OPEB
Other Post-Employment Benefits

A look into the past, present and future...

Presentation to:
Budget, Facilities, and Audit Committee
February 16, 2016
Overview of Presentation

- OPEB Defined
- GASB: What is it?
- Actuarial Valuation
  - Basics
  - Why Conduct One?
  - Results
  - Trends
- Conclusion
  - What Others Have Done
  - What We Have Done
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OPEB Defined

OPEB = Other Post-Employment Benefits

Benefits provided to retired employees beyond those provided by their pension plans. For LAUSD, OPEB refers to retiree healthcare benefits.
GASB: What is it?

- GASB (Governmental Accounting Standards Board) is an independent organization that establishes standards of accounting and financial reporting for U.S. state and local governments.

- GASB is the official authoritative source of generally accepted accounting principles (GAAP) and its standards are enforced through State law and through the audit process.

  - GASB Statement 45 – Current standard requiring public agencies to account for, and report on, OPEB liabilities.
    - The “amortized” (e.g. spread across 30 years) portion is posted on the balance sheet.

  - GASB Statement 75 – Upcoming standard replacing GASB 45 effective FY2018. Requires public agencies to recognize their full unfunded OPEB liabilities on their balance sheets.
Actuarial Valuation Basics

- An actuarial valuation estimates liabilities for future payments based on a number of demographic, economic, and financial assumptions. LAUSD’s valuation for OPEB estimates the liability for providing retiree healthcare benefits.

- Liabilities identified in the valuation are accounted for, and reported on, in an employer's financial statements.
Actuarial Valuation Basics

- Member Data
- Budgeting Methods
  - Actuarial Cost
  - Asset Valuation
  - Amortization
- Financial Data
- Claims Experience
- Medicare Provisions
- Actuarial Assumptions
- GASB Rules
- Plan Provisions
- Federal & State Requirements

RESULTS

Segal Consulting
Actuarial Valuation: Why Conduct One?

- Required by GASB
  - Requires public sector employers to conduct an actuarial valuation of their OPEB biennially
  - Standardizes OPEB measurement and disclosure
  - Quantifies future financial liabilities

- Assists in budget forecasting

- Assists in understanding effect of past and current decisions

- Important tool for decision-making
**Actuarial Valuation Results**

<table>
<thead>
<tr>
<th></th>
<th>2015 Valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Past Service Liability/AAL</td>
<td>13.6B</td>
</tr>
<tr>
<td>Current Service Cost</td>
<td>0.5B</td>
</tr>
<tr>
<td>Total Future Costs</td>
<td>5.8B</td>
</tr>
<tr>
<td>Present Value of Benefits (PVB)</td>
<td>$19.9B</td>
</tr>
</tbody>
</table>

Source: Actuarial Valuation Report, LAUSD Postretirement Health Benefits as of July 2015, AON 2/8/16

**Present Value of Benefits (PVB)** = How much we would need to invest today to fund future retiree benefits for current employees and retirees.

- **Past Service Liability/AAL** = portion attributed to past service.
- **Current Service Cost** = portion attributed to service earned in the current period.
- **Total Future Costs** = portion attributed to anticipated future service.
The Actuarial Accrued Liability (AAL) increased in 2015 due to:

- A lower discount rate - 4.70% (2015) vs 5.07% (2013). With LAUSD expected to contribute 13% of the pre-funding cost, the discount rate was adjusted to reflect a lower blended long-term yield on investments.

- An upward trend in prescription drug costs

- An anticipated reduction in government funding of Medicare Advantage Plans
Actuarial Valuation Results

Unfunded Actuarial Accrued Liability (UAAL)

Actuarial Valuation Results

- 70% ($9.5B) of the AAL is attributed to current Active Employees
- $6.0 B of the AAL will go towards paying Post-Medicare benefits for current Active Employees

Source: Actuarial Valuation Report, LAUSD Postretirement Health Benefits as of July 2015, AON 2/8/16
Actuarial Valuation **Results**

- Lifetime medical benefits for one retiree is $190K - $300K

Example: Retiree enrolled in Anthem EPO, Metlife PPO, VSP

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58 Retirement Age
Pre-Medicare
$17.3K/year x 7 years
$121K

65 Medicare-Age
Medicare
$7.5K/year x 20 years
$150K

85 Lifespan
Dental
$683/year x 27 years
$18K

Vision
$90/year x 27 years
$2K

Lifetime Benefits = $291K
```
Actuarial Valuation Results

- Based on the most recent actuarial report, if the District continues funding the retiree benefit on a pay-as-you-go basis, the cost is expected to grow an average of 5.8% annually over the next 30 years.

**Benefit Payments on a Pay-As-You-Go Basis**

Source: Actuarial Valuation Report Post-retirement Health Benefits as of July 1, 2015, AON 2/8/16
Actuarial Valuation Results

ARC = Annual Required Contribution

How much we are required to contribute annually for the next thirty years to be able to fully fund the liability.

<table>
<thead>
<tr>
<th></th>
<th>2013 Prior Valuation</th>
<th>2015 Current Valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Required Contribution (ARC)</td>
<td>$0.9B</td>
<td>$1.1B</td>
</tr>
<tr>
<td>Actuarial Accrued Liability (AAL)</td>
<td>$10.9B</td>
<td>$13.6B</td>
</tr>
</tbody>
</table>
Actuarial Valuation Results

Fully Funding: Health & Welfare Expenditure including OPEB

Source: GASB 43 & 45 Valuation Report as of June 30, 2011, Buck Consultants 1/30/12; Actuarial Valuation Report GASB 45 as of July 1, 2013, AON 7/3/14; Actuarial Valuation Report Post-retirement Health Benefits as of July 1, 2015, AON 2/8/16; Superintendent’s 2013-14 Final Budget; Superintendent’s 2015-16 Final Budget
Actuarial Valuation Trends

Prescription Drug Costs

- Cost trends for prescription drug coverage are projected to increase 11.3% in 2016 for active plan and retiree plan members under 65.

- Only 4% of patients use specialty drugs, but those drugs account for 25% of total US drug spending.
Life Expectancy

- Life expectancy continues to increase. Society of Actuary projections for pensioners shows life expectancy in 15 years increasing to 90.1 years for females and 87.9 years for males.

- Based on data from the last ten years, the average lifespan of an LAUSD retiree is 83 years.
Actuarial Valuation Trends

Health & Welfare Cost vs Enrollment

Source: Superintendent’s 2009-10 Final Budget; Superintendent’s 2012-13 Final Budget; Superintendent’s 2015-16 Final Budget
Actuarial Valuation Trends

- Over the past decade, declining student enrollment and staffing have increased the Pay-Go burden on each group by approximately 60%.

- The Pay-Go cost now accounts for a higher percentage of General Fund expenditures.

Source: Actuarial Valuation Report, Segal 2/10/06, Segal 4/3/08, Buck Consultants 2/25/10, Buck Consultants 1/30/12, AON 7/3/14, AON 2,8,16; Superintendent’s 2007-08 Final Budget; Superintendent’s 2011-12 Final Budget; Superintendent’s 2015-16 Final Budget
Conclusion: What Others Have Done

- Eliminated Retiree Benefits or Post-Medicare Benefits
- Modified Plan Design, including increasing copays/deductibles and tightening eligibility
- Cost-sharing
- Pre-funded OPEB obligations
- Redirected compensation through Retiree Health Reimbursement Accounts
- Implemented an Employer Group Waiver Plan
- Offered a buy-out plan
- Implemented a combination of the above options
### Conclusion: What Others Have Done

**Percentage of Local Governments that Made Changes to their Health Benefits Plans Over the Last Five Years**

<table>
<thead>
<tr>
<th>Change Description</th>
<th>Employees</th>
<th>Retirees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shifted employees to high deductible plans with a health savings account (HSA)</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Established a health reimbursement arrangement (HRA)</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Switched from fully insured to self-funded</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Increased requirements (e.g., years to vest) to qualify for retiree health benefits</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Eliminated retiree health benefits</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Switched from self-funded to fully insured</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Shifted retirees to high deductible plans with HSA</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Eliminated retiree health benefits for dependents</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Increased the age at which retirees health benefit is available</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Eliminated spouse coverage</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Shifted retirees to Medicare when they reach 65</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Used the ACA exchanges</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Used private health insurance exchanges to provide coverage</td>
<td>1%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Conclusion: What We Have Done

The Health Benefits Committee has made significant contributions in the following areas:

- Employer Group Waiver Plan (EGWP)
- In-house dependent audit
- Pharmacy Specialty Drugs
- Pre-authorizations
- Contract negotiations
Conclusion: What We Have Done

Additional Health Benefits Committee Accomplishments over the years:

- 4% average rate increases (2006-2011)
- 18.1% reduction of Anthem pharmacy costs 2009-2010 (exclusive of any copayment increases)
- $1.3 M saved from anthem through dependent eligibility audit pilot
- No premiums
- Opt-out: $1,000 to $3,000 per year
- Maximized Medicare reimbursements through Part A
- 0% rate increase in 2009, 2010 and 2011 for Life, Western Dental, VSP
Conclusion: Considerations

- The current pay-as-you-go method is not sustainable.

- LAUSD needs to tackle the growing OPEB liability to avoid heading in the direction of other California school districts and public agencies that fell into receivership or bankruptcy (Inglewood Unified, Vallejo City Unified, Oakland Unified, Compton Unified, West Contra Costa Unified, City of Stockton, and the City of San Bernardino).
Conclusion: **Next Steps**

- Working groups with major stakeholders
- Study Sessions and/or Board Retreat