



Los Angeles Unified School District

Health & Welfare Benefits: Retiree Health Actuarial Valuation Update & Retreat Preview

Presentation to the

Audit, Business & Technology Committee

February 16, 2006

David Holmquist | Director

Office of Risk Management & Insurance Services



Overview of Presentation ●

- Introduction
 - Background
 - Why Conduct an Actuarial Valuation?
- Actuarial Valuation July 1, 2005
 - Valuation Basics
 - Trends Affecting Retiree Health Benefits
 - District Retiree Health Benefits
 - Valuation Results
 - What Have Other Employers Done?
- Health & Welfare Benefits Retreat Preview



Background



- July 1, 2004 Actuarial Valuation Conducted
- March 1, 2005 Risk Management Merges with Benefits
- July 2005 Committee of the Whole
- February 2006 ABT Actuarial Presentation
- March 2006 Retreat
- April-September 2006 Follow-up Meetings



Why Conduct an Actuarial Valuation?

- Required by Governmental Accounting Standards Board (GASB) Statement 45
 - Effective fiscal year 2007-2008
 - Requires public sector employers to conduct an actuarial valuation of their Other (than pension) Post Employment Benefits (OPEB)
 - Standardizes OPEB measurement and disclosure
 - Accurately quantifies future financial liabilities
- Assists in budget forecasting
- Assists in understanding effect of past and current decisions
- Important tool for decision making



Actuarial Valuation July 1, 2005 ●

- Valuation Basics
- Trends Affecting Retiree Health Benefits
- District Retiree Health Benefits
- Valuation Results
- What Have Other Employers Done?



Valuation Basics

Input Data



Project Benefits / Calculate Liability



Annual Financial Statement Costs

Member Data



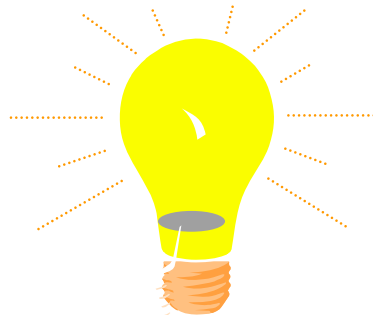
Financial Data



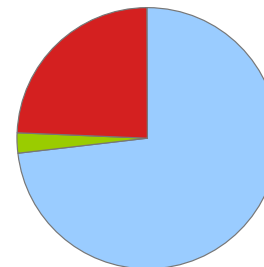
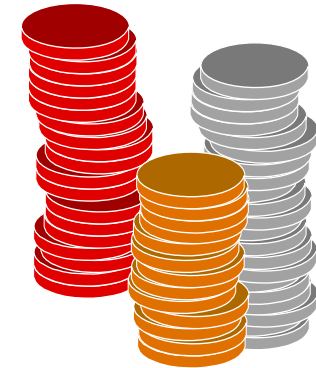
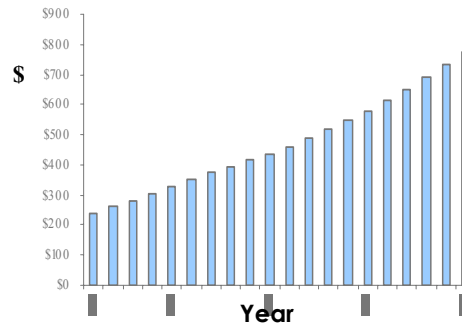
Plan Provisions



Actuarial Assumptions



- Investment Return
- Health Cost Increases
- Life Expectancy
- Retirement
- Turnover

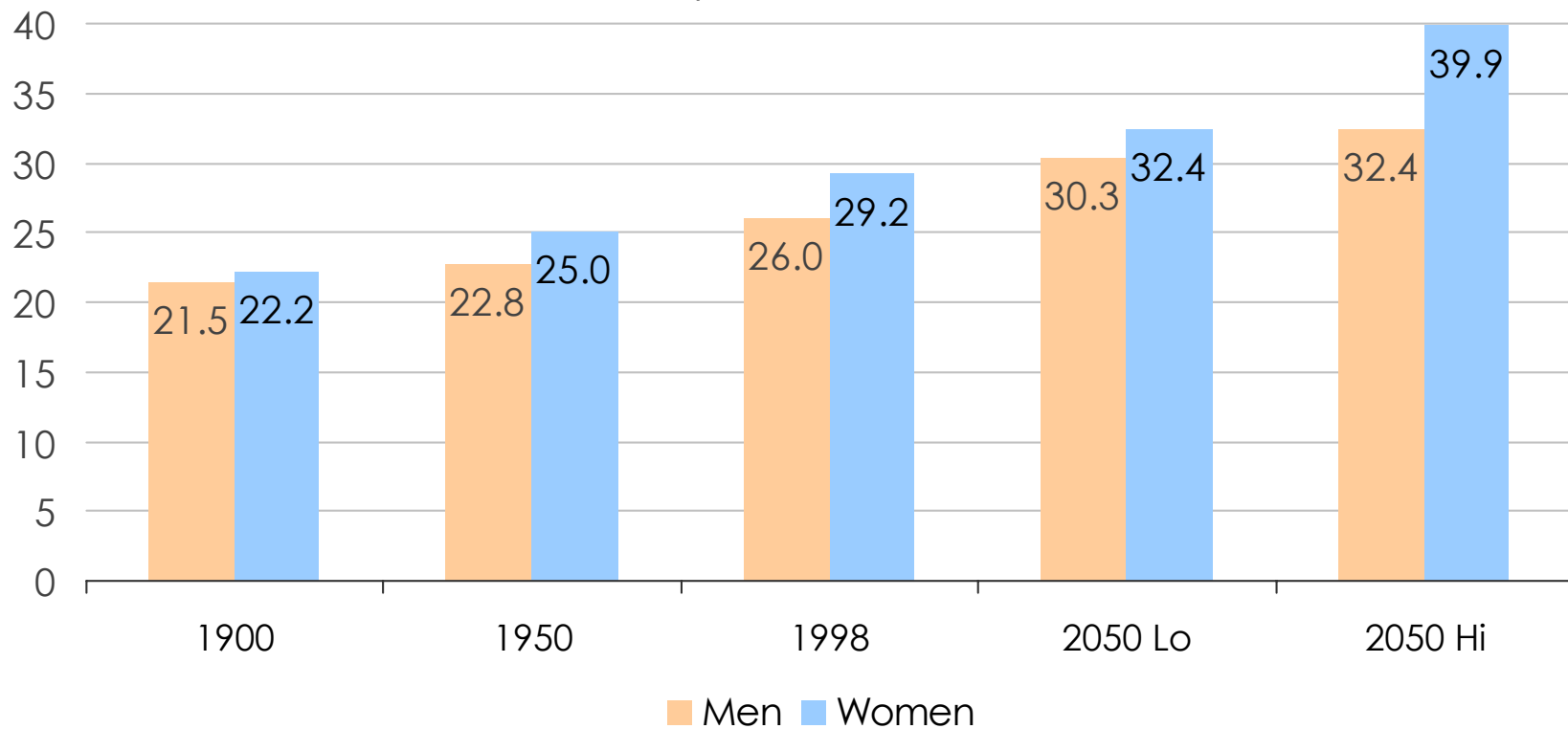


- Past Service Liability
- Current Service Cost
- Future Service Costs



Trends Affecting Retiree Benefits: Increasing Life Expectancy

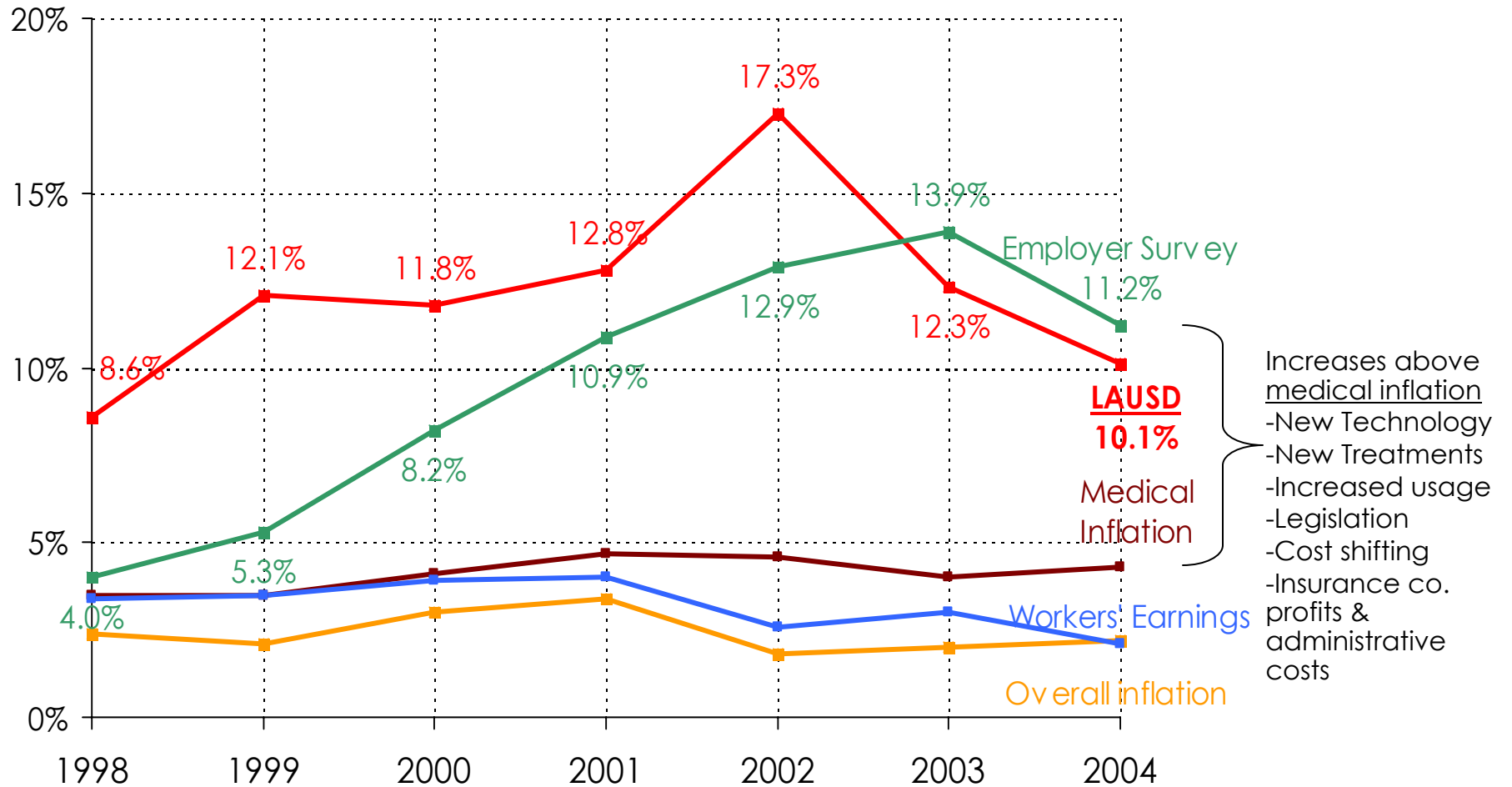
Remaining Life Expectancy at Age 55
Early Retirement



Source: Statistical Abstract of the U.S. 1900, 1950, 1998.
For 2050, Administration on Aging based on U.S. Census Bureau projections



Trends Affecting Retiree Benefits: Health & Welfare Increases vs. Other Indicators



Source: Kaiser Family Foundation, Employer Health Benefits, 2004 Annual Survey. Survey based on private and public employers of three or more workers.



District Retiree Health Benefits

BENEFITS

- Lifetime medical, Rx, dental and vision for employee and spouse (and eligible dependents)
 - At employee's death spouse/domestic partner & dependents must pay for coverage¹
- District pays 100% of premium
 - Retirees share in cost by meeting deductibles & making copayments

¹Unless spouse/domestic partner is otherwise eligible



District Retiree Health Benefits

ELIGIBILITY

- Receiving CalPERS or CalSTRS retirement benefits, &
- Meet District age and applicable service requirement¹

IF HIRED	CONSECUTIVE SERVICE IMMEDIATELY PRIOR TO RETIREMENT
On or before March 11, 1984	Five
Before July 1, 1987, but after March 11, 1984	Ten
Before June 1, 1992, but after July 1, 1987	Fifteen years of consecutive service immediately prior to retirement or ten years of consecutive service immediately prior to retirement plus ten years of non-consecutive service
After June 1, 1992	The sum of consecutive years of service immediately prior to retirement plus age must equal or exceed 80

1. Regular permanent employees working at least half-time.



OPEB Member Demographics as of July 1, 2005

Member	Number of Covered Individuals	Average Age	Average Years of Service
Retirees	33,645	73.4	n/a
Retiree Spouses / Domestic Partners	16,252	71.2	n/a
Employees	71,164	44.3	11.2

- Average Rule of 80 Age = 56.8 ^[1]
- Employee-to-retiree ratio = 2:1 ^[2]
- Student-to-retiree ratio = 22:1 ^[3]

Note: Retirees and their spouses are currently receiving OPEB benefits. Active employees are potential future recipients of OPEB benefits and are included in the valuation.

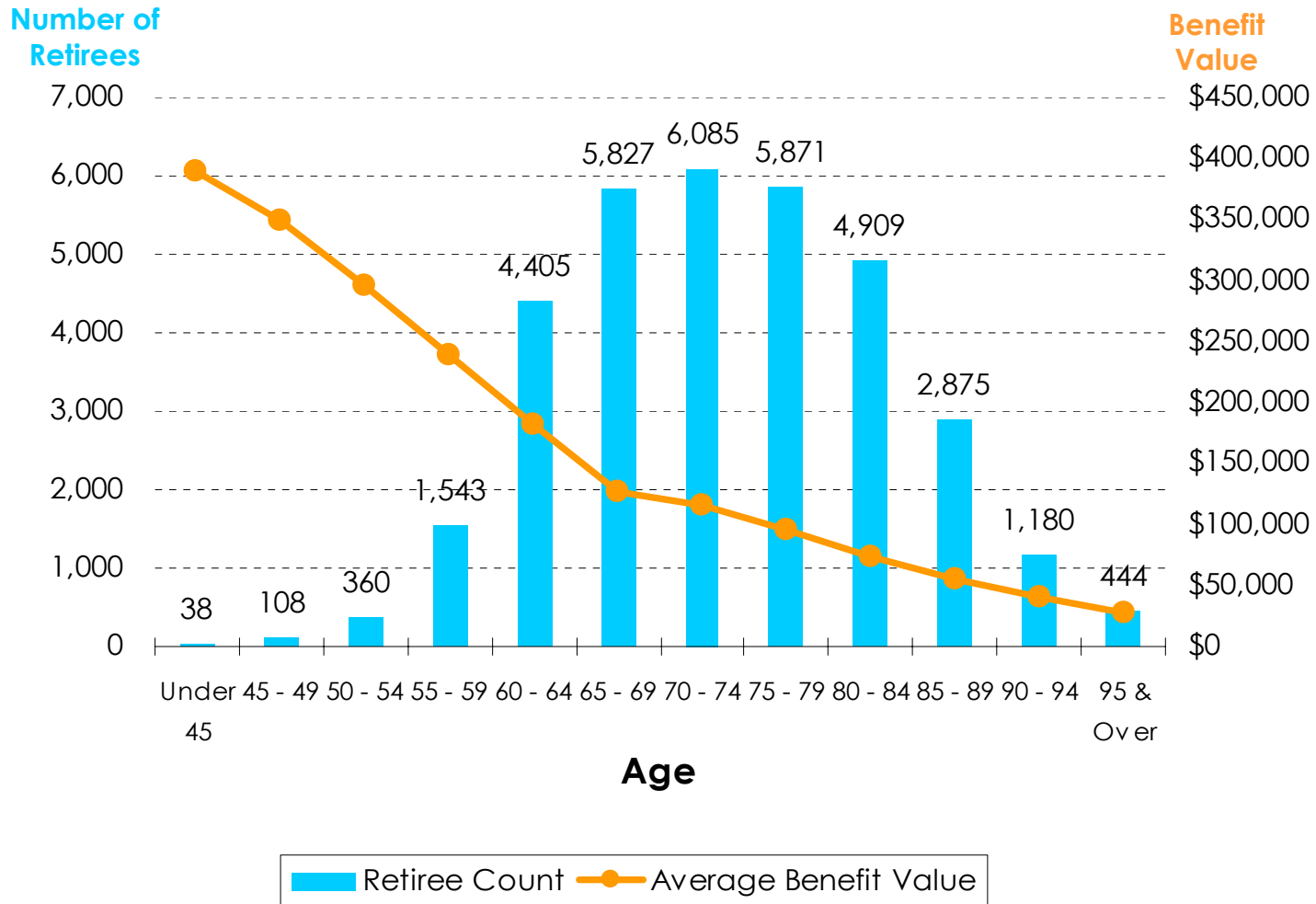
(1) Estimated by adding 12.5 years or 25 points (12.5 x 2) to current points based on current average age and service (44.3+11.2=55.5)

(2) 71,164 active members divided by 33,645 retirees

(3) 727,000 enrolled in K-12 per LAUSD fingertip facts 2005-2006 and 33,645 retirees



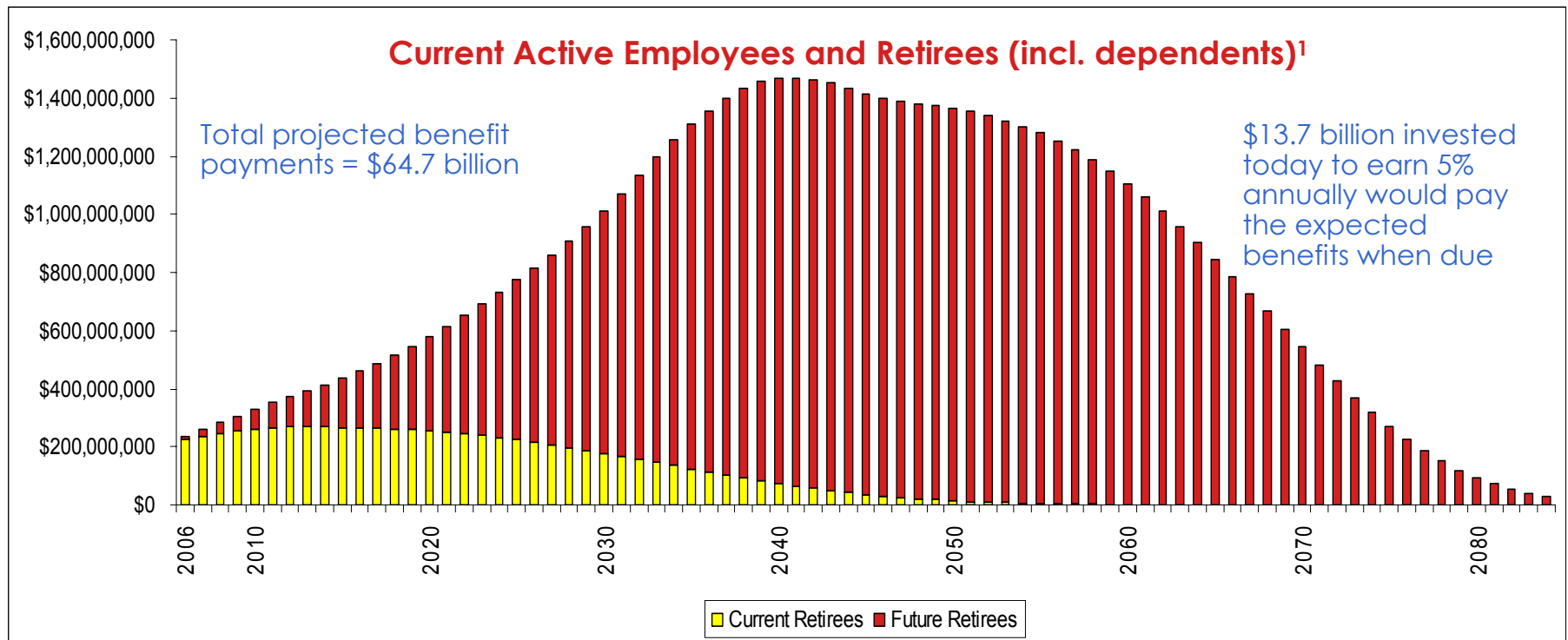
District Retiree Counts and Benefit Values



Source: Segal



Projected OPEB Benefit Payments



- Current cost for retiree benefit premiums is \$235 million annually, or \$323 per student
- Total retiree counts will increase 20% in next 30-35 years
- Healthcare cost increases are 12% annually. Retiree benefits for current retirees (incl. dependents) and current active employees only could cost \$1.4 billion in 2040

¹Payments shown above are only for current members of the plan. New District employees will increase costs further.



GASB OPEB Liability Results: Overview

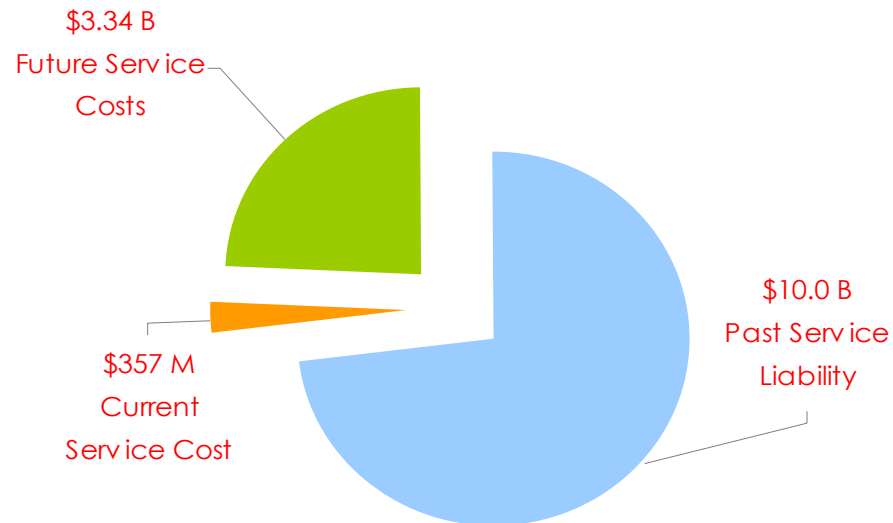
PRESENT VALUE OF TOTAL BENEFITS = \$13.7 billion

PAST SERVICE LIABILITY / ACTUARIAL ACCRUED LIABILITY:¹ \$10 billion

- Updated calculation resulted in increase from prior actuarial valuation figure of \$4.9 B²

CURRENT SERVICE COST (amount added for each year of employee service): **\$357 M**

TOTAL FUTURE SERVICE COSTS: \$3.34 B



Source: Segal

Note: Figures may vary slightly due to rounding

¹For employee services to date

²July 1, 2004 Valuation by The Epler Company



GASB OPEB Unfunded Liability – 2004 to 2005: Why Did it Increase?

UPDATED CALCULATION OF ACTUARIAL ACCRUED LIABILITY RESULTED IN INCREASE FROM \$4.9 BILLION TO \$10 BILLION

Liability, 7/1/2004	\$4.9B¹
One year of interest on liability, additional benefits, benefits paid and actuarial experience	+0.3B
Increase life expectancy and change retirement and turnover assumptions to better reflect LAUSD experience	+0.4B
Health cost increases	+0.9B
Change actuarial cost method to method that creates level annual costs	+1.3B
Discount rate/investment return assumption change decreased from 6.5% to 5% to more closely reflect expected investment returns on LAUSD investments	<u>+2.2B</u>
Liability, 7/1/2005	\$10 B

¹Epler

Source: Segal



GASB OPEB Cost, 2005-2006

Current Service Cost	\$357 M
30-Year Amortization of Unfunded Past Service / Actuarial Accrued Liability ¹	\$619 M
Interest	<u>\$49 M</u>
Total Annual Required Contribution (ARC) to Achieve Full Funding in 30 years	\$1.025 B
Annual Required Contribution (ARC)	\$1.025
ARC Adjustment ²	\$0
Interest on Net OPEB Obligation ³	<u>\$0</u>
Total OPEB Cost⁴	\$1.025 B

¹Since plan is unfunded, so total past service liability is subject to amortization.

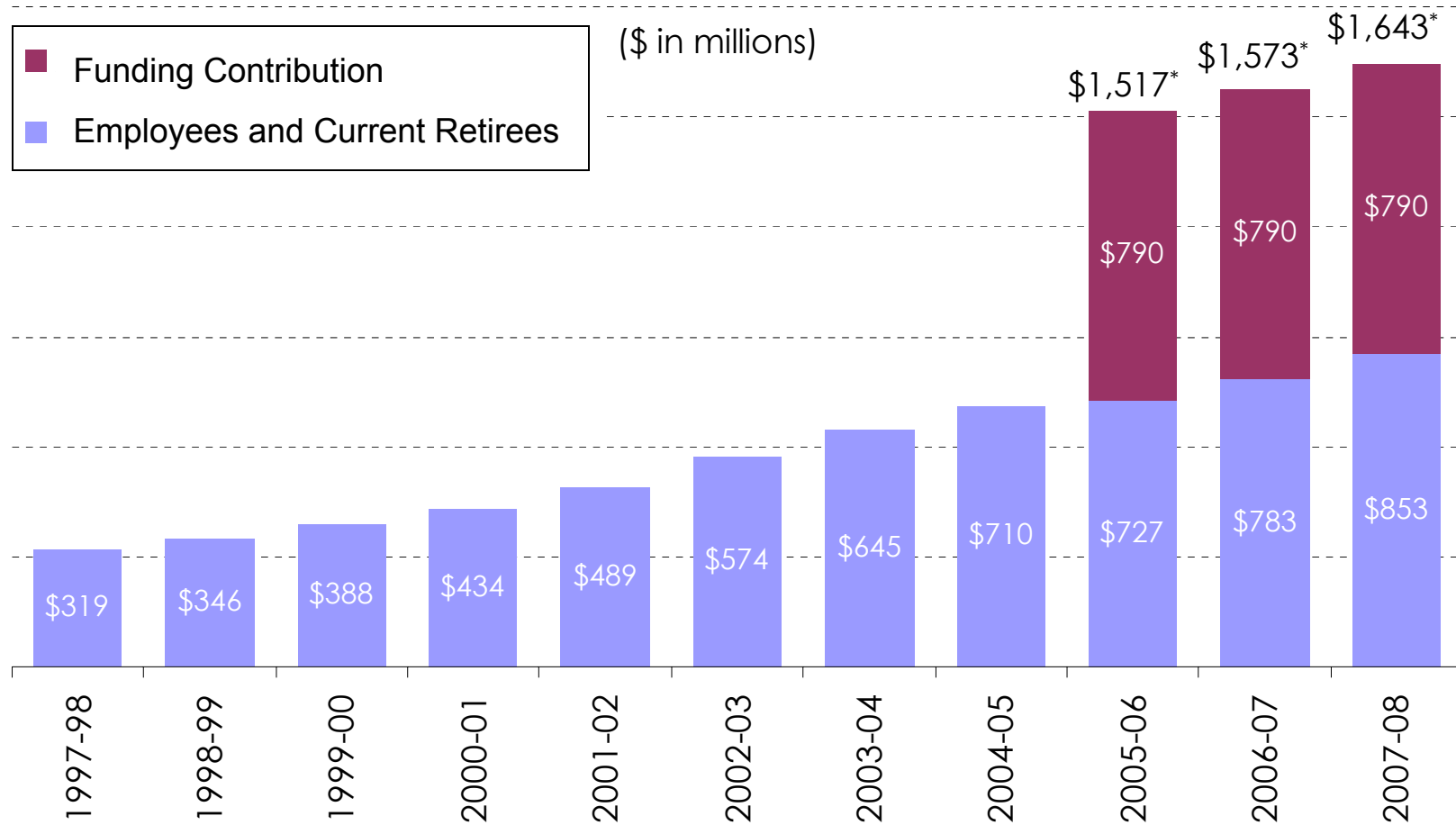
²ARC Adjustment is zero at inception

³Net OPEB Obligation is equal to the accumulated OPEB cost and is \$0 at inception

⁴Will be decreased by pay-as-you-go cost (\$235M for 2006) to **\$790M**



Fully Funding: True Health & Welfare Expenditure

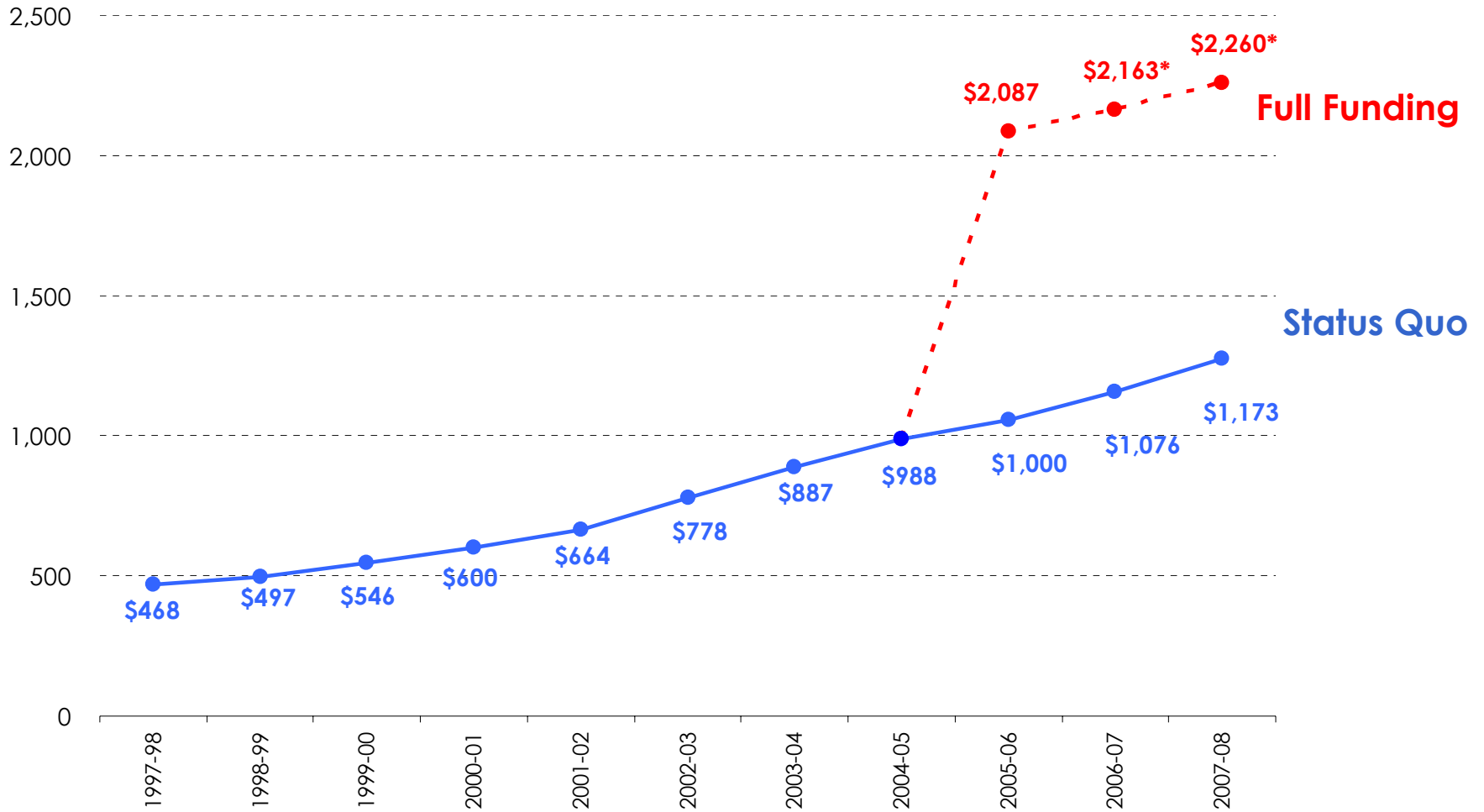


Source: CAFR, Towers Perrin and Segal
 *Assumes no change



Students Shoulder the Burden

Burden per Student for True H&W Expenditure
Full-funding of retiree program starting 2005-06



Note: Student count based on norm enrollment. For 2005 and beyond enrollment assumed to be 727,000 K-12.

*Assumes no change



What are Employers Doing About Retiree Health Care?

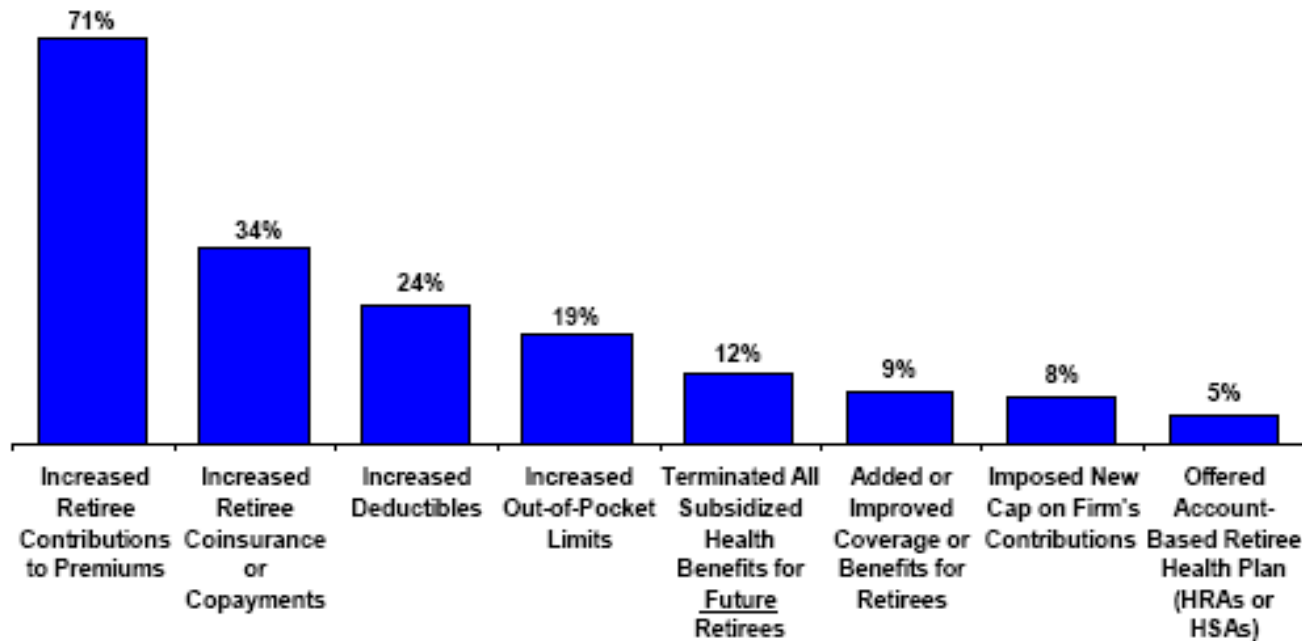
- Mitigate the disclosure
- Pre-Funding
- Redesign Benefits
- Legislative changes: SB 840



What Have Other Employers Done? - Statistics

Percentage of Large Private-Sector Employers that Made Changes to Retiree Health Benefits between 2004 and 2005

Percentage of large private-sector employers making the following changes:



Source: Kaiser-Hewitt 2005 Survey on Retiree Health Benefits, December 2005--survey of 333 large private-sector firms (with 1,000 or more employees) that currently offer health benefits to retirees.



Benchmarking

* See Appendix for a list of sources.

Employer	Unfunded Liability	Actions Taken/Proposed
Los Angeles Unified School District	~\$10 Billion	<ul style="list-style-type: none"> • Conduct employee surveys & evaluate results to recommend changes to current program • Examine & develop Plan Design changes in collaboration w/ Health Benefits Committee & Board members
General Motors	~\$61 Billion ⁴	<ul style="list-style-type: none"> • Cut benefits of 85,000+ salaried retirees ³ • Establish savings program to enable union workers to set aside money to use later; will contribute \$3 Billion to the program over the next 5 yrs ³
Ford	~\$32.4 Billion ⁴	<ul style="list-style-type: none"> • Cut 25,000-30,000 workforce ⁴
Verizon	~\$22.5 Billion ⁷	<ul style="list-style-type: none"> • Freeze retiree medical & pension benefits ⁷
San Mateo County	~\$469 Million ⁸	<ul style="list-style-type: none"> • Expand budget by \$29.2 Million to reduce unfunded liability for the fiscal year 2005-06 ⁹
San Diego County	~\$1.38 Billion ¹⁰	<ul style="list-style-type: none"> • Reduce benefits ¹¹ • Sell bonds to offset losses for county's investment fund ^{10,11} • Assess new taxes ¹¹
Orange County	~\$1.3 Billion ¹²	<ul style="list-style-type: none"> • No employee wage increases for at least 2 yrs ¹⁴ • Healthcare concessions from employees ¹⁴
Los Angeles County	~\$16 Billion ¹⁵	<ul style="list-style-type: none"> • Healthcare concessions from employees ¹⁵
City of Los Angeles	~\$3.2 Billion ¹⁵	<ul style="list-style-type: none"> • Cuts to programs & services ¹⁵ • Possible limits to subsidy increases ¹⁵
State of California	~\$108 Billion ¹⁵	<ul style="list-style-type: none"> • Possible cuts to programs & services in the future ¹⁵
United Airlines	~\$9.8 Billion ¹⁹	<ul style="list-style-type: none"> • Chapter 11 Bankruptcy ²¹ • Cut 23,000+ workforce ²¹ • Reduce pensions & benefits ²¹
IBM	~\$5.89 Billion ²³	<ul style="list-style-type: none"> • Cap payments for retirees' coverages ³ • Adopt cash-balance plans; freeze defined benefit pension in 2008 & make more contributions to 401(K)s ²⁴
Fresno Unified School District	~\$1.2 Billion ²⁵	<ul style="list-style-type: none"> • Reduce expenditures ²⁶ • Contain health & welfare benefits cost ²⁶



Preview: Health & Welfare Benefits Retreat ●

- Objectives
- Participants
- Format of Retreat



Objectives

- ▶ Improve & streamline communication among the Board, Health Benefits Committee, District staff & other stakeholders
- ▶ Provide education on health benefits
- ▶ Develop common understanding of key benefit issues by all stakeholders
- ▶ Establish District philosophy towards benefits
- ▶ Set stage for Board prioritization and direction
- ▶ Discuss Legislative agenda



Participants

- ▶ Board Members
- ▶ Health Benefits Committee
- ▶ Union Leadership
- ▶ Retirees
- ▶ Industry experts
- ▶ Key District Staff



Format of Retreat

Day 1 - March 22, 2006

- ▶ Welcome & Introduction
- ▶ Health Benefits Quiz Administration & Results
- ▶ Survey Results
 - ▶ Board/Health Benefits Committee/Senior Staff Survey
 - ▶ Employee Survey
 - ▶ Employer/Benchmarking Survey
- ▶ Health Benefits Committee – Structure & Process
- ▶ Keynote Address



Format of Retreat

Day 2 - March 23, 2006

- ▶ Welcome & Summary/Review
- ▶ Retiree Funding: Other Post Employment Benefits (OPEB), Options
- ▶ Panel Discussion
- ▶ Individual Case Studies
 - ▶ Plan Design
 - ▶ Eligibility
- ▶ Benefits Philosophy
- ▶ Summary/Review
- ▶ Next Steps



• Thank you •