



Retiree Health Benefits and GASB 45

An Actuarial Study by Total Compensation Systems
as of February 1, 2010

What is an actuarial accrual?



- Setting aside an amount each year so that the amount is sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses.
- Normal cost is the value of the benefit earned each year if benefits are accrued during the working lifetime of eligible employees.

Components of the Calculation



- Employee demographics
- Negotiated retiree benefits
- Benefit plans
- Current premium costs
- Inflation rates (premium increases over time)
- Discount rates (Net present value)

Employee demographics



- Age at hire
- Age at retirement
- Turnover
- Mortality

Negotiated Retiree Benefits

Certificated (SVEA & Certificated Management)

- Benefits: Medical, Dental, Vision
- Duration of benefits: 5 years or until age 65
- Minimum required service: 10 years
- Minimum retirement age: 50
- Coverage: Employee only
- District contribution

Years of Service	Annual Contribution
10-14	\$2,300
15-19	\$2,500
20-24	\$3,000
25+	\$3,500

Negotiated Retiree Benefits

Certificated (SVEA & Certificated Management)

- Benefits: Medical, Dental, Vision
- Duration of benefits: 5 years or until age 65
- Minimum required service: 15 years
- Retirement age: Between the ages of 50 and 65
- Coverage: Employee only
- District contribution

Years of Service	Annual Contribution
15-19	\$2,500
20-24	\$3,000
25+	\$3,500

Negotiated Retiree Benefits

Classified (Retirees Hired prior to 7/1/1988)

- Benefits: Medical, Dental
- Duration of benefits: Lifetime
- Minimum retirement age & service requirements:
 - Between 55 and 70, with 12 consecutive years of service immediately prior to retirement
 - Between 50 and 55, with 20 consecutive years of service immediately prior to retirement
 - Is a regular employee working 6 hours or more per day as of July 1, 1995
- Coverage: Employee only
- District contribution: 100% of premium cost

Benefit Plan Eligibility:



- Active Employees:
 - Certificated: 50% employment
 - Classified: 75% employment (6 hours per day)
 - Eligible employees working less than 90% may opt out
- Retirees:
 - Must have been on plan as an active employee at time of retirement

OPEB Liability

- The actuarial present value of total projected benefits for all **current** employees **and** retirees as of February 1, 2010 is calculated to be:

□ Classified	=	\$1,307,895
□ Certificated	=	<u>344,814</u>
Grand Total	=	\$1,652,709

- This amount includes both past service AND future service liabilities.
- This amount must be disclosed on our financial statements in accordance with GASB 45.

How is the district covering these costs?

- We are currently paying for our existing retirees using the “Pay-As-You-Go” method.
 - ▣ We pay the amount that is due (premiums) for each year
 - ▣ We have not and are not accumulating the funds necessary to pay for current employees who will retire from SVUSD.

- Liken this method to paying the “minimum due” amount each month on your credit card.
 - ▣ Instead of paying interest and penalties on the balance due, we lose interest we could be earning on the funds, had they been set aside.

Why is it an unfunded liability?



- The assets to pay for these costs are not held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible employees

How does this unfunded liability affect SVUSD?



- This unfunded liability could impact the District's ability to conduct future borrowing with a favorable bond rating.
 - ▣ District may face higher debt issuance costs as their credit rating may suffer.

What would it take to fund this liability?



- To fund this liability over a 30 year period, would require an Annual Required Contribution (ARC) of \$96,177.
- This amount would be **in lieu of** (rather than in addition to) the Pay-As-You-Go amount currently at \$87,192.
 - This would be an annual cost increase of \$8,985
- As this 30 year period was to have started in fiscal year 2008-09, we also have an unpaid obligation of \$55,034 for the years in which we did not begin funding.

To Recap



- It's important to remember that GASB 45 requires school districts to REPORT their OPEB liability; it does not, however, require FUNDING of this liability *at this time!*
- A strategy will need to be devised by the District to address the unfunded liability.
- The district has not started to fund the OPEB liability due to the economic crisis and associated funding reductions.
- Waiting to address the funding dramatically reduces our fiscal options.