

Overview of GASB 45 & Healthcare Reform

Presentation at Dowling College

November 6, 2010

Michael L. Frank

Aquarius Capital



AQUARIUS CAPITAL

Aquarius Capital

- 20+ Years Experience - Life, Accident & Health
- Services – Actuarial Consulting & Insurance/Reinsurance Brokering
- Clients: Insurance Companies, HMOs, Reinsurers, Managed Care Companies, Government Entities and Employers
 - Aquarius Credentials: ASA, FCA, MAAA, CFA®
 - Other Credentials: Licensed broker and reinsurance intermediary
 - Experience: Management Team completed more than 500 retiree valuations
- Actuarial Society of Greater New York
 - Positions: Chairperson CE (2007-09), President Elect (2010), President (2011)
- Society of Actuaries - Section Councils:
 - Current: Reinsurance Section, Entrepreneurial Actuarial Section
 - Retired: Actuary of the Future Section
 - NAIC/AAA/CCA Committees & Task Forces
 - Health Reform, Reserving, Risk Based Capital, etc.
- Website: www.aquariuscapital.com
 - Visit “Aquarius in the News”



Agenda

- GASB 45 Overview
- Information Required for Valuation
- Key Financial Information
- What do the Liabilities Mean?
- Sample GASB Valuation Results
- Types of Health Insurers
- Impact of Healthcare Reform
- Open Discussion



Retiree Health & Life Valuations

History of OPEB Valuations

- Employers FAS 106 (Early 1990s)
- Multi-Employers SOP 92-6 (Late 1990s)
- Municipalities GASB 45 (Today)

Note: OPEB = Other Post Employment Benefits



What is GASB 45?

- Government Accounting Standards Board issued Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions
 - GASB 43 applies to the plan itself
 - GASB 45 applies to the plan sponsor's financial statements
- Requires public agencies, including school districts and county offices of education (COE), to report their costs and obligations for post-employment healthcare and other post-employment benefits (called "OPEBs")
- Reporting - Similar to pensions
 - GASB 25 – Plan; GASB 27 – Employer
- Recognized as a current cost during the working years of an employee (similar to pension) rather than after they retire.



Actuarial Organizations (US)

- Society of Actuaries (www.soa.org)
- American Academy of Actuaries (www.actuary.org)
- Conference of Consulting Actuaries (www.ccactuaries.org)
- Casualty Actuarial Society (www.casact.org)
- Joint Board for Enrollment of Actuaries (www.irs.gov)
- Actuarial Society of Greater New York (www.goasny.org)
- Other Actuarial Organizations Worldwide



Impact on School Districts & County Offices

- Identify and disclose OPEBs as an expense and liability on their financial statements for the first time.
- This means each district or county office will have to evaluate whether they have an OPEB liability
- Need to have an actuarial valuation done to determine the amount of the unfunded liability for their financial statements.
- Each affected district and county office will have to address how best to manage this liability for the future.



Difference: GASB vs. Pay-As-You-Go

- GASB – Level to gradual growth over time since accruing future costs today
- Pay-As-You-Go – Increases as population of retirees increase over time
- Impact
 - Pay-As-You-Go: Manage on a year by year basis
 - GASB: Reflect future benefit costs now resulting in potential reduction in retiree benefits to be offered
 - Accrued Liabilites – 15 to 40 times current annual costs
 - Accrual Expense – 1 to 4 times current annual costs



Implications for Current Employees

- Increases expense and liabilities to be recognized
 - Impact of accrual accounting
 - Most currently fund on pay-as-you-go basis
- Increase pressure to reduce costs of benefits
 - Actives & Retirees
 - Cost Containment, Plan Changes, Increase Retiree Cost Sharing
- Impacts Budget Process
- Impacts Collective Bargaining
 - OPEB is part of employee compensation



Implementation Dates

- **Depending on the district or county office size, the compliance dates for GASB 45 are as follows:**
 - 2007-08 fiscal year: Districts/COEs with total revenue of \$100 million or more must comply in the fiscal year after December 15, 2006.
 - 2008–09 fiscal year: Districts/COEs with annual revenue between \$10 million and \$100 million must comply in the fiscal year after December 15, 2007.
 - 2009–10 fiscal year: Districts/COEs with annual revenue less than \$10 million must comply in the fiscal year after December 15, 2008.
- **Frequency:**
 - 200+ members (every 2 years)
 - Less than 200 members (every 3 years)



Key Financial Data

- Annual OPEB Costs (annual expense)
- Net OPEB Obligation (balance sheet liability)
- Actuarial Liability
 - Results in Audited Financial Statement Footnotes
- Funding Status
- Unfunded liabilities
 - May impact bond ratings
 - Impact in the local community



Annual OPEB Costs (AOC)

- Employer's Expense

- Annual Required Contributions (ARC)

- Normal Cost (Service Cost): Actuarial valuation
- Amortization of Unfunded Actuarial Accrued Liability (30 years)
- Amortization of gain/loss and plan changes depending on plan methods
- *This does not refer to actual contribution requirements, but to employer's accrual expense.*

- Plan Adjustments

- Contributions going up
- ARC going down



OPEB – What is Included?

- Medical
- Dental
- Vision
- Hearing
- Prescription drugs
- Life insurance
- Long-term care
- Long-term disability
- Death benefits
- Other Benefits (e.g., Group Legal)



Necessary Data to Complete Valuation

- Summary of Plan Offerings
- Census Information
- Plan Costs
- Retiree Contribution Rates
- Benefit Eligibility
- Actuarial Assumptions



Census Information

- Date of Birth
- Date of Hire
- Gender
- Status (Active, Retired, Terminated)
- Benefit Election
- Coverage Tier (Single, Dependents, etc.)
- Salary
- Benefit Amount (e.g., Life Insurance Face Amount)
- Class
- Contribution Rates



Actuarial Assumptions

- Benefit costs – Pre 65 vs Post 65
 - Health Insurance, Medicare Part B premium reimbursements, etc.
- Healthcare cost trend rate (e.g., sliding scale from 10% to 5%)
- Interest discount rate
- Retirement rates
- Turnover rates
- Disability rates
- Mortality rates
- Aging Assumptions (Age/Sex Factors)
- Asset return on investments (if funded)
- Salary increases, if applicable
- Plan Participation %
- Actuarial cost methods (e.g., projected unit credit)



Key Statistics – Sample School District (Phase II)

■ Actuarial Data

- Implementation (July 1, 2008): UAL = \$100 million
- July 1, 2009: UAL = \$95 million

■ ARC (7/09 to 6/10): \$7 million

■ Pay-As-You-Go (7/09 to 6/10): \$4 million

■ Net OPEB Obligation:

- \$5 million as of 6/30/09
- \$8 million as of 6/30/10

■ Total Lives

- Actives 600
- Retirees 300
- Subtotal 900

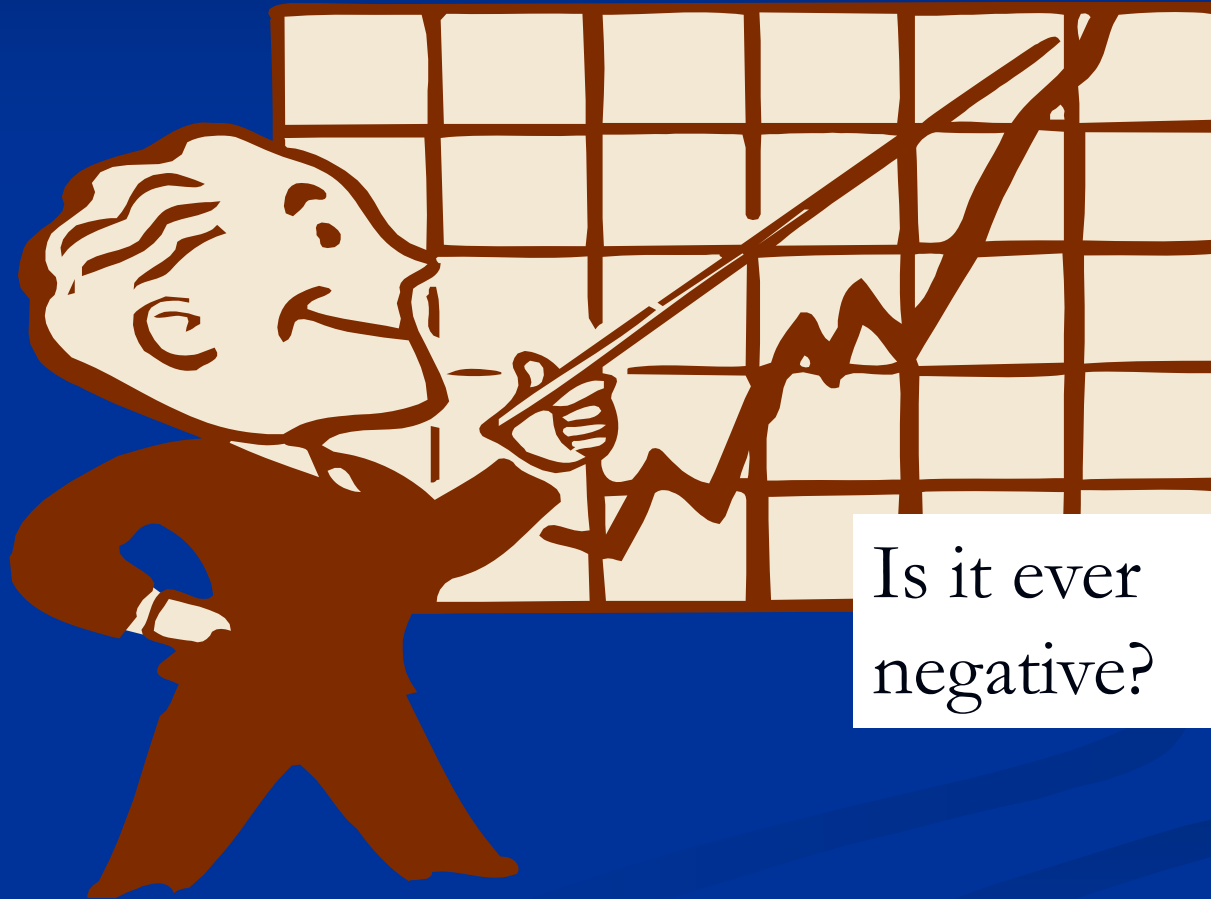


Additional Statistics

- New York State Teachers Retirement System (TRS) and Employees' Retirement System (ERS)
- Retiree Benefits:
 - Medical benefits (pre-65 & post-65 retirees)
 - Medicare Part B Premium Reimbursement (post-65 only)
 - Other benefits (e.g., dental, vision, life insurance)
- Retiree Contribution Rates:
 - % of Premium; Fixed Dollar
 - Retirees: 0% to 35%; Dependents: 0% to 50%
- 1% Increase in Discount: 10% to 20% Decrease in UAL
- 1% Increase in Trend: 10% to 20% Increase in UAL



What is a good number for Trend (Healthcare Cost Inflation)?



Is it ever
negative?



What makes liabilities increase?

- Increase in health care costs and inflation (trend)
- Lower retiree contribution rates than expected
- Reduction in discount interest rates
- More early retirements
- Lower turnover (non-vested)
- Mortality improvements



Strategies to Reduce Liability

- Lower current medical costs
 - Managed care plans or Consumer Driven Health Plans
 - Mandate certain benefit requirements (mandatory mail order prescription drugs and generics)
 - Reduce or Terminate benefit coverages
- Mandate Medicare Part B participation (Integrate with Medicare)
- Change future retiree benefits - Tighten eligibility
- Increase employee contributions
 - Raise contribution rates
 - Removal of potential “implicit” subsidies
 - Implement dollar or inflation caps (limit future trend increases)



Be Proactive

- Initiated discussions now w/ various depts.
- Discussions w/ collectively bargained personnel
- Review scenarios to identify opportunities
- Consider Potentially Setting Up Alternative Vehicles (e.g., Trusts) – Pros/Cons
- Potential retiree buyouts (pay insurance companies to assume liability)
- Keep rating agencies in the loop



Resources for GASB 45

- Government Accounting Standards Board (www.gasb.org)
- Society of Actuaries (www.soa.org)
- Aquarius Capital website (“In the News”)
 - http://www.aquariuscapital.com/downloads/OPEB_GASBforSOA-Feb08.pdf



Types of Health Insurers

- Commercial - Insurance Companies/HMOs
- Consortiums
- Medicare
 - Medicare Parts A, B, D
 - Medicare Supplement
 - Medicare Advantage
- Medicaid/Child Health Plus/Family Health Plus
- Healthy New York
- Limited Benefit Medical Plans



Commercial - New York Metro

- Commercial - Insurance Companies/HMOs
 - Aetna
 - Cigna
 - Empire Blue Cross/Blue Shield
 - United Healthcare (Oxford)
 - Emblem Health (a consolidation of GHI, HIP, Connecticare, and Vytra)
 - Guardian Life (Magnacare)
- Consortiums – NYSHIP, SWSCHP, other



Patient Protection and Affordable Care Act (PPACA)

- Enacted on 3/23/10
- Individual Mandates
- Expansion in Public Programs
 - Targets coverage for 95% of population including 32 million currently uninsured.
- American Health Benefit Exchanges
- Changes in Private Insurance
- Employer Requirements



PPACA - Continued

- Implementation will be in stages with targeted full implementation by 2014.
- Kaiser Family Foundation (www.kff.org)
 - Resource for Information on Healthcare Reform
 - Shows Impacts on Various Parties
 - Summary Timeline for Implementation by Year



Potential Demographic Changes

- Commercial Plans covering dependents up to age 26
- Changes in Eligibility
 - Definition of Poverty Level and Medicaid Eligibility
 - Expand income to a national floor of 133% FPL
 - Removes dependent children requirement for non-disabled adults under age 65
 - What does the demographics of current uninsured look like?
 - Pre-existing conditions
 - Do they look like SSI or non-SSI
- Impact of State Specific Initiatives
 - Lower Income Child Benefit Plans (e.g., Child Health Plus)
 - Lower Income Adult Coverages (e.g., Family Health Plus)
 - Low Income Commercial Plans (e.g., NY has HealthyNY)
 - Impact of State Demographic Pools



Other Material Changes

- Offer preventative coverage with no copays/cost sharing
- Removing of Pre-X (initially children and then all adults)
- Charges to Fund Healthcare Reform (e.g., State Risk Pool Charges)
- CHIP Plan Changes – Appears not to be material at this point in time (potential subsidy increase/match rate in 2015)
- Grandfathering of Plans
- Unlimited Lifetime Maximums
- Early Retirement Reinsurance Program (ERRP)
 - Reinsurance Subsidy for Pre-65 Retirees (ages 55-64)
 - New & Grandfathered Plans
 - Reimburse 80% of costs between \$15,000 and \$90,000 per person.
- Impact of American Health Benefit Exchanges



Loss Ratio Restrictions

- Minimum Medical Loss Ratios

- 85% large group
- 80% small groups/individuals

- Formula for Medical Loss Ratio Calculation:

$$\frac{(\text{Claims} + \text{Loss Adjustment Expenses} + \text{Activities to Improve Health Care})}{(\text{Earned Premium} - \text{State Fees})}$$

- Key Dates:

- 2010: Require reporting of loss ratios
- 2011: Require to provide rebates



Reform by 2014

- Prohibited from Rating based on Health Status Factors
- May be able to give discounts for wellness participation
- Guaranteed renewability of policies
- No Pre-existing Conditions (all ages)
- Unable to rate for the following:
 - Health Status
 - Medical History
 - Specific Claims Experience
 - Evidence of Insurability
 - Genetic Information
 - Receipt of Healthcare
 - Disability
 - Any other factors as determined by Health and Human Services (HHS)



Open Discussion

Michael L. Frank, ASA, MAAA, FCA

President & Actuary

Aquarius Capital

Phone: (914) 933-0063

E-Mail: michael.frank@aquariuscapital.com

Website: www.aquariuscapital.com



AQUARIUS CAPITAL