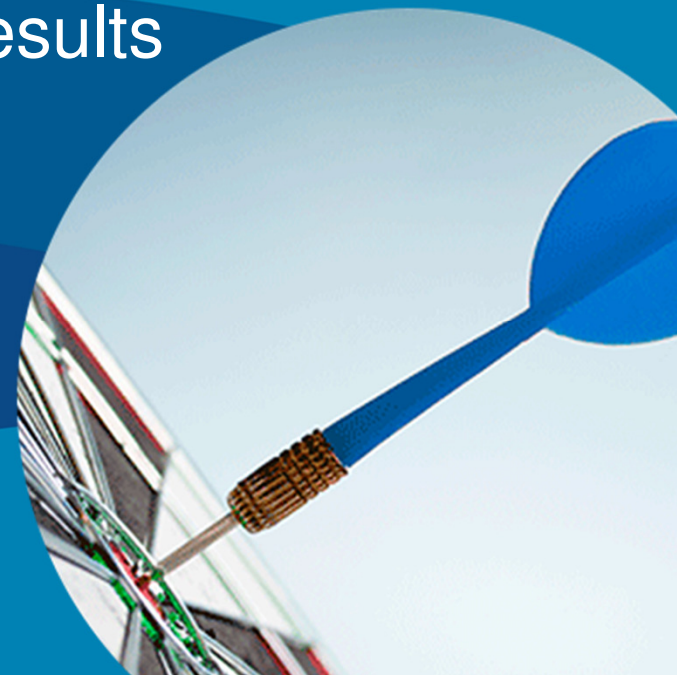




Michigan Judges' Retirement System

Retiree Health Actuarial Valuation Results
as of September 30, 2017



Retiree Health Benefits

Participants Eligible for Employer Subsidized Benefits

- Plan 1 and Plan 2 members, both defined benefit (Tier 1) and defined contribution (Tier 2)
- Covered participants pay 2% of compensation while actively employed
- Covered participants receive employer subsidized health benefits after retirement
- Other retired judges may enroll in the health plan, but pay the full cost of their coverage

Retiree Health Benefits

The Funding Issue

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

Full Funding Employer Contribution

- Reported that full funding for JRS starts in fiscal year (FY) 2018
- September 30, 2017 valuation establishes the required employer contribution for FY 2018
- Reflects investment return assumption that was lowered from 8.00% to 7.50%

Governmental Accounting Standards Board

- Beginning with the 2007 CAFR, GASB Statements No. 43 and No. 45 specified how retiree health benefit liabilities and expenses are reported in financial statements
 - One annual valuation report for accounting and funding purposes
- GASB Statement No. 74 became effective for the plan year ending September 30, 2017
 - Results are based upon:
 - the September 30, 2016 actuarial valuation results “rolled-forward” to the September 30, 2017 measurement date
 - the investment return assumption prior to the change (i.e., 8.00%)
 - A separate report was issued December 18, 2017 containing the September 30, 2017 annual valuation for accounting purposes

Retiree Health Valuation Results

FY 2017 Income Statement Information

- FY 2017 expenditures for employer paid retiree health care benefits (i.e., excludes retiree paid premiums):
 - \$333,748
- FY 2017 contributions for retiree health care benefits:
 - \$188,819 – Employer contributions (includes other governmental contributions)
 - \$116,511 – Employee contributions (i.e., 2% of payroll active member contributions for members eligible for state paid subsidies)

Above reported amounts from the JRS 2017 Comprehensive Annual Financial Report.

Actuarially Computed Employer Contribution FY 2018

- Actuarially computed employer contribution for FYE September 30, 2018:

	<u>FY 2018</u>
Employer Normal Cost	\$ 73,502
Amortization of UAAL ¹	<u>485,798</u>
Actuarially Computed Employer Contribution	\$ 559,300

¹ *Unfunded Actuarial Accrued Liabilities (UAAL) were amortized over 19 years from October 1, 2017.*

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

Actuarial Gain/(Loss) – FY 2017

	<u>Gain/(Loss)</u>
1. Premiums. Gains and losses resulting from actual premiums in valuation year versus that assumed from prior valuation.	\$ 582,025
2. Investment Income. If there is greater investment income than assumed, there is a gain. If less income, a loss.	(56,951)
3. Demographic and Other. Gains and losses resulting from demographic experience, data adjustments, timing of financial transactions, etc.	<u>(433,562)</u>
4. Composite Gain/(Loss) During Year.	\$ 91,512

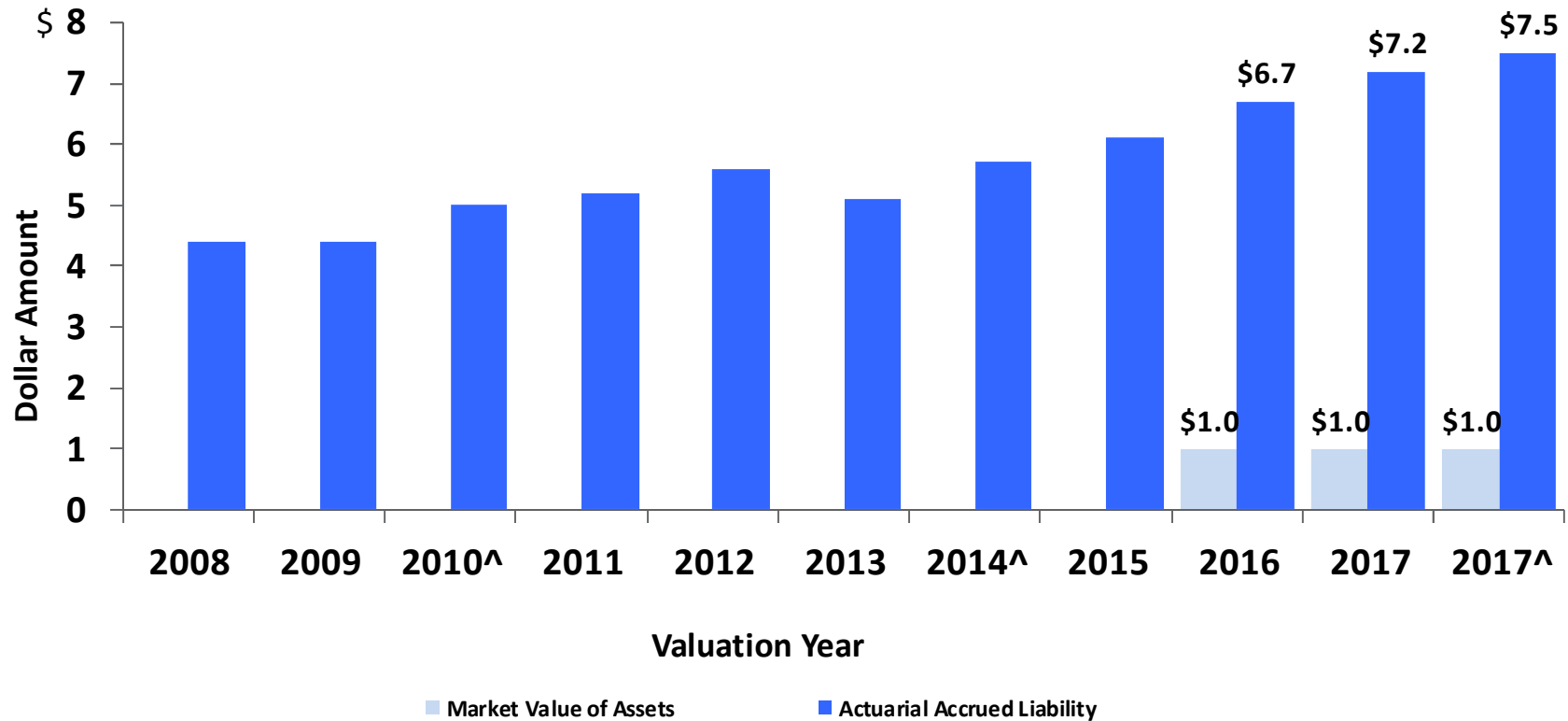
Circumstances That Would Increase Projected Costs

- 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)
- 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% the first year, graded down to 3.5% in the tenth and later years.*

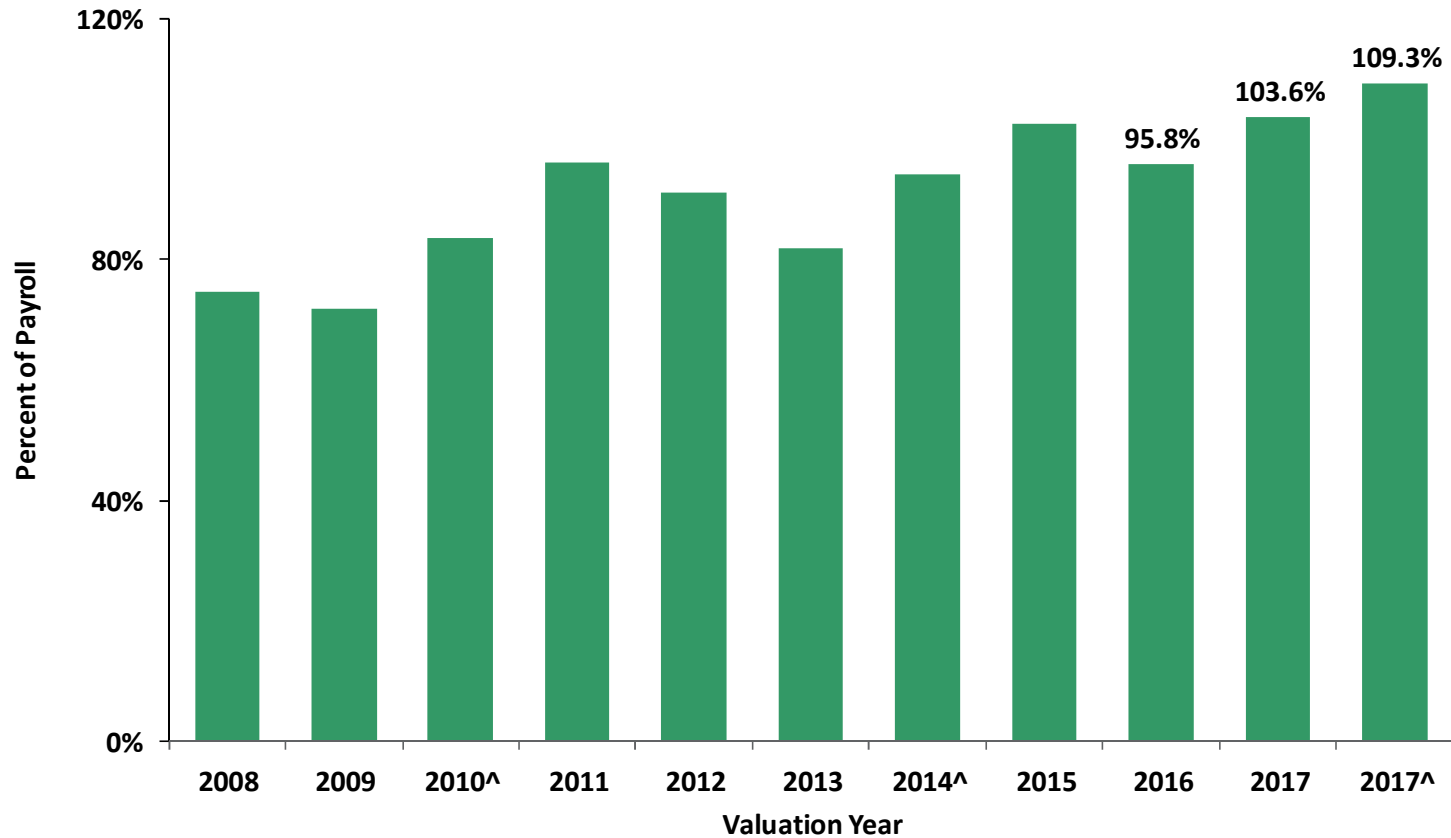
Health Assets & Accrued Liabilities

Full Actuarial Funding (Amounts in Millions)



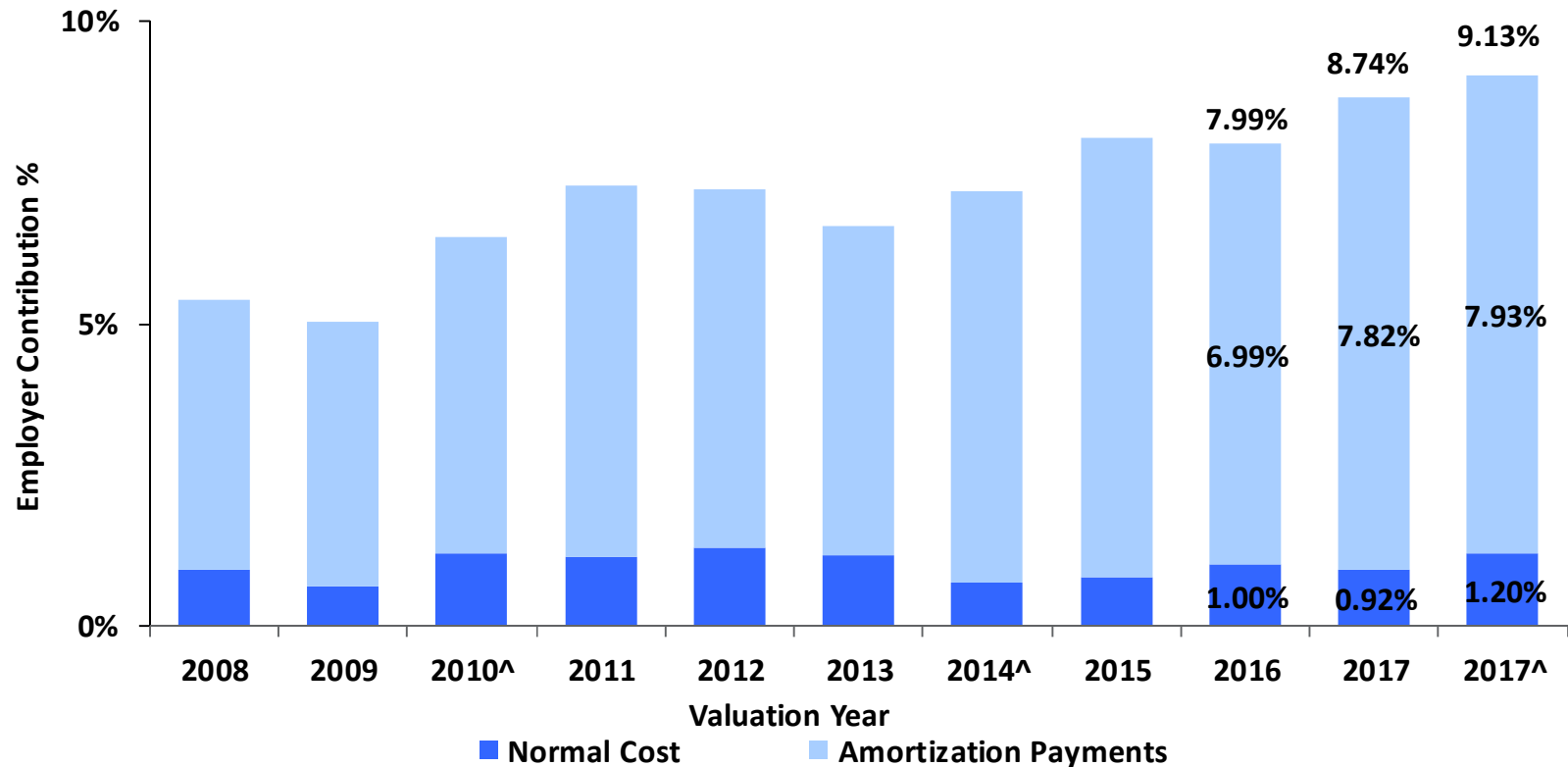
[^] Reflects assumption changes (not including trend assumption)

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



[^] Reflects assumption changes (not including trend assumption)

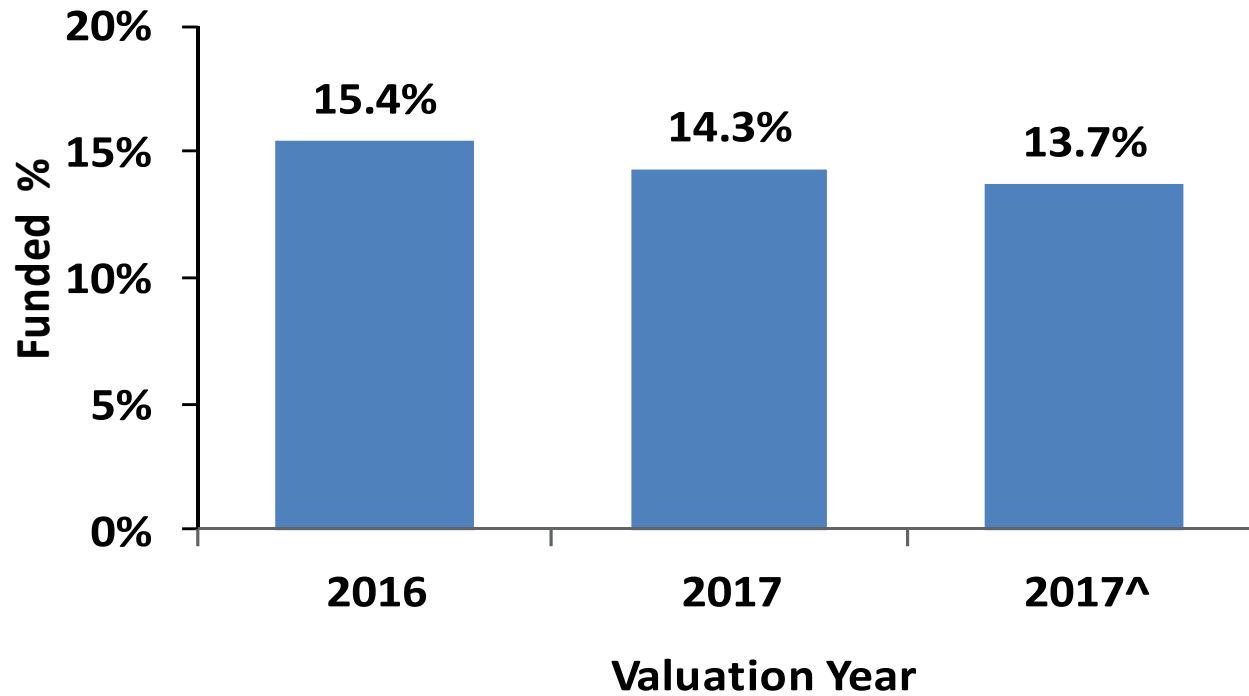
Required Employer Contributions as Percents of Pay* (Full Actuarial Funding)



[^] Reflects assumption changes (not including trend assumption)

* Projected pay

Funding Percent



[^] Reflects assumption changes (not including trend assumption)

Disclaimers

- This presentation is intended to be used in conjunction with the September 30, 2017 retiree health annual actuarial valuation report issued on March 19, 2018. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- 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 opinions contained herein.