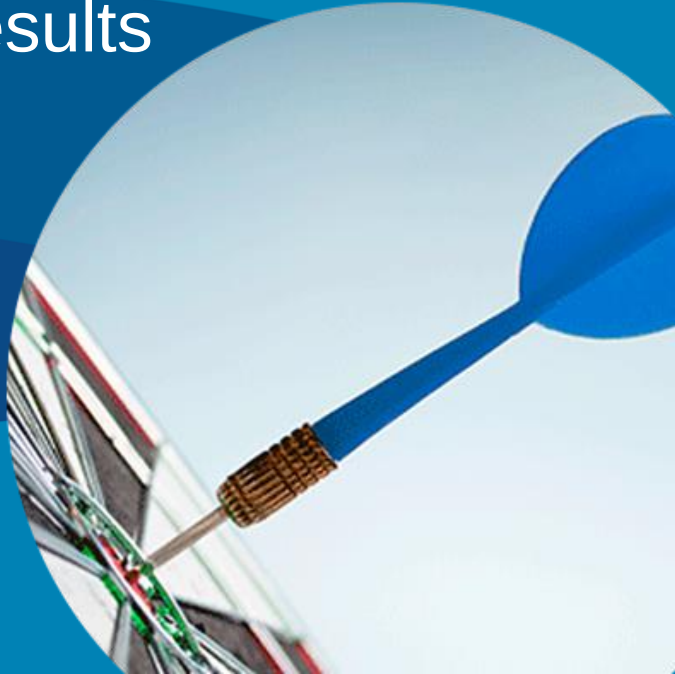
Michigan Judges' Retirement System

Retiree Health Actuarial Valuation Results as of September 30, 2018



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

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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 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

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Full Funding Employer Contribution

- Reported that full funding for JRS started in fiscal year (FY) 2018
- September 30, 2018 valuation establishes the required employer contribution for FY 2019
- Reflects the new assumptions in conjunction with the Experience Study covering the period October 1, 2012 through September 30, 2017
  - Investment return assumption that was lowered from 7.50% to 7.00%
- Does not reflect FY2019 supplemental contribution of approximately $7.3 million

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Retiree Health Valuation Results
FY 2018 Income Statement Information

- FY 2018 expenditures for retiree health care benefits:
  - $637,677
    - Excludes retiree paid premiums
    - Excludes $114,013 in other governmental contributions
- FY 2018 contributions for retiree health care benefits:
  - $539,300 – Employer contributions
    - Excludes $114,013 in other governmental contributions
  - $112,892 – Employee contributions (i.e., 2% of payroll active member contributions for members eligible for state paid subsidies)

Above reported amounts from the JRS 2018 financial statements.

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Actuarially Computed Employer Contribution FY 2019

- Actuarially computed employer contribution for FYE September 30, 2019:

		FY 2019
Employer Normal Cost	$	237,353
Amortization of UAAL[1]		580,749
Actuarially Computed Employer Contribution	$	818,102

[1] *Unfunded 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

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Actuarial Gain/(Loss) – FY 2018

		Gain/(Loss)
1. **Premiums.** Gains and losses resulting from actual premiums in valuation year versus that assumed from prior valuation.	$	713,596
2. **Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.		(12,587)
3. **Demographic and Other.** Gains and losses resulting from demographic experience, data adjustments, timing of financial transactions, etc.		(741,812)
4. **Composite Gain/(Loss) During Year.**	$	(40,803)

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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 8.25% the first year, graded down to 3.5% in the tenth and later years.*

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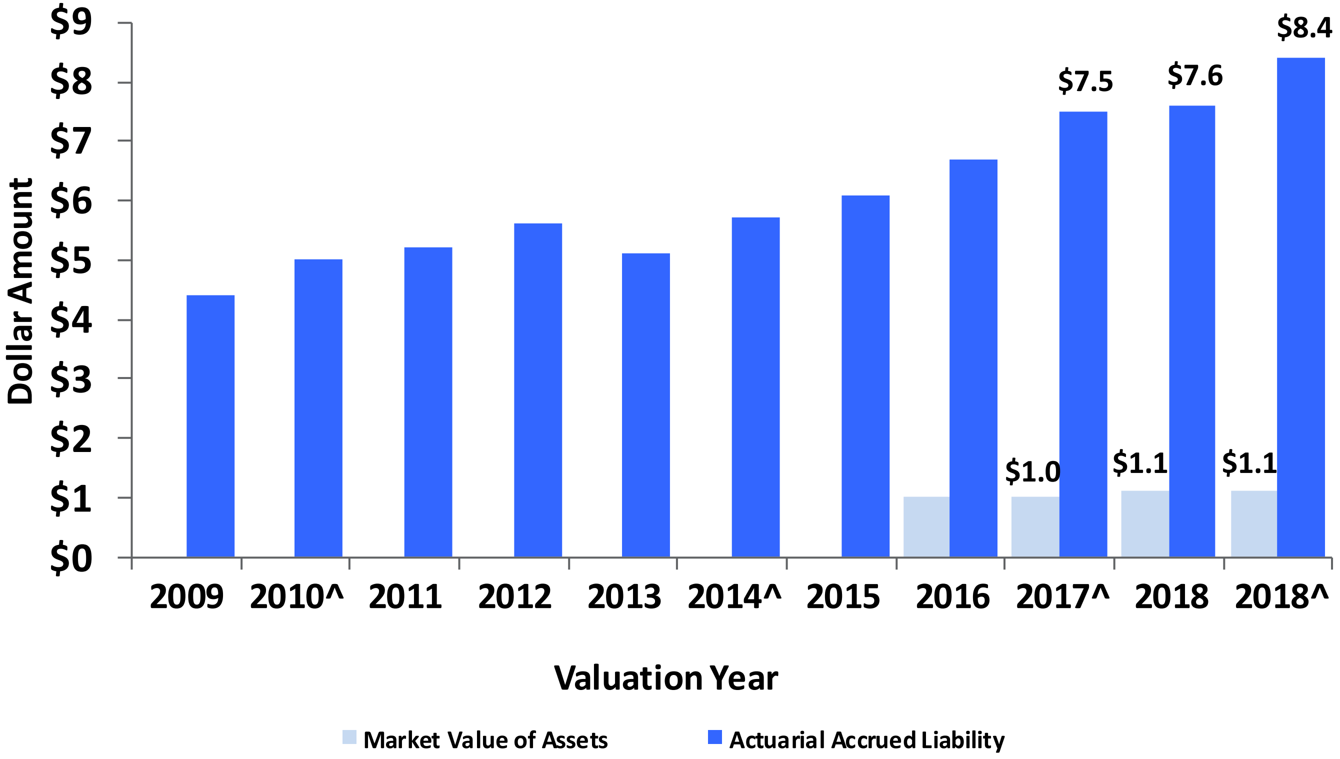
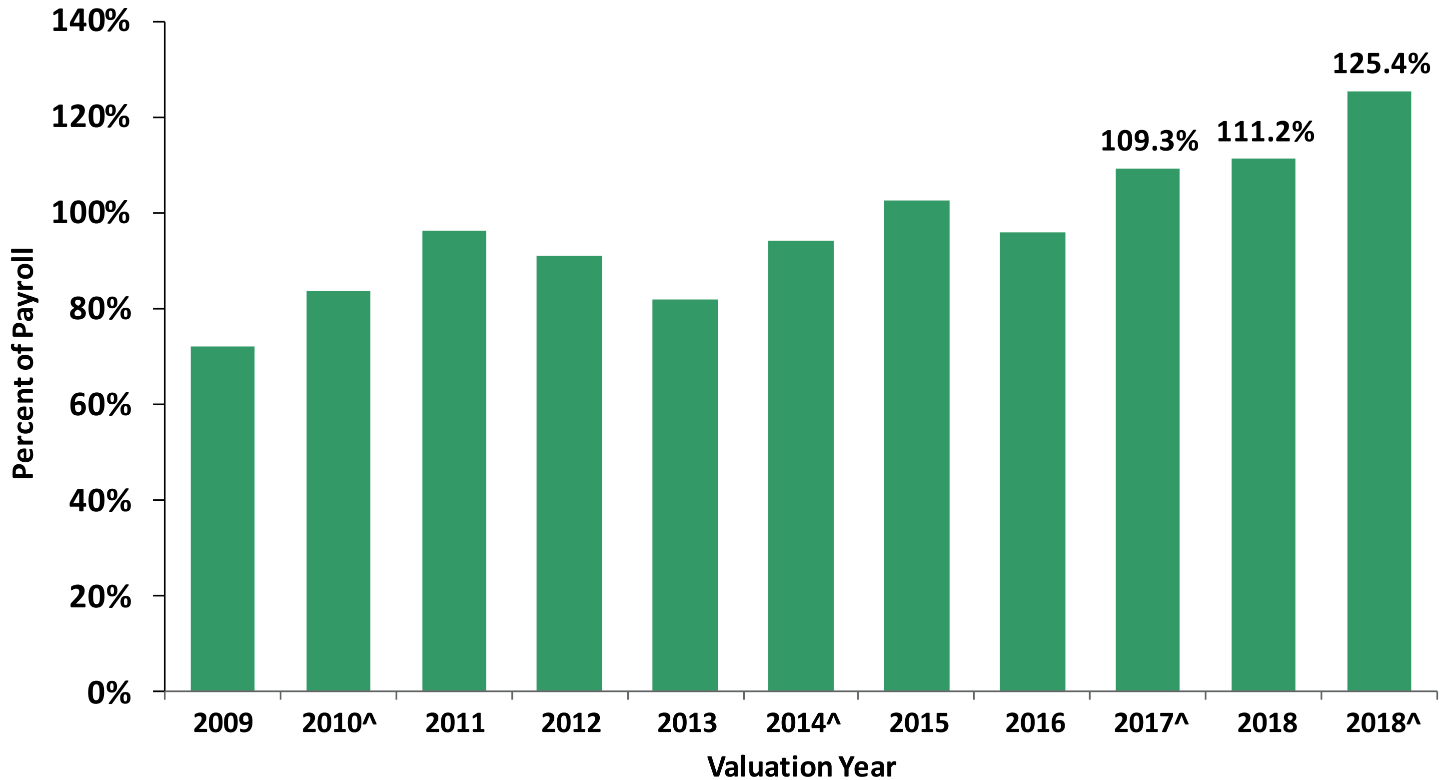
Health Assets & Accrued Liabilities
Full Actuarial Funding (Amounts in Millions)



^ *Reflects assumption changes (not including trend assumption)*

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



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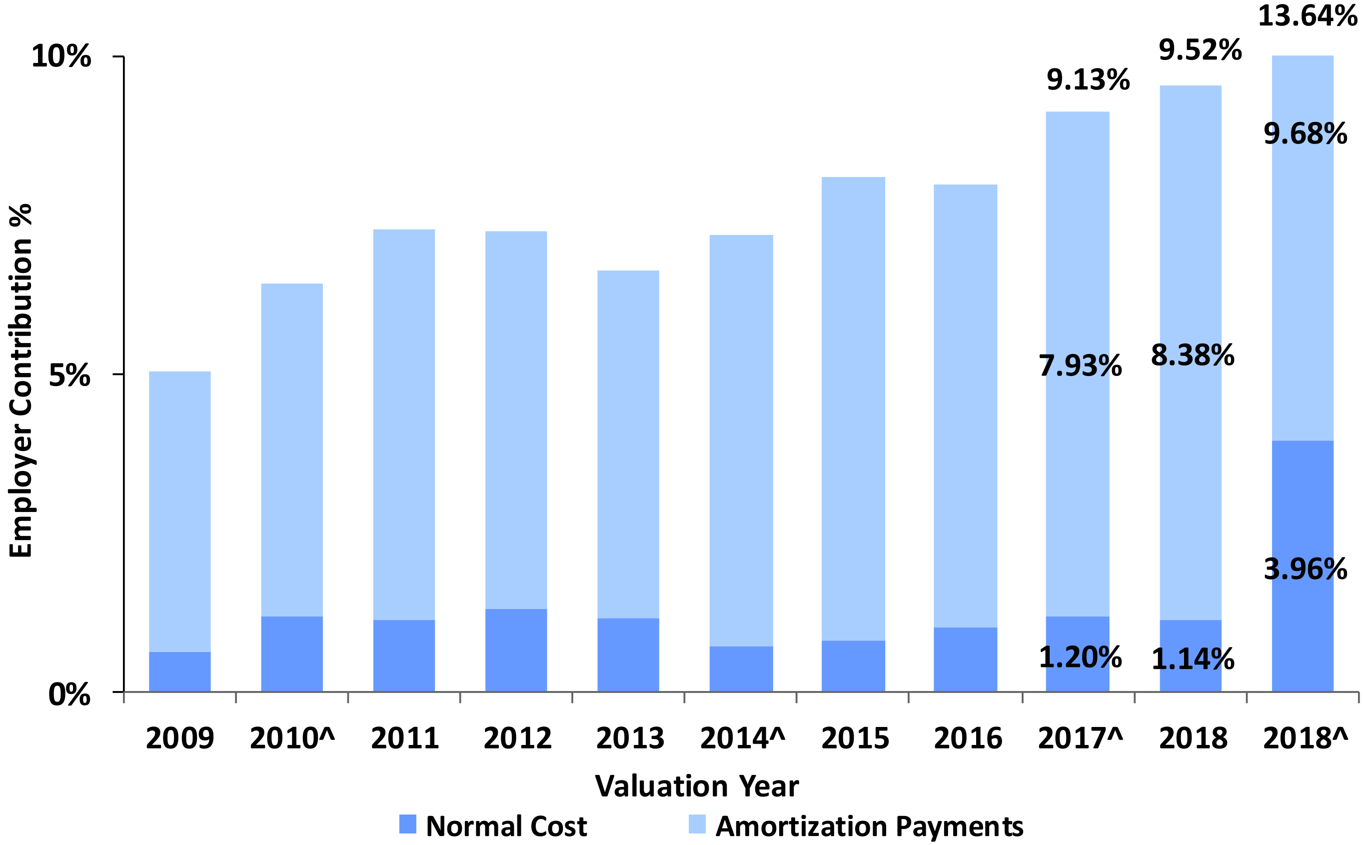
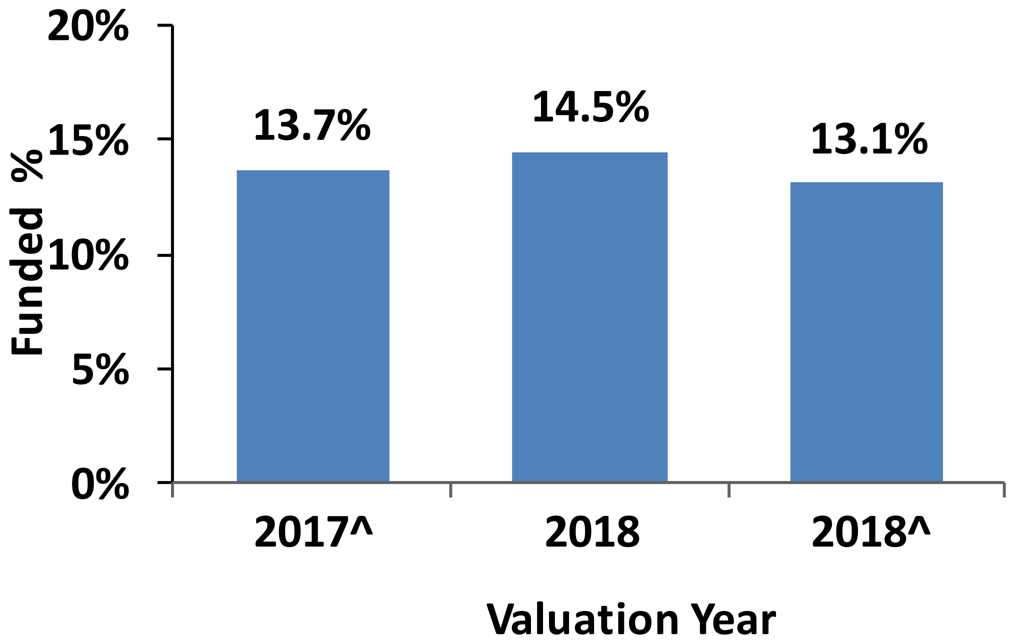
Required Employer Contributions as Percents of Pay* (Full Actuarial Funding)



^ *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, 2018 retiree health actuarial valuation report issued on March 20, 2019. 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.