



OPEB Unfunded Liability

2017-18 Proposed Budget
Financial Services Department

City Council Work Session
August 12, 2017

OPEB Unfunded Liability

Accounting for OPEB



Actuarial Determined Annual OPEB Cost

	2016
Actuarial Determined Annual OPEB Cost	\$ 6,457,743
Current Years Retiree Benefit Cost Paid by City	(4,231,460)
Net Annual OPEB Cost	2,226,283
Contribution to Trust from Utilities	(750,000)
Amount Required from General Fund to Meet OPEB Obligation	\$1,476,283

Unfunded Actuarial Accrued Liability

	2016
Actuarial Value of Assets	\$ 3,149,078
Actuarial Accrued Liability	88,560,602
Unfunded Actuarial Accrued Liability	85,411,524
Funded Ratio	3.6%

Note: Above information based on the 2016 Audited Financial Statements.

OPEB Unfunded Liability

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Factors Impacting Unfunded Liability

OPEB Unfunded Liability

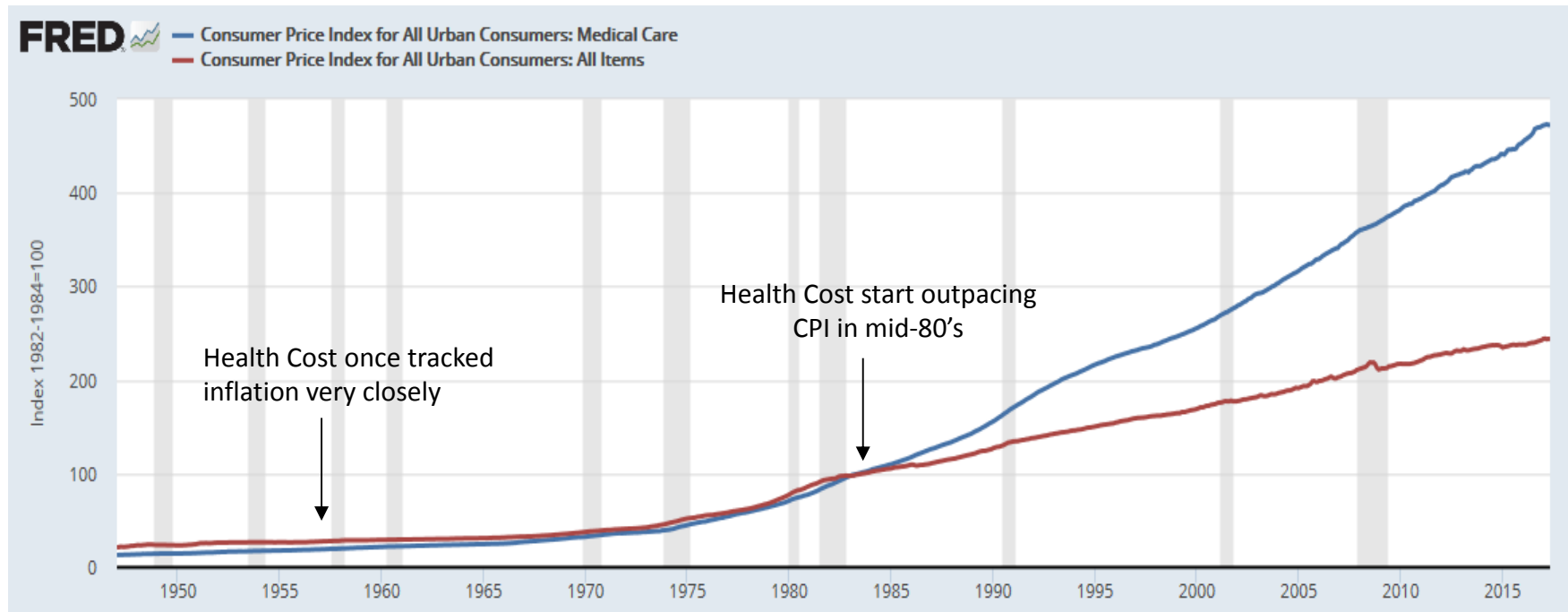
Major Factors Impacting Unfunded Liability



- Health-Care Cost - Biggest driver and hard to predict
 - Ongoing battle to match plan cost with resources available.
- Employee and Retiree Demographics
 - Length of time employees expected to work for Garland.
 - How long employees are expected to live after retirement.
- Return on Investment
 - Pre-funding Liability in trust allows for greater returns.

Health-Care Costs

Medical Claims Rising Faster than Inflation

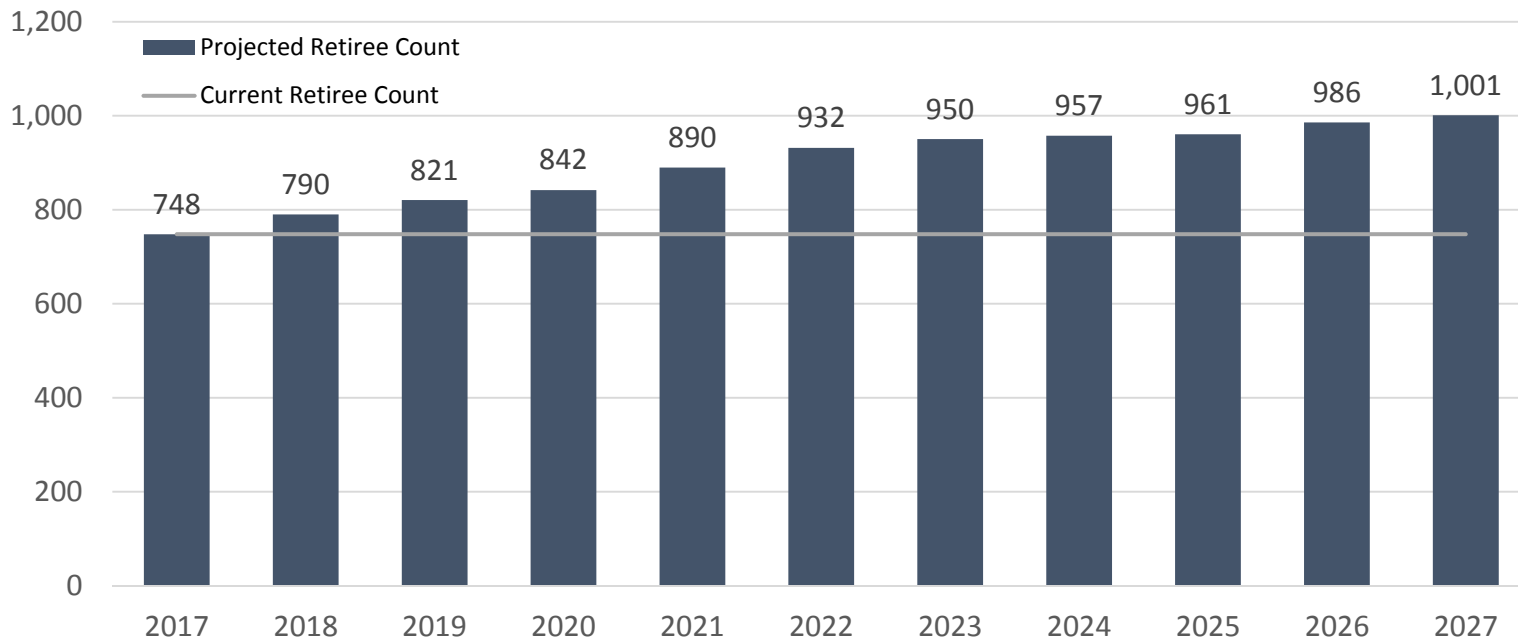


Note: Inflation has increased 3.6% per year, on average, since 1985, and medical care has increase 8.3% per year on average since 1985.

Source: Federal Reserve Bank of St. Louis

Employee and Retiree Demographics

Actuarial Projected Growth in Retirees



Note: Predict 253 or a 34% increase in retirees on Health Plan over next ten years.

Return on Investment

Advantages of Pre-Funding Plan in a Trust



- Larger return on investment in a trust.

Example: Return on Investment

	General Fund Reserve	With a Trust
Employer Contributions	\$45,000,000	\$27,200,000
Return on Investment	5,000,000	22,800,000
Total Cost of Benefit	50,000,000	50,000,000

*Assumes 20-year funding goal of \$50 million and 6% interest in Trust or 1% interest in General Fund.

- Contributions and earnings in the Trust are “assets” which offset the liability on financial statements.
- Credit rating agencies look favorably on agencies that pre-fund.
- Buffer risk of excessive medical inflation or operating pressures during recession (since City can draw on account).

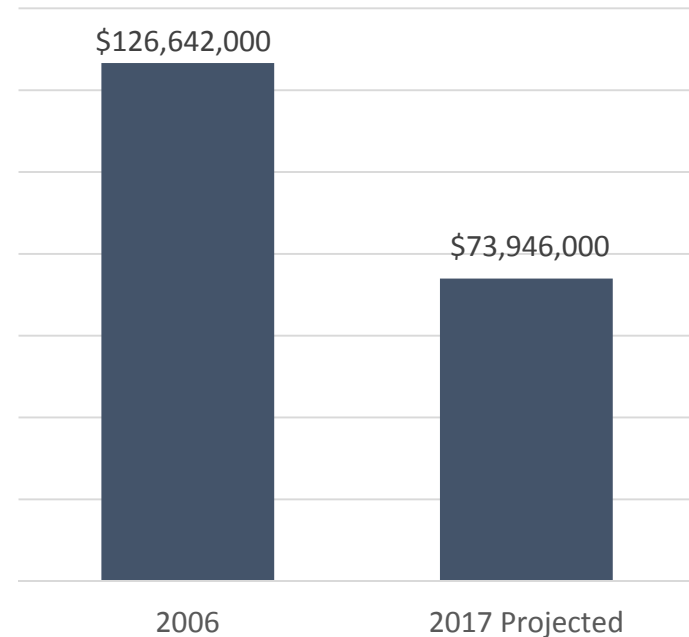
How the City Has Managed OPEB

Items Implemented to Date



- Introduced Medicare Supplement Plan and removed post-65 from self-insured plan.
- Five years of consecutive service at Garland to be eligible for retiree health insurance.
- One-time re-entry option to Retiree Health Plan at Medicare eligibility.
- 3% cap to monthly City contribution each year.
- City established Irrevocable Trust and makes deposits when funding available.
- Multiple changes to Retiree Health Plans including increasing deductibles, co-pays, and premiums.

Unfunded OPEB Liability



OPEB Unfunded Liability

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Metroplex Comparison

Metroplex Comparison

OPEB Financial Data



Financial Comparison

	Actuarial Value of Assets	Actuarial Accrued Liability	% Funded	UAAL as % of Payroll
Irving	\$0	\$14.9	0%	12%
Plano	\$60.0	\$84.4	71%	17%
Richardson	\$0	\$36.4	0%	54%
Dallas	\$0	\$492.8	0%	58%
<u>Garland</u>	<u>\$3.1</u>	<u>\$88.6</u>	<u>4%</u>	<u>66%</u>
Arlington	\$0	\$99.6	0%	69%
Mesquite	\$0	\$42.0	0%	73%
Fort Worth	\$66.0	\$740.1	9%	149%
Carrollton	\$0	\$10.9	0%	253%

Notes:

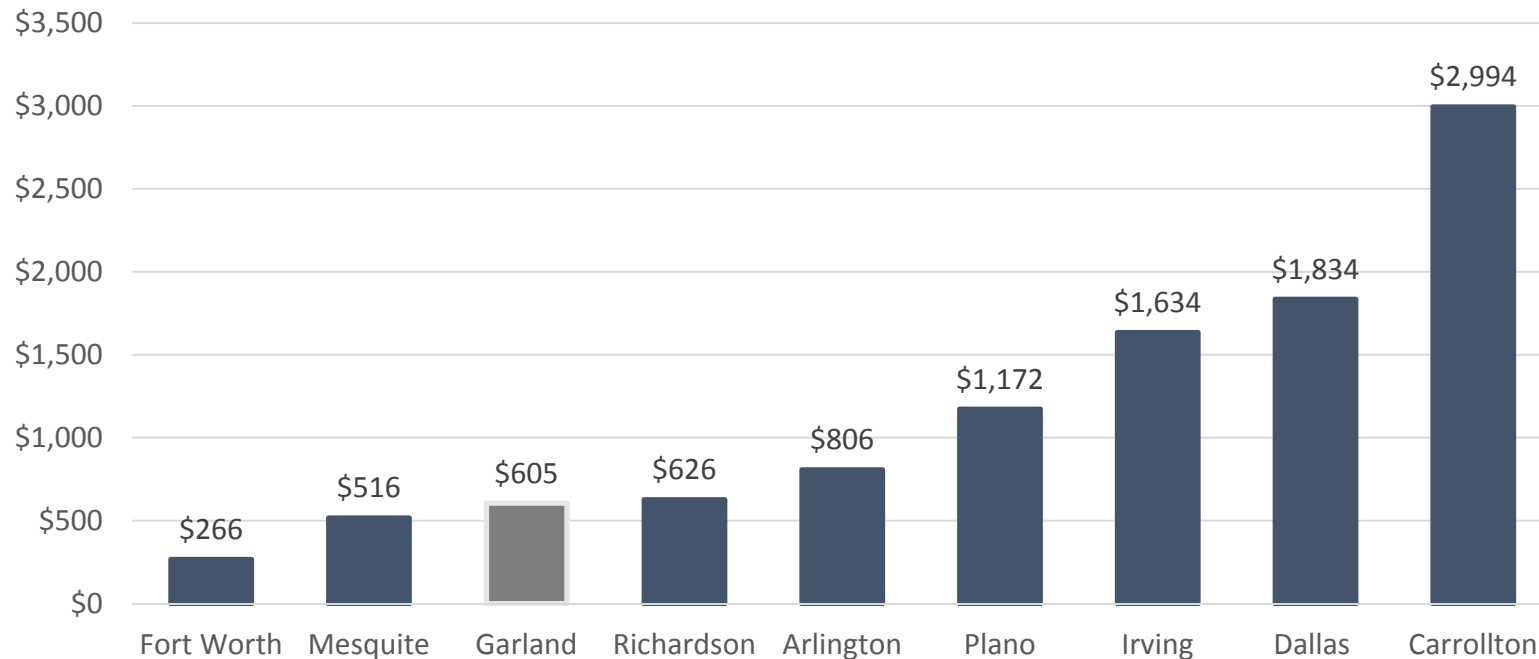
- 1) Plano, Garland, and Fort Worth are either funding or partially funding OPEB.
- 2) Irving, Dallas, and Carrollton have drastically reduced their City subsidy to reduce their liability.

Metroplex Comparison

Pre-65 Retiree + Spouse Premiums



**Comparison of Retiree Monthly Premiums
Pre-65 Retiree + Spouse**



Notes:

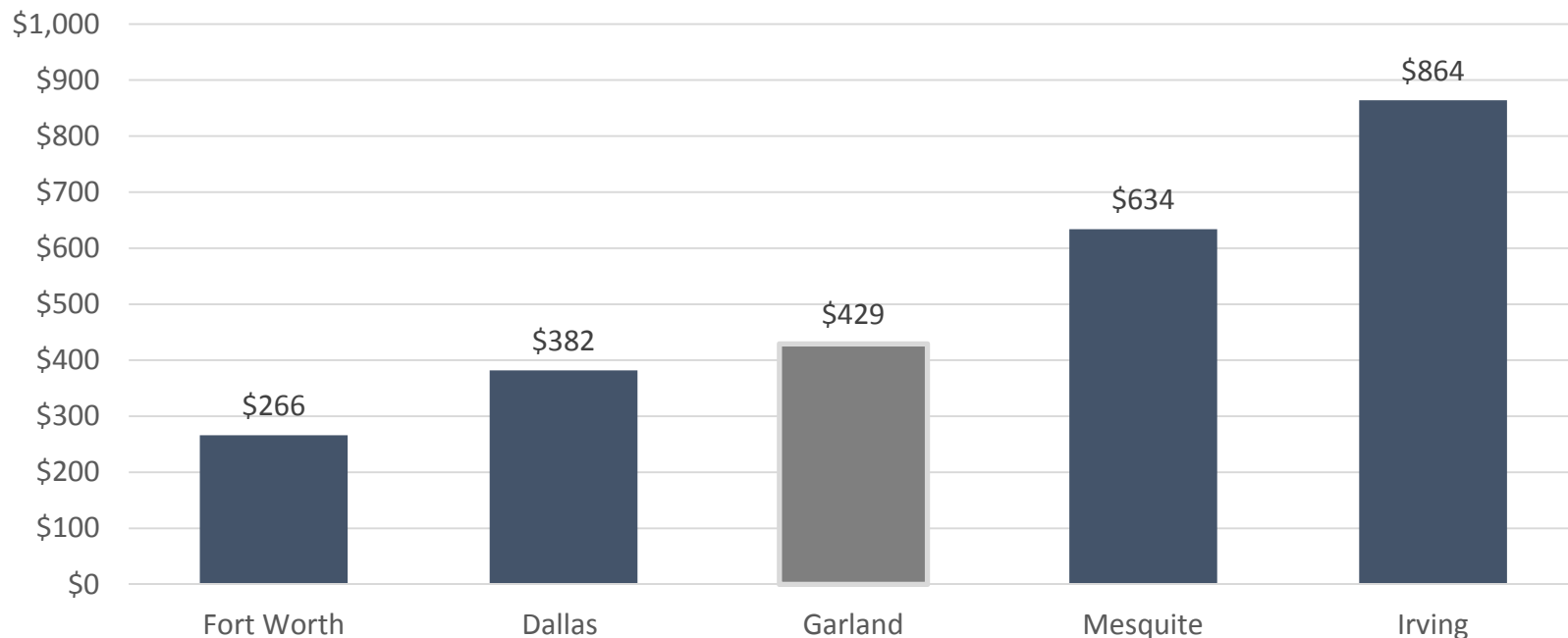
- 1) Figures assume 20 years of service and plan with a deductible comparable to the City of Garland's Base Plan.
- 2) Most cities base retiree premiums on years of service.
- 3) Dallas, Irving, and Carrollton have removed or drastically reduced subsidy for retirees.
- 4) Mesquite has an HSA High-Deductible Plan that requires more out-of-pocket costs than PPO plans that offer co-pays.

Metroplex Comparison

Post-65 Retiree + Spouse Premiums



**Comparison of Retiree Monthly Premiums
Post-65 Retiree + Spouse**



Notes:

- 1) The Cities of Plano, Richardson, Arlington, and Carrollton offer subsidy through Medicare Exchange programs, and rates vary based on age and plan selected by individual retiree. Therefore, they are not presented in the chart.
- 2) The Cities of Garland, Dallas, Mesquite, and Irving offer Medicare supplement plans.
- 3) The City of Fort Worth offers a Medicare Advantage Plan.

Metroplex Comparison

Retirement Health Insurance and Cost-of-Living Adjustments



	Retiree Health Insurance		Pension Plan Provision
	Drastically Reducing or Eliminating City Subsidy	Prefunding Retiree Health Insurance	Cost-of-Living Adjustments
Irving	Yes	No	30% of CPI
Plano	No	Yes	70% of CPI
Richardson	No	No	50% of CPI
Dallas	Yes	No	Based on % Change in CPI
<u>Garland</u>	<u>No</u>	<u>Partially</u>	<u>No COLA</u>
Arlington	No	No	50% of CPI
Mesquite	No	No	50% of CPI
Fort Worth	No	Partially	2% per year
Carrollton	Yes	No	50% of CPI

Notes:

- 1) Plano, Garland, and Fort Worth are either funding or partially funding OPEB.
- 2) Irving, Carrollton, and Dallas have eliminated or reduced subsidy.
- 3) City of Garland only City not offering COLA. Other pension plan provisions such as Updated Service Credits vary among cities.

OPEB Unfunded Liability

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Proposed Budget Funding Strategy

10-Year Plan to Meet OPEB Obligation

General Fund Contributions (in Thousands)



<u>Year</u>	<u>OPEB Cost</u>	<u>Employer Benefit Payments</u>	<u>Utility Trust Contribution</u>	<u>General Fund Trust Contribution</u>	<u>Change in OPEB Obligation</u>
2017	\$6,597	(\$4,079)	(\$750)	\$0	\$1,768
2018	\$6,871	(\$4,353)	(\$750)	(\$500)	\$1,267
2019	\$7,128	(\$4,658)	(\$750)	(\$585)	\$1,135
2020	\$7,386	(\$4,923)	(\$750)	(\$670)	\$1,043
2021	\$7,646	(\$5,359)	(\$750)	(\$755)	\$782
2022	\$7,902	(\$5,779)	(\$750)	(\$840)	\$533
2023	\$8,154	(\$6,072)	(\$750)	(\$925)	\$408
2024	\$8,410	(\$6,300)	(\$750)	(\$1,010)	\$350
2025	\$8,671	(\$6,510)	(\$750)	(\$1,095)	\$316
2026	\$8,939	(\$6,883)	(\$750)	(\$1,180)	\$126
2027	\$9,207	(\$7,198)	(\$750)	(\$1,265)	(\$6)

Notes:

- 1) Utilities continue to contribute \$750,000 per year.
- 2) General Fund's contribution gradually increased by \$85,000 a year to meet OPEB obligation by 2027.

10-Year Plan to Meet OPEB Obligation

Projected Unfunded OPEB Liability (in Thousands)



<u>Year</u>	<u>Liability</u>	<u>Assets</u>	<u>Unfunded Liability</u>	<u>Funded Percentage</u>
2017	\$77,884	\$3,938	\$73,946	5.06%
2018	\$78,732	\$5,425	\$73,307	6.89%
2019	\$79,401	\$7,085	\$72,316	8.92%
2020	\$79,856	\$8,930	\$70,926	11.18%
2021	\$80,131	\$10,971	\$69,160	13.69%
2022	\$80,044	\$13,219	\$66,825	16.52%
2023	\$79,600	\$15,688	\$63,912	19.71%
2024	\$78,914	\$18,389	\$60,525	23.30%
2025	\$78,044	\$21,337	\$56,707	27.34%
2026	\$77,005	\$24,547	\$52,457	31.88%
2027	\$75,626	\$28,035	\$47,591	37.07%

Notes:

- 1) Assumes Rate of Return of 6% and General Fund Contributions of \$8.8 million over ten years.
- 2) Changes in health-care costs, demographics, or rate of returns can alter the projected liability and funding ratio.

Projected Long-Term Benefit of Funding OPEB



- 20-Year Projection

Funding Source	Amount
OPEB Trust Beginning Balance	\$ 3,938,000
20 Years of General Fund Contributions	23,570,000
20 Years of Utility Fund Contributions	15,000,000
Projected Earnings on Investments	36,931,000
OPEB Trust Ending Balance after 20 Years	\$79,439,000

* Assumes 6% interest rate, no withdrawals from Trust, General Fund/Utilities continue to meet OPEB cost, and \$79 million liability.

- After 20 Years of contributions, investment earnings could be utilized to reduce retiree health insurance cost and sustain health insurance benefits.
- Projected savings of **\$115 million** over 50 years or **\$2.3 million** a year by funding OPEB through Trust.
 - Includes maintaining a Trust balance of \$80 million for future retirees.

Future Initiatives



- Research impact of upcoming accounting changes on actuarial long-term OPEB models.
- Evaluate changing City subsidy based on years of service and increasing the number of years employed before vesting.
- Continuing to monitor claims costs and demographics of employees and retirees.
- Continue to research methods to reduce unfunded liability and sustain the retiree health insurance benefit for the future.