

GASB 45

Actuarial Valuation Results

Mounds View Public Schools and Hildi Incorporated
August 12, 2008

GASB 45 OPEBs for Mounds View Public Schools

Post Retirement Medical, Dental, and Life

- Subsidized benefits available to Teachers (hired before 1/24/2000), Custodians, and Clerical Employees
- Implicit Rate Subsidy/Access to Plan post-retirement for all employees under MN Stat. 471.61
 - No dental implicit rate liability included

Implicit Rate Subsidy

- Blend retiree claims with active employee claims and “average” the cost - Result is a “blended” rate
- Under GASB the **actual** cost for the retiree portion must be reflected as an implicit rate subsidy
- Creates implicit rate subsidy liability issues, even if the employer does not contribute toward the premium

Implicit Rate Subsidy – Early Retiree Example



=> \$506

Blended Premium Charged for the Employer Sponsored Plan



=> \$725

Age 60 Actual Cost



=> \$506

Retiree Premium
(Single)



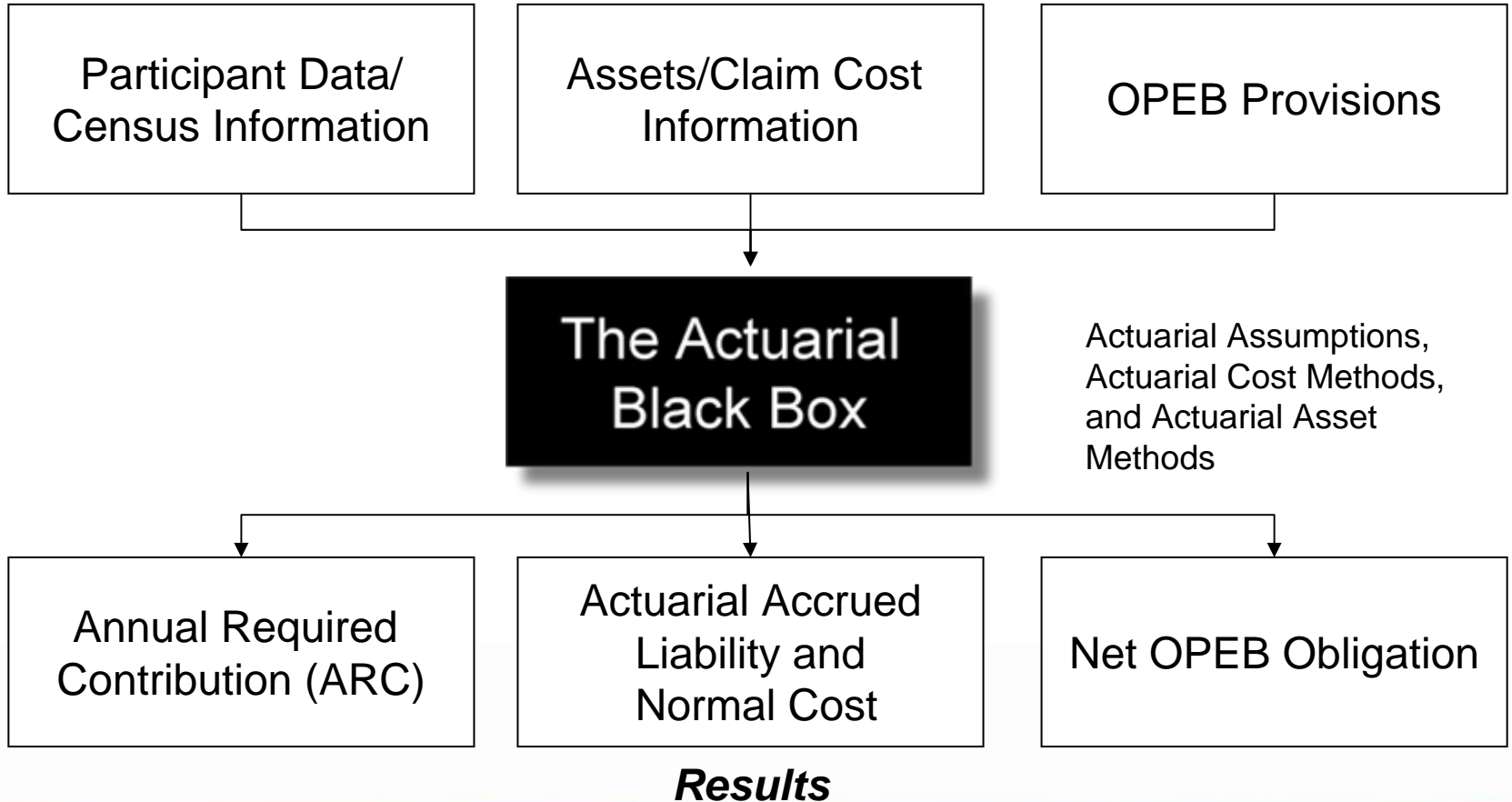
=> \$219

Implicit Subsidy } **Employer must recognize liability**



Actuarial Valuation

Input Items



Results



GASB 45 Actuarial Results

July 1, 2008 Valuation Date (in millions)

4.5% Discount Rate

Present Value of Benefits = \$39.9

Actuarial Accrued Liability = \$28.8

(Approximately \$7.0 is Implicit Rate Subsidy Liability and \$21.8 is Direct Subsidized Liability)

Normal Cost = \$1.0

Supplemental Cost = \$1.7

Annual Required Contribution = \$2.7

Possible Plan Design Adjustments

No changes needed

- No action necessary, if added or existing cost is ok

More extreme changes needed

- Terminate or eliminate other post employment benefits – mainly retiree health care
- Replace eliminated benefits with some other form of benefit

Relatively minor changes

- Redefine service requirements for benefits
- Increase required service required for eligibility
- Introduce retiree contributions based on years of service
- Changing the plan's Medicare integration
- Set a dollar limit on the company contribution to the retiree welfare plan
- Define the benefit as a set dollar amount per month



Prefunding Considerations

Plan Assets

- Segregated and Restricted in a Trust
- Employer contributions are **irrevocable**
- Assets are dedicated to providing benefits to retirees/beneficiaries
- Assets are legally protected from creditors

Examples of Types of Funding Vehicles

- VEBAs
- Section 115 Trust

Prefunding Considerations

Why consider prefunding?

- Possible lower actual plan costs due to higher returns in a trust vs. general operating funds
- Lower accounting liability and expense
- May reduce potential impact of the OPEB liability on borrowing costs
- Promised benefits to retirees would be more secure

Legislative Update

OPEB trusts in Minnesota

- Legislation passed to allow public entities in MN to establish trusts for Other Postemployment Benefits (OPEBs.) Points of interest on the trust legislation include:
 - For actuarial liabilities created from benefits covered under GASB 45.
 - Revocable or Irrevocable trusts can be established
 - Trust administrators can be either PERA, a bank, or an insurance company
 - For trust administrators other than PERA, the investments must follow sections 118A and 356A.06 subd 7
 - Deposit to the Trust limited to the actuarially determined liabilities
 - Monies withdrawn from a revocable trust have to be used for OPEB payments other than for a few exceptions
 - Monies withdrawn from an irrevocable trust have to be used for OPEB payments unless all benefit obligations have been satisfied
 - The legislature may not divert funds within these trusts for any other purpose
- This legislation is effective July 1, 2008 or earlier under a few exceptions
- Based on SF 2935

OPEB Obligation Bonds in Minnesota

- Under Chapter 154 signed in March of 2008, school districts have the authority to issue bonds for funding actuarial liabilities for postemployment benefits covered under GASB 45.

Contact Information

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