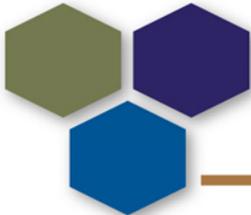


# Michigan State Employees

## Retiree Health Actuarial Valuation Results as of September 30, 2015



**Gabriel Roeder Smith & Company**  
Consultants & Actuaries  
[www.gabrielroeder.com](http://www.gabrielroeder.com)

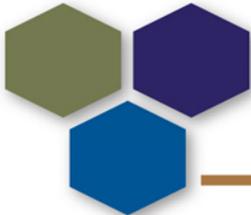


# Retiree Health Benefits

## The Funding Issue

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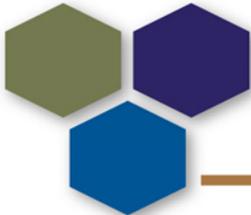
- ◆ Unlike pensions, health benefits have not been pre-funded for a long period of time
  - ▶ Most plan sponsors nationwide have not pre-funded health benefits either
  - ▶ Currently very little investment income to help pay benefits
- ◆ Costs rise as more members retire, and health inflation outpaces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



# Governmental Accounting Standards Board

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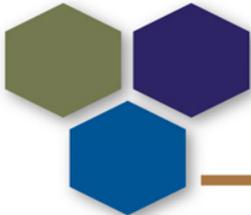
- ◆ Beginning with the 2007 CAFR, GASB Statements No. 43 and No. 45 specify how retiree health benefit liabilities and expenses are reported in financial statements
- ◆ The reported annual expense is called the Annual Required Contribution (ARC)
- ◆ If the employer fully funds the actuarially computed 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

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- ◆ 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 cash funding results
- ◆ 2015 valuation results are based on an 8% discount rate

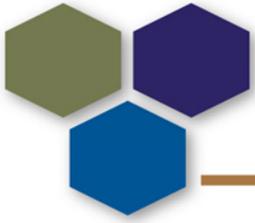


# Retiree Health Valuation Results Full Actuarial Funding

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- ◆ Annual Expenditures for Retiree Health Care Benefits:
  - ▶ FY 2015: \$525.4 million
  - ▶ FY 2015 ARC: \$645.1 million

Annual Expenditures from the SERS 2015 Comprehensive Annual Financial Report.



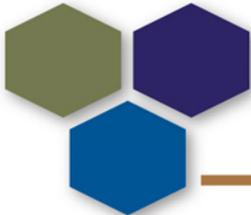
# Actual and Expected Contributions Full Actuarial Funding

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## ◆ Annual Required Contribution (ARC) for FYE September 30, 2015:

	<u>ARC - FY 2015</u>
Full Actuarial Funding	\$645.1 million
Less Actual Employer Contributions	<u>\$(713.7 million)</u>
Additional Employer Contribution to Fully Fund the ARC	\$0

- ◆ Once fully funded, the annual employer contribution requirement decreases to the normal cost
- ◆ Employer normal cost is \$95.6 million in FY 2016

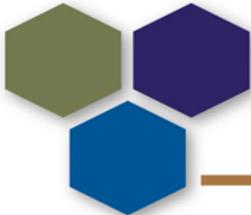


# Circumstances That Would Increase Projected Costs

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



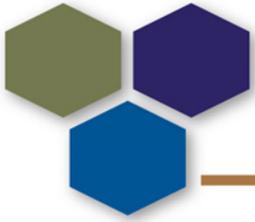
# Health Assets & Accrued Liabilities

## Full Actuarial Funding (Amounts in Millions)

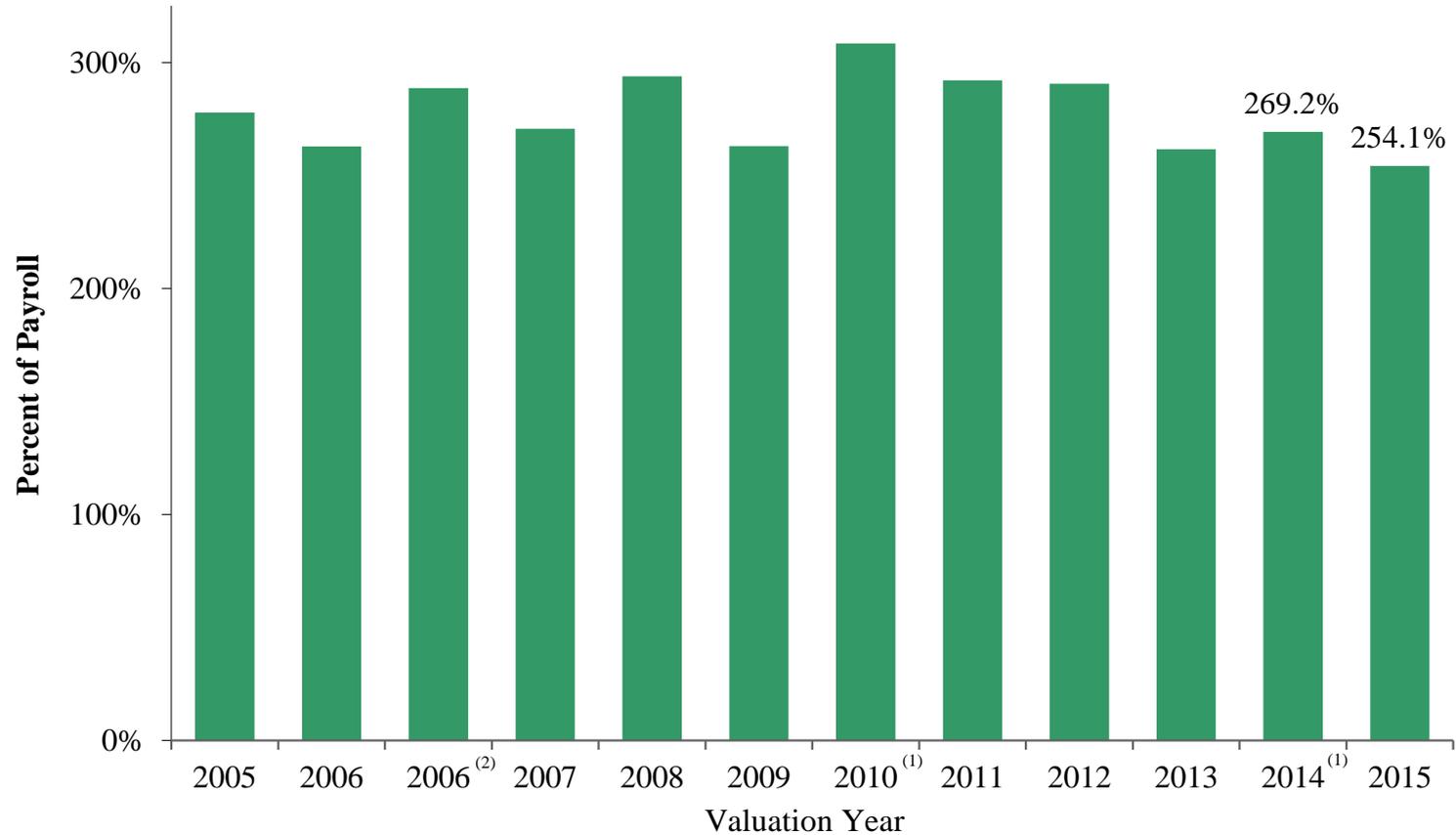


<sup>(1)</sup> Reflects assumption changes.

<sup>(2)</sup> Reflects assumption changes and compliance with GASB Statements No. 43 and No. 45.



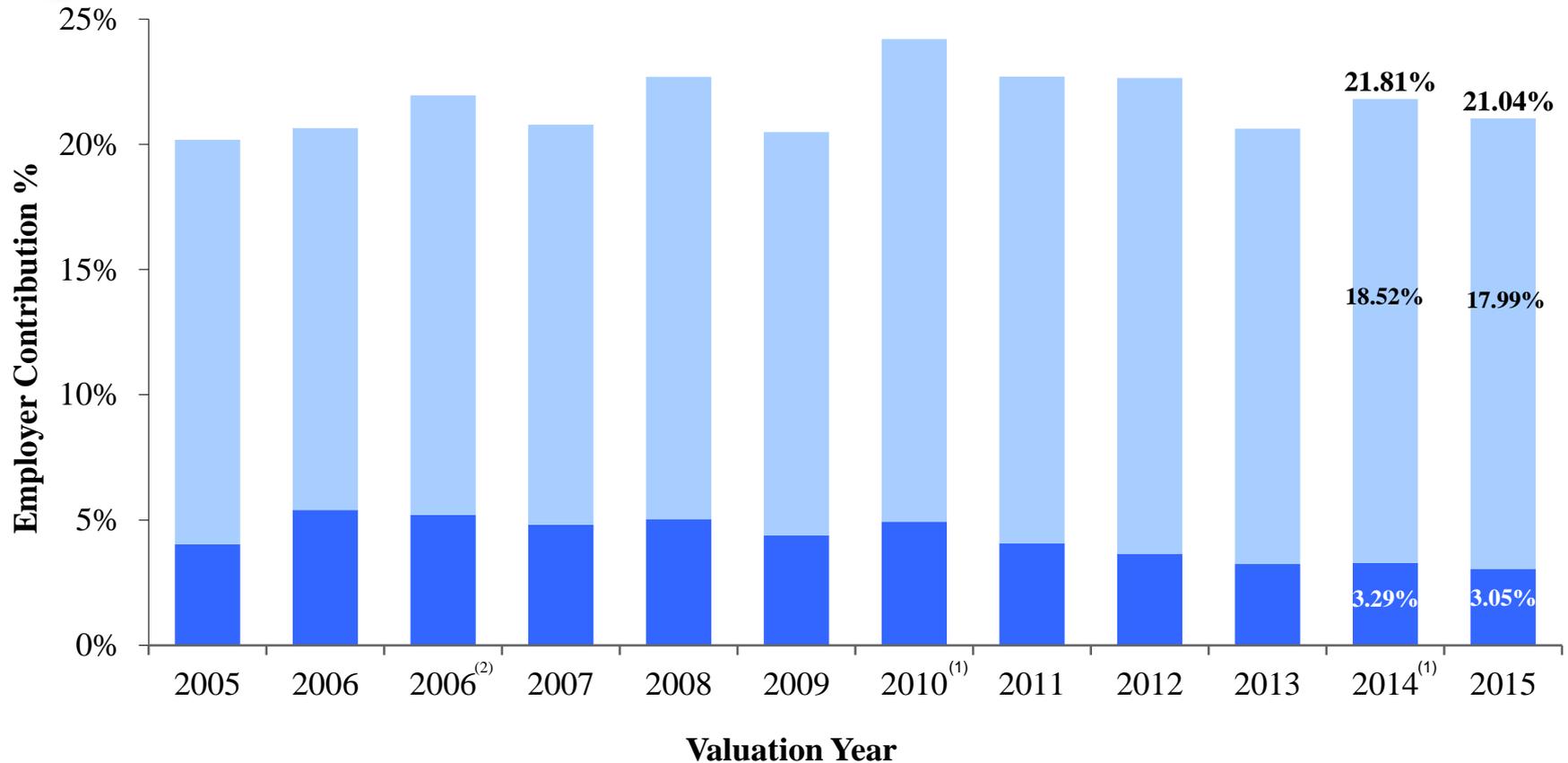
# Unfunded Accrued Liabilities as % of Payroll – Full Actuarial Funding



<sup>(1)</sup> Reflects assumption changes.

<sup>(2)</sup> Reflects assumption changes and compliance with GASB Statements No. 43 and No. 45.

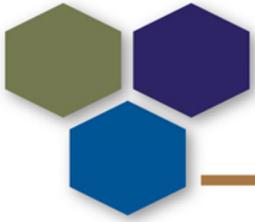
# Annual Required Contributions (ARC) as Percents of Payroll (Full Actuarial Funding)



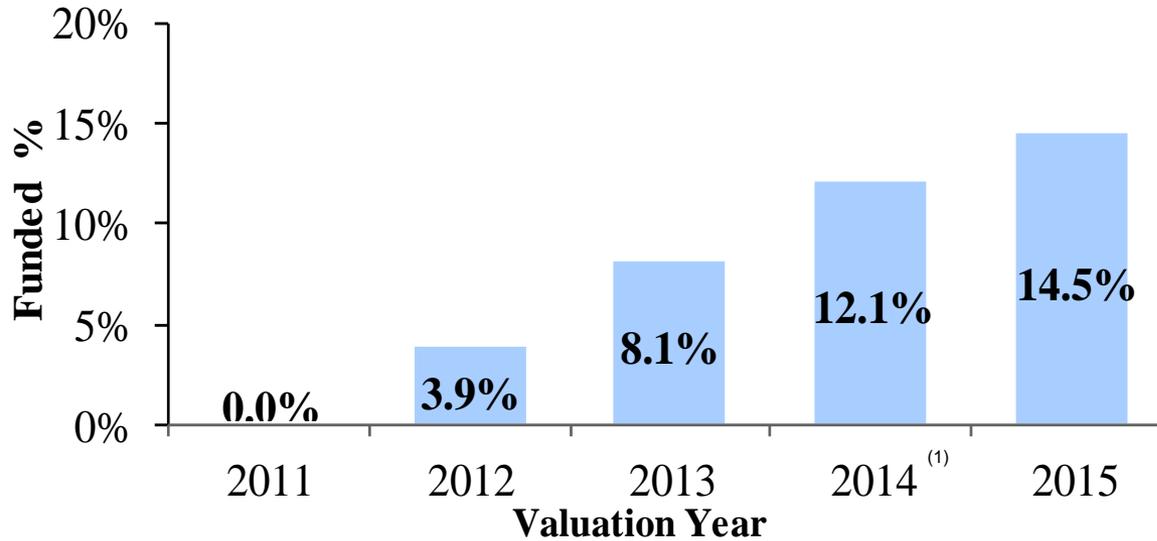
■ Normal Cost      ■ Amortization Payments

(1) Reflects assumption changes.

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

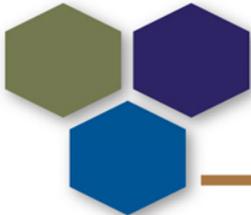


# Funding Percent



- Prefunding started in Fiscal year 2012
- As of 9/30/2015, there was 1.3 billion dollars held in trust

<sup>(1)</sup> Reflects assumption changes.



# Disclaimers

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- ◆ This presentation is intended to be used in conjunction with the September 30, 2015 retiree health annual actuarial valuation report issued in 2016. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
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- ◆ 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.