



State of Nevada Other Post-Employment Benefit Liability

Public Employees' Benefits Program (PEBP)

Presentation to:
**Interim Retirement and Benefits
Committee**

January 16, 2014



Agenda

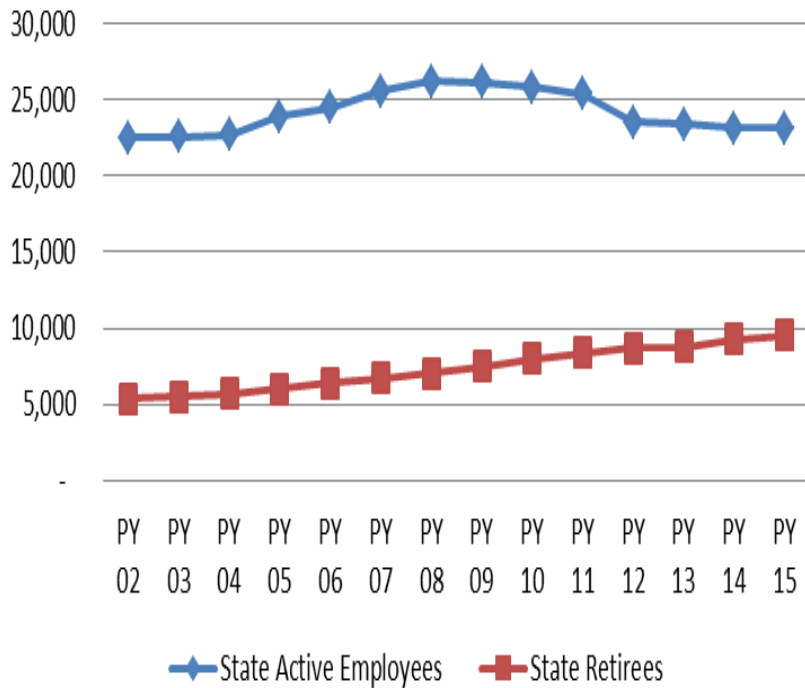
- **Enrollment**
- **Actuarial Process and Terminology**
- **State of Nevada's OPEB Liability**
- **Other Issues and Alternatives to Manage OPEB Liability**



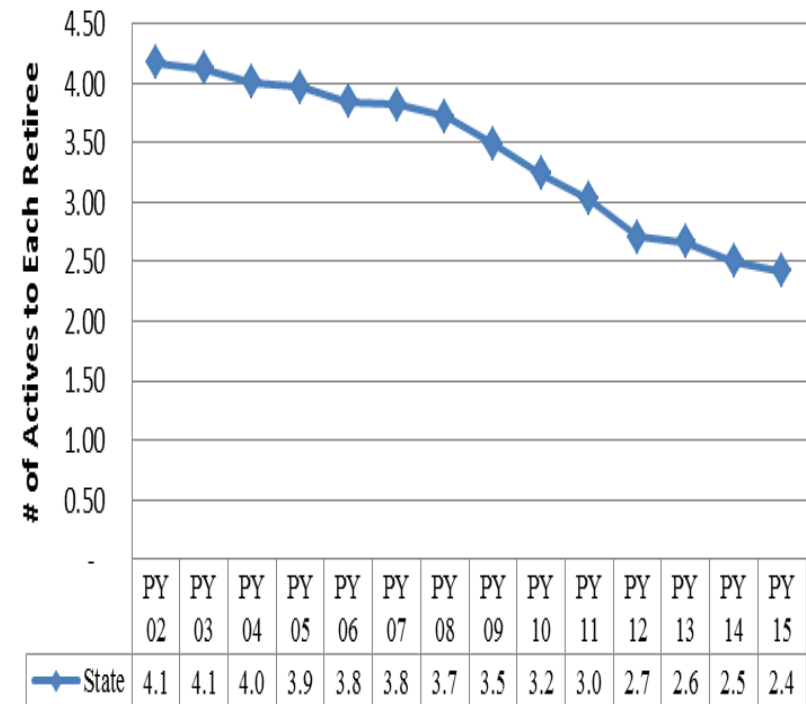
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Historical & Projected Enrollment

State Actives and State Retirees



Ratio of Active Employees to Retirees





What is OPEB?

- **Post-Retirement Healthcare Benefits**
 - Medical
 - Dental
 - Vision
 - RX
- **Other Benefits (not part of the pension plan)**
 - Life Insurance
 - Long-Term Care
 - Other (Group Legal, Disability, etc.)



Calculating the Liability

- **Valuation performed by qualified actuary**
 - At least every other year
 - Every year if significant changes to the substantive plan
- **Use the “Substantive Plan”**
 - Plan as understood by the employer and the members
 - May include oral and/or written commitment by the employer
 - Should reflect any patterns of plan changes established by the employer
 - Includes the implicit subsidy



Actuarial Process

- **Project** future benefit cash flows based on current active and retiree census data
 - Demographic assumptions: mortality, withdrawal, retirement
 - Medical assumptions: health claims cost, trend, participation
- **Discount** projected cash flows back to measurement date to determine present value of all future benefits (PVB)
 - If Assumptions exact, the amount to fund future benefits
- **Allocate** PVB to past and future periods using an acceptable actuarial cost method



What the Terms Mean

- **Present Value of Benefits (PVB)**
 - Total amount of the expected benefits to be paid in the future including amounts earned by existing employees throughout the remainder of their working career
- **Actuarial Accrued Liability (AAL)**
 - Portion of future benefits already earned by current employees and retirees - snapshot of liability “as of”
- **Annual Required Contribution (ARC)**
 - Cost of benefits earned during the current year plus
 - Current year amortization payment on previous unfunded liabilities



What the Terms Mean (Continued)

- **Annual OPEB Cost (AOC)**
 - ARC plus adjustments due to previous contributions being greater than or less than the ARC for that year. Includes:
 - “Interest” on NOO
 - Adjustment of 30 year amortization at end of prior year
- **Net OPEB Obligation (NOO)**
 - Balance sheet entry
 - Initial NOO at implementation = \$0; changes from year to year:
 - Contributions = ARC; NOO = \$0
 - Contributions > ARC; NOO < \$0 (an asset)
 - Contributions < ARC; NOO > \$0 (a liability)



Nevada OPEB

- **Liability to the State of the cost to provide subsidized health insurance to retirees**
 - Comprised of cash subsidy and benefit of commingling experience with less expensive active employees (“implicit” subsidy)
 - Earned during working career and considered “deferred compensation” since it is provided after retirement
 - Governmental Accounting Standards Board (GASB) requires recognition of cost when incurred not paid
 - Record liability in financial statements or footnotes



Current Nevada Substantive Plan

- **Medical Coverage (Including Prescription Drugs)**
 - **Self-funded Consumer Driven Health Plan (CDHP) Option with HSA or HRA**
 - **Health Maintenance Organization (HMO) Option**
 - **Medicare Exchange plans for Medicare retirees**
- **Dental**
- **Basic Life Insurance**
- **Long Term Disability**
- **Voluntary Products**



Current Nevada Substantive Plan (Con't)

- **Current eligibility for cash subsidy**
 - **Five years of service total with Nevada public system(s)**
 - **Fifteen years of service if hired after January 1, 2010**
 - **None if hired after January 1, 2012**
- **Everyone receives implicit subsidy**
- **"Base" amount established each Legislative session for following two years**
 - **Amount received based upon date of retirement and years of service (for post 1/1/94 Retirees)**



Nevada OPEB Liability

- **Actuarially calculated based on current "Substantive Plan" design and the following:**
 - Number of employees and retirees eligible for the retiree health insurance benefit
 - Amount of the benefit already earned
 - Life expectancy of the employees and retirees
 - Estimate of how long employees/retirees will receive the benefit in the future
 - Investment earnings of any funds set aside to cover the long term liability
 - Estimated medical trend rate associated with the medical plan in future years.



2013 OPEB Valuation

Fiscal Year 2011

PVB	AAL	ARC	AOC	NOO
\$1.769 Billion	\$977.0 Million	\$120.0 Million	\$109.8 Million	\$632.3 Million

Fiscal Year 2013

PVB	AAL	ARC	AOC	NOO
\$1.951 Billion	\$1.183 Billion	\$142.5 Million	\$130.0 Million	\$775.5 Million

- **Key Changes in FY 2013 valuation:**
 - Increase in HSA and HRA contributions for CDHP participants and Medicare retirees
 - Change in participation assumptions
 - Change in assumptions to be consistent with PERS changes
 - Projected impact of the PPACA Excise Tax



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2013 OPEB Valuation

	Before Changes	Assumption Changes	Plan Design Changes	Excise Tax
PVB	\$1.675 Billion	\$1.760 Billion	\$1.802 Billion	\$1.951 Billion
AAL	\$1.042 Billion	\$1.089 Billion	\$1.121 Billion	\$1.183 Billion
ARC	\$122.5 Million	\$129.3 Million	\$132.1 Million	\$142.5 Million

- **Before Changes** – Reflects updated census data and claims experience
- **Assumption Changes** – Reflects updated trend, participation and retirement/withdrawal assumptions
- **Plan Design Changes** – Reflects updated plan design changes
- **Excise Tax** – Reflects the impact of the PPACA Excise Tax



Other Issues and Alternatives

- **GASB to revisit OPEB financial reporting**
 - Improve accountability, transparency and usefulness
 - Based in part on changes to pensions (Statements 67 and 68)
 - Likely to include some “sensitivity analysis”
 - Exposure Draft – April 2014
 - Statement Issued – June 2015
- **Bond Rating and Impact on Cost to Borrow**
 - Management awareness
 - Managing the liability



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Questions?