

**Piedmont Unified School District
Actuarial Study of
Retiree Health Liabilities
As of September 1, 2015**

Board of Education Meeting
December 9, 2015

Why an actuarial study?

- As a requirement of Governmental Accounting Standards Board (GASB) 43 and 45, every two years, school districts are required to perform an evaluation of its other post employment benefits (OPEB), excluding pensions, for active and retired employees.
- GASB 43/45 reports articulate post-employment benefits (noting who is eligible, how many employees and retirees are covered), and determine the liability for benefits as well as the assets that are available to offset the liability
- It helps the District assess and manage the costs and liabilities associated with retiree health benefits.
- Piedmont Unified School District currently uses a “pay as you go” method to address its post employment liabilities. GASB reports enable the District to communicate the financial implications of retiree health benefits to the Board, employee groups, and the community.
- The report complies with Governmental Accounting Standards Board Accounting Standards 43 and 45 which are related to “other post employment benefits” also known as OPEB.

- Since 2007, the District has engaged Total Compensation Systems, Inc. (TCS) to analyze liabilities associated with its current retiree health program.
- This actuarial study reflects post-employment liabilities as of September 1, 2015 (the most recent “valuation date”) based on accounting entries for the fiscal year ending June 30, 2015. Moreover, the report complies with Governmental Accounting Standards Board Accounting Standards 43 and 45 which are related to “other post employment benefits” also known as OPEB.

Data/Information Utilized:

	Certificated	Classified	Management
Benefit Types Provided	Medical & Dental	Medical & Dental	Medical & Dental
Duration of Benefits	5 years but not beyond Medicare age*	5 years but not beyond Medicare age **	5 years but not beyond Medicare age ***
Required Service	10 years	15 years	15 years
Minimum Age	55****	55****	55****
Dependent Coverage	No	No*	No*
District Contribution %	100%	100%	100%
District Cap Coverage	Least costly Single	Least costly Single	Least costly Single

*Those Certificated retirees hired prior to 7/1/2001 may receive \$100 per month toward the cost of Medicare Supplemental coverage if not on the top step of the salary schedule.

**Those Classified retirees hired prior to 7/1/1989 receive fully paid lifetime Medical coverage. Those hired after 7/1/1989 and before 7/1/2008 may receive \$100 per month toward a Medicare Supplemental Plan for number of years equal to length of service.

***Those Management retirees hired prior to 7/1/2008 may receive \$150 per month toward Medicare Supplemental Plan.

****Those retiring after 6/30/2014 receive a maximum of 5 years of benefits, but not beyond Medicare age.

Annual Required Contribution

Annual Required Contribution (ARC) Year Beginning September 1, 2015

Normal Cost	\$115,264
Initial UAAL Amortization	\$223,657
Residual UAAL Amortization	<u>\$92,250</u>
Total ARC	\$431,171

The normal cost remains as long as there are active employees who may some day qualify for District-paid retiree health benefits. This normal cost would increase each year based on covered payroll.

General Questions & Answers

Why Unfunded Actuarial Accrued Liability (UAAL) over a period of 25 years? (last report was 10 years)

- Basically to match cash with accrual of liability/Annual Required Contribution (ARC). (Accrual cannot be less than cash; page 9 and page 11 table of annual premium), ARC must be greater than payouts/cash
- GASB 45 allows up to 30 years of amortization anyway
- Due to a numbers of factors (age; # of active employees; hired after certain age), past studies had an ARC less than cash (annual amounts needed to pay the District share of retiree health premiums) , thus had to adjust the amortization years assumption; i.e. fit the assumptions into GASB 45 requirements. In other words, if you look at the 2013 report, you would see a UAAL of 10 years but the report for 2015 shows 25 years and the reasons were stated above.

General Q & A

How are we looking over the last few studies (2009, 2011, 2013 and now 2015)?

- Pretty steady increase, \$500k increase of actuarial accrued liability (AAL) each year;
- 2011 \$5.25M 5% interest (on long term investment)/discount rate
- 2013 \$5.75M 4.75% interest (on long term investment)/discount rate
- 2015 \$6.25M 4.50% interest rate (on long term investment)/discount rate

We have a bubble (page 19), ages 45-49 and 50-54 which show the highest numbers among our active employees. Our retiree benefits will continue to grow; also, more employees than say 30 years ago

General Q & A

Do we need to perform GASB 43 and 45 forever?

- This is the last time we will perform an actuarial study of retiree health benefits based on the amortization method.
- Starting the 2017-18 fiscal year, GASB 75 will be in effect whereby full accrual of retiree health benefits will appear on all LEAs financial statements including municipal agencies.

General Q & A

How will this new, full accrual method impact our bond ratings?

- We need to bring this into our discussions with our employee groups. Also, since all agencies will be reporting the same full accrual method, all will be looking “ugly at the same time”.
- Our District has already capped active employees’ health benefits, which is a major step forward in curbing district’s costs. Were it not for the institution of medical caps, the growth rate would have been substantially higher. It sounds counterintuitive, but like all debts deferred, they only grow with time until they are eliminated or paid down.
- “Pay as you go” is not a strategy while debt is accruing. But, pay-as-you is the only way we can afford now given that CalSTRS was imposed on LEAs and that we are deficit spending as well.