

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
 - Considerations
 - Next Steps

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.

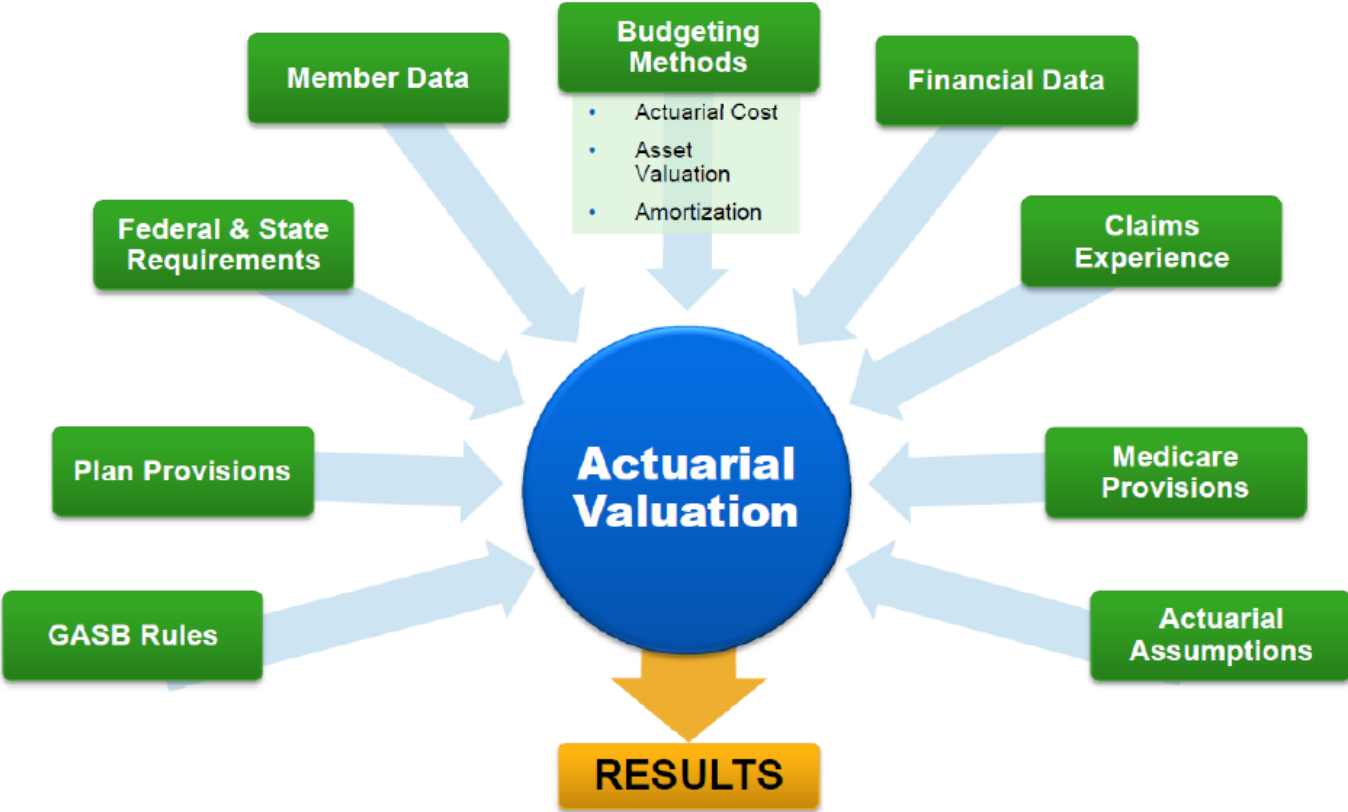
GASB: What is it?

- 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



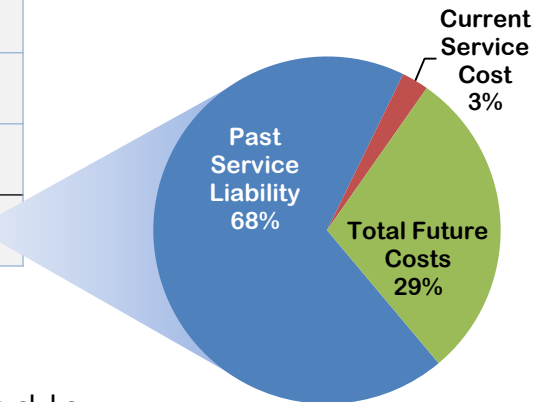
Actuarial Valuation: Why Conduct One?

- 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

	2015 Valuation
Past Service Liability/Actuarial Accrued Liability (AAL)	13.6B
Current Service Cost	0.5B
Total Future Costs	5.8B
Present Value of Benefits (PVB)	\$19.9B

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/Actuarial Accrued 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.

Actuarial Valuation Results

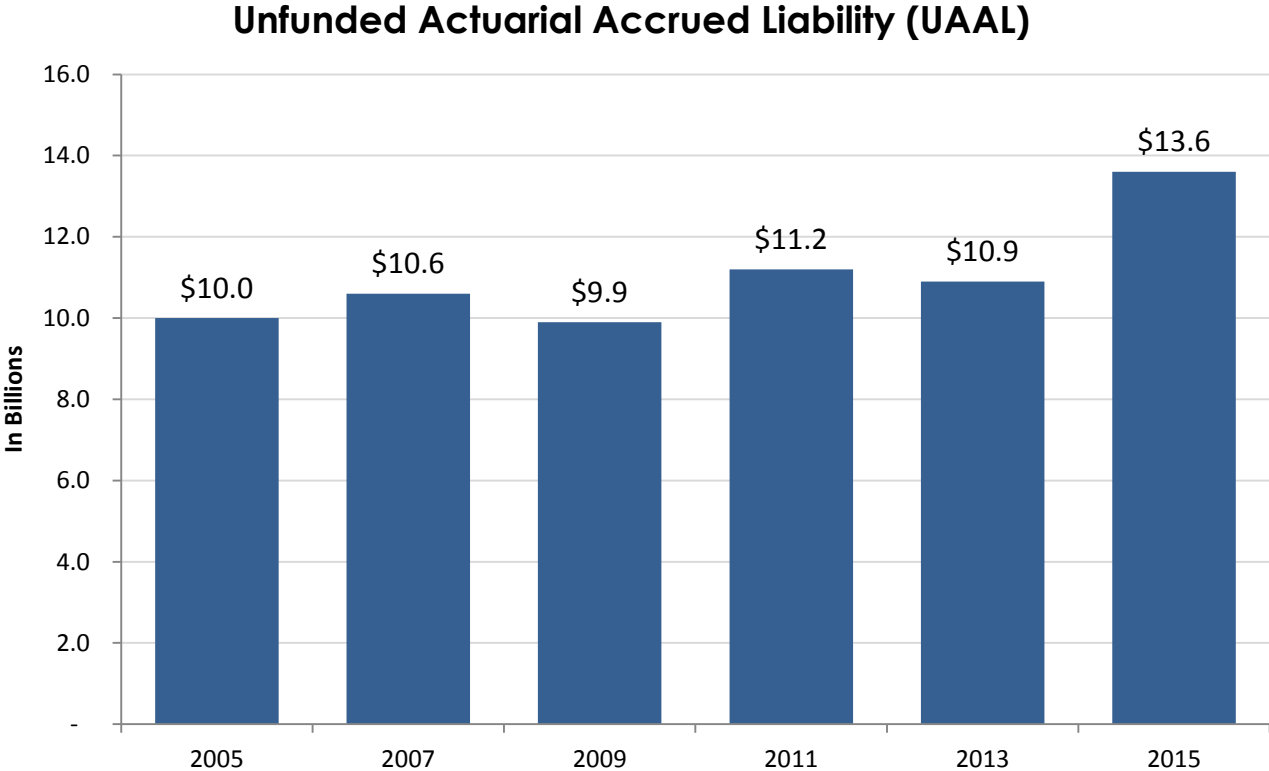
	2013 Valuation	2015 Valuation
Past Service Liability/Actuarial Accrued Liability (AAL)	10.9B	13.6B
Current Service Cost	0.3B	0.5B
Total Future Costs	4.3B	5.8B
Present Value of Benefits (PVB)	\$15.5B	\$19.9B

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

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

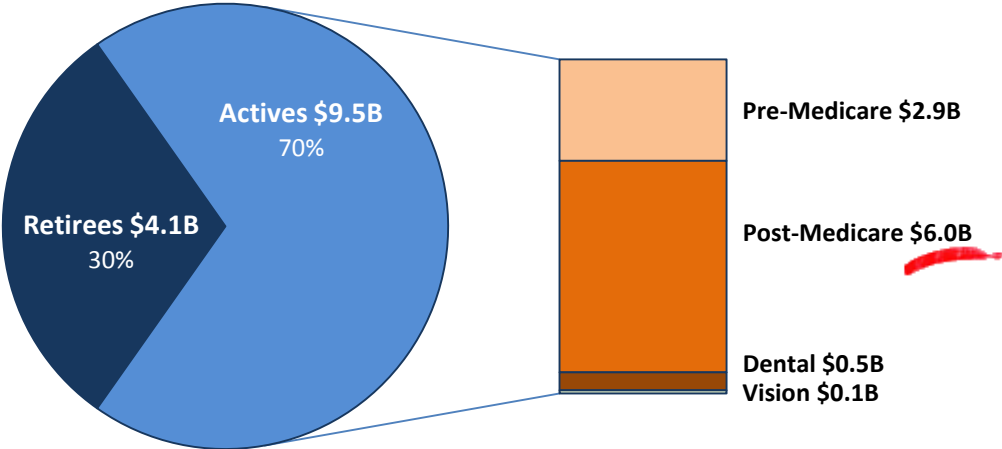
Actuarial Valuation Results



Source: Actuarial Valuation and Review of OPEB as of June 30, 2005, Segal Company 2/10/06; Actuarial Valuation and Review of OPEB as of June 30, 2007, Segal Company 4/3/08; GASB 43 & 45 Valuation Report as of June 30, 2009, Buck Consultants 2/25/10; 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

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

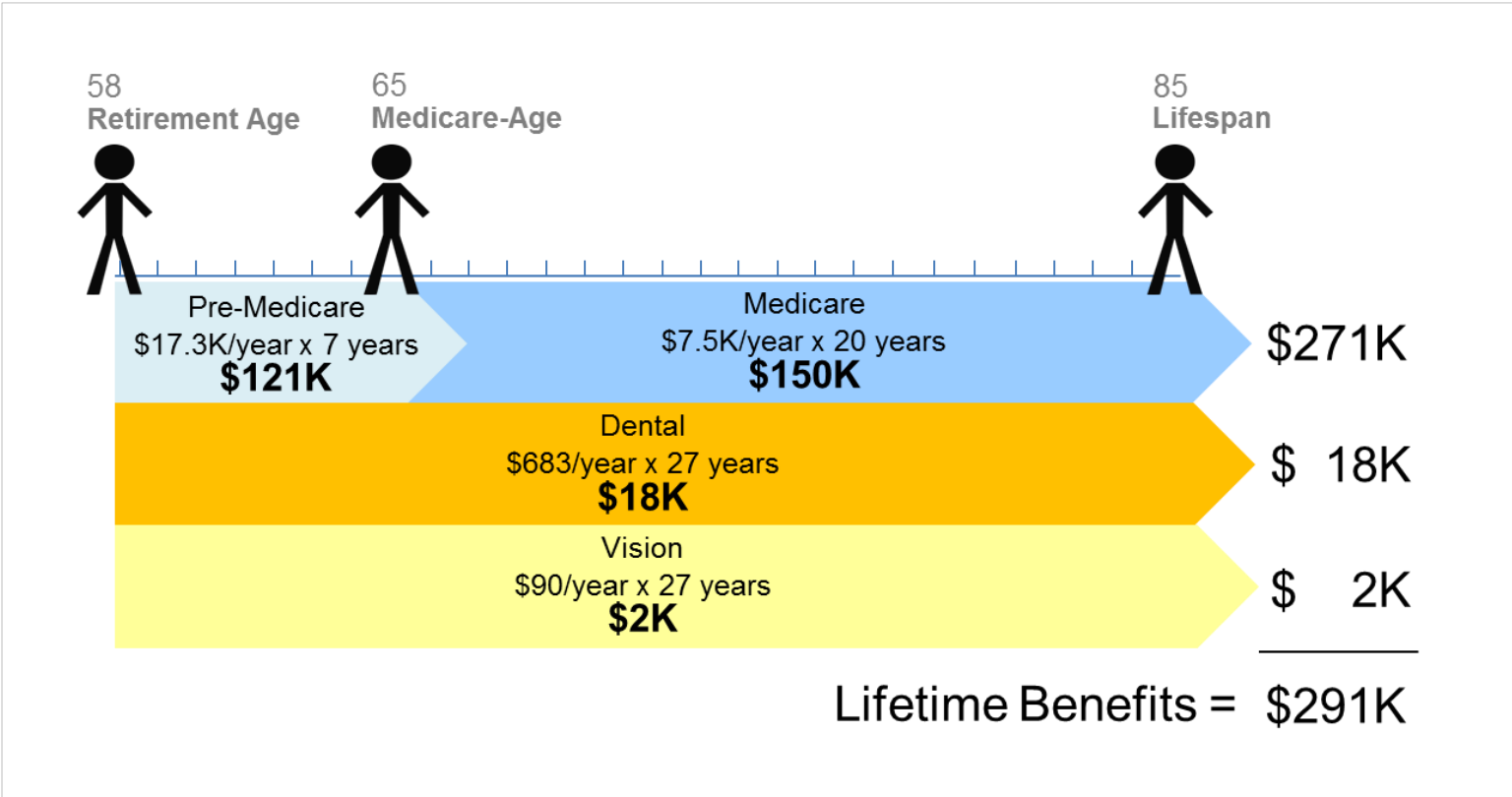


Source: Actuarial Valuation Report, LAUSD Postretirement Health Benefits as of July 2015, AON 2/8/16

Actuarial Valuation Results

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

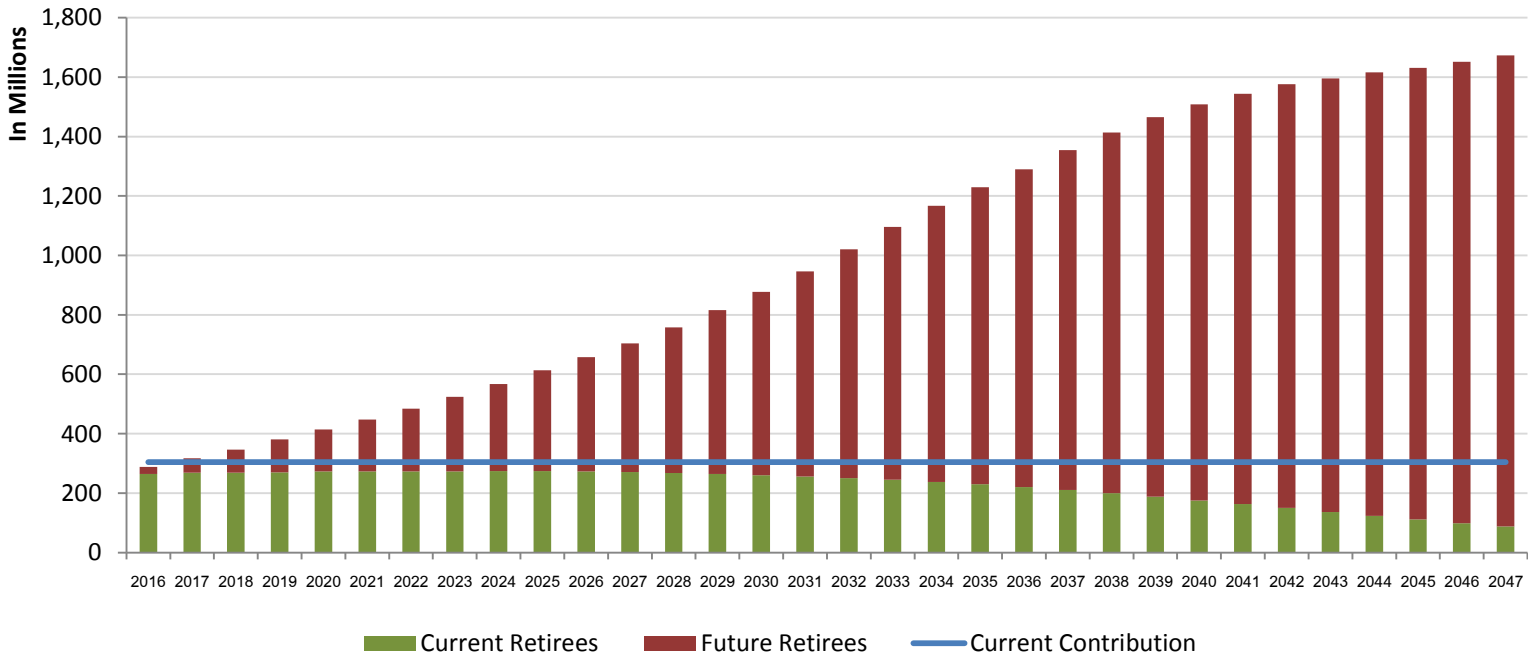
Example: Retiree enrolled in Anthem EPO, Metlife PPO, VSP



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

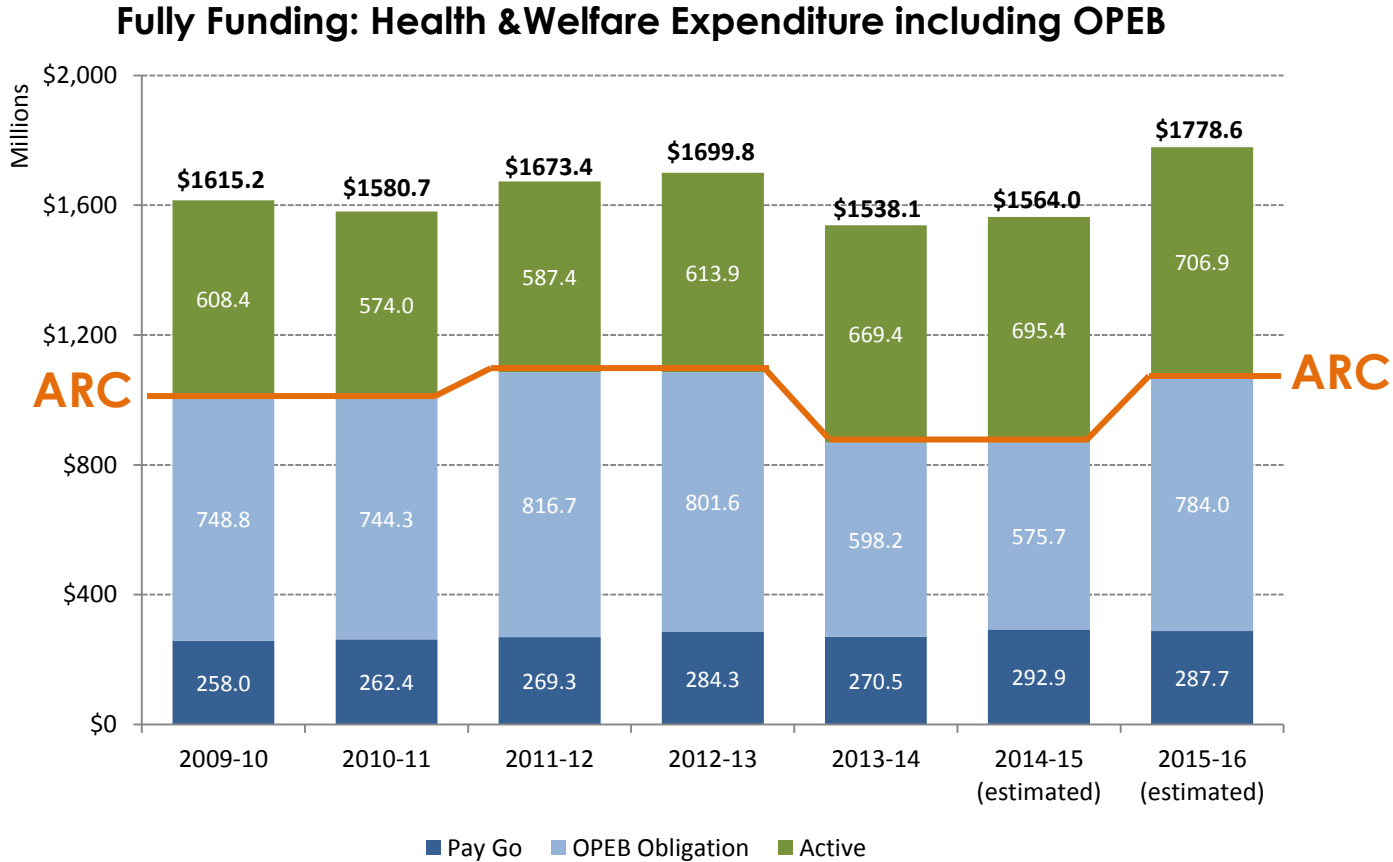
How much we are required to contribute annually for the next thirty years to be able to fully fund the liability.

	2013 Prior Valuation	2015 Current Valuation
Annual Required Contribution (ARC)	\$0.9B	\$1.1B
Actuarial Accrued Liability (AAL)	\$10.9B	\$13.6B

to fully fund



Actuarial Valuation Results



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.

Projected specialty drug spending from 2012 to 2020

Spending amounts in US\$ billions

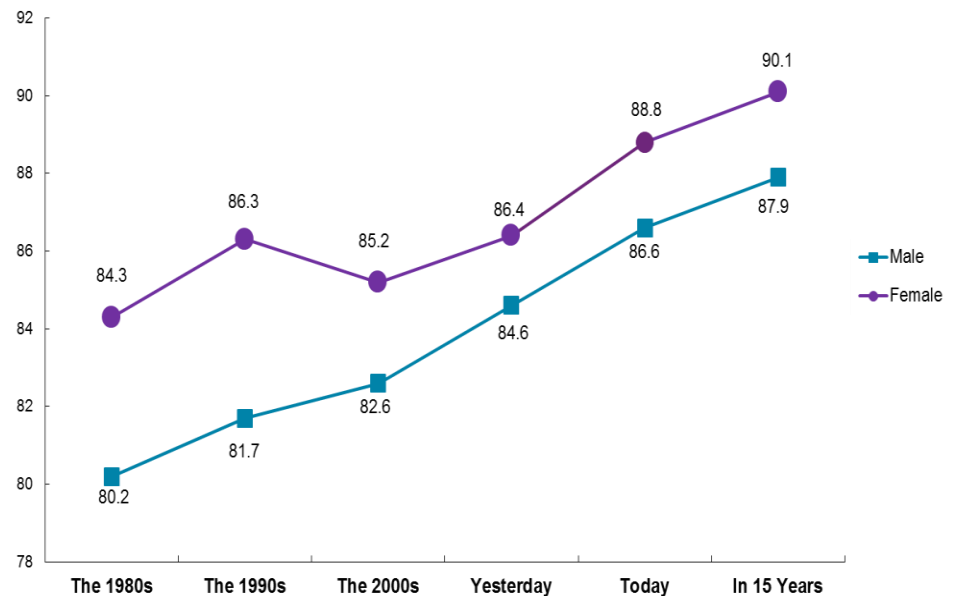


Source: PwC Health Research Institute estimates based on data from CVS Caremark¹⁴

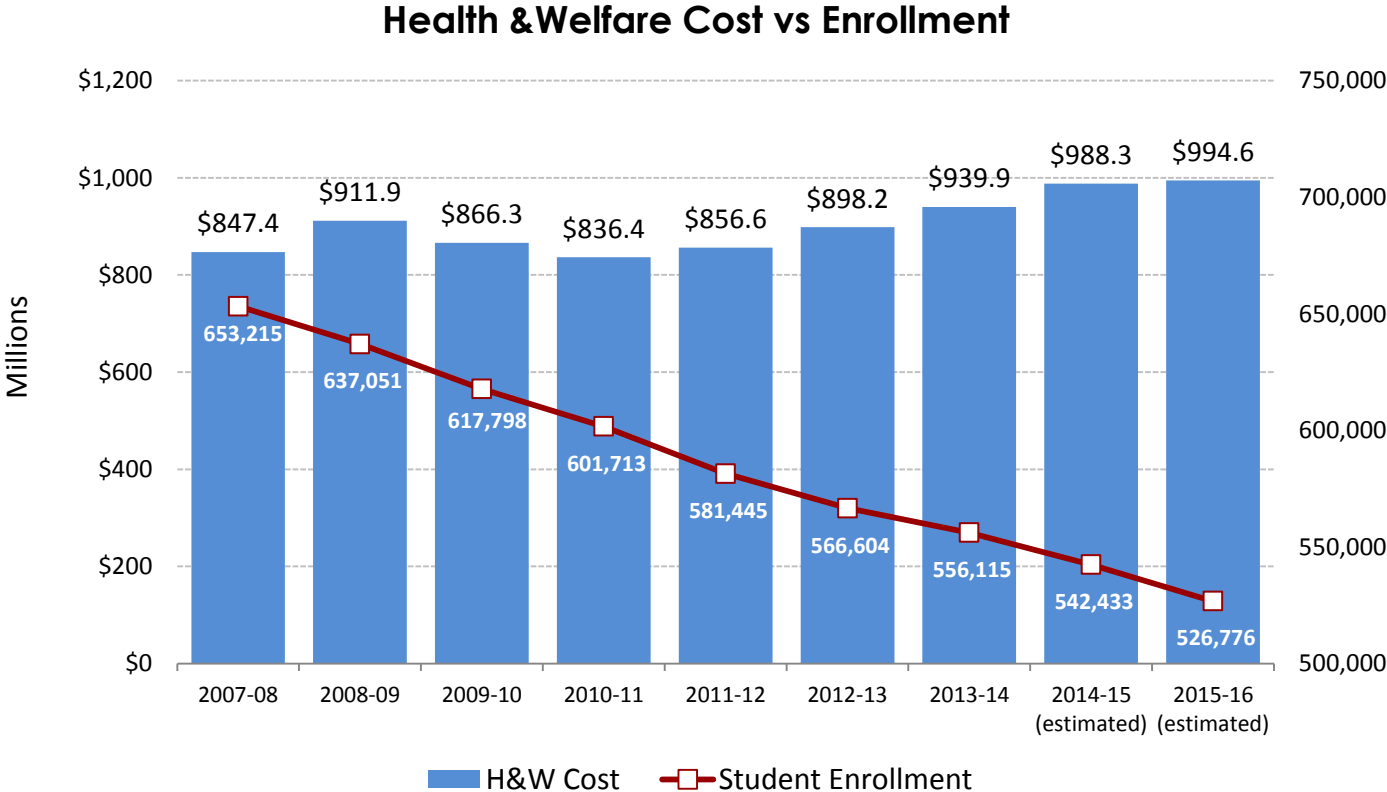
Actuarial Valuation Trends

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

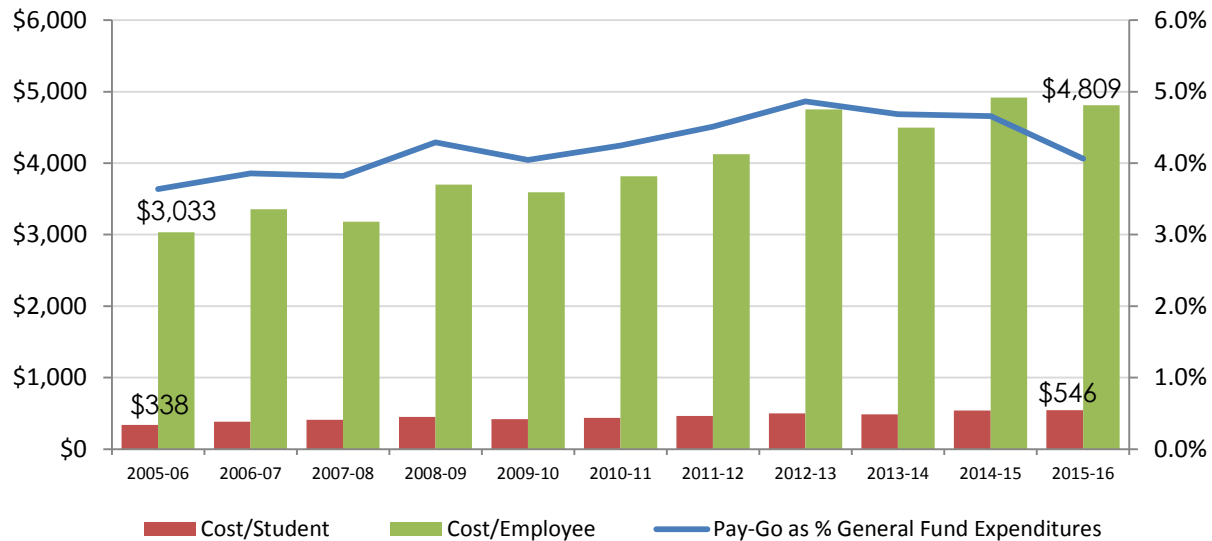


Source: Superintendent's 2009-10 Final Budget; Superintendent's 2012-13 Final Budget; Superintendent's 2015-16 Final Budget

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.

Pay-Go Burden on Student and Employee Populations



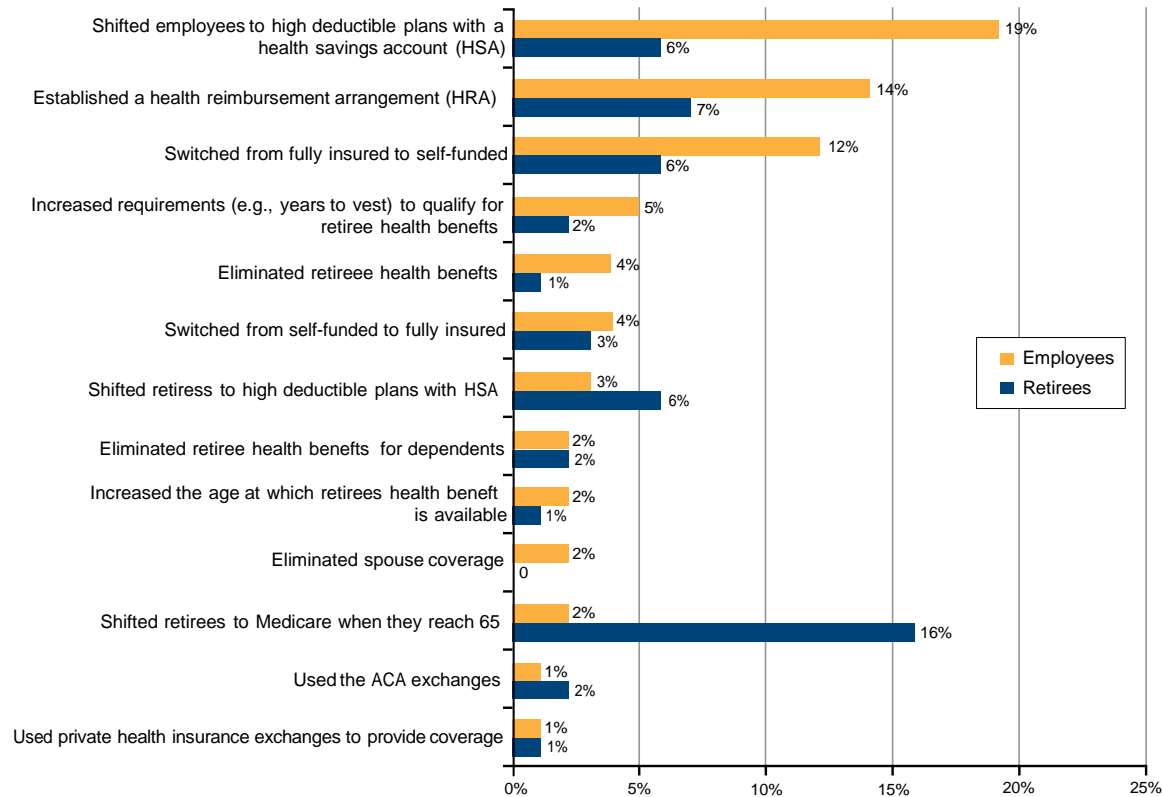
Source: *Actuarial Valuation Report*, Segal 2/10/06, Segal 4/3/08, Buck Consultants 2/25/10, Buck Consultants 1/30/12, AON 7/3/14, AON 2,8,16; Superintendent's 2007-08 Final Budget; Superintendent's 2011-12 Final Budget; Superintendent's 2015-16 Final Budget

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



Source: *Local Government Strategies to Address Rising Healthcare Costs*, The Center for State and Local Government Excellence, December 2014

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