Cabrillo Community College District

2013 GASB 45 Valuation

Presented By:
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Goal:

• Provide information to allow Cabrillo 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
Background

• GASB 45 became effective for Cabrillo for the 2007-08 fiscal year
• Cabrillo had periodically evaluated the liabilities prior to GASB 45 implementation (our first valuation for Cabrillo was in 2004)
• Cabrillo has set aside reserve funds for retiree health benefits
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

- 4.75% interest rate
- 4% annual increase in retiree premiums paid by Cabrillo
- CalPERS and CalSTRS demographic tables (i.e. mortality, turnover and retirement)
Valuation Results at 5/1/12

- Actuarial Accrued Liability (the present value of earned benefits): $14.4 million
- Annual Required Contribution (amount needed to “fully fund” retiree health benefits): $1.64 million
- Expected 2013-14 retiree costs: $1.28 million
- Additional cost of accrual basis: $0.36 million
Comparison with 4/1/10 Valuation

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<thead>
<tr>
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<th>4/1/10</th>
<th>10/1/13</th>
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</thead>
<tbody>
<tr>
<td>Actuarial Accrued Liability (AAL)</td>
<td>$12,570,618</td>
<td>$14,427,987</td>
</tr>
<tr>
<td>Normal Cost (NC)</td>
<td>$1,064,516</td>
<td>$929,110</td>
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• Expected AAL changes over time:
  • Increased with interest
  • Increased for new accruals for employees (i.e. normal cost)
  • Decreased for benefits paid for retirees
• Based on the above, we expected the AAL to increase from $12.6 million to $15.2 million.
• Actual increase lower
Comparison with 4/1/10 Valuation

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- The normal cost (NC) is expected to change to reflect payroll changes.
- We assumed payroll increases of 3%, so we would have expected the NC to increase to $1.18 million.
- However, there was a reduction in the number of active participants.
Looking Forward to 10/1/15

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<th>Projected 10/1/15</th>
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<td>Actuarial Accrued Liability (AAL)</td>
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<tr>
<td>Normal Cost (NC)</td>
<td>$929,110</td>
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- As long as Cabrillo 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
- 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

• Changes in ASOP affect “implicit rate subsidy”
Looking Forward – New GASB Standards

• Likely to take effect in 2017-18
• Will require immediate recognition of entire liability
• Will affect interest assumption for “unfunded” portion of liability – may increase liability for plans that are not “fully funded”
THANK YOU