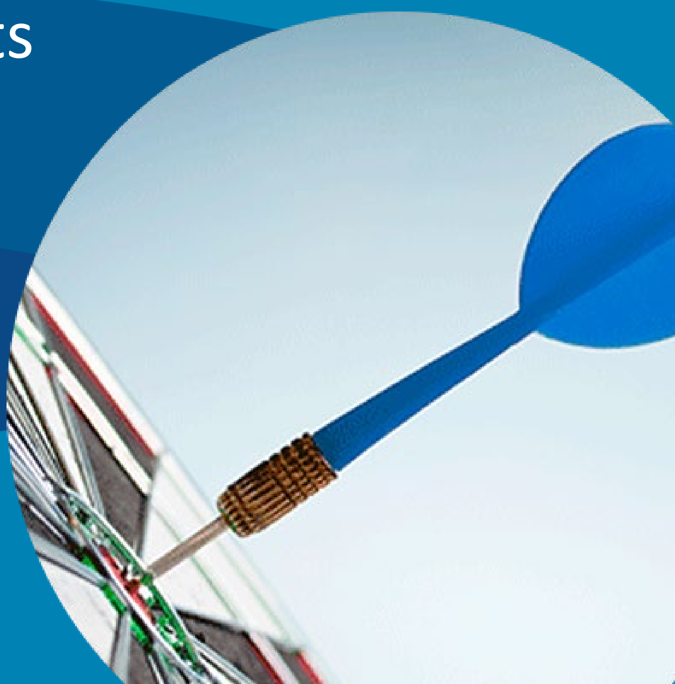
Michigan Judges' Retirement System

Retiree Health Actuarial Valuation Results as of September 30, 2020



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
- Costs rise as more members retire, and health inflation usually outpaces general inflation
- Pre-funding contribution rates have been calculated since 1999 – but full pre-funding started in Fiscal Year (FY) 2018

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September 30, 2020 Valuation

- Purpose of the September 30, 2020 valuation is twofold:
  - Determines the actuarially computed employer contribution for FY 2021
  - Measures the retiree health plan's funding progress
- Reflects the investment return assumption remaining at 7.00% as the market rate of return for FY 2020 was not high enough to trigger the provisions of the Dedicated Gains Policy adopted by the Board of Trustees

FY 2020 – Expenditures vs. Contributions

- FY 2020 expenditures for retiree health care benefits:
  - $99,101
    - Excludes retiree paid premiums
    - Excludes $54,624 in other governmental contributions
- FY 2020 contributions for retiree health care benefits:
  - $398,154 – Employer contributions
    - Excludes $54,624 in other governmental contributions
  - $133,374 – Employee contributions (i.e., 2% of payroll active member contributions for members eligible for state paid subsidies)

Above reported amounts from the JRS 2020 financial statements.

Actuarially Computed Employer Contribution FY 2021

- Actuarially computed employer contribution for FYE September 30, 2021:

		FY 2021
Employer Normal Cost	$	216,165
Amortization of UAAL[1]		(8,837)
Actuarially Computed Employer Contribution	$	207,328

[1] Unfunded Actuarial Accrued Liabilities (UAAL) were amortized over 16 years from October 1, 2020.

Actuarial Gain/(Loss) – FY 2020

		Gain/(Loss)
1. **Premiums.** Gains and losses resulting from actual premiums in valuation year versus that assumed from prior valuation.	$	1,298,993
2. **Investment Income.** If there is greater investment income than assumed, there is a gain. If less income, a loss.		(22,140)
3. **Demographic and Other.** Gains and losses resulting from demographic experience, data adjustments, timing of financial transactions, etc.		7,247
4. **Composite Gain/(Loss) During Year.**	$	1,284,100

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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 the larger the asset base
- This is not a complete list

* *Pre-65 per capita costs are projected to increase 7.50% the first year, graded down to 3.50% in the fifteenth year. Post-65 per capita costs are projected to increase 6.25% the first year, graded down to 3.50% in the fifteenth year.*

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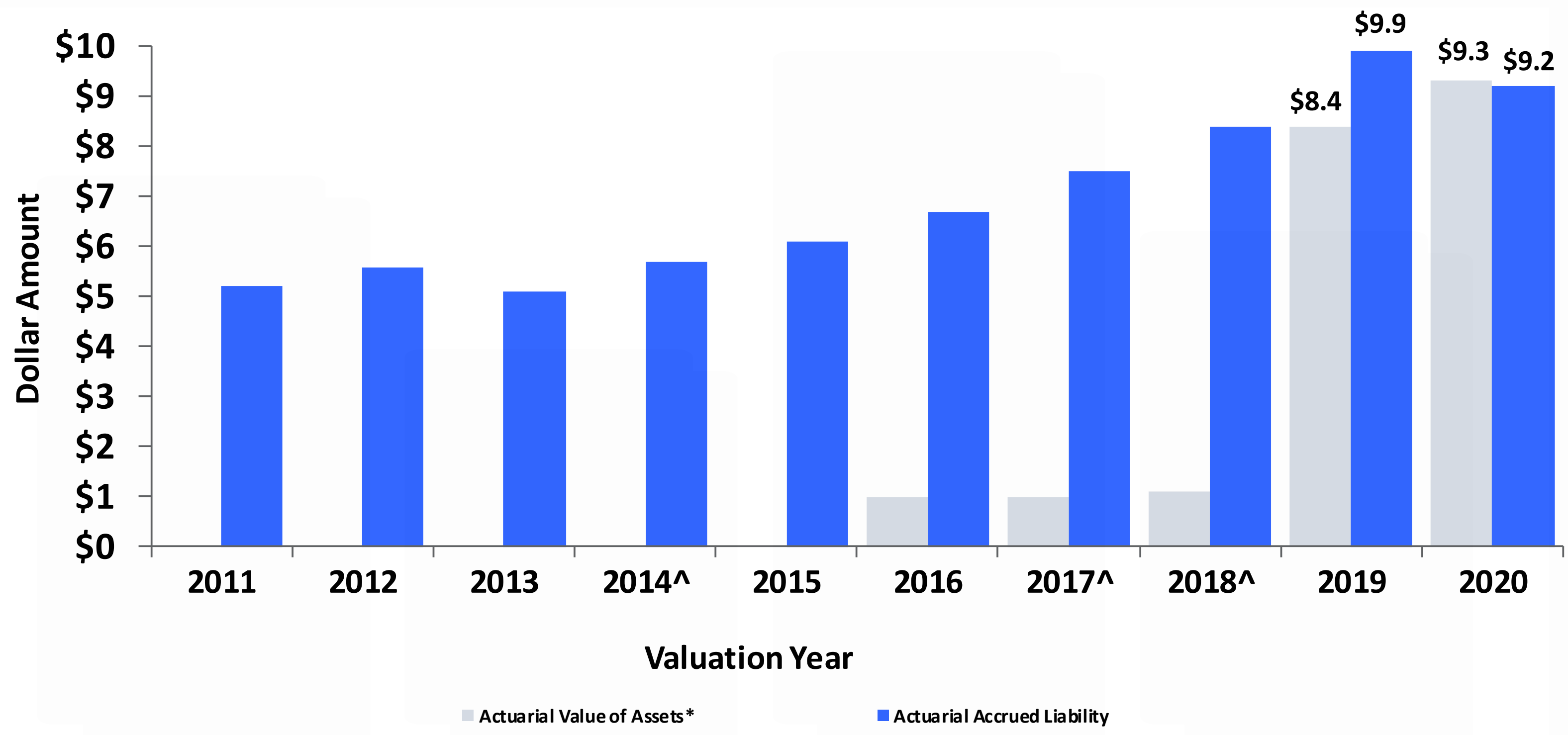
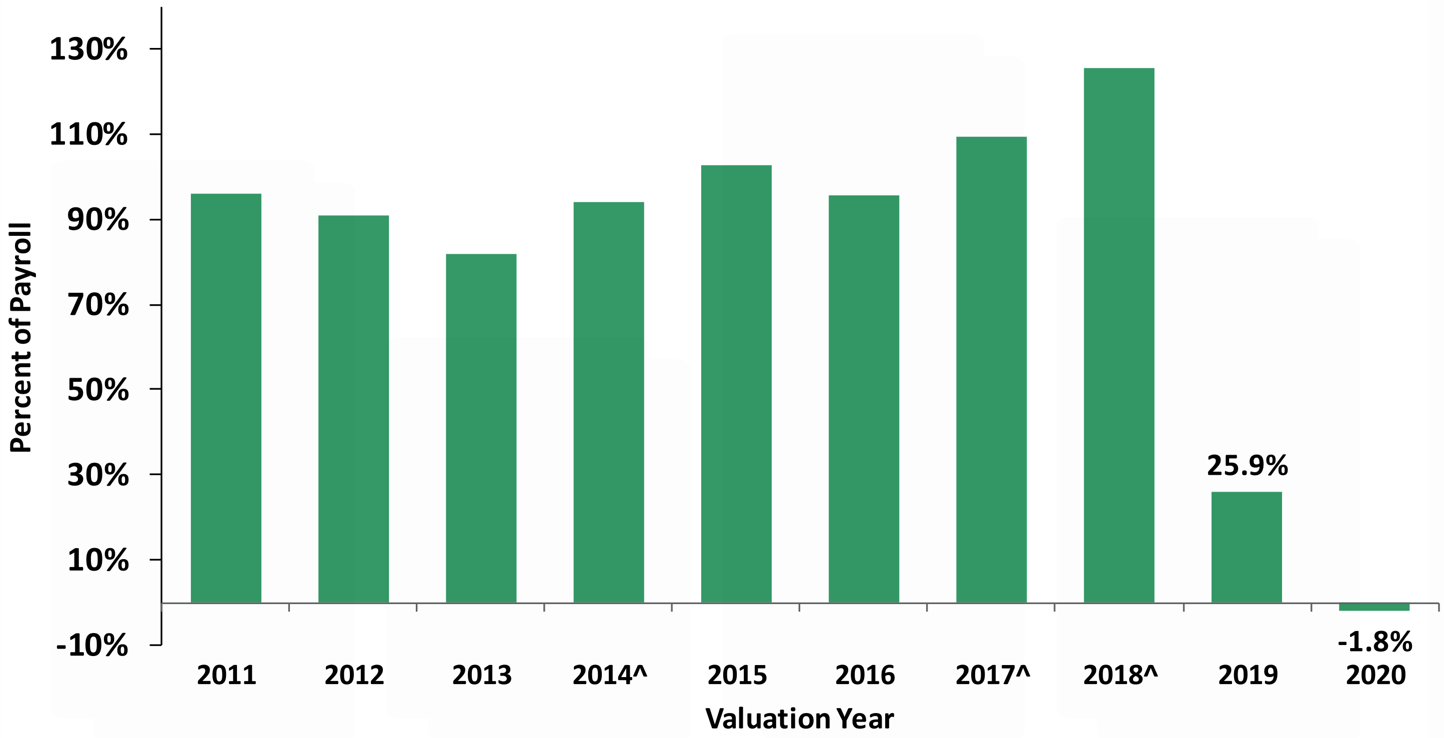
Health Assets & Accrued Liabilities
Full Actuarial Funding (Amounts in Millions)



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

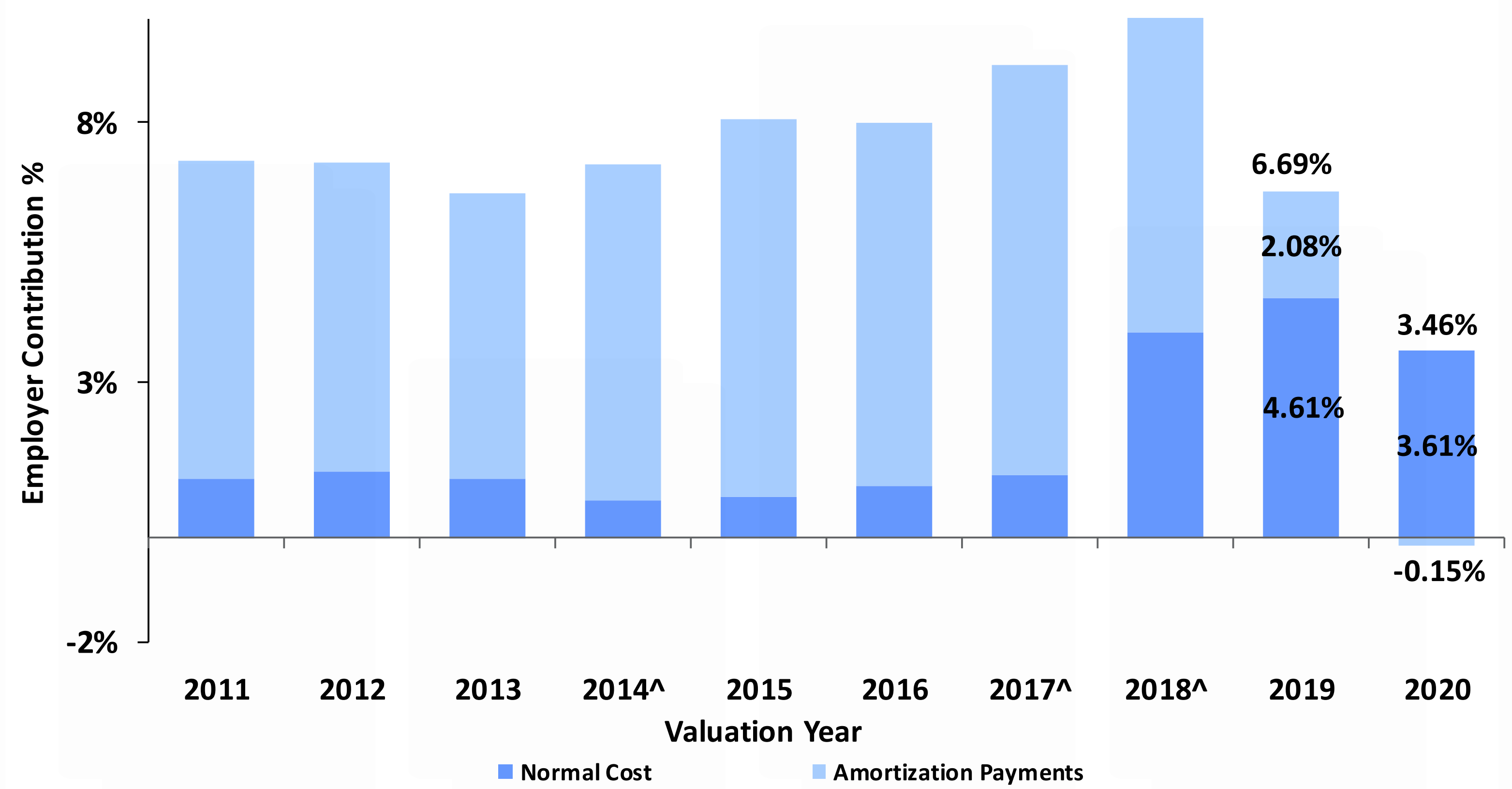
* *Actuarial value of assets were equal to the market value of assets prior to 2018*

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



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

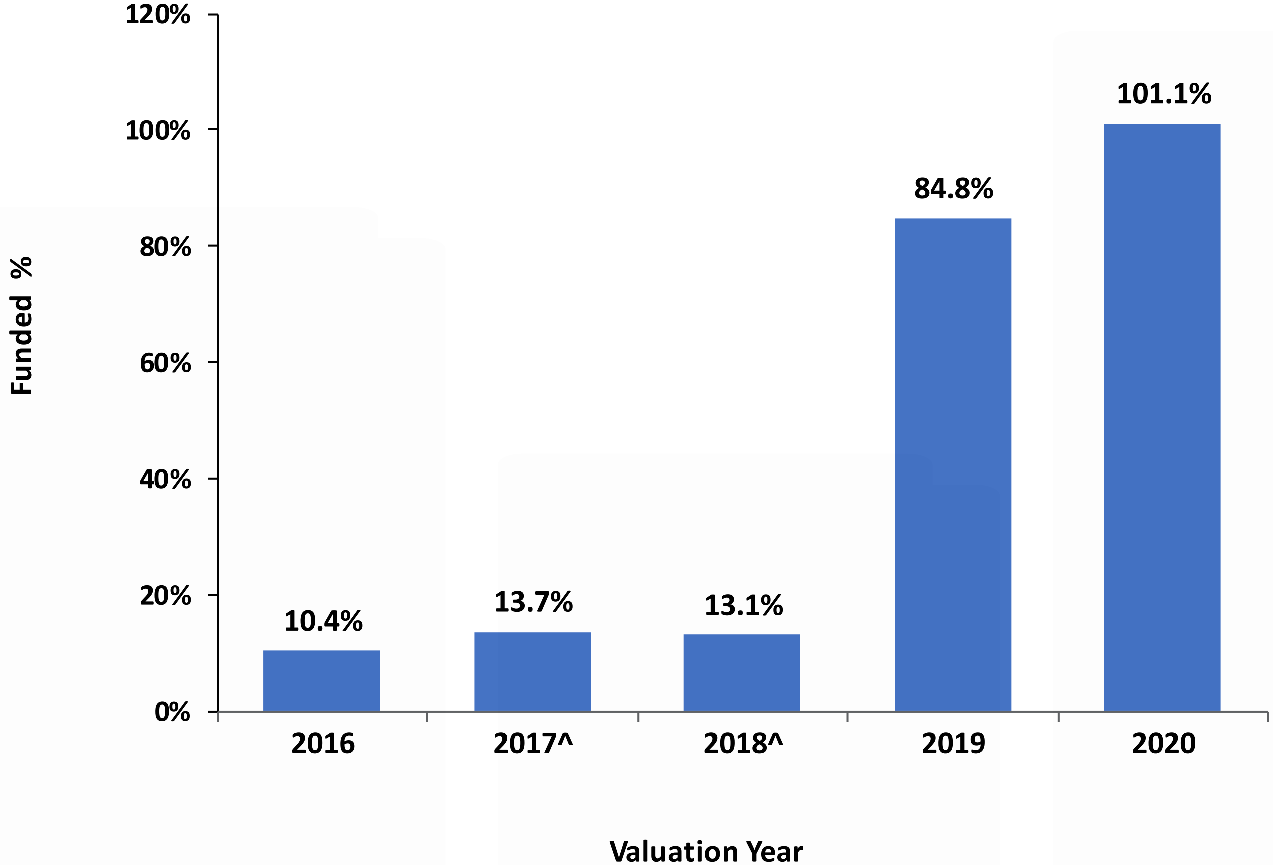
Required Employer Contributions as Percents of Pay* (Full Actuarial Funding)



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

* *Projected pay*

Funded Percent



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

Disclaimers

- This presentation is intended to be used in conjunction with the September 30, 2020 retiree health actuarial valuation report. 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.