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GASB 45 valuation

1 message

Jim Hawley <jim.hawley@hawleyconsulting.com>
To: Gene Marraccini <marraccinie@pbsd.k12.pa.us>

Tue, Jul 2, 2013 at 9:06 AM

Gene,

Please see the attached GASB 45 valuation for Plum.

Note that the liability didn't change much. Last time it was \$14.6 million and now it is \$14.1 million.

However, you may notice a rather significant change to the "Normal Cost^{\$}". This is a result of a programming change on our end.

Let me know if you want to discuss further. I can explain the Normal cost change in further detail when we talk.

Thanks

Jim



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Plum Borough School District

GASB 45 Disclosure and Expense Report for the Fiscal Year Ending June 30, 2013

This report contains:

- *Net OPEB obligation for the fiscal year ending June 30, 2013,*
- *financial disclosure information for the fiscal year ending June 30, 2013,*
- *Net OPEB obligation for the fiscal year ending June 30, 2014, and*
- *financial disclosure information for the fiscal year ending June 30, 2014.*

Prepared by:

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June 2013

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EXECUTIVE SUMMARY

Introduction

This report will show the development of the financial disclosures under Statement No. 45 of the Governmental Accounting Standards Board and the Annual OPEB cost for the fiscal year ending June 30, 2013 for the retiree medical, dental, vision, and life insurance programs of Plum Borough School District. The calculation of the liabilities and the fiscal year 2011 Annual OPEB Cost presented in this report were made in accordance with Statement No. 45 of the Governmental Accounting Standards Board using data collected as of May 2013. Below is a summary of the key valuation results:

Actuarial Accrued Liability	At 07/01/2012
Inactives	\$ 6,174,805
Actives	<u>7,896,228</u>
Total	\$ 14,071,033

Key Valuation Results (for the FYE 06/30/2013)	Amount
Net OPEB Obligation(Asset) at 06/30/2012	\$ 8,709,663
Annual OPEB Cost for the FYE 06/30/2013	\$ 1,130,569
Contributions in relation to the ARC	\$ 1,450,255
Net OPEB Obligation(Asset) at 06/30/2013	\$ 8,389,977

Key Valuation Results (for the FYE 06/30/2014)	Amount
Net OPEB Obligation(Asset) at 06/30/2013	\$ 8,389,977
Annual OPEB Cost for the FYE 06/30/2014	\$ 1,136,269
Contributions in relation to the ARC	\$ 1,372,917
Net OPEB Obligation(Asset) at 06/30/2014	\$ 8,153,329

Participant Data	At 07/01/2013
Retirees	93
Actives	<u>309</u>
Total	402

Assumptions	At 07/01/2013
Discount Rate	4.00%
Health Care Trend Rate	8.00%
Long-Term Trend Rate	4.50%
Terminal Trend Year	2022

SECTION 1

Certification

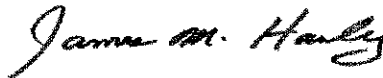
The Hawley Consulting Group has prepared an actuarial valuation of the postretirement medical, dental, vision, and life insurance programs for Plum Borough School District (the District) for the fiscal year beginning July 1, 2012 and ending June 30, 2013. The valuation has been prepared in order for the plan sponsor to satisfy the employer accounting requirements under Statement No. 45 of the Governmental Accounting Standards Board. The valuation was completed based on the plan provisions in effect as of July 1, 2013.

The valuation is based on employee data which was provided by the District. Premium and enrollment data used for developing per capita claims costs was also provided by the District. We have reviewed the employee and financial data for reasonableness but have not performed an audit of this information.

The liabilities presented herein were determined in accordance with generally accepted actuarial principles and procedures. The calculations are consistent with our understanding of the provisions of GASB 45 (including the American Academy of Actuaries' *Actuarial Compliance Guidelines No. 6 for Measuring Retiree Benefit Obligations*). The actuarial assumptions were selected by the District with the concurrence of its auditors. We believe the actuarial assumptions to be reasonable.

Actuarial computations under Statement No. 45 of the Governmental Accounting Standards Board are for purposes of fulfilling employer accounting requirements. Determination for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported herein.

We are available to answer any questions on the material contained in the report.



June 27, 2013

James M. Hawley, ASA, MAAA

SECTION 2

Financial Disclosures and Valuation Results

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Exhibit I
Plum Borough School District
GASB 45 Valuation

Actuarial Accrued Liability as of July 1, 2012

		<u>Amount</u>
Actuarial Accrued Liability (AAL)	\$	14,071,033
Plan assets		0
Unfunded AAL	\$	14,071,033

Exhibit II
Plum Borough School District
GASB 45 Valuation

Annual OPEB Cost for the FYE June 30, 2013

<u>Development of the ARC</u>		
Normal Cost	\$	472,134
Amortization of the unfunded		<u>813,729</u>
ARC	\$	1,285,863
Interest on BOY NOO		348,387
Adjustment to the ARC		(503,681)
Total Annual OPEB Cost	\$	1,130,569

Exhibit III
Plum Borough School District
GASB 45 Valuation

Net OPEB Obligation/(Asset) for the FYE June 30, 2013

Net OPEB Obligation/(Asset) at BOY (06/30/2012)	\$	8,709,663
Total Annual OPEB Cost		1,130,569
Contributions in relation to the ARC		(1,450,255)
Net OPEB Obligation/(Asset) at EOY (06/30/2013)	\$	8,389,977

BOY – Beginning of Year

EOY - End of Year

ARC – Annual Required Contribution

NOO – Net OPEB Obligation

OPEB – Other Postemployment Benefits

Exhibit IV
Plum Borough School District
GASB 45 Valuation

Annual OPEB Cost for the FYE June 30, 2014

Development of the ARC

Normal Cost	\$	472,134
Amortization of the unfunded ARC		<u>813,729</u>
	\$	1,285,863
Interest on BOY NOO		335,599
Adjustment to the ARC		(485,193)
Total Annual OPEB Cost	\$	1,136,269

Exhibit V
Plum Borough School District
GASB 45 Valuation

Net OPEB Obligation/(Asset) for the FYE June 30, 2014

Net OPEB Obligation/(Asset) at BOY (06/30/2013)	\$	8,389,977
Total Annual OPEB Cost		1,136,269
Contributions in relation to the ARC		(1,372,917)
Net OPEB Obligation/(Asset) at EOY (06/30/2014)	\$	8,153,329

Exhibit VI
Plum Borough School District
GASB 45 Valuation

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Prcntg Contributed</u>	<u>Net OPEB Obligation or (Asset)</u>
06/30/2011	\$ 3,796,920	39.62%	\$ 6,767,526
06/30/2012	\$ 3,757,720	48.32%	\$ 8,709,663
06/30/2013	\$ 1,130,569	128.28%	\$ 8,389,977
06/30/2014	\$ 1,136,269	120.83%	\$ 8,153,329

Exhibit VII
Plum Borough School District
GASB 45 Valuation

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Plan Assets</u> (1)	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> (2)	<u>Unfunded</u> <u>Actuarial</u> <u>Liability(UAL)</u> (3)=(2)-(1)	<u>Funded</u> <u>Ratio</u> (4)=(1)/(2)	<u>Annual</u> <u>Covered</u> <u>Payroll</u> (5)	<u>Ratio of</u> <u>UAL to</u> <u>Payroll</u> (6)=(3)/(5)
07/01/2008	\$0	\$14,654,250	\$14,654,250	0%	\$27,719,804	52.87%
07/01/2010	\$0	\$14,602,231	\$14,602,231	0%	\$28,614,111	51.03%
07/01/2012	\$0	\$14,071,033	\$14,071,033	0%	\$27,829,188	50.56%

SECTION 3

Summary of Plan Provisions

Categories of Employees/Retirees

The District categorizes employees as follows: Act 93 administrators, teachers, custodians, administrative assistants, confidential secretaries, bus drivers, cook managers, cafeteria employees, computer technicians, bus aides, mechanics, and teacher aides. In addition to the above, there are four contracted employees: the superintendent, the assistant superintendent, the director of business affairs, and the director of administrative services.

Act 93 administrators and teachers who have met the eligibility criteria are eligible for postretirement medical, dental, and vision benefits. All other groups are NOT eligible for postretirement medical, dental, and vision benefits.

Medical

For employees who retire and remain in the medical plan, they will be enrolled in the PPO program. The program is provided through the Allegheny County Schools Health Insurance Consortium (ACSHIC) and is administered by Highmark. The PPO program is referred to as PPOBlue.

Eligibility

To be eligible for postretirement medical coverage, an employee must have completed at least 25 years of credited service with PSERS and at least 15 years in the Plum Borough School District. The retiree shall receive the same medical dental and vision coverage that is currently provided to active employees.

Contributions

Eligible retirees are required to contribute \$100 per month in order to maintain coverage. Eligible retirees electing family coverage are required to contribute \$100 plus the difference between family and husband/wife coverage.

If a retiree attains the age of 65 and there is a covered spouse who is under the age of 65, the spouse is permitted to continue with postretirement medical, dental, and vision benefits without paying any required contributions.

Benefit Duration

Medical benefits are provided to the age of 65.

Dental

Retirees are also eligible for dental benefits. Dental benefits are provided up to the age of 65 only.

Vision

Retirees are also eligible for vision benefits. Vision benefits are provided up to the age of 65 only.

Life Insurance

Retired administrators are provided with a \$10,000 life insurance benefit.

Retired custodians and administrative assistants are provided with a \$3,000 life insurance benefit.

All other employee groups, including teachers, are not provided with retiree life insurance.

SECTION 4

Claim Cost Analysis

Pre-65 Costs

Starting claim costs for pre-65 retirees were based on current premium rates. Current premium rates, which are effective July 1, 2013, were provided by the ACSHIC and can be found below:

Tier	PPO
Individual	\$ 517.60
Parent/Child	\$ 1,160.47
Parent/Children	\$ 1,276.51
Husband/Wife	\$ 1,406.09
Family	\$ 1,461.95

From the premium rates, an annual per adult participant rate was developed based on the enrollment by tier in the ACSHIC.

From the annual per adult participant, age specific costs were developed by spreading the average costs by age based on current enrollment. Per participant age adjusted costs at selected ages can be found below:

Age	Age-Adjusted Actuarial Cost
55	\$ 9,266
60	\$ 11,273
64	\$ 12,688
65	N/A
70	N/A

Post-65 Costs

Post-65 coverage is not provided.

SECTION 5

Participant Census

Census data for actives and retirees was developed from employee and retiree information supplied by Plum Borough School District. Below is a summary of the census data for the current year. Following the summary are the age distribution tables for active and retired participants.

Description	Number	Avg Age	Avg Svc
Active Participants			
All	309	42.63	13.24
Inactive Participants			
Covered under medical			
Retirees	93	62.23	n/a
Spouses	41	60.78	n/a

The active census data includes teachers and administrators only. Administrative assistants, custodians, confidential secretaries, and bus drivers are not included since they are not eligible for postretirement medical coverage. Active teachers and administrators who have elected the buy-out option are also included in the counts shown above.

The counts for retirees include only those covered under the medical plan.

**Plum Borough School District
Distribution of Active Employees as of July 1, 2013**

Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
20-24	3	0	0	0	0	0	0	0	3
25-29	18	9	0	0	0	0	0	0	27
30-34	12	37	4	0	0	0	0	0	53
35-39	7	15	27	4	0	0	0	0	53
40-44	4	3	21	29	5	0	0	0	62
45-49	2	12	5	11	2	2	0	0	34
50-54	0	10	1	8	2	3	2	0	26
55-59	0	3	1	8	7	3	9	5	36
60-64	0	1	3	3	1	1	0	3	12
65+	0	1	0	0	0	1	0	1	3
Total	46	91	62	63	17	10	11	9	309

The active census data includes teachers and administrators only. Administrative assistants, custodians, confidential secretaries, and bus drivers are not included since they are not eligible for postretirement medical coverage. Active teachers and administrators who have elected the buy-out option are also included in the counts shown above.

**Plum Borough School District
Distribution of Retirees as of July 1, 2013**

Covered Under the Retiree Medical Program

Age	Retirees	Spouses	Total
Under 50	0	0	0
50-54	0	1	1
55-59	13	15	28
60-64	80	25	105
65+	0	0	0
Total	93	41	134

SECTION 6

Actuarial Assumptions

Cost Method: Projected Unit Credit

Mortality: RP-2000 Mortality Table Projected to 2020

Discount Rate: The Annual OPEB Cost for the fiscal year ending June 30, 2013 was valued using a discount rate of 4.00%.

Inflation Rate: An inflation rate of 2.75% was assumed.

Salary Increases: Salary increases were not utilized in this valuation.

Health Care Trend: Health care trend rates are assumed to increase as follows:

Time Period	Trend
07/01/2014 – 06/30/2015 *	8.00%
07/01/2015 – 06/30/2016	7.50%
07/01/2016 – 06/30/2017	7.00%
07/01/2017 – 06/30/2018	6.50%
07/01/2018 – 06/30/2019	6.00%
07/01/2019 – 06/30/2020	5.50%
07/01/2020 – 06/30/2021	5.00%
07/01/2021 – 06/30/2022 & later	4.50%

* Costs for fiscal year 07/01/2013 – 06/30/2014 are shown in Section 4 of this report. The average cost for the 07/01/2014 – 06/30/2015 fiscal year are estimated to be 8.00% higher than the average cost for the 07/01/2013 – 06/30/2014 fiscal year.

Aging Factors: In addition to overall health care cost increases, costs will increase for each individual due to advancing age as follows:

Age	Rate
50-59	4.00%
60-69	3.00%
70-79	2.00%
80-90	1.00%
90+	0.50%

Withdrawal Rates:

Rates vary by attained age. Rates for sample ages are shown below:

Age	Rate
25	20.0%
30	15.0%
35	10.0%
40	7.5%
45	5.0%
50	2.5%
55	0.0%

Retirement Rates:

Rates of retirement are shown below:

Age	Rate
55-57	5.0%
58-59	15.0%
60	30.0%
61	15.0%
62	30.0%
63-64	15.0%
65	75.0%
66-69	10.0%
70	100.0%

Disability:

None assumed

Percent Married:

Actual spousal information was utilized for current retirees. For the active population, it was assumed that 75% of employees will have a covered spouse at retirement. Females are assumed to be three years younger than males.

Participation:

It is assumed that 100.0% of eligible retirees will elect to participate in the retiree medical and/or life insurance programs.

SECTION 7

Other Disclosures

Statement No. 45 of the Governmental Accounting Standards Board requires that certain information be disclosed about an employer's obligation and cost to provide postretirement benefits other than pensions. This Standard details the disclosure requirements necessary for retiree medical and life insurance programs. The disclosures presented below are in compliance with Statement No. 45.

Notes to Financial Statements

Paragraph #24

a) Plan Description

1. The Plan is a single-employer plan.
2. A complete description of the plan can be found in Section 3 of this report.
3. The plan does not issue a stand-alone financial report in accordance with GASB 43.

b) Funding Policy

1. Plum Borough School District is the entity that has the authority to establish or amend required contribution rates.
2. The required retiree contributions of plan members can be found in Section 3 of this report.
3. Employer contributions can also be found in Section 3 of this report.

Paragraph #25

- a) The net OPEB obligation, all of the components of the annual OPEB cost, the increase or decrease in the net OPEB obligation, and the net OPEB obligation at the end of the year can be found in Section 2 of this report.
- b) The annual OPEB cost for the current year can be found in Section 2 of this report. In future years, the annual OPEB cost for the current year and the two preceding years will be presented in Section 2 of the report.
- c) The disclosure of the Funded Status can be found in Section 2 of this report.
- d) The disclosure of Actuarial methods and assumptions can be found in Section 6 of this report.

1. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.
2. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.
3. The calculations are based on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of cost sharing between the employer and plan members. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.
4. The actuarial assumptions used in this valuation reflect a long-term perspective. To the extent possible, the actuarial assumptions and methods used attempt to reduce the short-term volatility in the actuarial accrued liabilities.
5. Identification of the actuarial methods and significant assumptions used to determine the ARC for the current period are:
 - i. The actuarial cost method is the Projected Unit Credit method.
 - ii. The method used to determine the actuarial value of assets is not applicable since there are no plan assets.
 - iii. The assumptions with respect to inflation rate, investment return, projected salary increases, and the healthcare cost trend rate can be found in Section 6 of this report.
 - iv. The amortization method used is the level dollar method. The amortization period for the most recent actuarial valuation is 30 years. The period is open.