



Michigan State Police

Retiree Health Actuarial Valuation Results as of September 30, 2016



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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 is available to help pay the benefits
- ◆ Costs rise as more members retire, and health inflation outpaces general inflation
- ◆ Pre-funding contributions 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
 - ▶ Required employer contribution referred to as the Annual Required Contribution (ARC)
 - ▶ Since SPRS is now being pre-funded, for accounting purposes, liability and expense results can be based upon the investment return assumption (e.g., 7.50% as of September 30, 2016)
- ◆ GASB Statement No. 74 will be effective for the plan year ending September 30, 2017
 - ▶ Expectation is that accounting results will continue to be based upon the investment return assumption (e.g., 7.50% as of September 30, 2016)
 - ▶ A separate report will be issued beginning with the September 30, 2017 annual valuation for accounting purposes



Retiree Health Valuation Results

Full Actuarial Funding

- ◆ FY 2016 Expenditures for Retiree Health Care Benefits:
 - ▶ \$34.1 million

- ◆ FY 2016 Contributions for Retiree Health Care Benefits:
 - ▶ \$47.3 million – Employer Contributions (includes other governmental contributions)

 - ▶ \$1.2 Million – Member Contributions

Amounts reported above are from the 2016 SPRS Comprehensive Annual Financial Report.



Required Employer Contributions FY 2019

- ◆ Required employer contribution for FYE September 30, 2019:

	<u>FY 2019</u>
Employer Normal Cost	\$ 9.4 million
Amortization of UAAL ¹	<u>50.4 million</u>
Required Employer Contribution	59.8 million

¹Unfunded Actuarial Accrued Liabilities (UAAL) were amortized over 18 years from October 1, 2018.

- ◆ Once fully funded, the annual employer contribution requirement decreases to the normal cost



Circumstances that Would Increase Projected Costs

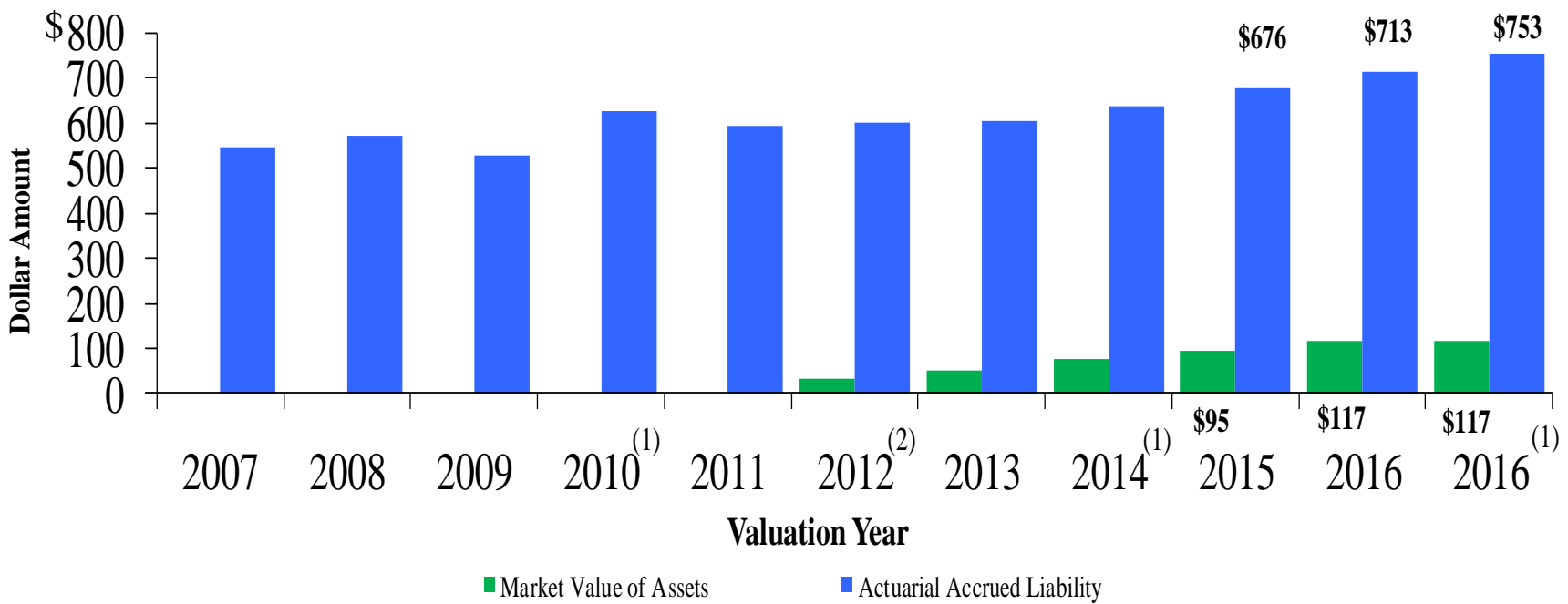
- ◆ Medicare funding reductions or cost shifting
- ◆ Unexpected new benefit recipients (from health benefit cutbacks of other employers)
- ◆ Medical inflation worse than assumed; the actual future contributions will depend on future per capita health cost increases (health inflation) *
- ◆ Lower than 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

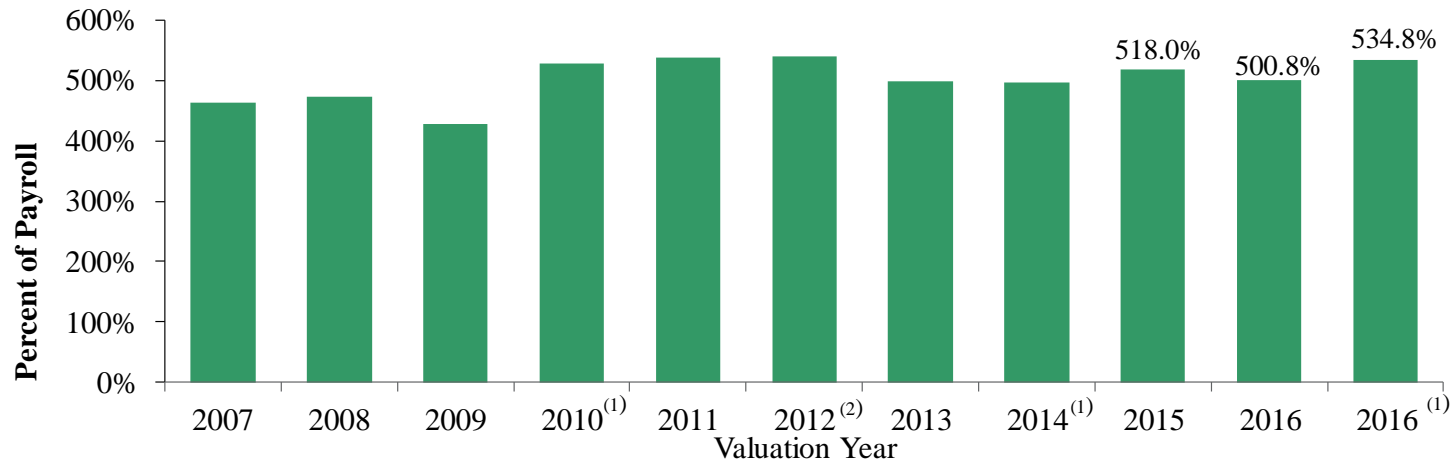
Full Actuarial Funding (Amounts in Millions)



(1) Reflects assumption changes
 (2) Revised benefit provisions



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

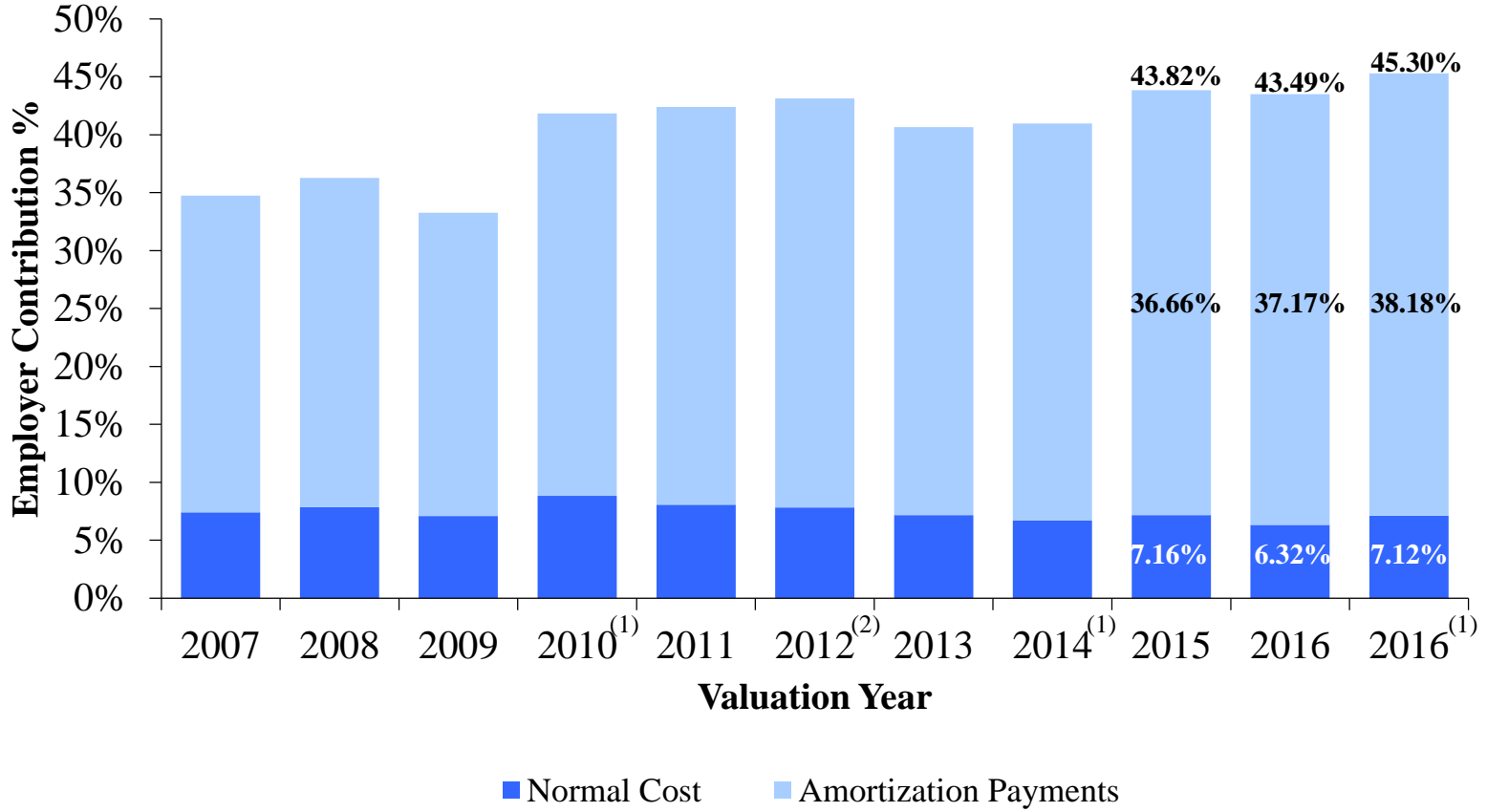


(1) Reflects assumption changes

(2) Revised benefit provisions



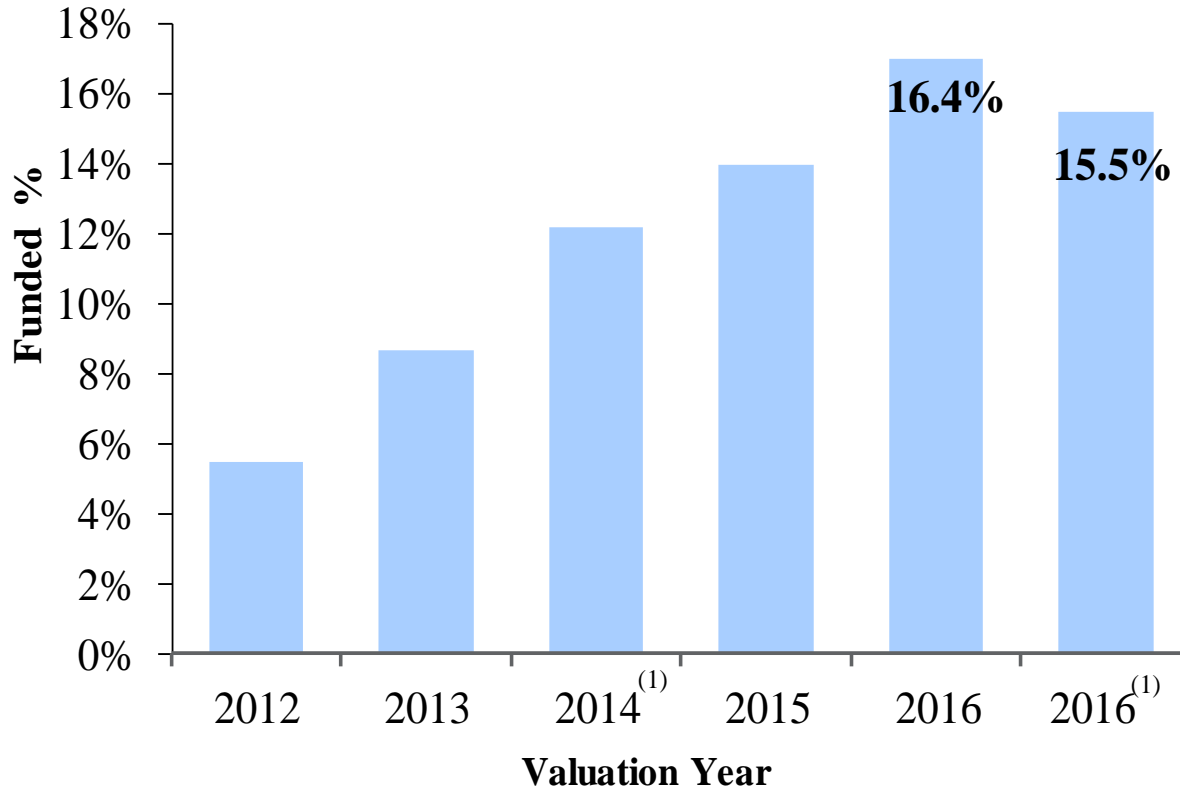
Required Employer Contributions as Percents of Payroll (Full Actuarial Funding)



(1) Reflects assumption changes
 (2) Revised benefit provisions



Funded Percent



(1) Reflects assumption changes



Disclaimers

- ◆ This presentation is intended to be used in conjunction with the September 30, 2016 retiree health annual actuarial valuation report issued on April 24, 2017. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
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