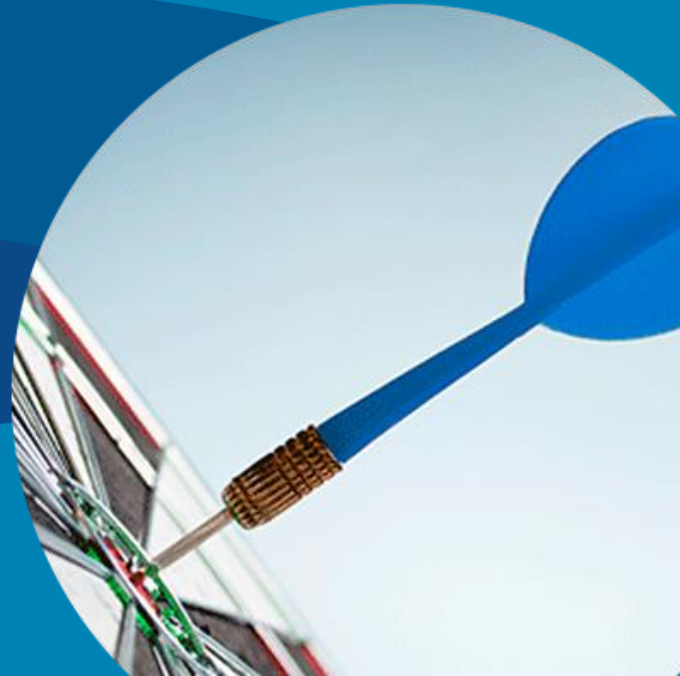




Michigan State Police

Retiree Health Actuarial Valuation Results
as of September 30, 2022



Retiree Health Benefits

The Funding Issue

- 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 full pre-funding started in Fiscal Year (FY) 2013

September 30, 2022 Valuation

- Purpose of the September 30, 2022 valuation is twofold:
 - Determines the actuarially computed employer contribution for FY 2025
 - Measures the retiree health plan's funding progress
- Computed liabilities are net of any expected retiree paid premiums required to receive retiree health benefits
- Actuarially computed employer contributions in this presentation are needed in addition to any reconciliation payments required by subsection 14(3) of the SPRS statute

September 30, 2022 Valuation

- 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 remained at 6.25% as a result of the Policy

September 30, 2022 Valuation

- 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
 - 0.75% payroll growth assumption used for the September 30, 2022 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 2022 – Expenditures vs. Contributions

- FY 2022 expenditures for employer paid retiree health care benefits:
 - \$32.7 million
 - The following are netted off the amount shown above:
 - Retiree paid premiums
 - Other governmental contributions of \$5.7 million
- FY 2022 contributions for retiree health care benefits:
 - \$50.7 million - Employer contributions
 - Other governmental contributions of \$5.7 million are not included in the amount shown above

Actuarially Computed Employer Contribution FY 2025 (\$ in Millions)

- Actuarially Computed employer contribution for FYE September 30, 2025:

	<u>FY 2025</u>
Employer Normal Cost	\$ 8.4
Amortization of UAAL ¹	<u>28.0</u>
Actuarial Computed Employer Contribution	\$ 36.4

¹Unfunded Actuarial Accrued Liabilities (UAAL) were amortized over 14 years from October 1, 2024.

- 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)

	<u>Gain/(Loss)</u>
1. Premiums. Gains and losses resulting from actual premiums in valuation year versus that assumed from prior valuation.	\$ 83.4
2. Investment Income. If there is greater investment income than assumed, there is a gain. If less income, a loss.	(8.1)
3. Demographic and Other. Gains and losses resulting from demographic experience, data adjustments, timing of financial transactions, etc.	8.5
4. Composite Gain/(Loss) During Year.	<u>\$ 83.8</u>

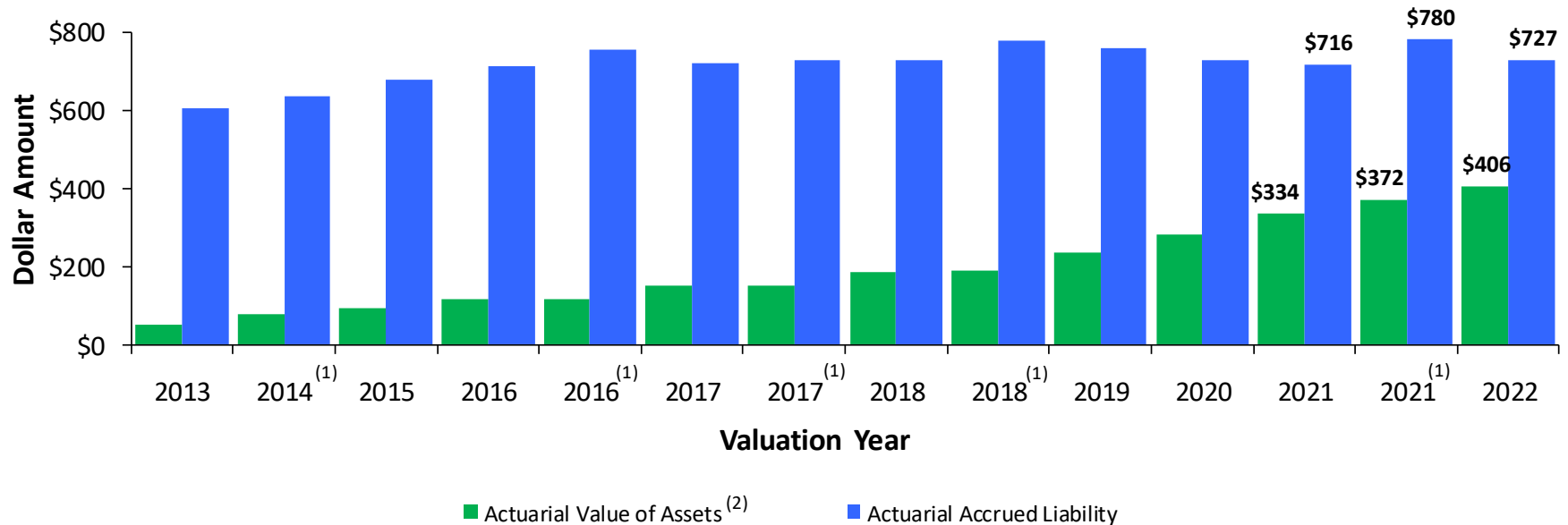
Circumstances That Would Increase Projected Costs

- Medicare funding reductions or cost shifting
- Unexpected new benefit recipients (from health benefit cutbacks of other employers)
- Medical/Rx 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 for well funded plans
- 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.*

Retiree Health Assets & Accrued Liabilities

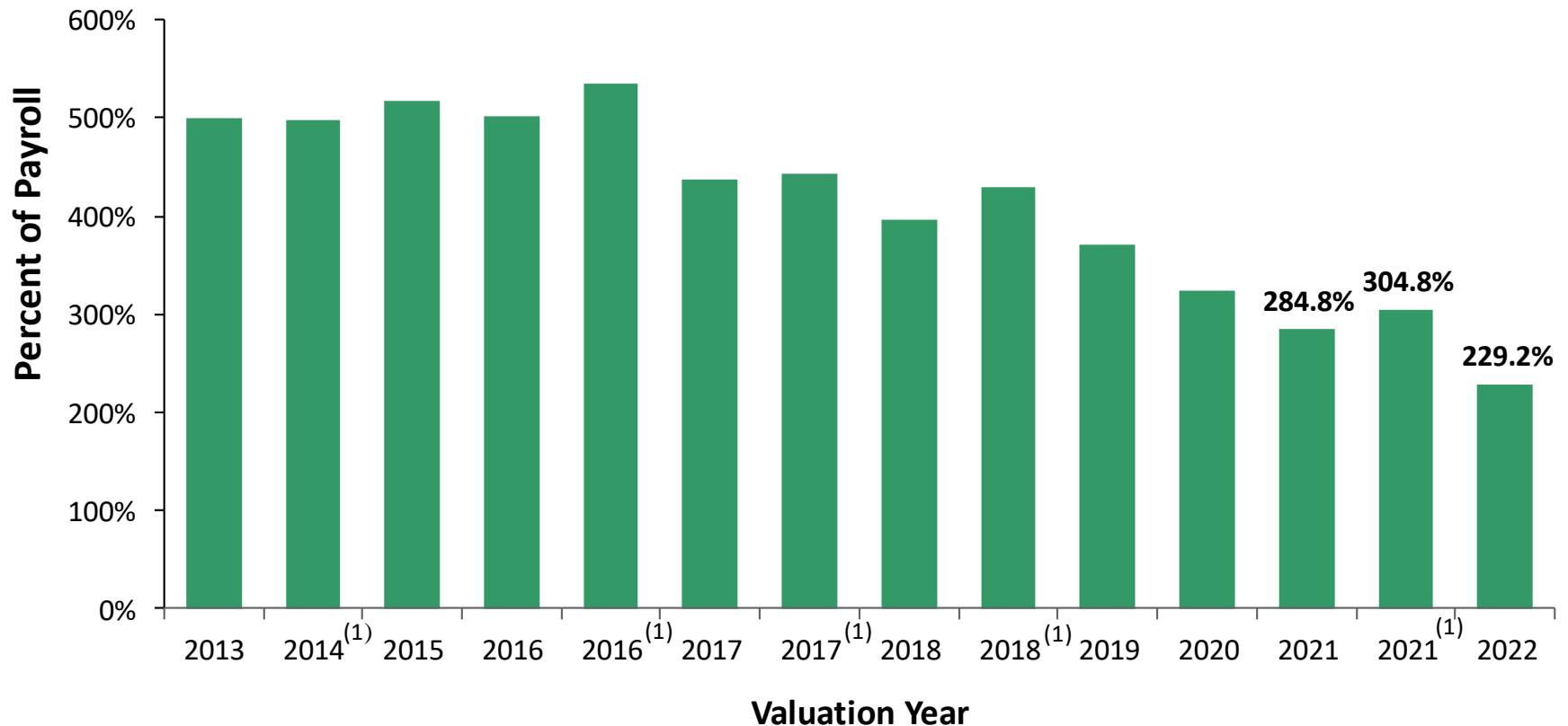
Full Actuarial Funding (\$ in Millions)



(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.

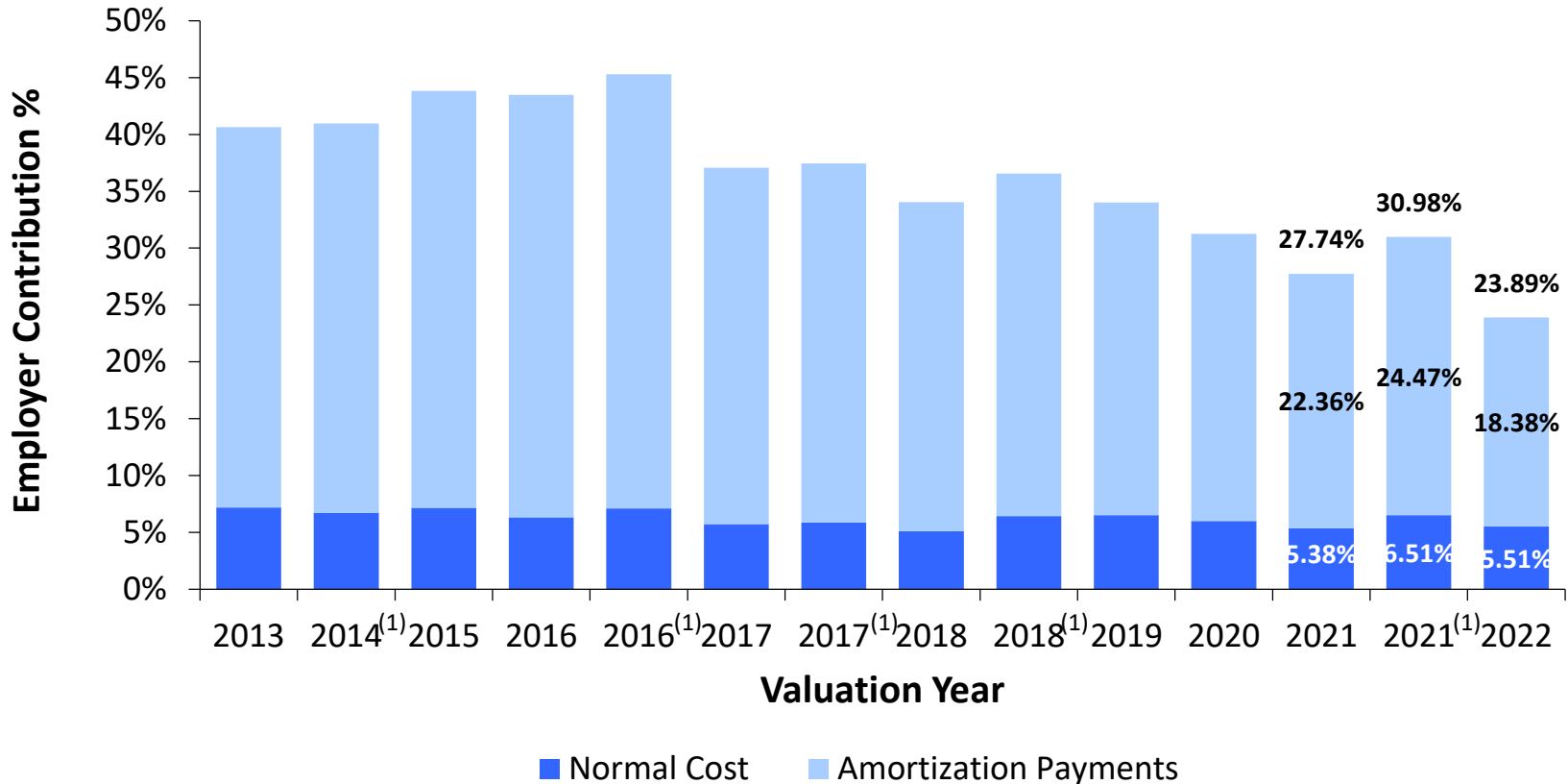
(2) Actuarial value of assets were equal to the market value of assets prior to 2018.

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



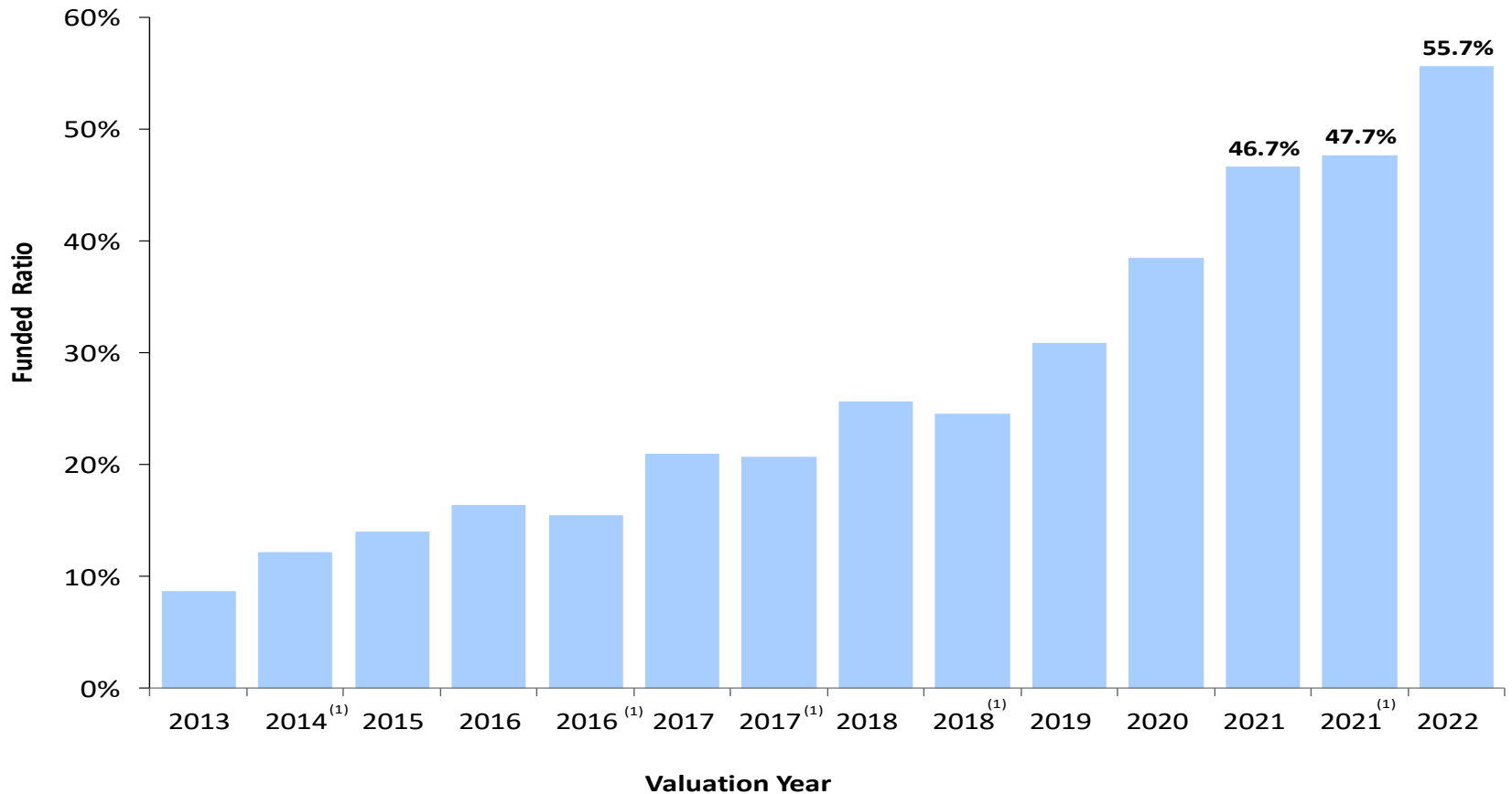
(1) Change in assumptions shown for years where assumptions other than the trend assumption changed. Beginning with the September 30, 2021 valuation, results as of the same valuation date prior to the assumption change reflect expected trend from the prior year's valuation.

Actuarially Computed Employer Contributions 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.

Funded Ratio



(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.

Disclaimers

- This presentation is intended to be used in conjunction with the September 30, 2022 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.