



## **Minutes from the GASB 45 Taskforce May 28, 2008**

*The third meeting of the GASB 45 Citizens Taskforce was convened May 28, 2008 at 6:05pm.*

### **Attendance:**

*Members of the Task Force:* Jerry Marinich (Legislature), Vince Pasquale (Binghamton University), Donna Ryder (Community Member), Mark Whalen (Legislature).

*Internal Members of Task Force:* Alex McLaughlin (Audit & Control), Eric Denk (Legislature), Mike Hanbury (Legislature), Jerome Knebel (Finance Dept.), Grant Newton (BCC), Bob Murphy (Risk & Insurance), John Elliott (Personnel), Jennifer Royer (Legislature).

*Press & Media:* Nancy Dooling (Press & Sun Bulletin).

*Special speakers:* Stephen Chase and Monica Cecilia from BPA – Harbridge attended the meeting and presented Broome County's GASB 45 Valuation.

### **Opening:**

*Mr. Chase and Ms. Cecilia* - introduced themselves and described their areas of expertise. They have been working on retiree health since the early 1990's. They have in excess of a hundred evaluations done previously on mostly private sector businesses. They created this presentation and they want to be sure that it is helpful and interactive – therefore they wanted everyone to feel free to ask questions at any point.

*Mr. Chase and Ms. Cecilia* - they are working with the following counties on GASB valuations: Broome, Erie, Madison, Sullivan, Rockland, and Orange counties. They also are working with a scattering of other municipal entities (i.e.: school districts, cities, towns and villages).

Mr. Chase and Ms. Cecilia provided a booklet of their presentation to attendees.

## **GASB 45 Valuation Presentation:**

### **\*Actuarial Valuation Basics:**

*Actuarial Accrued Liability (AAL)* – The AAL is the actuarial present value of future benefits earned to date. (i.e.: retirees are at 100% and current employees are at a percentage of what they have earned throughout their career).

*Annual Required Contributions (ARC)* – The ARC is the amortization of unfunded liability and the incremental cost of participants earning one more year of service (Normal cost). (i.e.: the percentage of benefits that the current employee has earned to date + 1 year).

*Annual OPEB cost* – An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan. (*OPEB – Other Post Employment Benefits*)

*Net OPEB Obligation* – The cumulative difference between Annual OPEB cost and the employer's contributions to the plan.

### **\*Component GASB 45 Valuation**

The data used to derive the GASB number comes from:

- *Census data* – Retirees, Dependents of Retirees, Active Employees, coverage of children, etc.
- *Plan Design* – Retirement eligibility, benefit coverage, retiree Contributions
- *Actuarial Assumptions* – Mortality, Turnover, Retirement, Claims Costs, Discount Rate, Healthcare Trend, etc.

Assumptions: how everything will play out – how many will quit, how many will retire and at what age, and when they will die.

Also, costs of common procedures, i.e.: Cost of hip replacement now and projected cost in the future.

### **\* GASB 45 Methodology**

Graph –Retirees are more expensive before age 65, at age 65 the cost goes down because of Medicare. Health care trend goes up & need goes up over time (age and cost raises) (graph 1- Projected Annual Healthcare Costs – page 3). Probability of cost is in the Projected Annual Healthcare Costs graph on page 4. This chart shows the annual postretirement medical costs for current active adjusted for mortality.

The third graph on page 4 (Projected Annual Healthcare Costs) breaks the second graph into pieces. The orange piece is what can be paid – the purple is what can be paid by interest. This chart shows the annual postretirement medical costs for current and active adjusted for mortality and segregated into discounted projected benefit payments and future interest.

The graphs on page five show the total projected benefits broken down into parts for both Broome County and Broome Community College.

These charts show what has been earned, what still will be accrued, what an employee will earn and what we need to amortize.

Interest – this was projected by the current rate of return on the county’s long term rate of return; for Broome County 4.47% was used as the rate of return.

*Chairman Whalen* - asked if we found something with a higher rate of return (i.e.: 8%) what would happen.

*Ms. Cecilia* - stated that they would have to weight the purple portion of the third graph (p. 4) at 8% but the orange portion at a different percent.

*Mr. Knebel* - we amortize at 30 years. The rate of return is the expected return in the long run.

It might be helpful to ask other governments what their general rate of return is.

*Ms. Cecilia* - stated that all are in the same general ball park of 3.5 – 5%. It’s hard to change that rate of return – investment doesn’t always change.

*Mr. Newton* - asked about BCC being separate in the graph section on page 5. He stated that it wasn’t possible to do anything about this right now.

*Mr. Chase* - stated that he isn’t sure whether the NYS Commissioner’s report addresses community colleges.

*Chairman Whalen* - asked whether Broome County is liable for BCC. Apparently that’s a tough question and would require a legal opinion.

*Mike Hanbury* - asked what mortality rate was used?

*Ms. Cecilia* - stated tat the Mortality Rate came from the RP2000 mortality table which is the most recent and most commonly used.

#### \*Key Issues

Almost everybody is surprised by how large the cost is. The variables slide shows why. This is a common issue across the board with governmental employers. This isn’t a judgment – it’s an observation that there are these challenges, and they must be addressed.

*Mr. Denk* - asked whether the nature of the vesting requirement can be added to the variable list?

*Mr. Chase* - stated that those do go hand in hand with what age a person can retire.

Different variables we can look at are: eligibility, benefit design, contributions, and employer caps: flat \$ or indexed, community-rated plans, Medicare Advantage plans, health management initiatives, and Medicare Part D: RDS vs. PDP.

*Mr. McLaughlin* - asked whether we have a tool that we can use to see what changes to inputs/variables would affect the GASB number?

*Ms. Cecilia* - stated that they can give us an informal idea because their program is set to run scenarios. It would be a re-run of actuarial information – it couldn't be done in an hour but it could be done in a day as long as there weren't 47 scenarios.

*Chairman Whalen* - asked what is possible to be changed? Is this purely an academic discussion depending on the state's decision?

*Mr. Chase* - stated the Broome County is not alone. Some of the things that can be done are:

- *Eligibility*: 10 years of work at age 55 – contribution is the same as if someone had more. We can look at the eligibility requirements but will tend to meet with resistance. 55 & 10 could provide basic coverage – but for 15, 20, 25, and 30 you could get more premium from the county, we can look at that.
- *Caps* can also be looked at. These are not used in the governmental sector yet, but they are often used in the private sector. This would put a cap on today's dollar amount. With a cap – on the first graph (p. 3) the yellow line would be taken away and the cost would stay at the red level.

*Chairman Whalen* - asked whether any public sector clients have tried this?

*Mr. Chase* - stated that most of their clients from the Public Sector are still in Phase 1 of this assessment, like us. A lot of them are on the same path as Broome County. They are realizing that they need to think through strategies & options.

*Chairman Whalen* - then asked whether they have a ratio of property tax to a governmental entity's unfunded liability. His concern is that businesses will look at the unfunded liability and use that in criteria about where to site new locations.

*Mr. Chase* - stated that they don't have that data right now. Only thing they know about the actuarial number is that it is not exact – it is the best estimate given their projections/assumptions. That liability has to translate to tax to be paid for at some point.

It was asked whether they use the same criteria/methodology on each county.

*Ms. Cecilia* - stated that everyone uses the RP2000 for mortality rates. They also see whether the population functions like the rest of NY State – 99% have chosen the NY State turnover/retirement assumptions. Could see differences in census – age, sex, eligibility/benefits – that is the area where you would see a difference.

*Mr. Chase* - stated that the assumed election percentage – how many will take the benefits is pretty standard. In government almost everyone will take the benefits due to low contributions and rich benefits. Private sector is much lower.

*Ms. Cecilia* - stated that if a governmental employee is married to a private sector employee and they choose between the 2 benefit plans, they most likely chose the government benefit plan because it's the best deal out there. It's also in their best interest. This is a variable that can drive change but most use 100% election because of the assumption that most take it.

Caps are harder to maintain, especially flat \$ caps. Most find it easier to do an indexed cap based on GDP growth or another chosen statistic. It's a means of managing the employer's responsibility.

Medicare Advantage – it's tough on counties when people are Medicare eligible, people in their 40's, 50's, 60's are an expensive population. Look at the population of pre-65 employees/retirees and the cost of benefits. Insurance companies don't have special plans for pre-65 employees which could offer possible significant savings. Medicare is an integrated health plan but all is delivered through 1 plan – similar benefits.

Identify health risks – what programs do you have to engage the individuals & physicians? What can they do for themselves? Dr.'s can help – how can you motivate them to do so?

Medicare Part D – prescription.

RDs vs. PDPs –

RDs most are employers' 28% subsidy/application w/ actuary.

1. Downside is with the paperwork – there's a lot of angst because it's hard to deal with.
2. Under GASB these plans are not recognized as a direct offset because it is viewed as a transfer of funds between governmental levels.

PDPs – Prescription Drug Plans – contracts with the private companies get subsidy from the government – that can be reflected into the GASB 45 valuation – therefore these plans are more favorable.

*Mr. Knebel* - asked how much is saved a year? They stated that this isn't Broome County specific – there's about \$650-\$671 a year per Medicare eligible retiree assuming they are sick more and healthy less. The ballpark savings is around \$600,000.

*Mr. Elliott* - asked, if we were allowed to bond would we be allowed to use that?

*Mr. Chase* - Yes, it's possible – any source of funds can be used.

*Chairman Whalen* - asked if any counties have decided on a direction to go in. Whether to go in the cost savings route or the plan changes route.

*Mr. Chase* - stated that in New York most are not that far along yet. In Florida, Gainesville is the first to get an OPEB bond to pay lower interest and get a higher rate of return to pay for these benefits.

*Chairman Whalen* - asked whether it's possible to look at other sources of finance – such as funds/revenue received from gas leasing on county land.

*Mr. Chase* - said that he could not tell us if that would be good or not, because they are not municipal finance experts.

*Chairman Whalen* - stated that it might be useful. We could also look into stripping subsurface mineral rights on any property that comes back to us due to back taxes. We need to look at all the possibilities.

*Mr. Chase* - stated that this is a politically sensitive issue. How do you balance it responsibly? You have your responsibility to your taxpayers on one hand and your responsibility to your retirees/employees on the other. He doesn't know if there is a perfect answer.

*Mr. Chase* - stated that Broome County's current health benefits package is unsustainable without some changes.

## **DISCUSSION:**

*Chairman Whalen* - asked the actuarial team whether when they look back that the rising cost of health care, medical advances and the sustainability of providing benefits – what are their thoughts?

*Mr. Chase* - stated that the numbers for NYS and NYC are the major numbers – NYS at around 52 Billion and NYC at about 58 Billion. It shows the necessity to look at unfunded liabilities. Also, the Social Security deficit is nothing compared to the Medicare deficit.

*Chairman Whalen* - asked whether NYS has taken steps on deciding whether to do benefit reductions or ways to create funding for the benefits.

*Mr. Chase* - thought the comptroller's proposal last week was very interesting.

*Mr. Knebel* - asked about how the inflation rate for healthcare costs is determined.

*Mr. Chase* - stated that the numbers are based on a review of what organizations have done and health care expenditures compared to GDP and what that will relate to with some assumption that it will go down so you don't get the wrong number. The main trend after 10 years is 5% for Broome County, 10% for medical, 12% for prescription, could also go down to 5%.

*Ms. Cecilia* - stated that most people are phase 1 employers who are all having this discussion – how do we make this sustainable or change it to make it sustainable. It's been toward the benefit side because the state has not leaned towards a side yet (funding v. benefit).

*Chairman Whalen* - stated that the State is doing something responsible on the bonding side and doing something irresponsible on the benefit side by freezing it. He discussed it with the Assemblywoman but didn't get anywhere. Only one meaningful resolution.

*Mr. Chase* - stated that it really depends on the public and their knowledge of this issue. When NYC published their number – it was only in the media for 1 day. It will be interesting to see how involved the taxpayers will get in the process and how much coverage it gets media-wise will affect how it gets resolved.

*Chairman Whalen* - highly mobile businesses – this is a major issue – we're in this position and it's disturbing to have the state tell us that we'll never be able to change it.

*Mr. Marinich* - stated that it might not be for ever – we would have to talk with unions.

But then another member stated that most won't if that's how it'll work.

*Mr. Marinich* - stated that it's just a part of negotiations.

*Mr. Elliot* - stated that the only reason we're in this room is because Health Insurance cost has risen exponentially.

*Mr. Pasquale* - added that we still have the reality that you'll be paying higher costs for benefits for people who live longer and we also have more staff.

*Chairman Whalen* - pointed out that this brings up another point –our annual contribution to the net unfunded obligation is almost 18 million dollars. We can look at services provided today and the cost of them and attach a true cost – until now the true cost has been unrecognized. If the State ever said that we have to fund health care like we fund the pension system – it would jump by 10.7 million. There needs to be a discussion about what the level of services we can provide if we ever had to go to full accrual.

*Chairman Whalen* - then asked where the expected employer contribution data came from?

*Ms. Cecilia* - stated that it takes data from every person. The expected number of 5.5 million dollars is inputted and then at the end of the year you get your actual data from the county

*Ms. Cecilia* - It was close, just over 5 million dollars. It's required to be audited every other year. You can take the report & book it twice. That is not recommended and Broome County doesn't.

*Ms. Cecilia* - We use a roll forward without a rigorous reset of assumptions. An interim projection does better and has smoother projections. 2008 is an interim year, 2009 will be an actual year and etc.

Then it was asked if in a "do nothing scenario" whether the 17 million Unfunded OPEB liability will it be affected.

*Ms. Cecilia* - Assuming you haven't funded anything the 2009-2010 figures will be affected.

*Chairman Whalen* - wondered if they had spoken with bond writers about this issue yet, whether we need to have a proactive plan, etc.

The team stated that they understand that we can not do anything in New York State so far – if any of the legislation goes through, then we will be expected to go along with it. The South doesn't have this same liability – they've had lower benefits than the North East. Moody will take context into account but it will be interesting to see how it looks.

*Chairman Whalen* - asked if the people from BPA-Harbridge could take 10 or so of the counties they are working with and take the AAL and compare it with the property tax levy – it would be a useful number for us. It would provide and indication of where you are comparatively.

*Mr. Pasquale* - pointed out we should look at the tax base and not the tax levy.

*Mr. Knebel* - we might also want to look at the general fund.

*Ms. Cecilia* - stated that in general that the costs have been 3 times to 5 times their annual spending.

*Mr. Chase* - said he could request that they do this with each of their clients.

*Mr. McLaughlin and Mr. Knebel* - pointed out that they could get these numbers off the internet and we could do it ourselves. We don't need to have Harbridge do it.

Conclusion:

*Mr. Whalen* - thanked Mr. Chase and Ms. Cecilia for taking the time to come down and make their presentation and discuss the issue with the taskforce.

*Mike Hanbury* - pointed out that once again we are pushing the Chautauqua study to the next meeting due to time constraints.



The next 2 meetings are on June 11 and June 25 and will be at the Library. Mike will contact everyone and remind them.

This meeting of the taskforce adjourned at 7:35pm.