Rancho Santiago Community College District

2016 GASB 45 Valuation

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Goal:

- Provide information to allow Rancho Santiago Community College District to understand the most recent GASB 45 valuation and make informed decisions about retiree health benefits

Background

- GASB 45 requires public agencies to account for retiree health benefits like pensions
  - Accrue benefits while people are working
  - Retiree premiums/costs taken from liability
- GASB standards apply to accrual basis financial statements
  - Used in Accreditation reviews
  - Used by bond-rating agencies
- Budgets based on amounts paid for retiree benefits
  - Amounts paid for retiree health premiums/costs
  - Contributions to a trust or reserves

Background

- **GASB 45 has been in effect for Rancho Santiago for several years**
- **Rancho Santiago had periodically evaluated the liabilities before GASB 45 effective (first TCS valuation in 2005)**
- **Rancho Santiago has been accumulating reserves for retiree health benefits for many years**

Assumptions and Methods: General

- **Assumptions and methods must comply with GASB 45**
- **Assumptions and methods must comply with Actuarial Standards of Practice (ASOP)**

Key Valuation Assumptions

- **4.5% interest rate (was 4.75% last time)**
- **4% annual increase in retiree costs paid by Rancho Santiago**
- **CalPERS and CalSTRS demographic tables (i.e. mortality, turnover and retirement)**

Valuation Results at 2/1/16

- **Actuarial Accrued Liability (the present value of earned benefits): $129.6 million (was $82.1 million)**
- **Annual Required Contribution (amount needed to "fully fund" retiree health benefits: $11.7 million (was $8.4 million)**
- **Expected 2016-17 retiree costs: $5.94 million (Note: retiree costs reflect actual claims and other costs – not necessarily the same as rates used internally by Rancho Santiago)**
- **The above ARC does not reflect liability offset for accumulated reserves of about $43.5 million (not considered plan assets under GASB 43/45)**

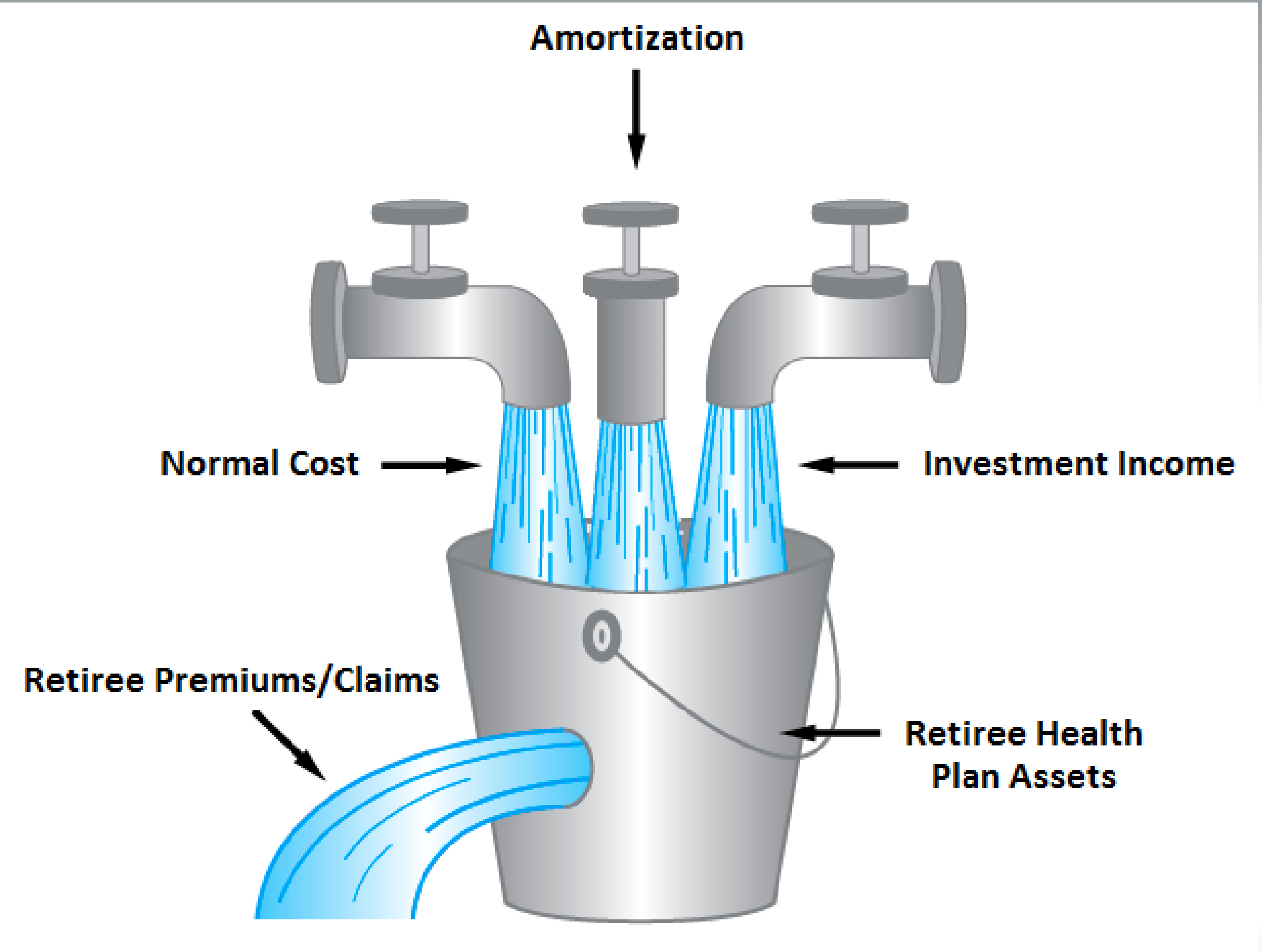
Valuation Results at 2/1/16

- **Costs and liabilities increased more than anticipated**
  - **Updated mortality**
  - **Lower interest assumption (4.5% vs. 4.75%)**
  - **"Implicit Rate Subsidy"**

Implicit Rate Subsidy

- **In the past, we evaluated active vs. retiree claim experience**
- **No longer able to obtain claim experience, so using age/gender factors**
- **Resulted in large increase in assumed retiree costs**
- **Retiree costs used for valuation not necessarily same as used for budgeting/accounting**
- **We are working with District to try to get more credible claim cost info**

Valuation Funding Model



Looking Forward to 7/1/17

	2/1/16	Projected 7/1/17
Actuarial Accrued Liability (AAL)	$129,629,001	$135,671,423
Normal Cost (NC)	$4,365,083	$4,569,219

- Due to new OPEB standards 74/75, Rancho Santiago MAY want or need to have a new valuation as of 7/1/17
- As long as Rancho Santiago has an ongoing retiree health benefit program, expect AAL and NC to increase
- Increases will be uneven due to actuarial gains and losses– extent depends on plan design
- The rate of increase will slow as the number of retirees with lifetime benefits decreases
- There are special situations that can cause large changes

Looking Forward

- **Unless limited by plan design or agreement, actual premium increases can be much different from assumed**
- **CalPERS and CalSTRS periodically update their demographic tables – can cause increase or decrease**

Looking Forward – New GASB Standards

- Effective for 2017-18 plan year District (2016-17 plan year if District forms a trust)
- Will require immediate recognition of entire liability
- Will affect interest assumption for "unfunded" portion of liability – increasing liability for plans that are not "fully funded"

THANK YOU