

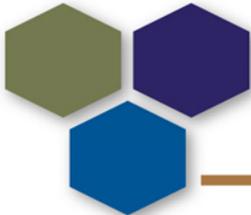


Michigan State Police

Retiree Health Actuarial Valuation
Results as of September 30, 2013

GRS

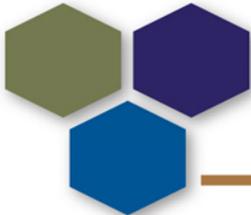
Gabriel Roeder Smith & Company
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Retiree Health Benefits

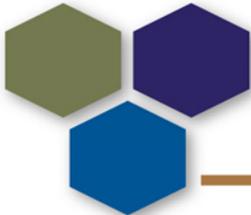
The Funding Issue

- ◆ Unlike pensions, health benefits have not been pre-funded for a long period of time
 - ▶ Most public plan sponsors nationwide have not pre-funded health benefits either
 - ▶ Currently, very little investment income to help pay the benefits
- ◆ Costs rise as more members retire, and health inflation outpaces general inflation
- ◆ Pre-funding contribution rates have been calculated since 1999 – but pre-funding started only recently



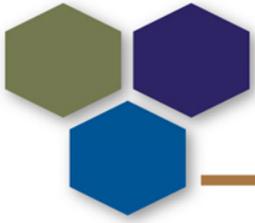
Governmental Accounting Standards Board

- ◆ 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 current 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 has been funding more than the current benefits but less than the full actuarial contribution (partial pre-funding), the liabilities and ARC will lie somewhere between the pre-funding and 'Pay-go' funding results
- ◆ 2013 valuation results based on an 8% discount rate



Retiree Health Valuation Results

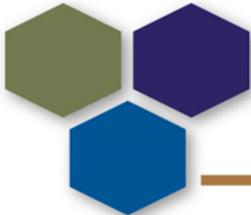
Full Actuarial Funding

- ◆ Annual Expenditures for Retiree Health Care Benefits:

- ▶ FY 2013: \$31.8 million

- ▶ FY 2013 ARC: \$46.8 Million

Annual Expenditures from the 2013 SPRS Comprehensive Annual Financial Report



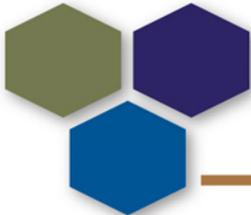
Actual and Expected Contributions Full Actuarial Funding

- ◆ Annual Required Contribution (ARC) for FYE September 30, 2013:

	<u>ARC - FY2013</u>
Full Actuarial Funding	\$ 46.8 million
Less Actual Employer Contribution	<u>\$(45.7 million)</u>
Additional Employer Contribution to Fully Fund the ARC	\$ 1.1 million

- ◆ Once fully funded, the annual employer contribution requirement decreases to the normal cost
- ◆ Employer normal cost is \$8.2 million in FY 2014

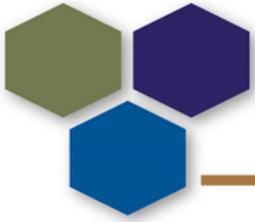
Actual FY2013 Employer Contribution from the SPRS 2013 Comprehensive Annual Financial Report



Circumstances that Would Increase Projected Costs

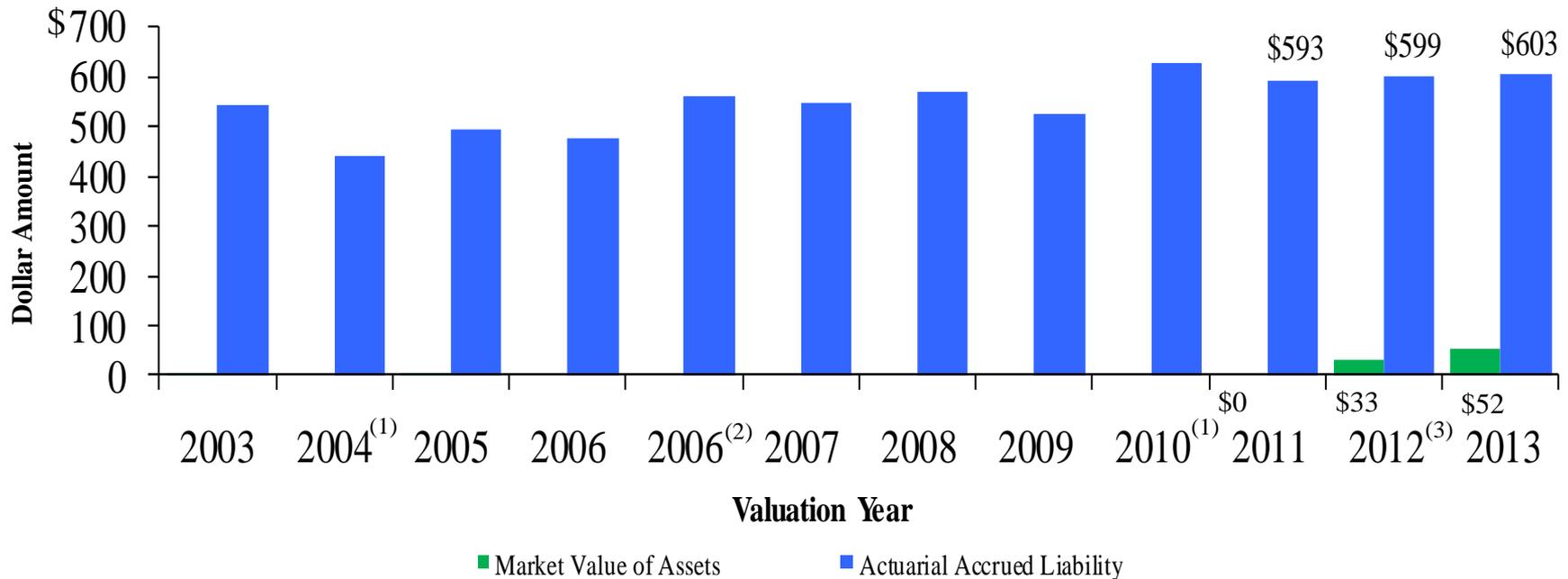
- ◆ Medicare funding reductions or cost shifting
- ◆ Unexpected new benefit recipients (from health benefit cutbacks of other employers)
- ◆ Medical inflation worse than assumed; the actual future contributions will depend on future per capita health cost increases (health inflation) *
- ◆ Lower than expected investment returns; bigger impact as plan assets grow
- ◆ This is not a complete list

* *Per capita costs are projected to increase 9.0% the first year, graded down to 3.5% in the tenth and later years*



Health Assets & Accrued Liabilities

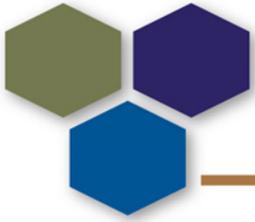
Full Actuarial Funding (Amounts in Millions)



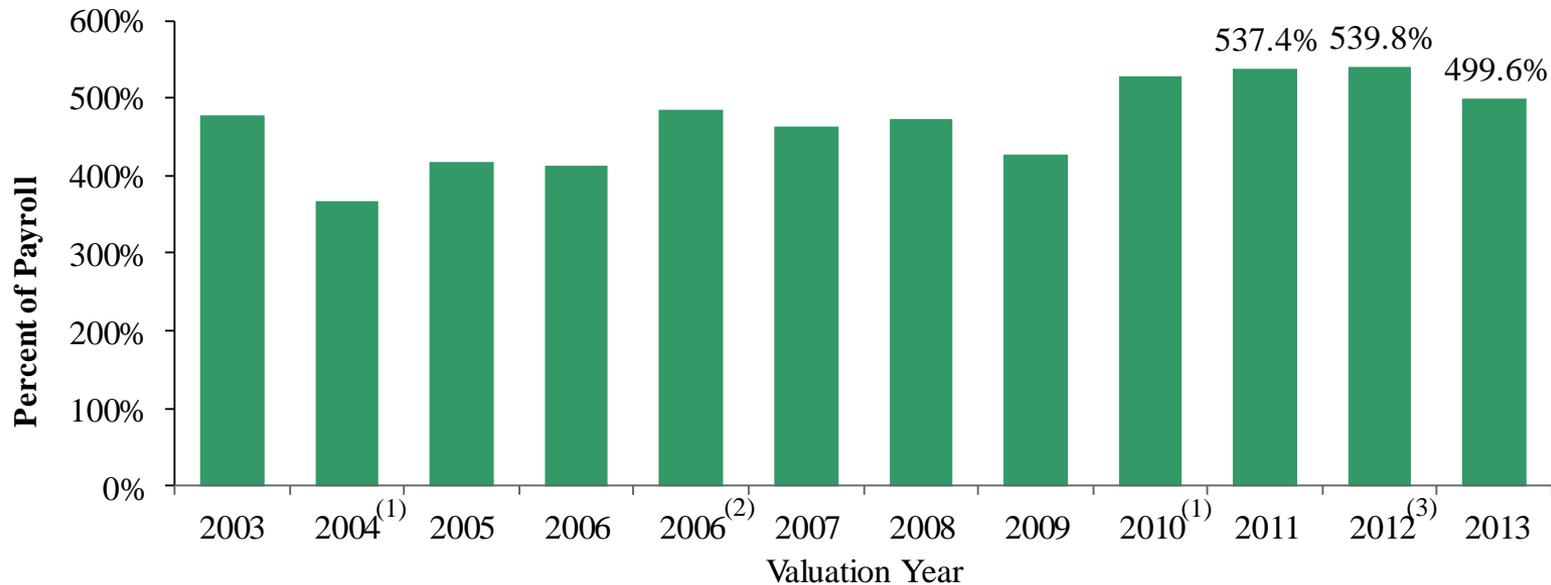
(1) Reflects assumption changes

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

(3) Revised benefit provisions



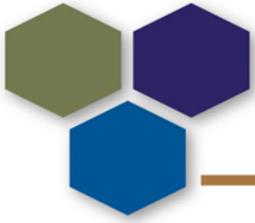
Unfunded Accrued Liabilities as %'s of Payroll – Full Actuarial Funding



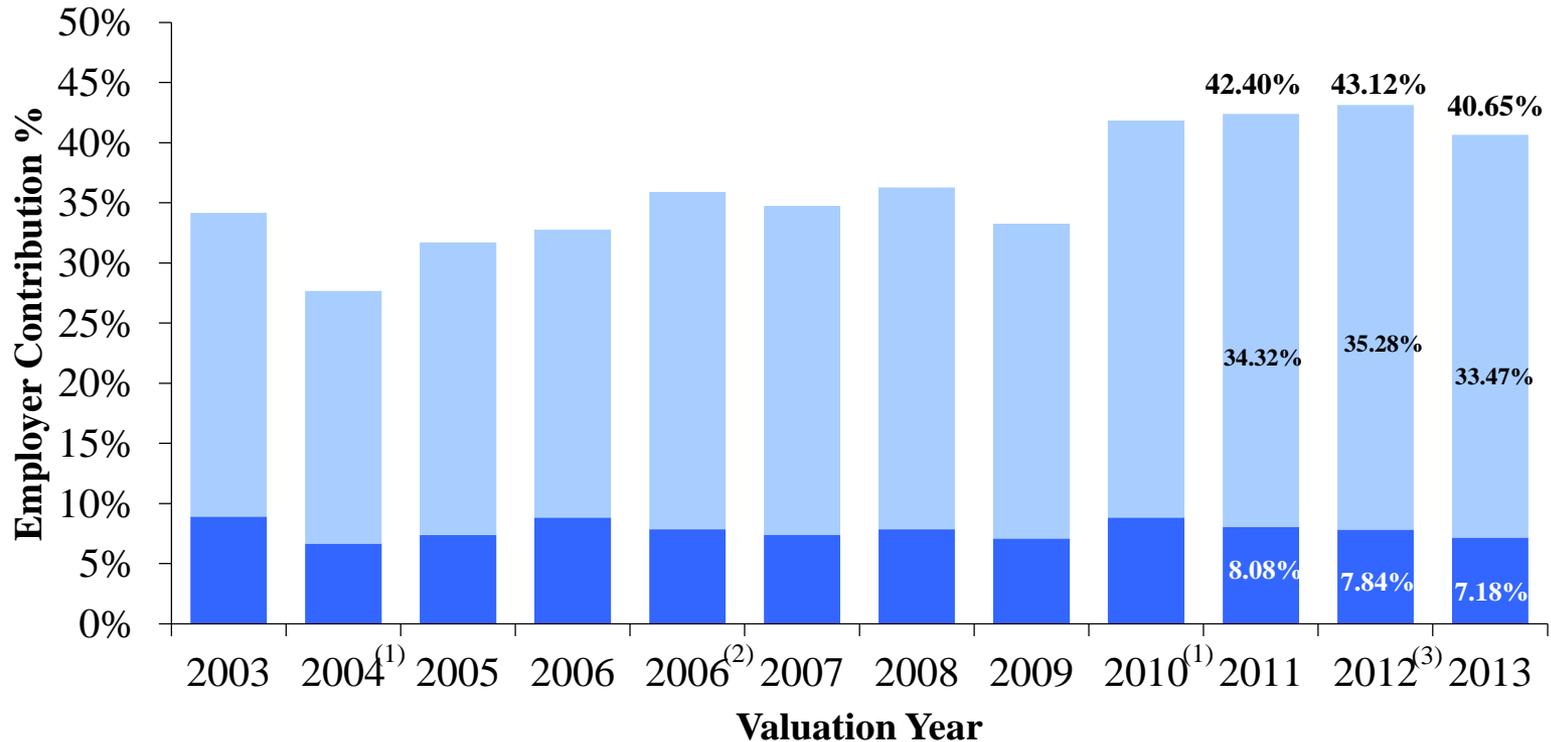
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(3) Revised benefit provisions



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

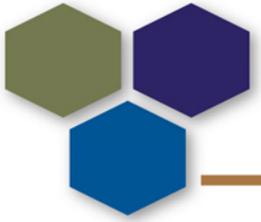


■ Normal Cost ■ Amortization Payments

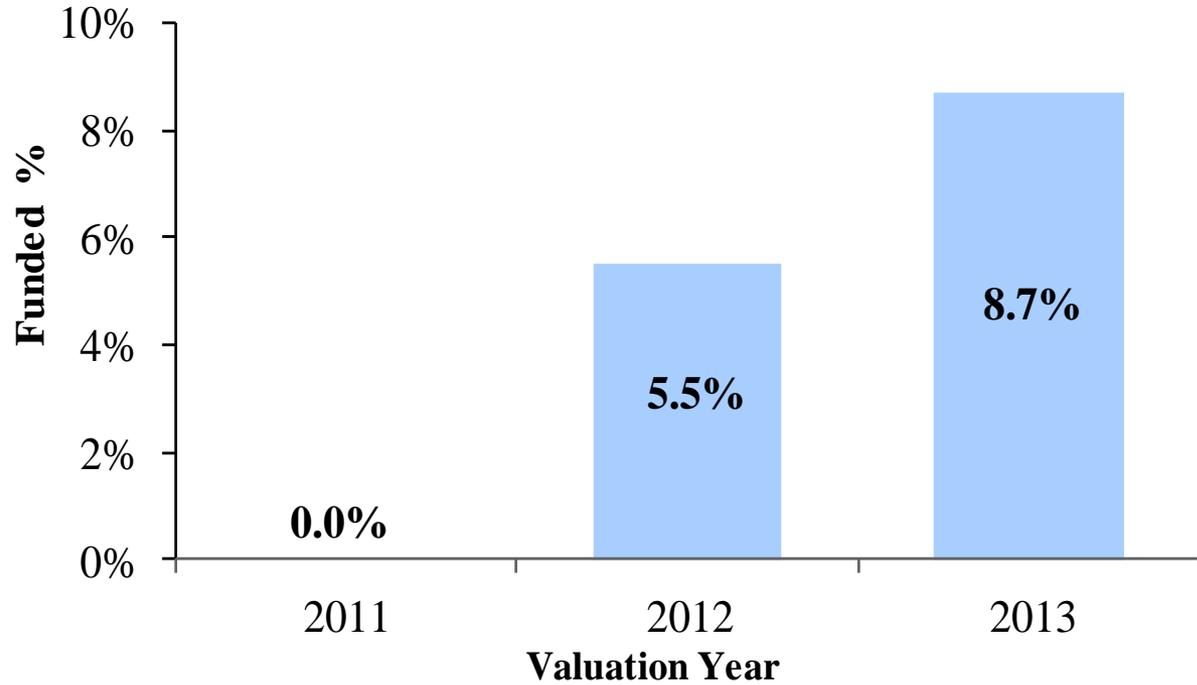
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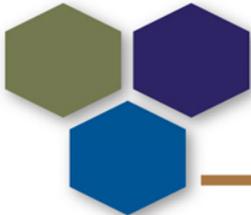
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Funded Percent





Disclaimers

- ◆ This presentation is intended to be used in conjunction with the September 30, 2013 retiree health annual actuarial valuation report issued on April 30, 2014. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
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- ◆ The actuaries submitting this presentation (Mita Drazilov and Louise Gates) are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.