

# ACTUARIAL VALUATION OF RETIREE HEALTH BENEFITS

Los Altos School District  
March 12, 2018 Board Meeting

# Overview

- ▣ Under Governmental Accounting Standards Board Statement 75 (GASB 75), school districts are required to disclose their liability for retiree health benefits
  - Replaces GASB 45
- ▣ Such disclosure involves an actuarial study, which must be completed every two years
- ▣ Our last study was done two years ago, with a valuation date of July 1, 2015
- ▣ This year's study has a valuation date of July 1, 2017

# Options

- ▣ Districts have the option of dealing with their liability in one of three ways...
  - Pay-as-you-go: Make annual payments to health care providers without setting aside monies for future payments
  - Irrevocable trust: Put funds into an irrevocable trust out of which future payments are made
    - ▣ Funds cannot be taken out once put into the trust
  - **Pay-as-you-go (with set asides): Make annual payments and set aside additional monies for future payments**

# July 1, 2017 Valuation

- ▣ The actuarial study identifies, in present value terms, what future benefits will cost the district
  - Based on a number of assumptions (such as mortality rates, when people will retire, inflation on medical costs, and investment earnings)
- ▣ The valuation reflects the cost for current retirees and the cost for current employees when they retire
  - We have 174 retired employees (compared to 187 two years ago)
  - 493 current employees (8 of whom are eligible for maximum contribution); compared to 470 two years ago

# July 1, 2017 Valuation

- ▣ Employees hired prior to 1988 were eligible for district-paid lifetime benefits
- ▣ Employees hired since then are only eligible for a minimum contribution from the district
  - That contribution is required under CalPERS (our medical plan provider) and currently is set at \$133 per month



# July 1, 2017 Valuation

- ▣ The Present Value of the future benefits is \$28.4M
  - Approximately \$6.3M higher than the value two years earlier, due to changes in assumptions
    - ▣ Key change: drop in discount rate
- ▣ The unfunded liability is the portion of the \$28.4M that has already been earned (i.e., in past years)
  - The unfunded liability is \$18.6M

# Special Reserve Fund

- ▣ We have been depositing funds into a Special Reserve Fund for future payments
  - The pay-as-you-go method (with set-asides)
  - Currently have \$3.1M in this fund

Example: 2016-17 Estimates	
Annual Cost (amortization of unfunded liability over 25 years)	1.3M
<u>Less, Premium Payment</u>	<u>&lt;1.1M&gt;</u>
Balance (increase in liability; transfer to Reserve Fund in 2017/18)	0.2M

# Changes under GASB 75

- ▣ Different accounting rules
- ▣ Entire liability (18.6M) will now be disclosed in our annual financial report
  - Previously only the liability to date (2.6M) was disclosed
- ▣ Based on the new actuarial study we may not need to set aside additional funds every year
  - As long as we sufficiently budget for future retiree benefits, our pay-as-you-go strategy is working



# Conclusion

- ▣ The report is for information only; there is no action required by the board
- ▣ Information from the report is used in our annual financial reports