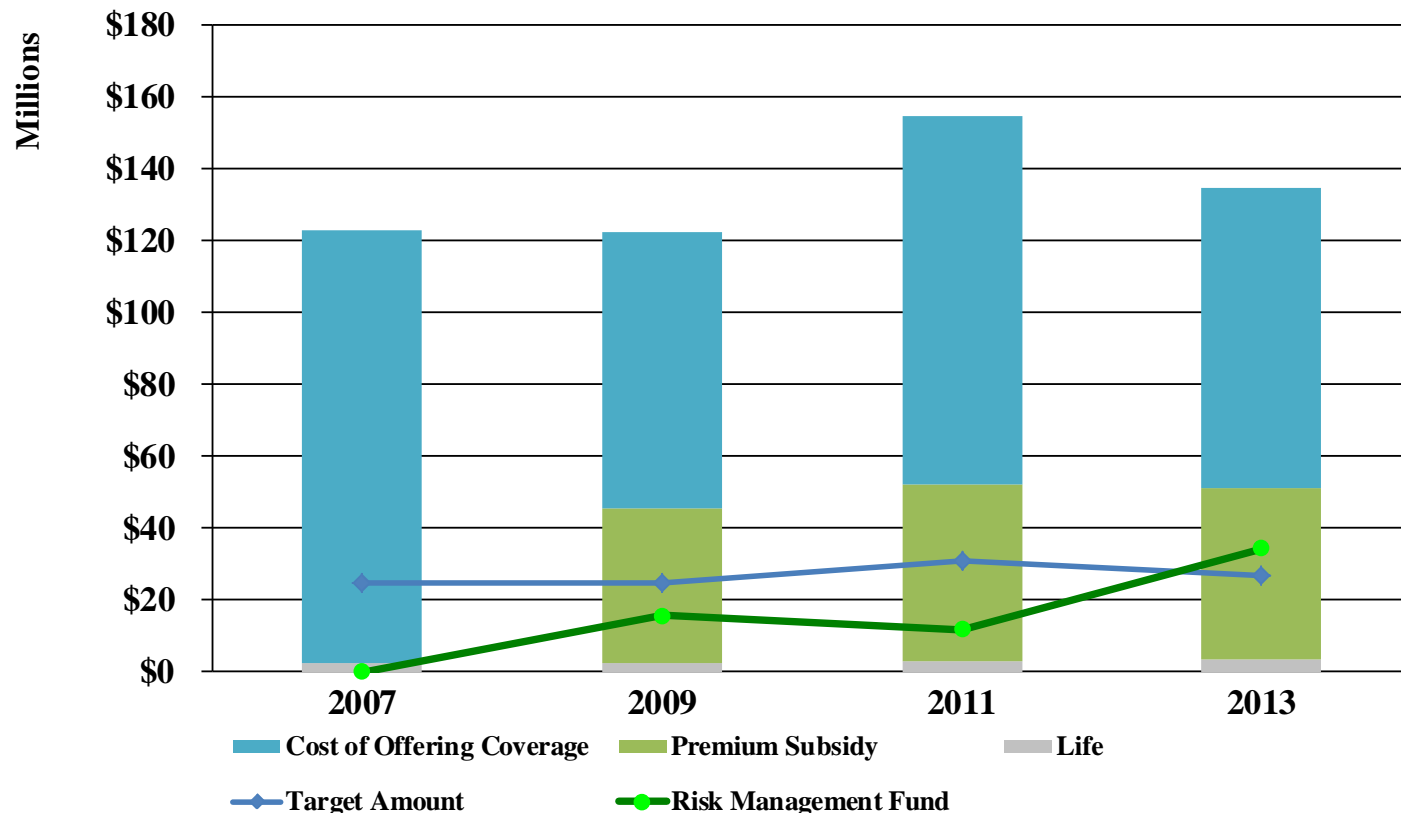


- The County's obligation is to pay the promised benefits due each year
- Graph shows payment for members as of January 1, 2013 only
- All future new entrant benefits in addition to those shown
- Health insurance premium subsidies (and cost of offering coverage) drop at age 65, so duration of County-provided benefit is relatively short



Multnomah County's OPEB Obligation

Multnomah County Other Post-Employment Benefits



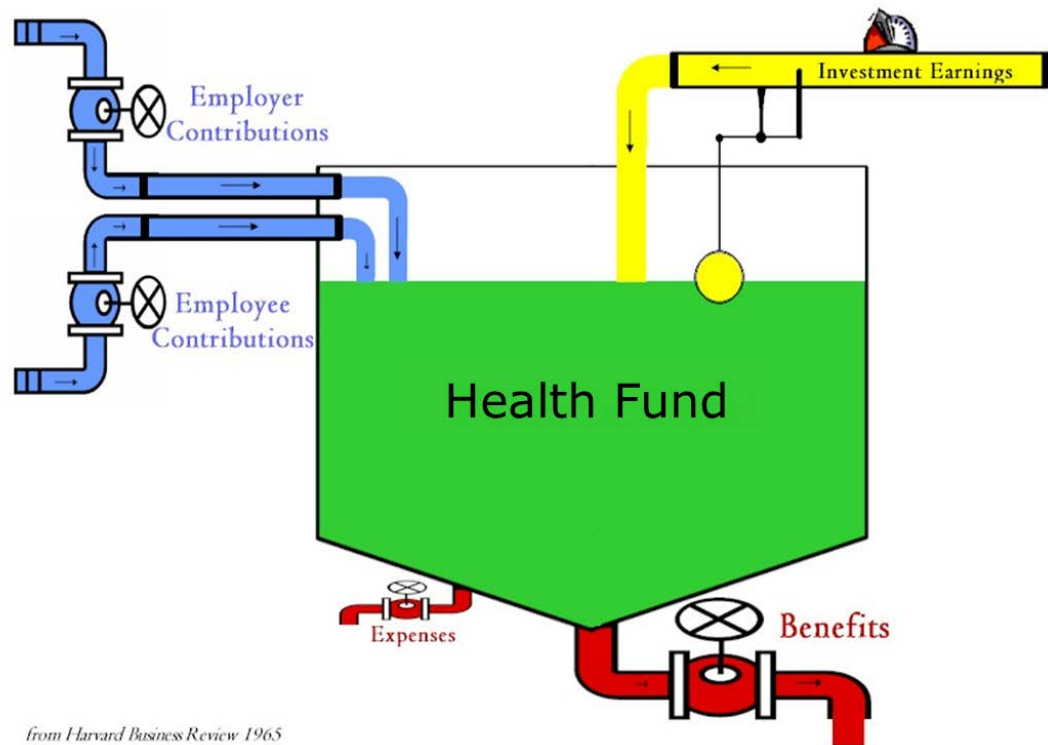
In 2007 the Premium Subsidy was not split out of the total Cost of Offering Coverage
Liabilities and Target amount as of 1/1 of Calendar Year, Risk Management Fund as of 6/30



Funding Options for OPEB

Potential funding strategies:

- Pay-as-you-go
 - With or without risk management fund target
- Trust
 - Pre-fund all or a portion of expected benefits
 - Use investment earnings to help pay costs





Funding Options for OPEB

- Variety of levers that can be used to meet funding strategy goals:
- Employer and employee contributions
 - Premium cost split during retirement phase
 - Pre-funding contributions during active employment phase for some or all OPEB benefits
- Investment earnings
 - Only available with pre-funding
 - Investment policy likely differs based on investment vehicle (stand-alone Trust versus County Fund)
- Benefits
 - Level of benefits
 - Tied to active benefits to some degree by Oregon law
 - Collectively bargained



Funding Options for OPEB

- Investment earnings can have a significant impact on the cost of the plan
- Assuming 3.5% investment returns
 - Target \$135 million in fund now
 - Additional \$7.3 million per year increasing 3.5% per year
- Assuming 7.5% investment returns
 - Target \$91 million in fund now
 - Additional \$4.1 million per year increasing 3.5% per year
- As assets accumulate, investment risk becomes a more significant issue
- Transition from pay-as-you-go to pre-funding can be spread over a period of time



What Have Other Governments Done?

- Benefit changes
 - Reduce or eliminate premium subsidies
 - Increase years of service to get full subsidy
 - Fix premium subsidy as a dollar amount instead of percentage of premium
 - Reduce health benefits covered by plans
 - Separate premium rates for retirees
 - Encourage later retirement
- Funding
 - Full or partial pre-funding of benefits
 - Employee contributions while active
 - Make premium subsidy vary depending on funding



Key Takeaways

- GASB 45 only requires reporting of OPEB liabilities, not funding
- Benefits are outlined in labor agreements, any changes would need to be collectively bargained
- Under current statutes the County will always have a liability
- County has earmarked reserves in the Risk Management Fund that can be used for this purpose



Questions





Required Disclosures

- The purpose of this presentation is to present basic background information on the accounting and funding of OPEB benefits to the County Board of Commissioners.
- This presentation was prepared exclusively for Multnomah County for the purpose described herein. This presentation is not intended to benefit any third party and Cheiron assumes no duty or liability to any such party.
- The full actuarial valuation report contains a description of the data, assumptions, methods and plan provisions used to develop the measures of actuarial liability, normal cost, and projected benefit payments shown in this presentation. In preparing our presentation, we relied on information (some oral and some written) supplied by Multnomah County. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.
- To the best of our knowledge, this presentation has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

William R. Hallmark, ASA, FCA
Consulting Actuary

Michael W. Schionning, FSA
Principal Consulting Actuary