Coast Community College District

2012 GASB 45 Valuation

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Goal:

- Provide information to allow Coast Community College District to understand the most recent GASB 45 valuation and make informed decisions about retiree health benefits

Background

- GASB 45 requires public agencies to account for retiree health benefits like pensions
  - Accrue benefits while people are working
  - Retiree premiums/costs taken from liability
- GASB standards apply to accrual basis financial statements
  - Used in Accreditation reviews
  - Used by bond-rating agencies
- Budgets based on amounts paid for retiree benefits
  - Amounts paid for retiree health premiums/costs
  - Contributions to a trust

Background

- GASB 45 became effective for Coast for the 2007-08 fiscal year
- Coast had periodically evaluated the liabilities and began valuations every two years beginning in 2002
- Coast began setting assets aside for retiree health benefits more than 10 years ago
- Coast formed a trust through the CCLC

Assumptions and Methods: General

- Assumptions and methods must comply with GASB 45
- Assumptions and methods must comply with Actuarial Standards of Practice (ASOP)

Key Valuation Assumptions

- 7% interest rate
- 4% annual increase in retiree premiums paid by Coast
- CalPERS and CalSTRS demographic tables (i.e. mortality, turnover and retirement)

Valuation Results at 5/1/12

- Actuarial Accrued Liability (the present value of earned benefits): $99.1 million
- Annual Required Contribution (amount needed to “fully fund” retiree health benefits: $8.12 million
- Expected 2012-13 retiree costs: $7.32 million (Note: retiree costs reflect actual claims and other costs – not necessarily the same as rates used internally by Coast)
- Additional cost to keep “fully funded”: $0.8 million

Comparison with 5/1/10 Valuation

	5/1/10	5/1/12
Actuarial Accrued Liability (AAL)	$90,506,727	$99,096,647
Normal Cost (NC)	$3,680,915	$3,578,372

- Expected AAL changes over time:
  - Increased with interest
  - Increased for new accruals for employees (i.e. normal cost)
  - Decreased for benefits paid for retirees
- Based on the above, we expected the AAL to increase from $90.5 million to $98.9 million.
- Actual increase only slightly higher

Comparison with 5/1/10 Valuation

	5/1/10	5/1/12
Actuarial Accrued Liability (AAL)	$90,506,727	$99,096,647
Normal Cost (NC)	$3,680,915	$3,578,372

- The normal cost (NC) is expected to change to reflect payroll changes
- We assumed payroll increases of 3%, so we would have expected the NC to increase to $3.91 million.
- However, there was a reduction in the number of active participants

Looking Forward to 5/1/14

	5/1/12	Projected 5/1/14
Actuarial Accrued Liability (AAL)	$99,096,647	$106,064,019
Normal Cost (NC)	$3,578,372	$3,796,295

- As long as Coast has an ongoing retiree health benefit program, expect AAL and NC to increase
- Increases will be uneven due to actuarial gains and losses– extent depends on plan design
- If the plan is being “fully funded” and investment income matches assumption of 7%, assets will keep pace with liability increases
- There are special situations that can cause large changes

Looking Forward

- Unless limited by plan design or agreement, actual premium increases can be much different from assumed
- CalPERS and CalSTRS periodically update their demographic tables – can cause increase or decrease
- Changes in ASOP affect "implicit rate subsidy"

Looking Forward – New GASB Standards

- Likely to take effect in 2016-17
- Will require immediate recognition of entire liability
- Will affect interest assumption for “unfunded” portion of liability – increasing liability for plans that are not “fully funded”

Looking Forward – New Legislation

- Original plan to pass pension and retiree health legislation at same time
- Retiree health legislation postponed to 2013
- New pension legislation will reduce retiree health costs and liabilities due to delayed retirement
- Other aspects of pension legislation could be extended to retiree health
  - E.g. payment of one-half normal cost would add about $2 million to employee payroll deductions

THANK YOU