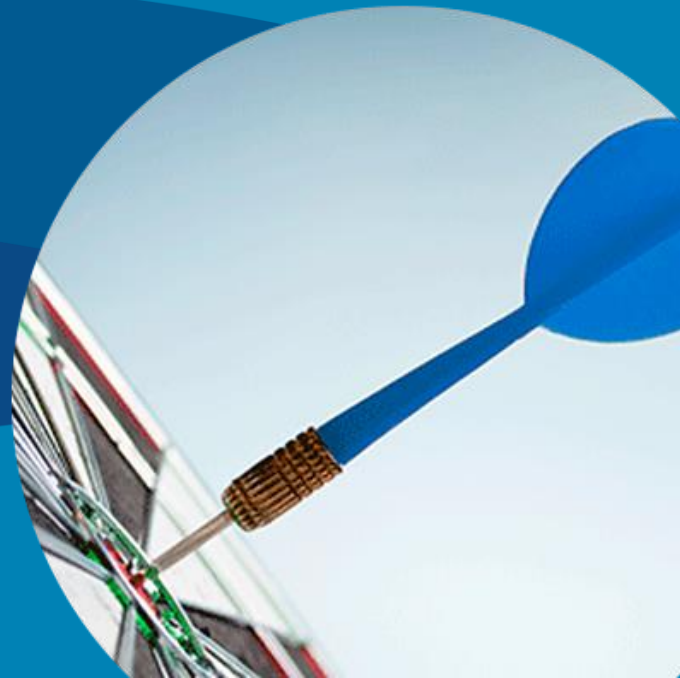




# Michigan State Police

Retiree Health Actuarial Valuation Results  
as of September 30, 2021



# 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 public 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 contributions have been calculated since 1999 – but pre-funding started in Fiscal Year (FY) 2013

# September 30, 2021 Valuation

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- Purpose of the September 30, 2021 valuation is twofold:
  - Determines the actuarially computed employer contribution for FY 2024
  - Measures the retiree health plan's funding progress
- Reflects the Dedicated Gains Policy adopted by the Board of Trustees
  - Starting with the September 30, 2021 funding valuation, in accordance with modifications to the Dedicated Gains Policy, the Policy cannot lower the investment return assumption below 6.00%
  - Investment return assumption reduced from 6.90% to 6.25% as a result of the Policy

# September 30, 2021 Valuation

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- Reflects these provisions of Public Act 674 of 2018:
  - Gradual transition from level percent of payroll amortization of Unfunded Actuarial Accrued Liabilities (UAAL) to level dollar amortization
  - 1.25% payroll growth assumption used for the September 30, 2021 valuation for amortization purposes only
- Employer contributions included in this presentation do not incorporate the “contribution floor” provisions of Public Act 674 of 2018

# FY 2021 – Expenditures vs. Contributions

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- FY 2021 expenditures for employer paid retiree health care benefits:
  - \$32.7 million
    - Excludes retiree paid premiums
    - Excludes \$4.7 million in other governmental contributions
- FY 2021 contributions for retiree health care Benefits:
  - \$48.8 million
    - Excludes \$4.7 million in other governmental contributions

Amounts reported above are from the 2021 SPRS financial statements.

# Actuarially Computed Employer Contribution FY 2024 (\$ in Millions)

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- Actuarially Computed employer contribution for FYE September 30, 2024:

	<u>FY 2024</u>
Employer Normal Cost	\$ 9.5
Amortization of UAAL <sup>1</sup>	<u>35.5</u>
Actuarial Computed Employer Contribution	\$ 45.0

<sup>1</sup>Unfunded Actuarial Accrued Liabilities (UAAL) were amortized over 15 years from October 1, 2023.

- If an amortization payment is not required to finance a UAAL, the annual employer contribution requirement decreases to the normal cost contribution

# Actuarial Gain/(Loss) (\$ in Millions)

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	<u>Gain/(Loss)</u>
1. <b>Premiums.</b> Gains and losses resulting from actual premiums in valuation year versus that assumed from prior valuation.	\$ 36.7
2. <b>Investment Income.</b> If there is greater investment income than assumed, there is a gain. If less income, a loss.	46.6
3. <b>Demographic and Other.</b> Gains and losses resulting from demographic experience, data adjustments, timing of financial transactions, etc.	<u>12.6</u>
4. <b>Composite Gain/(Loss) During Year.</b>	\$ 95.9

# 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

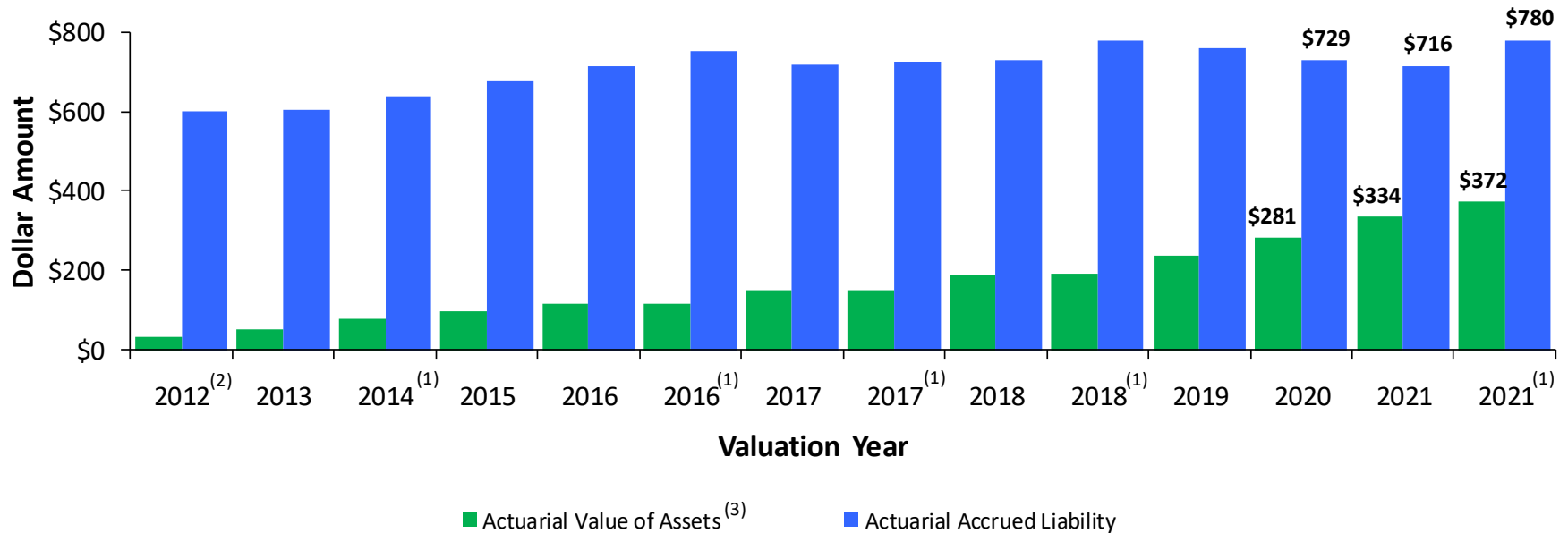
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\* *Pre-65 per capita costs are projected to increase 7.50% the first year, graded down to 3.50% in the fifteenth year. Post-65 per capita costs are projected to increase 6.25% the first year, graded down to 3.50% in the fifteenth year.*



# Health Assets & Accrued Liabilities

## Full Actuarial Funding (\$ in Millions)



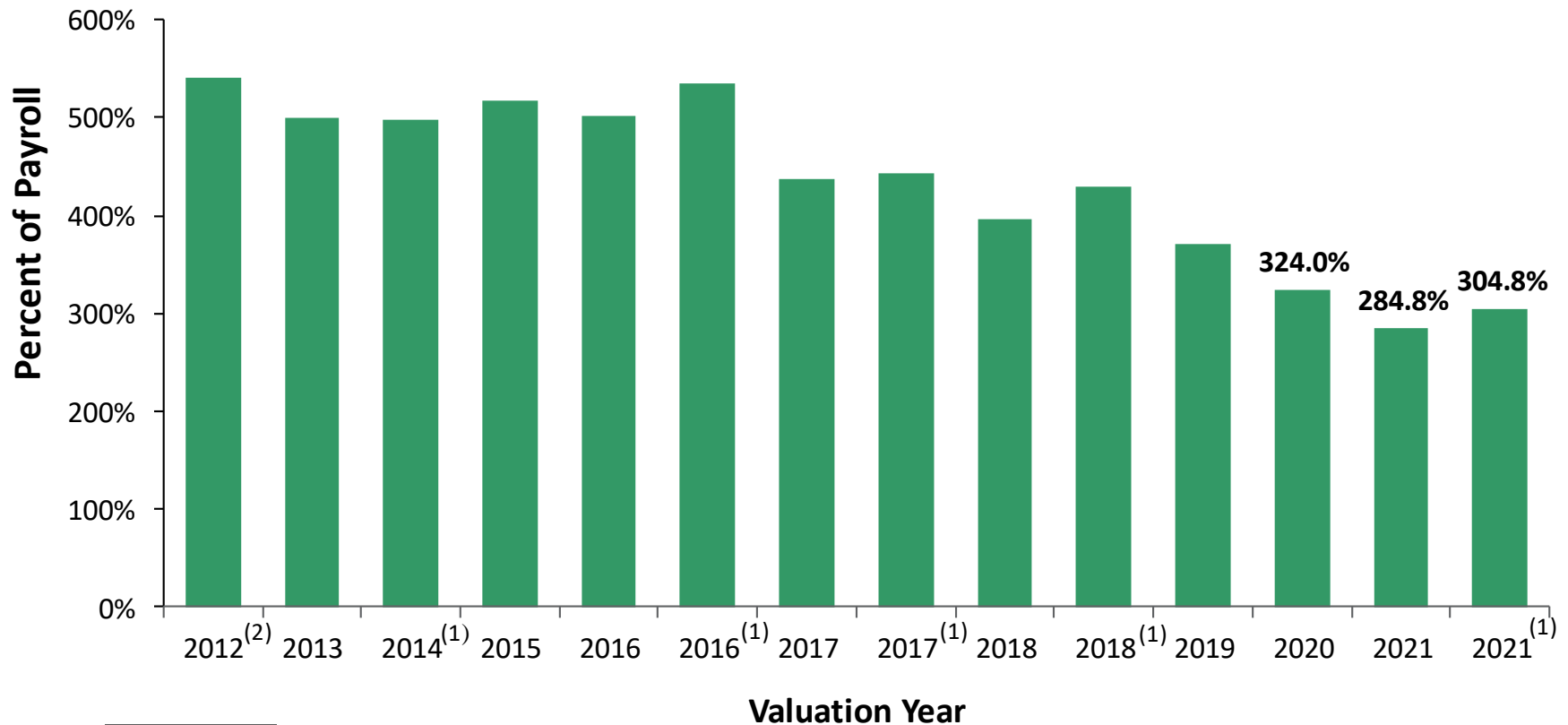
(1) Change in assumptions shown for years where assumptions other than the trend assumption changed. Beginning with the September 30, 2021 valuation, results as of the same valuation date prior to the assumption change reflect expected trend from the prior year's valuation.

(2) Revised benefit provisions.

(3) 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

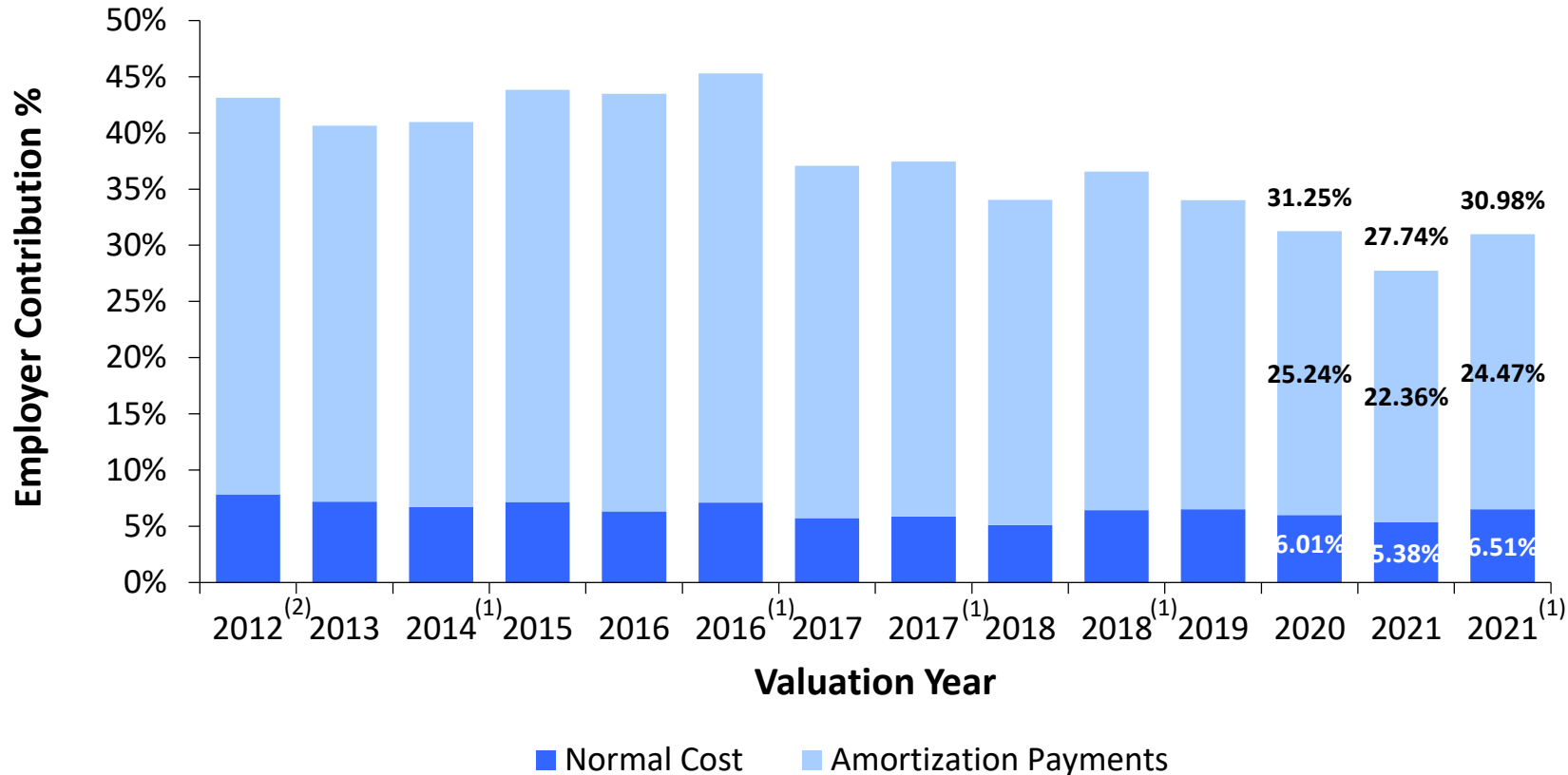


(1) Change in assumptions shown for years where assumptions other than the trend assumption changed. Beginning with the September 30, 2021 valuation, results as of the same valuation date prior to the assumption change reflect expected trend from the prior year's valuation.

(2) Revised benefit provisions



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

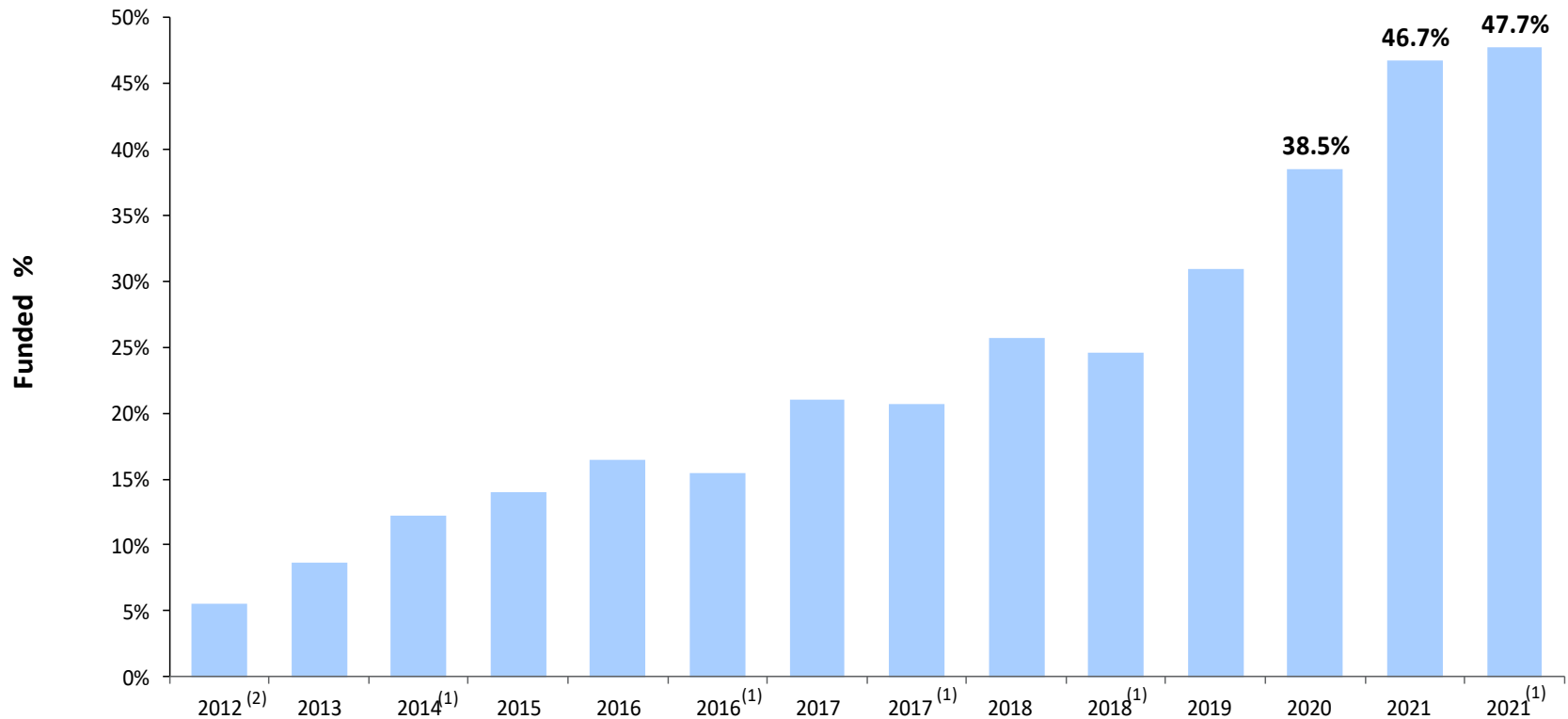


(1) Change in assumptions shown for years where assumptions other than the trend assumption changed. Beginning with the September 30, 2021 valuation, results as of the same valuation date prior to the assumption change reflect expected trend from the prior year's valuation.

(2) Revised benefit provisions



# Funded Percent



## Valuation Year

*(1) Change in assumptions shown for years where assumptions other than the trend assumption changed. Beginning with the September 30, 2021 valuation, results as of the same valuation date prior to the assumption change reflect expected trend from the prior year's valuation.*

*(2) Revised benefit provisions*



# Disclaimers

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- This presentation is intended to be used in conjunction with the September 30, 2021 retiree health annual 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 (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.