OPEB Funding Options

Presentation to the
Board of Commissioners
June 24, 2013

Why was this work completed?

- The Board is following up on the presentation from CARFAC on December 10, 2012 with regard to addressing the OPEB liability
- The Board of Commissioners asked the Administration to work with CARFAC and prepare funding alternatives to be presented to the Board for consideration

Presentation Goals

- Leave the Board and public with:

1. Continued understanding as to what the OPEB Liability is and it's impact to the Township's ongoing funding obligations
2. Alternatives on how to approach the unfunded liability over time
3. Several funding examples / alternatives to be considered

OPEB Refresher

Where we left off from CARFAC's Presentation to the Board of Commissioners on December 10, 2012

Key Terms

- **OPEB**: "Other Post Employment Benefit" which includes retirement health care and life insurance

- **Annual Required Contribution (ARC)**: The Amount of funding needed to achieve a fully-prefunded OPEB program

  [ARC = Normal Cost + Amortization]

- **Normal Cost**: The current year's requirement to fund the future benefit that is being earned in the current year.

- **Amortization** [of unfunded actuarial accrued liability]: The annual amount needed to reduce the principal amount of the unfunded actuarial liability (over a 30 year period)

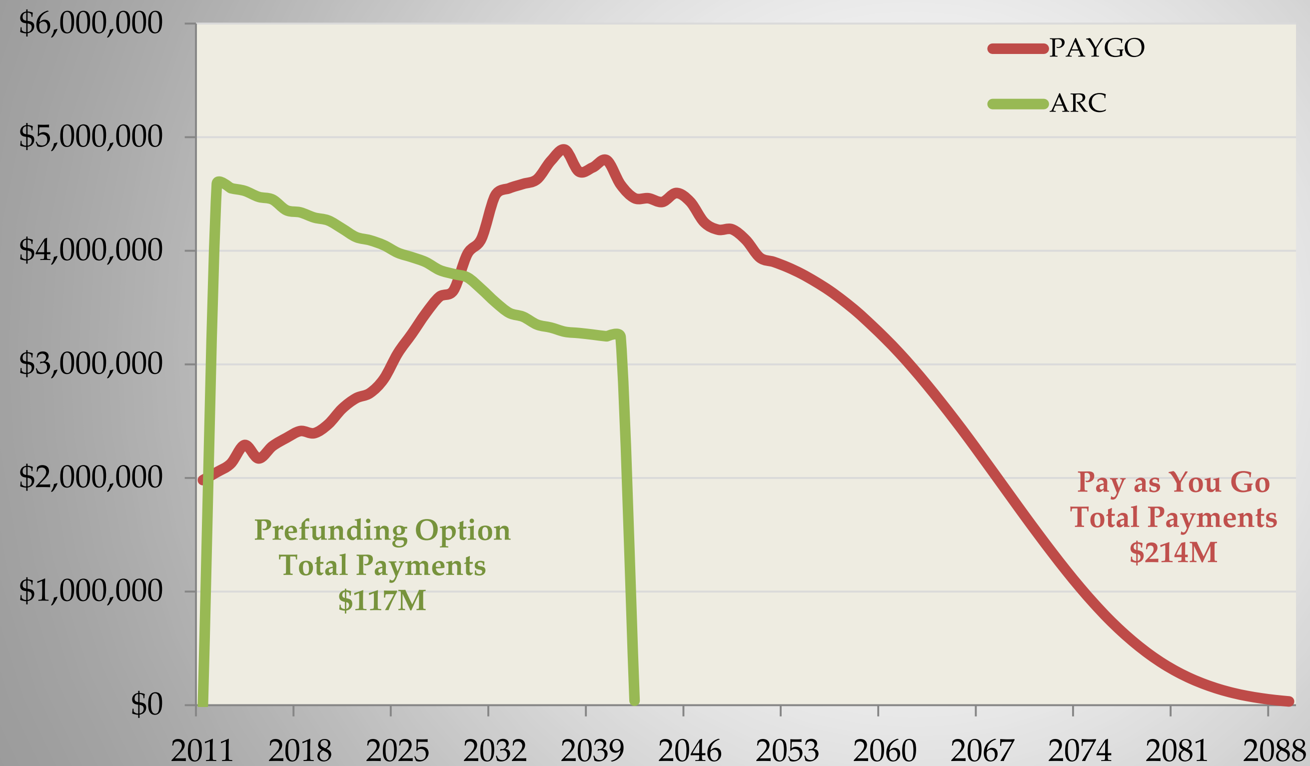
- **Pay-as-you-go (PAYGO)**: A funding policy that only allocates enough resources to pay for the current year premiums, without regard to the accumulation of future benefit obligations (note: this is different than normal cost).

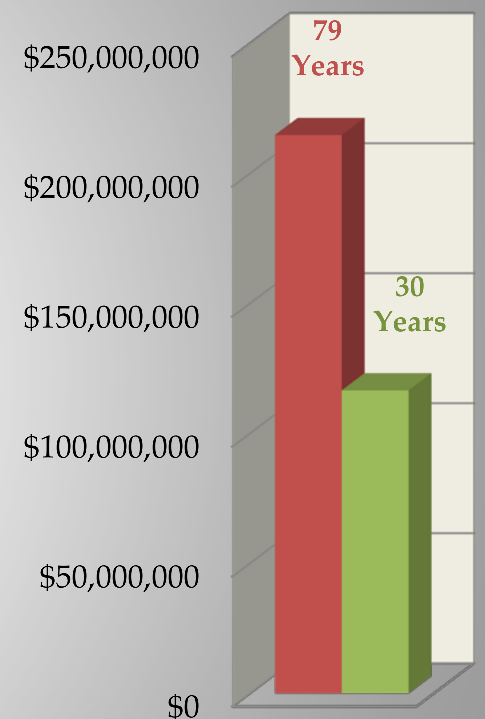
- **Fully-Funded**: For Radnor's purposes, the point in time when enough assets exist to cover 100% of the actuarial accrued liability (as calculated under the GASB 45 regulations)

Where we left off in December

Annual Required Contribution

Closed Group (analysis includes only *current* employees and retirees)





Any replacement / new hires would change the outcomes presented in the graph by increasing and extending the length of time for which funding would be required.

The ARC and PAYGO lines go to $0 only if the Township (a) eliminates OPEB from all future hires and/or (b) doesn't hire any replacement or new hires moving forward.

Source: Mockenhaupt Benefits Group

Assumptions from December

- Employee Data is Based on the 1/1/2012 Valuation report
- Closed Group - IMPORTANT
- Benefit Levels:
  - Term: Through retirement, with requirement to switch to Medicare primary once eligible (currently 65 years old) for the retiree, spouse and eligible dependents.
  - 4.5% Asset return rate / Discount rate
  - Medical Expense growth rates: Starts at 6.5% and declines by 0.25% per year down to 5.0% per year through the end of the analysis

What Has Changed

Since CARFAC's presentation in December

Assumption Changes

- **Open Group**: No longer closed group since new police hires have OPEB benefits
- **FOP Agreement**: Allows for OPEB benefits for new police officers hired after 1/1/2013 with the following reductions:
  - Limited to Retiree and Souse (at retirement only)
  - Limited to Medicare Eligible Age (currently 65 years old)
  - Requires Retiree to contribute 7% of premiums
- **Civilian Employees**: Assumes that no OPEB benefits will be available for all future non-union and union civilian employees
- All other 1/1/2012 Actuarial Assumptions remain unchanged

Funding Alternatives

Five Funding Alternatives that span the spectrum of continuing pay-as-you-go to fully funding the ARC immediately

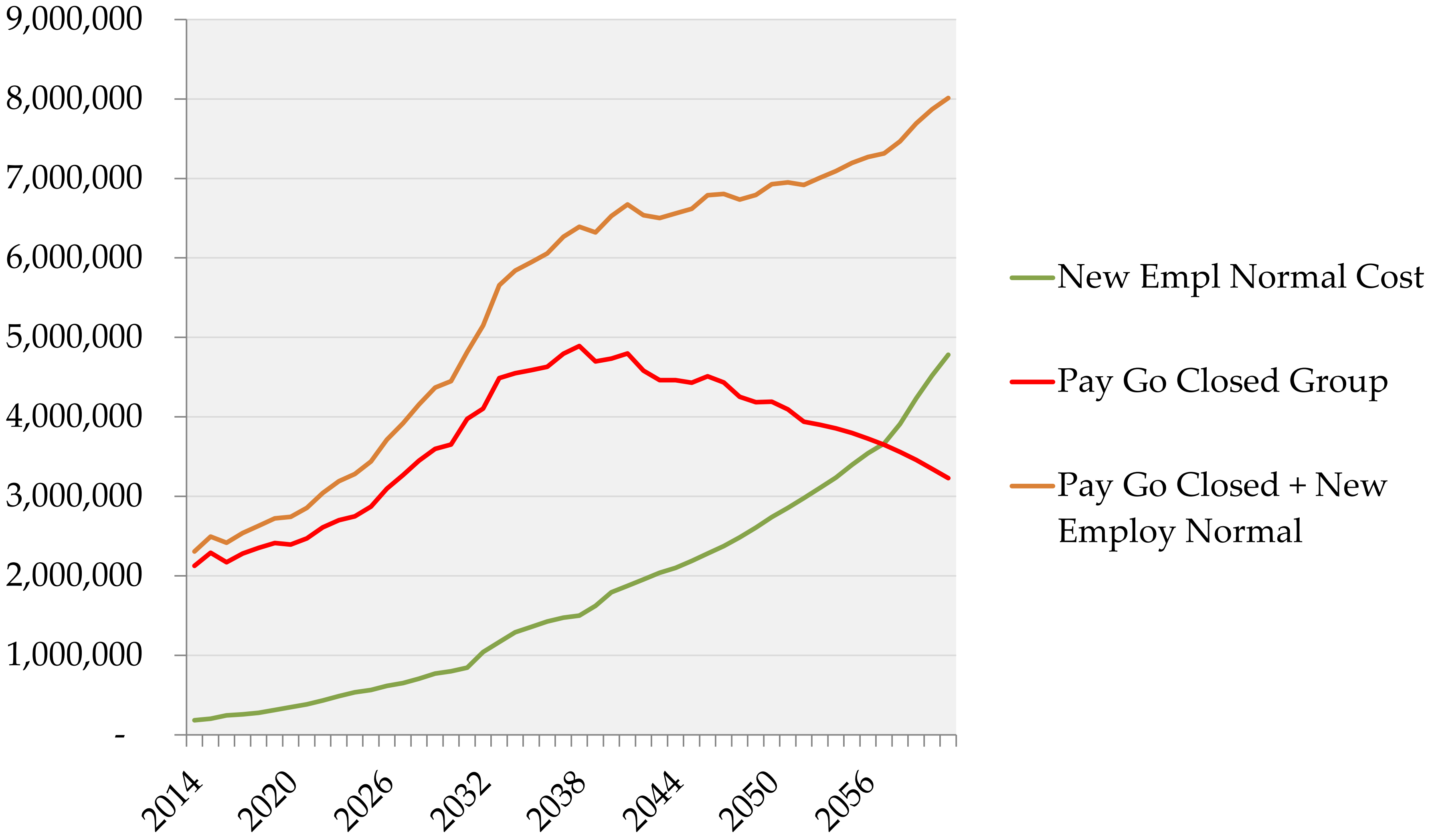
Summary of Funding Alternatives Analyzed

	Funding Scenarios	Incremental Cost (average over years until fully funded)	Incremental Cost Range	Year Fully Funded	Annual OPEB Expense Maximum	Comments	RE Tax Equivalent (to be used for informational purposes only, not as a prediction of future tax rates)	Cumulative RE Tax Increases (to be used for informational purposes only, not as a prediction of future tax rates)
A	Continue Pay as you go (PAYGO)	Varies - avg $121,000 per year (through 2061 only)	($133,990) to $507,926 (analysis through 2061 only)	Never	Unknown / Perpetual	Unrealistic: Most expensive method over time, never addresses the unfunded status (which will continue to grow from it's current $54 million)	Anywhere from 0.00% to 4.5% per year perpetually	48.75% (Through 2061 only)
B	PAYGO for Current Employees + Normal Cost for New Police Hires	Varies - avg $190,000 per year	($252,233) to $515,838	2052	$ 9,471,137	$6,365,125 drop at end (2053) when fully funded status is reached	1.63% per year until fully funded (on average)	63.42%
C	6 Year Ramp Up to Annual Required Contribution	$300,000 per year for 6 years + New Police Hires Normal Cost	($34,430) to $55,826 after ramp up period until the ramp down period (begins in 2049)	2053	$ 6,282,547	6 Year Ramp Up + 30 years of amortization payments + 5 years of ramp down (total of 41 years)	2.94% annually through ramp up (6 yrs) then averages 0.64% through amortization period (before ramp down period)	28.68%
D	10 Year Ramp Up to Annual Required Contribution	$200,000 per year for 10 years + New Police Hires Normal Cost	($34,779) to $198,192 after the ramp up period until the ramp down period (begins in 2043)	2059	$ 6,005,569	10 year ramp up + 19 years of amortization payments + 16 years of ramp down (total of 45 years)	2.08% annually through ramp up (10 yrs) then averages 0.68% through amortization period (before ramp down period)	24.22%
E	Immediate full funding of the Annual Required Contribution	Immediate $3,136,028 increase	($80,776) to $87,878	2037	$ 5,671,315	$3,438,810 drop off in annual OPEB expense at the end (2037)	27% in 2014, then relatively constant	27.23%
F	10 Year Ramp Up + New Employee Normal Cost + $10,000,000 seed money	$200,000 per year for 10 years + New Police Hires Normal Cost	$20,982 to $107,624 after the ramp up period with $2,874,976 fall off in 2049	2048	$ 5,374,923	Manageable increment ramp up with $2,874,976 fall off at fully funded.	1.93% annually through ramp up (10 yrs) then averages 0.41% through amortization period (before drop off at fully-funded)	28.03%

Additional OPEB Funding Recommendations to Consider:

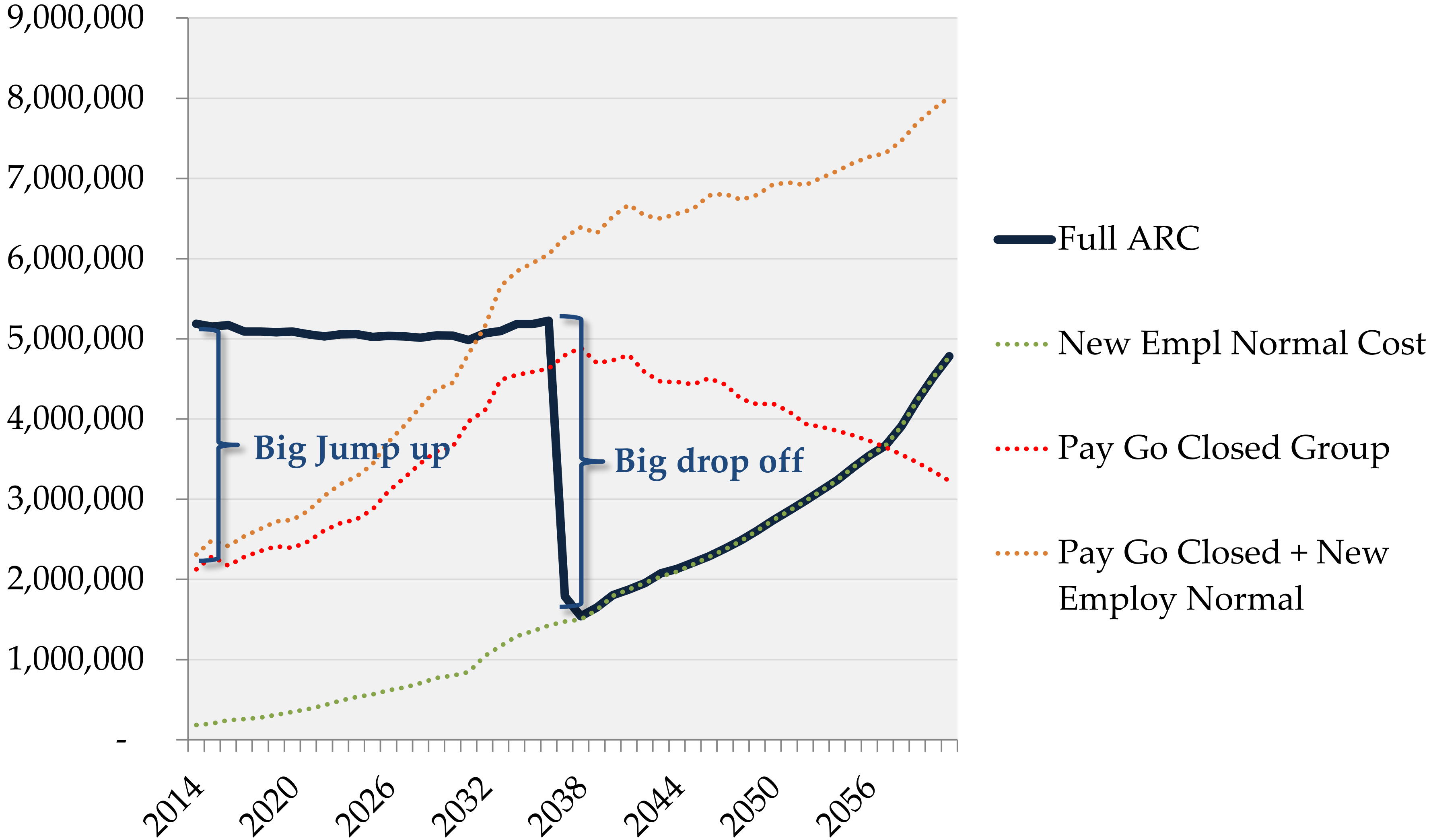
1. **Excess Fund Balances**: The prior excess fund balance policy has expired. The Board should consider replacing the prior policy with a greater percentage going towards OPEB (and less to Comp. Abs.) - Only to the extent that one time deposits are used to reduce the amortization requirement, not as a replacement of the normal cost requirement
2. **One Time / Non-Reoccurring Revenues**: The Board should consider making OPEB a benefactor of these revenues - only to the extent that one time deposits are used to reduce the amortization requirement, not as a replacement of the normal cost requirement
3. **DVHIT Rate Stabilization**: To the extent that the Board elects to take advantage of Rate Stabilization savings from DVHIT, until fully funded, those proceeds should be allocated towards additionally funding the OPEB amortization - not as a replacement of the normal cost requirement

OPEB Annual Expense Graph
Base Line
Pay as you go + Replacement Police Officers' Normal Cost



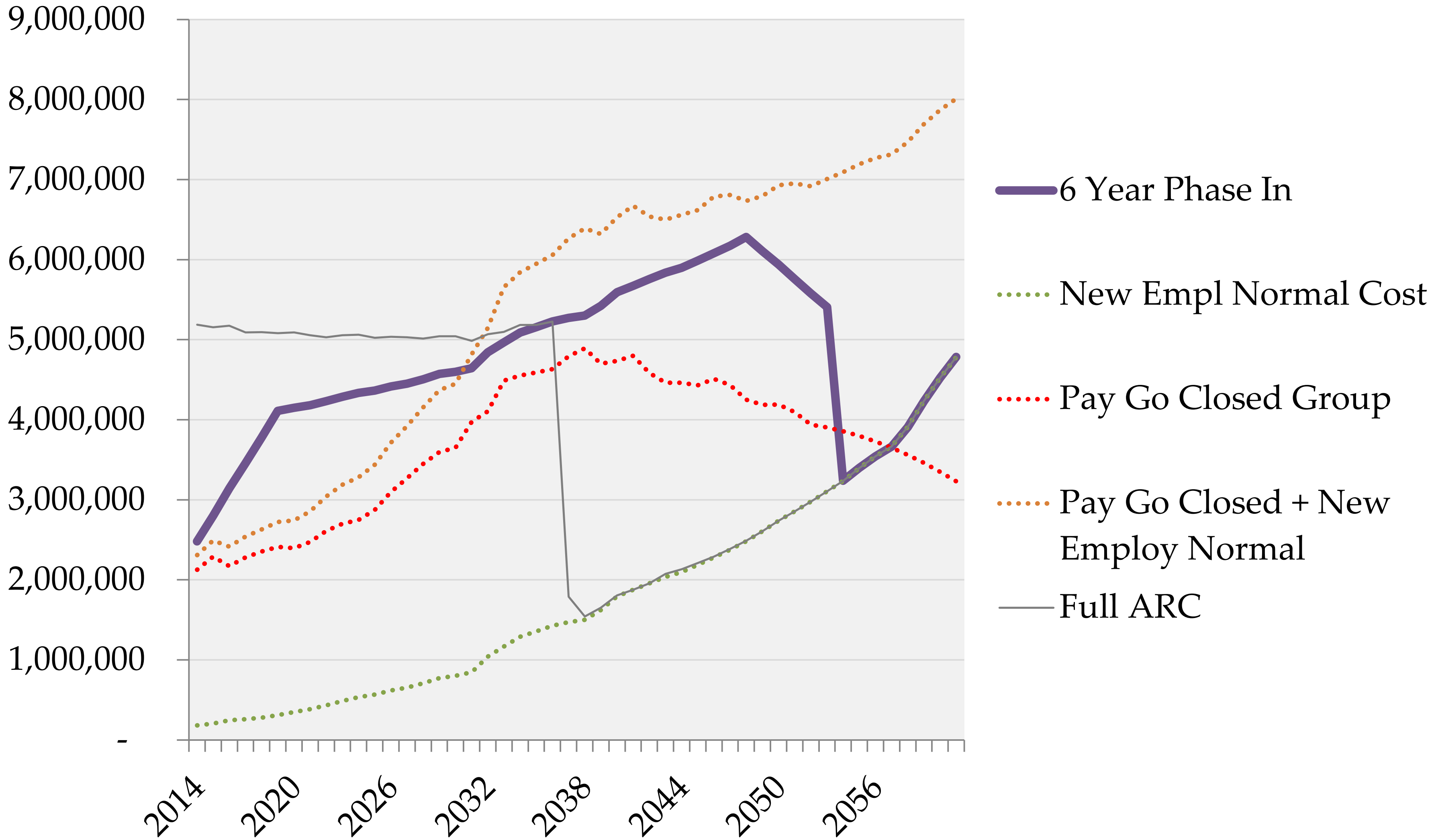
OPEB Annual Expense Graph
Immediate Full Funding of the Annual Required Contribution

(with no back end phase down, immediate expense drop off)



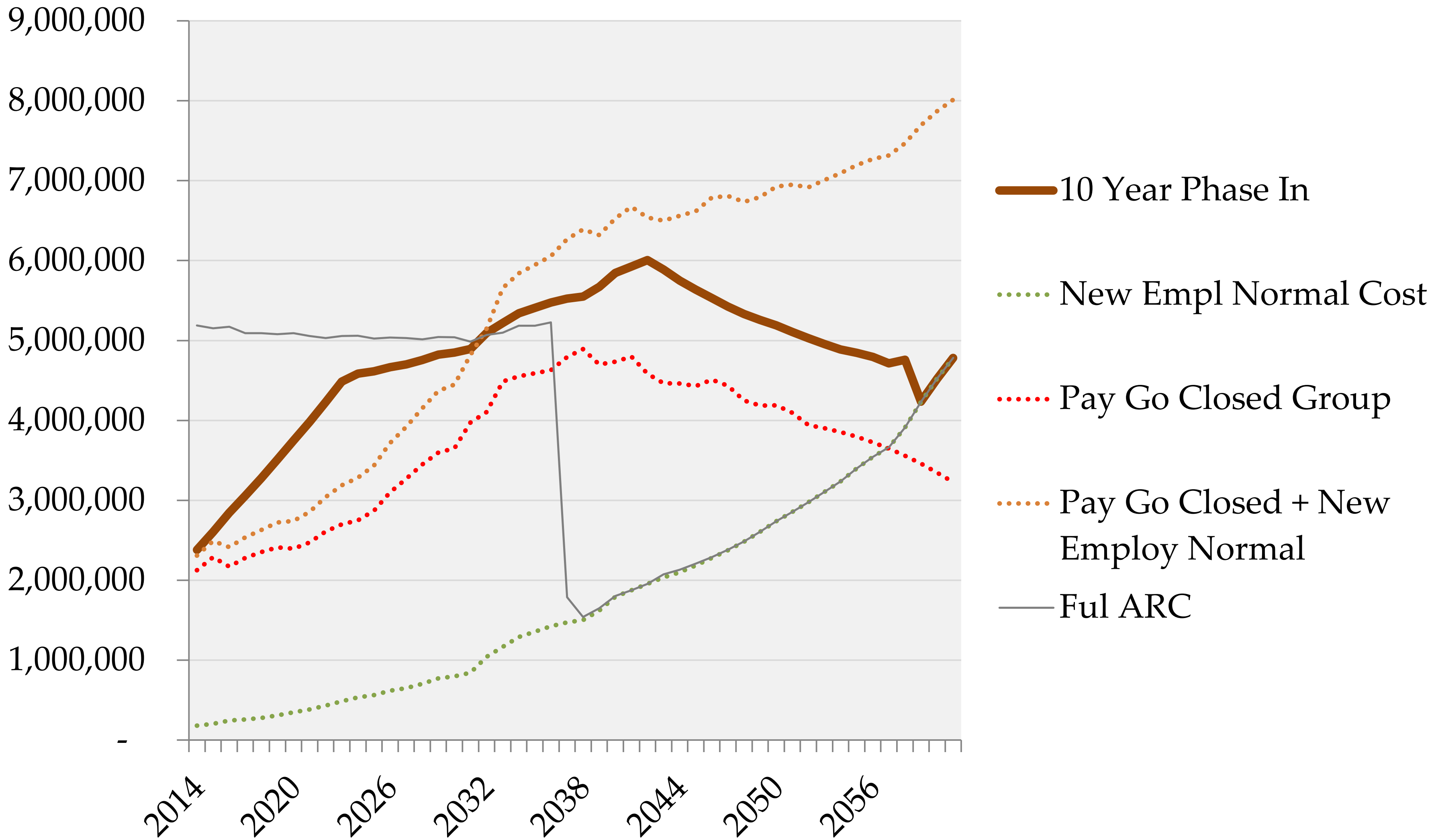
OPEB Annual Expense Graph
6 Year Ramp Up to Annual Required Contribution + New Hire Normal Cost

(with back end 5 year phase down to normal cost)



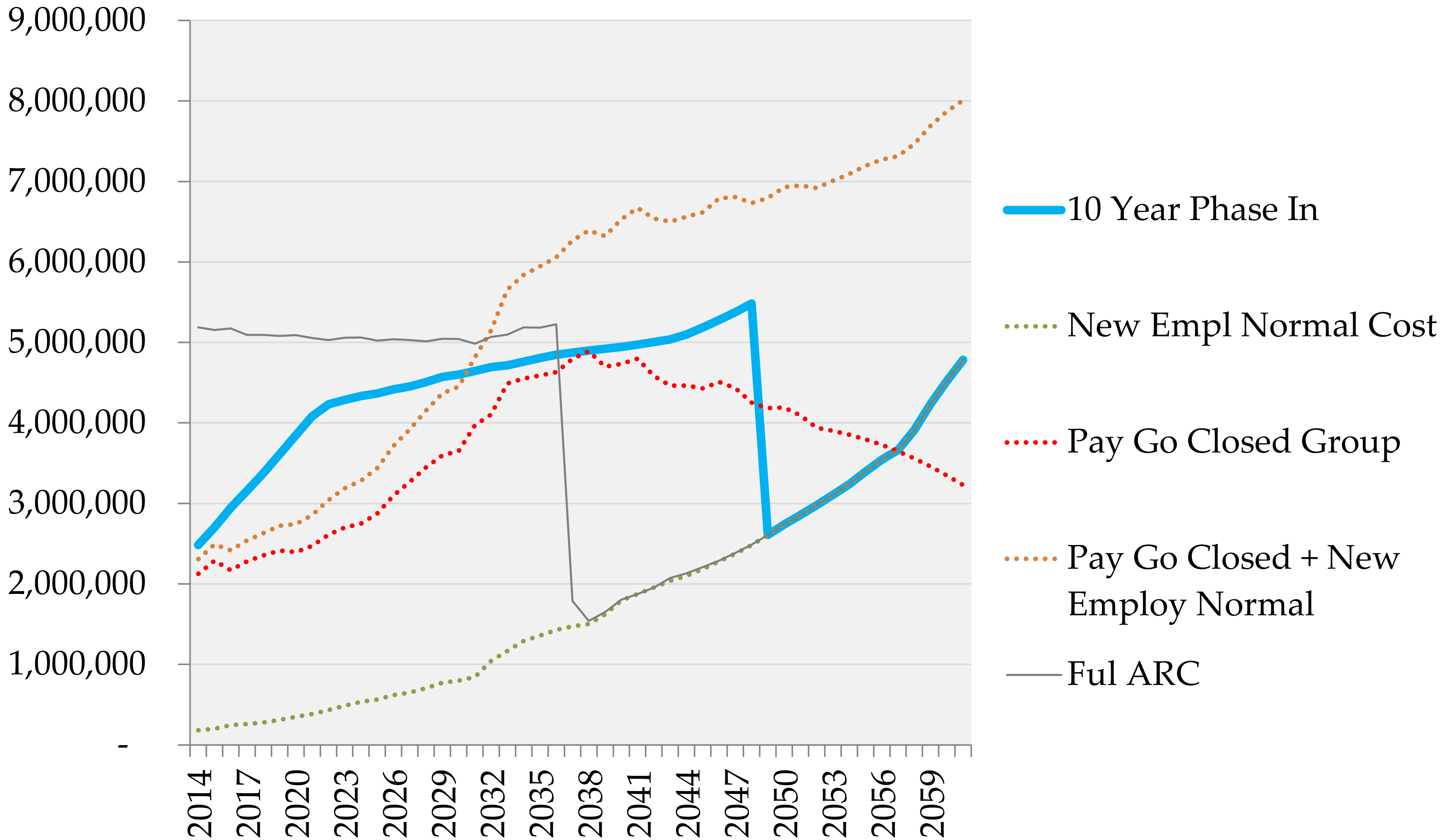
OPEB Annual Expense Graph
10 Year Ramp Up to Annual Required Contribution + New Hire Normal Cost

(with back end 11 year phase down to normal cost)



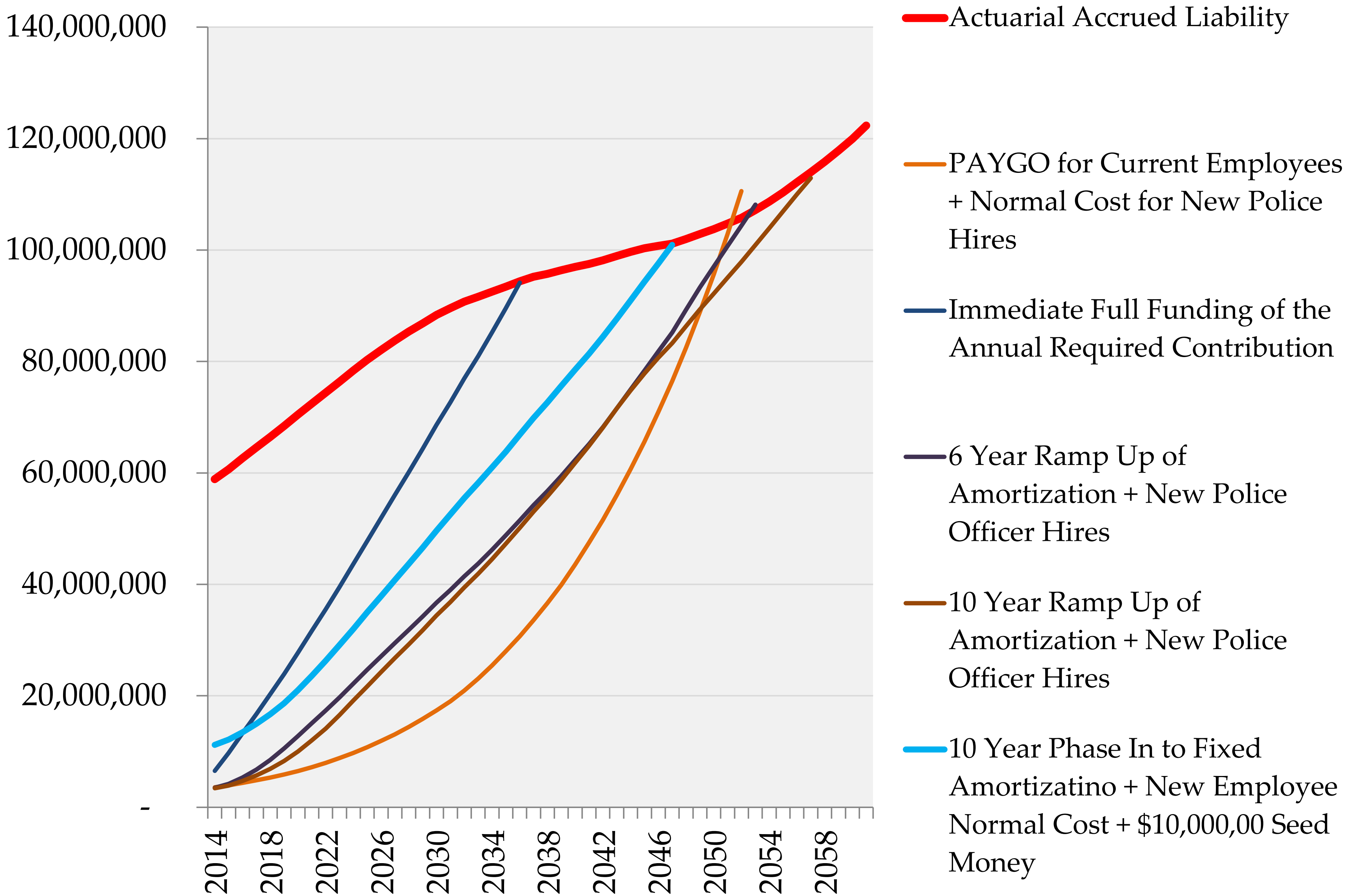
OPEB Annual Expense Graph
10 Year Ramp Up to Fixed Amortization + New Police Normal Cost + $10,000,000 Seed

(with back end fall off, rather than phase out)



OPEB Trust Fund

Trust Fund Assets vs. Actuarial Accrued Liability



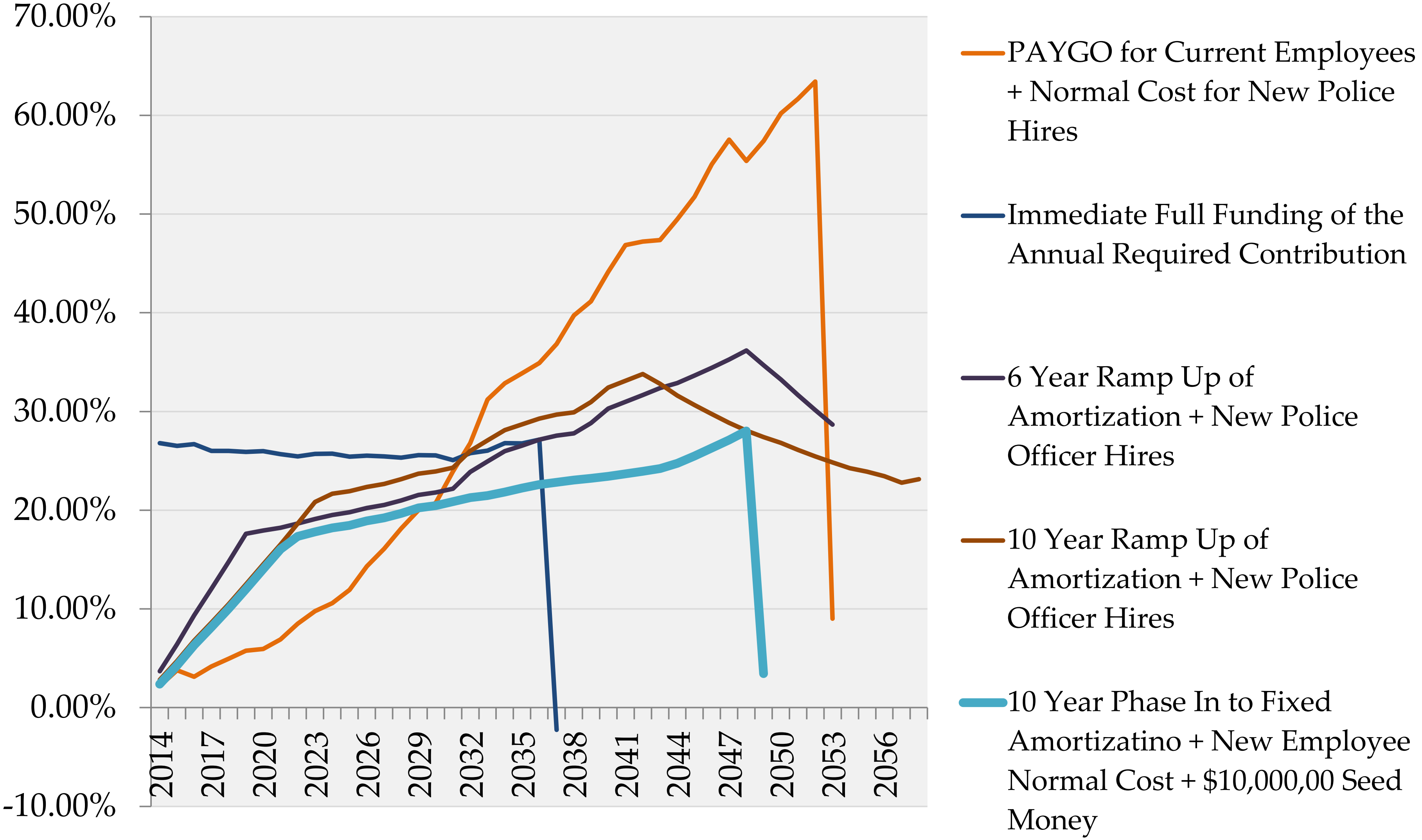
Real Estate Tax Millage Equivalent to Fund OPEB Scenarios

Funding Scenario	RE Tax Equivalent	Cumulative RE Tax Increase
PAYGO	0.00% - 4.50% per year, *perpetually*	(Through 2061) 48.75%
PAYGO + New Hire Normal Cost	1.63% per year through 2052	63.42%
6 Year Ramp Up to Fixed Amor. + New Hire Normal Cost + $3,022,470	• 2.94% /year – Ramp Up, • 0.64% /year amortization period, • (1.50%) / year through ramp down	28.68%
10 Year Ramp Up to Fixed Amor. + New Hire Normal Cost + $3,022,470	• 2.08% /year through ramp up • 0.68% /year amortization period, • (0.67%) /year through ramp down	24.22%
10 Year Ramp Up to Fixed Amor. + New Hire Normal Cost + $10,000,000 seed	• 1.93 /year through ramp up • 0.41% /year thru amortization period, • -24.57% in year after fully-funded	28.03%
Immediate Full ARC Funding	27.00% in 2014, then 0.02% per year through 2037	27.23%

OPEB Funding Alternative Analysis

Cumulative Real Estate Tax Equivalent Tracking

(For Comparison Purposes Only, Not to Predict Future Tax Rates)



Summary

What should we take away from this analysis and how does that translate into a funding plan?

Summary Items

- Benefit levels are still the primary driver for the costs and future tax implications

- The problem is solvable… so long as the Township attacks it from three fronts:
    - *Funding (Normal Cost) for all new police hires moving forward*
    - *Reduction in benefit costs*
    - *Dedicated funding to address the current unfunded liability*

- Board should continue with policies that allocate non-reoccurring revenues and excess fund balances towards OPEB to help address the amortization of the unfunded obligation [never to replace the annual normal cost requirements].

- Any funding plan will require the Township to review actual results against the actuarial assumptions [at least] biennially, and to make the necessary adjustments to the forecasts accordingly.

Next Steps

- Formal Direction from the Board of Commissioners

- Review / Introduction of a funding plan Resolution and accompanying policies

- Incorporation into the Five Year Forecast

Thank you

CARFAC should be recognized for their continued efforts into assisting the Township with funding this program.