



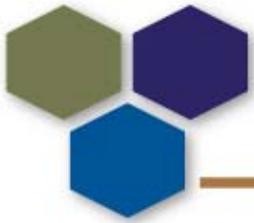
Michigan State Police

Retiree Health Actuarial Valuation Results as of September 30, 2007

GRS

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Consultants & Actuaries
www.gabrielroeder.com

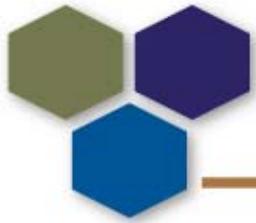
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Retiree Health Benefits

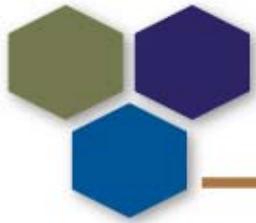
The Funding Issue

- ◆ Unlike pensions, health benefits have not been pre-funded (most pension plans nationwide have not pre-funded health benefits either)
 - ▶ No investment income to help pay the costs
- ◆ Costs rise as more members retire, and health inflation outpaces general inflation
- ◆ Pre-funding contribution rates have been calculated since 1999 – but pre-funding contributions have not been made



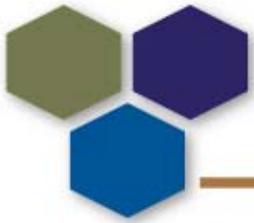
Governmental Accounting Standards Board

- ◆ Beginning with the 2007 CAFR, GASB Statements No. 43 and No. 45 specify how retiree health benefit liabilities and expenses are reported in financial statements
- ◆ The reported annual expense is called the Annual Required Contribution (ARC)
- ◆ If the employer fully funds the actuarially computed ARC, in a qualified trust with a long-term investment policy, then the liabilities and ARC are based on a long range investment return assumption (approximately 8%)
- ◆ If the employer only pays the cash benefits, with no pre-funding, the liabilities and ARC are based on a short term investment return assumption, like that earned on the employer's general accounts (approximately 4%) – and the liabilities and ARC are much larger



Governmental Accounting Standards Board

- ◆ The reported liability and ARC depend on how the employer is funding the benefits
- ◆ If the employer funds more than the cash benefits but less than the full actuarial contribution (partial pre-funding), the liabilities and ARC will lie somewhere between the pre-funding and cash funding results
- ◆ Existing employer contributions to pay the cash benefits count as contributions toward meeting the ARC
 - ▶ Medicare Part D Retiree Drug Subsidy (RDS) payments received during the year also count as employer contributions toward meeting the ARC.



SPRS – GASB Compliant Valuation

- ◆ Annual Expenditures for Retiree Health Care Benefits:

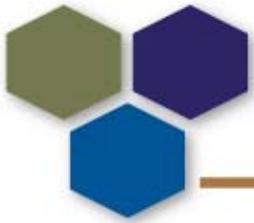
- ▶ FY 2007: \$29.1 million

- ◆ 2007 Potential Unfunded Accrued Liability and ARC:

	<u>Unfunded Liability</u>	<u>ARC - FY2008</u>
Full Actuarial Funding	\$547 million	\$43 million

Potential Unfunded Liability and ARC from September 2007 actuarial valuation.

Annual Expenditures from the State's 2007 Comprehensive Annual Financial Report.



SPRS – GASB Compliant Valuation Full Actuarial Funding

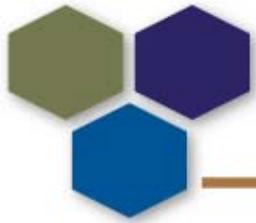
- 2007 Potential Unfunded Accrued Liability and ARC:

	<u>Unfunded Liability</u>	<u>ARC - FY2008</u>
Full Actuarial Funding	\$547 million	\$ 43 million
Less Actual FY2007 Employer Contribution		<u>\$(28 million)</u>
Additional Employer Contribution to Fully Fund the ARC		\$ 15 million

- Lump sum of \$547 million would fully fund the 2007 unfunded liability
- Once fully funded, the annual employer contribution requirement decreases to the normal cost
- Employer normal cost is \$9.1 million in FY2008

Potential Unfunded Liability and ARC from September 2007 actuarial valuation.

Actual FY2007 Employer Contribution from State's 2007 Comprehensive Annual Financial Report



SPRS – GASB Compliant Valuation

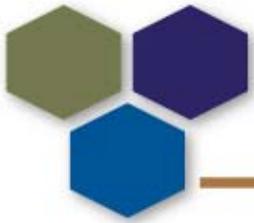
Full Actuarial Funding vs. Cash Funding

- ◆ 2007 Potential Unfunded Accrued Liability and ARC:

	<u>Unfunded Liability</u>	<u>ARC - FY2008</u>
Full Actuarial Funding	\$547 million	\$43 million
Cash Funding	\$918 million	\$59 million

- ◆ Lump sum of \$547 million would fully fund the 2007 unfunded liability (annual normal cost thereafter).
- ◆ The \$918 million amount is for reporting and disclosure purposes (if cash funding is continued), and is not an amount that needs to be funded in a lump sum.
- ◆ \$371 million (\$918 less \$547) represents some of the lost investment income from not pre-funding.

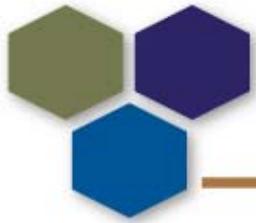
Potential Unfunded Liability and ARC from September 2007 GASB valuation.



Circumstances That Would Increase Projected Costs

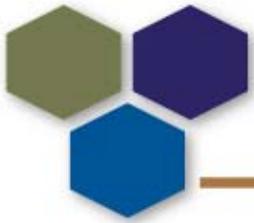
- ◆ Medicare funding reductions or cost shifting
- ◆ Unexpected new entrants into the retiree health plan (from health benefit cutbacks of other employers)
- ◆ Medical inflation worse than assumed; the actual future contributions will depend on future per capita health cost increases (health inflation) *
- ◆ Active member population decline (contribution rates as a percentage of payroll would increase)
- ◆ This is not a complete list

* *Per capita costs are projected to increase 9.5% the first year, graded down to 3.5% in the eleventh and later years.*



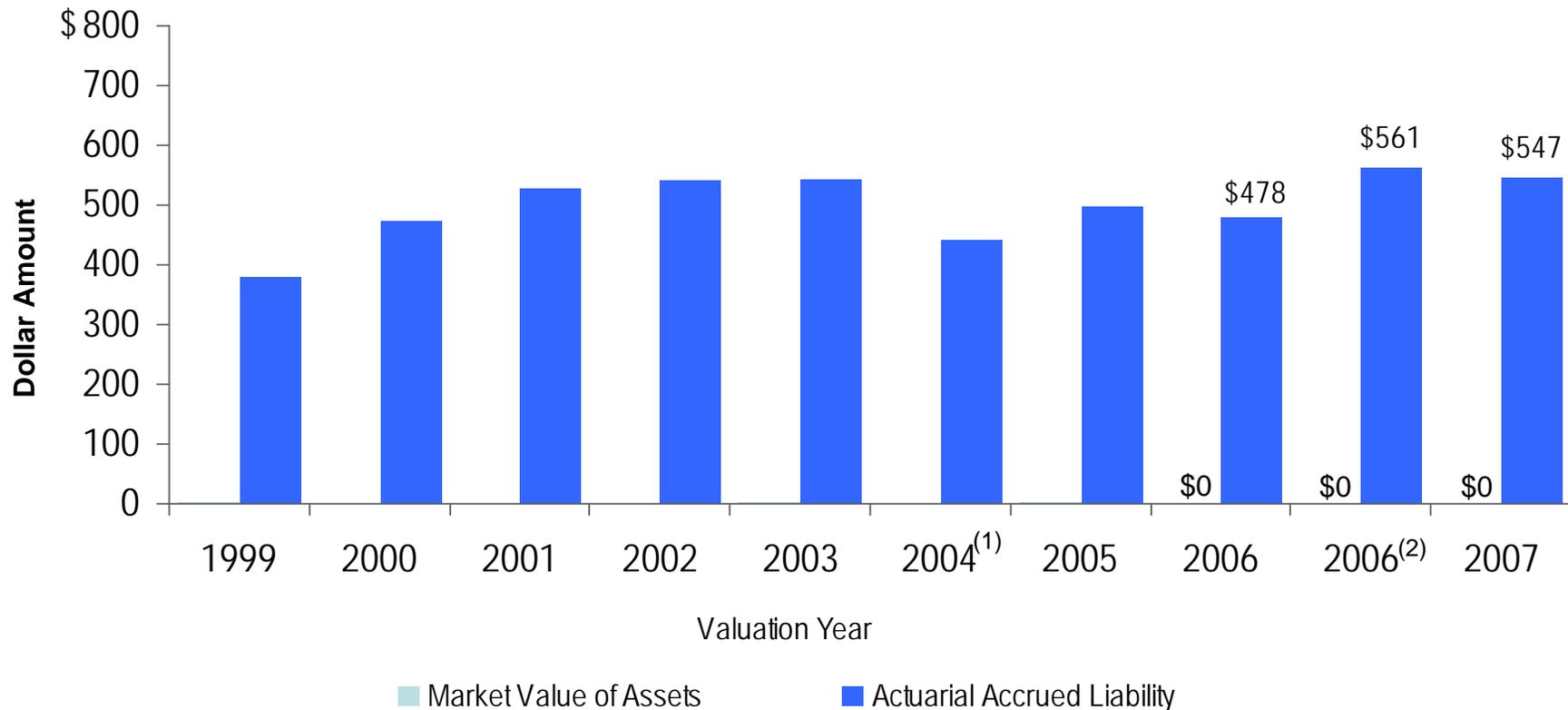
Solutions and Observations

- ◆ Strategic planning – an important tool to contain costs while delivering valuable benefits
- ◆ Plan for increases in employer health care contributions
- ◆ Partial pre-funding (more than cash funding, but less than GASB ARC) may protect against higher costs if experience is worse than projected



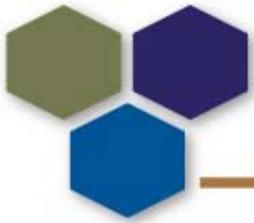
Health Assets & Accrued Liabilities

Full Actuarial Funding (Amounts in Millions)

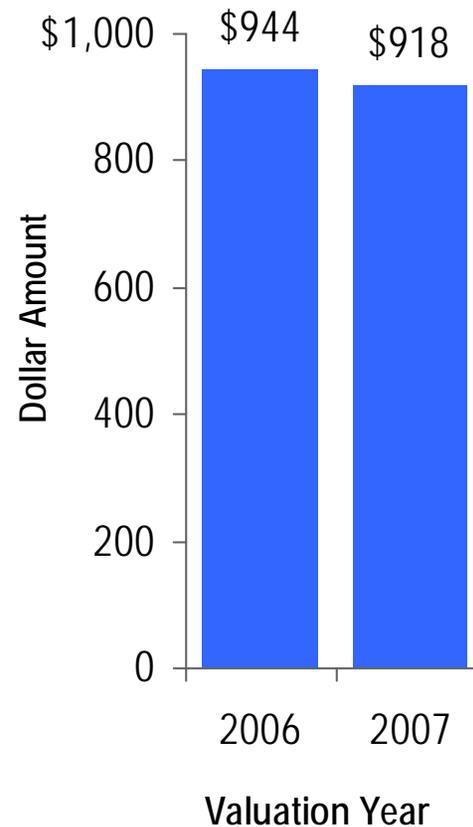


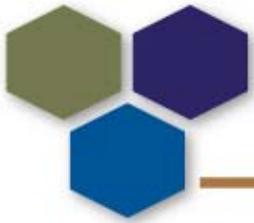
(1) Reflects assumption changes

(2) Reflects assumption changes and compliance with GASB Statements No. 43 and No. 45

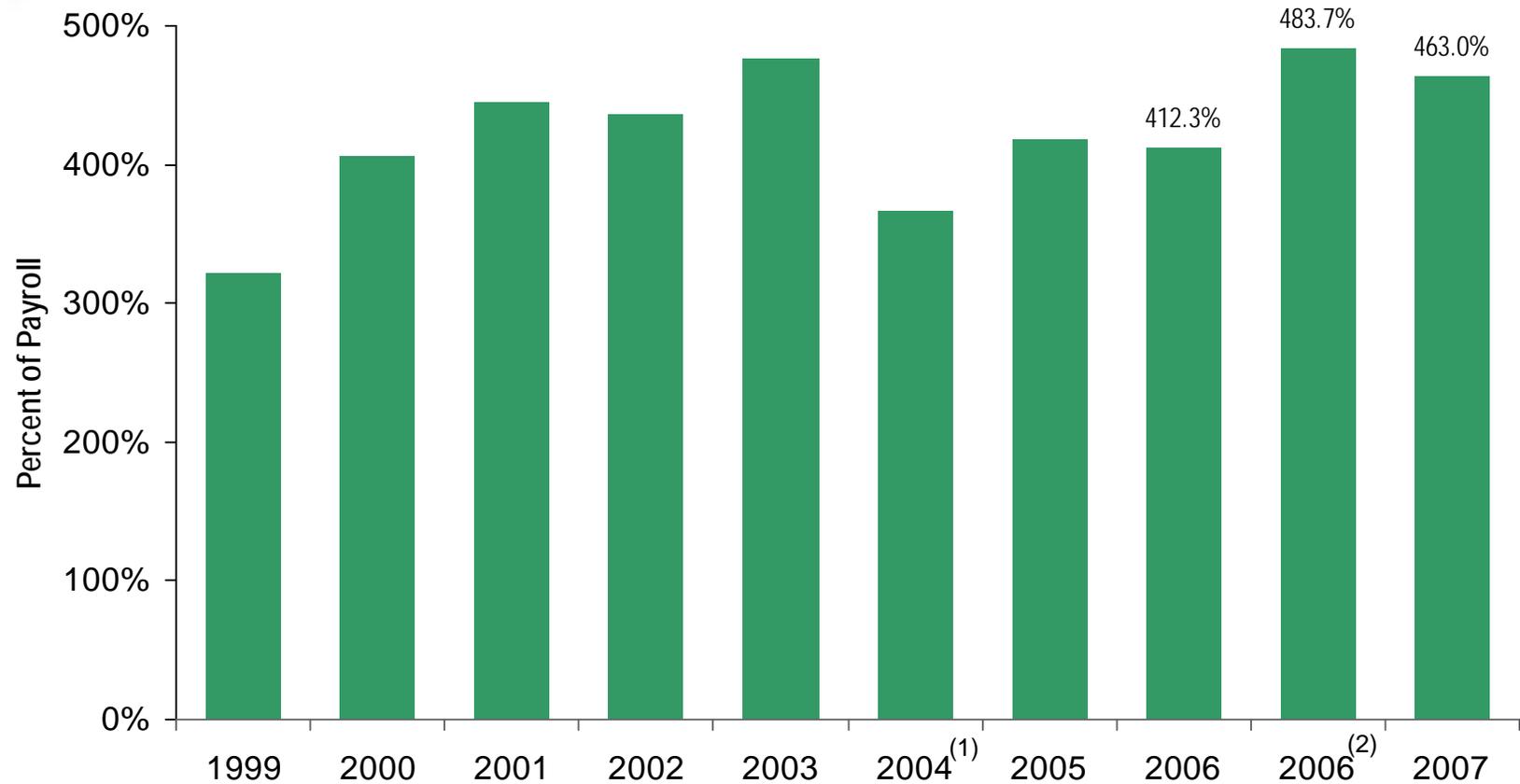


Health Accrued Liabilities - Cash Funding (Paygo) (Amounts in Millions)



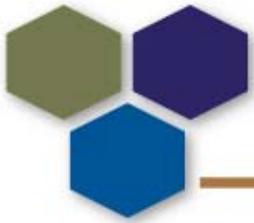


Unfunded Accrued Liabilities as %'s of Payroll – Full Actuarial Funding

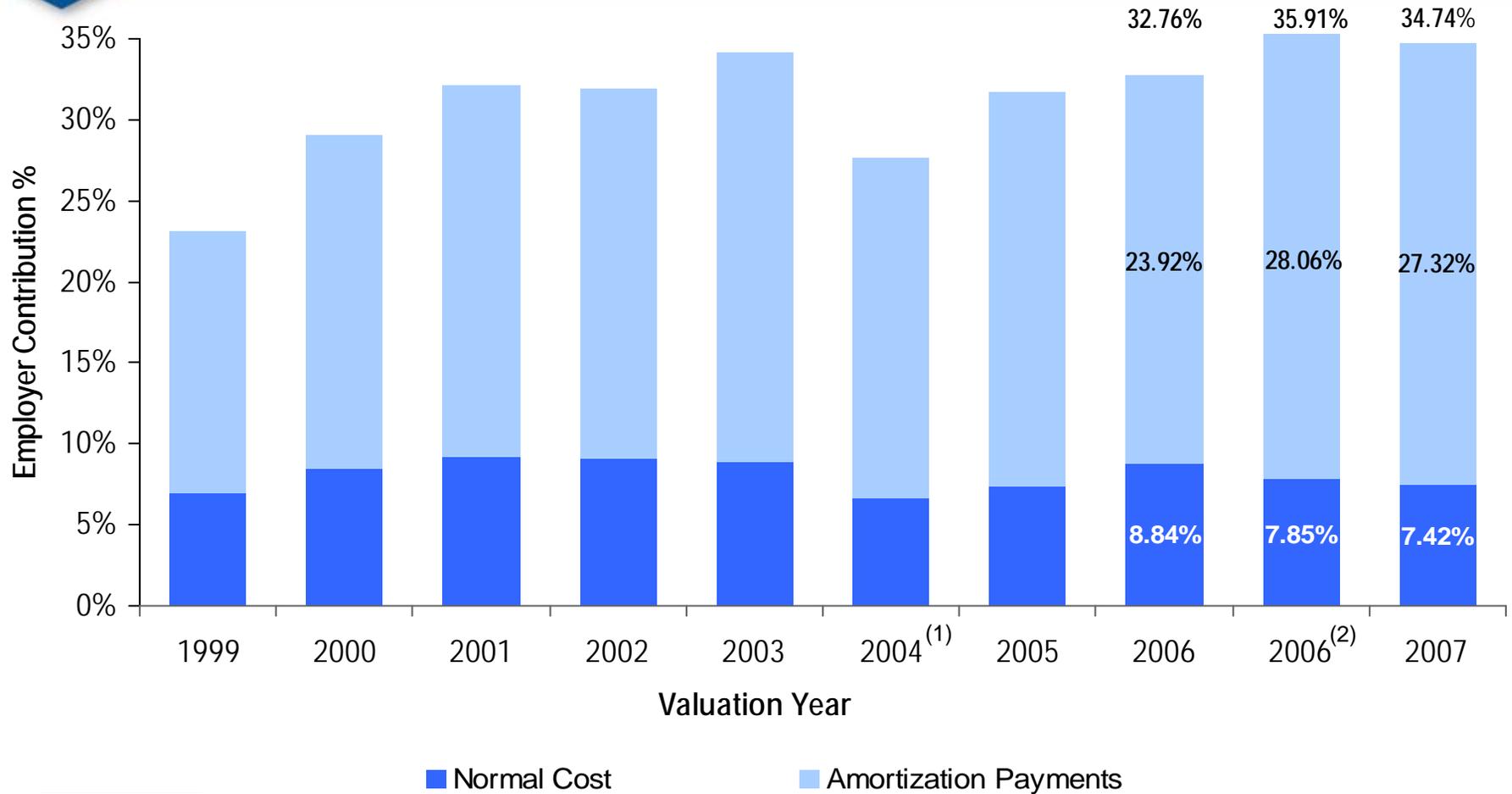


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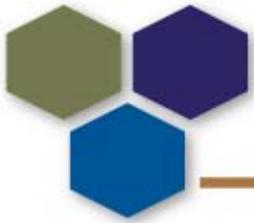


Annual Required Contributions (ARC) as Percents of Payroll (Full Actuarial Funding)

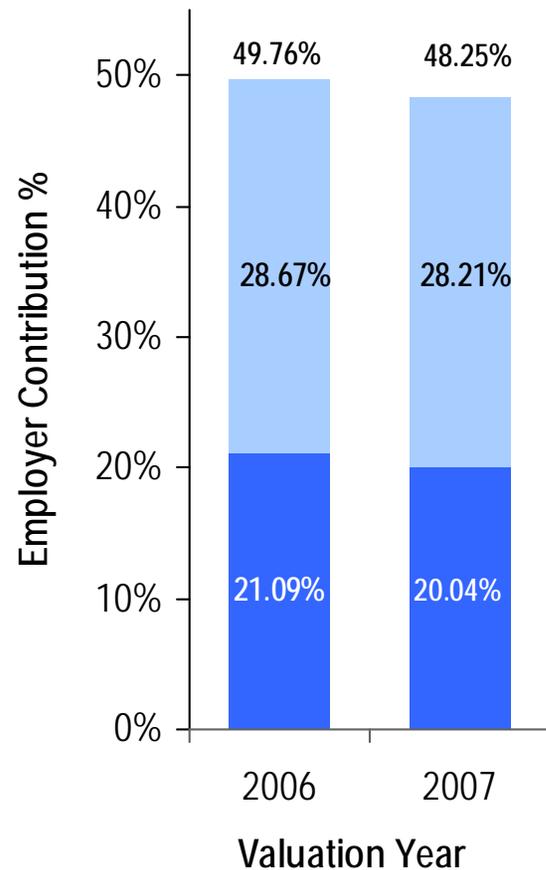


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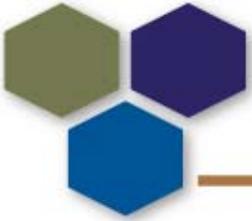
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Annual Required Contributions (ARC) as Percents of Payroll (Cash Funding - Paygo)



■ Normal Cost ■ Amortization Payments



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