



## MEMORANDUM

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DATE: October 1, 2013

TO: City Council

VIA: Judie Zimomra, City Manager

FROM: Sylvia Edwards, Finance Director

RE: Other Post-Employment Benefits (OPEB) Actuarial Experience Study – Request Approval of Assumption Changes

### BACKGROUND

Government Accounting Standards Board (GASB) standards 43 and 45 direct how state and local governments account for and report OPEB that are separate from pension benefits. The GASB standards require the accounting for OPEB on an accrual basis, matching the cost of future benefits with the time period in which they were earned. OPEB are those benefits that an employee will begin to receive at the start of retirement, which does not include pension benefits paid to the retired employee. Other post-employment benefits for the City of Sanibel relate only to the eligibility of retirees to participate in the City's health insurance plan although retirees pay 100% of the total cost of coverage. The participation eligibility creates an implicit rate subsidy.

Certain assumptions used in the City of Sanibel Other Post-Employment Benefit Plan's (OPEB) actuarial valuation have been reviewed. Experience has been analyzed for the retirement, participation and spouse coverage assumptions to determine which changes, if any, may be necessary to represent the best estimate of anticipated experience. OPEB census over a 5-year period from 2007 to 2012 has been utilized. Additional, as part of the study, recommendations have been made to change the mortality table assumption and the payroll growth rate assumption for the fiscal year 2013 GASB 45 costs.

### RECOMMENDATION

Staff recommends and is requesting City Council's approval for four assumption changes for the October 1, 2012 valuation report impacting fiscal year 2013 GASB 45 costs.

The following table compares the current assumptions with the proposed assumption changes.

<b>Assumption Description</b>	<b>Current Assumption</b>	<b>Proposed Assumption</b>
Participation Rate	40%	30%
Spouse Coverage Rate	50%	25%
Mortality Table	RP-2000 Combined Mortality (sex distinct)	RP-2000 Combined Mortality (sex distinct) (projected to valuation date using projection scale AA)
Payroll Growth Rate	4%	3%

## **FISCAL IMPACT**

\$184,993 decrease to Unfunded Actuarial Accrued Liability

\$17,923 decrease in annual OPEB cost

\$13,756 estimated decrease in Net OPEB Obligation

Required contributions are based on projected pay-as-you go financing. The Net OPEB Obligation (NOO) is accrued on the government-wide and proprietary funds financial statements. The NOO is the cumulative difference between the annual OPEB cost determined in accordance with the requirements of GASB Statement 45 and the amounts actually contributed in relation to the annual required contribution. In fiscal year 2012 the City provided estimated contributions of \$28,405 toward implicit rate subsidy benefits and administrative expenses.

## **ATTACHMENT**

OPEB Actuarial Experience Study Dated September 9, 2013 prepared by Foster & Foster

August 15, 2013

Via EMAIL & MAIL

Ms. Sylvia Edwards, Finance Director  
City of Sanibel  
800 Dunlop Road  
Sanibel, FL 33957

Re: OPEB Actuarial Experience Study

Dear Sylvia:

As requested, we have reviewed the certain assumptions used in the City of Sanibel's Other Postretirement Benefit Plan (OPEB) actuarial valuation. In particular, we have analyzed recent experience for the retirement, participation and spouse coverage assumptions to determine which changes, if any, may be necessary to represent our best estimate of anticipated experience. We have utilized OPEB census information over a 5 year period from 2007 to 2012. We have aggregated General and Police participants in our review of actual experience due to limited exposures for the Police participants. Additionally, as part of this study, we have reviewed and made recommendations for changing the mortality table assumption and the payroll growth rate assumption. Finally, we have considered the impact of these assumption changes on the fiscal year 2013 GASB 45 costs.

The balance of this Report presents details of the experience analysis. We are available to review these results with you at your convenience. Please contact us with any questions.

Respectfully submitted,

FOSTER & FOSTER, INC.

  
By: \_\_\_\_\_  
Aimee M. Strickland, FSA, EA, MAAA

  
By: \_\_\_\_\_  
Bradley R. Heinrichs, FSA, EA, MAAA

## City of Sanibel OPEB Experience Study Results

1. **Retirement Rates** - Review of the program's actual retirement experience indicates that the current retirement rates (on average) are in line with the actual retirement experience (on average). This can be seen in the summary results shown in Exhibit E. For the General Employees, the assumed retirement rates vary depending on eligibility for early retirement (i.e. if have 15 years of service as of December 31, 2011). For the employees who are still in the pension plan and already have 15 years as of December 31, 2011, the weighted average retirement age is 60.2 based on actual experience reviewed over the past 5 years. The assumed retirement rates for these employees produces a weighted average retirement age of 59.3, which is slightly lower, but not significantly different.

For the General Employees with less than 15 years as of December 31, 2011, the assumed retirement rates anticipate an overall expected average retirement age of 64.3. Since the General pension plan is a closed plan, all future hires will be in the 401(a) plan. As such, these employees are likely to delay their retirement later than their longer service colleagues, which is reflected in the expected average retirement age of 64.3. However, at this time we do not believe there is enough information available to support pushing the average expected retirement age out later than the current assumption produces. We recommend reviewing this assumption again in three to five years to see if retirement patterns may have changed.

For the Police Employees, the current assumption is the same as the pension plan. We expect the retirement patterns to be consistent between the Police pension and OPEB plan since they continue to cover the same employees.

We recommend current retirement rate assumption is reasonable going forward, so no change is recommended at this time.

2. **Participation Rate** - As can be seen in Exhibit F, actual participation in the medical plan at retirement was 32% for the 5 year period ending September 30, 2012. For OPEBs similar to Sanibel's that only provide an implicit subsidy at retirement, it is common to have low participation in the plan since the retirees must pay 100% of the active premium. As such, we recommend that the participation rate be lowered from 40% to 30%.
3. **Spouse Coverage Rate** - As can be seen in Exhibit G, once an employee retires and if they elect coverage under the medical plan, only 25% of those retirees elect to also cover a spouse. As such, we recommend lowering the spouse coverage rate from 50% to 25%.
4. **Mortality Table** - The current mortality assumption for OPEB is RP-2000 Combined Health Mortality (sex distinct). We recommend changing the assumption to the RP-2000 Combined Healthy (sex distinct) projected to the valuation date using projection scale AA to be consistent with the mortality used for the pension plans.

## **City of Sanibel**

### **OPEB Experience Study Results**

5. **Payroll Growth Rate** – Based on input from the City regarding the expected future payroll growth rates, the payroll growth rate is recommended to be lowered from 4% to 3%.

*A summary of the current and recommended assumptions discussed above can be found in Exhibit A.*

**CITY OF SANIBEL**  
**OPEB Experience Study Results**  
**Exhibit A - Assumption Summary**

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**1. RETIREMENT RATES**

**Current Retirement Rates**

Age	<b>General</b>		<b>Police</b>
	Grandfathered Rates	New Rates	
	Svc at 12/31/11 >= 15 years	Svc at 12/31/11 < 15 years	
50	0.0%	0.0%	2.0%
51	0.0%	0.0%	2.0%
52	0.0%	0.0%	2.0%
53	0.0%	0.0%	2.0%
54	0.0%	0.0%	2.0%
55	5.0%	0.0%	2.0%
56	5.0%	0.0%	2.0%
57	5.0%	0.0%	2.0%
58	5.0%	0.0%	2.0%
59	5.0%	0.0%	2.0%
60	100.0%	5.0%	100.0%
61	100.0%	5.0%	100.0%
62	100.0%	5.0%	100.0%
63	100.0%	5.0%	100.0%
64	100.0%	5.0%	100.0%
65	100.0%	100.0%	100.0%

If 25 yrs service,  
then 100% assumed.

<b>Recommended Retirement Rates:</b>	<b>No change</b>
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**2. PARTICIPATION RATES**

Current Participation Rate	40%
<i>Recommended Participation Rate</i>	30%

**3. SPOUSE COVERAGE RATES**

Current Spouse Coverage Rate	50%
<i>Recommended Spouse Coverage Rate</i>	25%

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**Exhibit A - Assumption Summary**

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**4. MORTALITY RATES**

Current Mortality Assumption

RP-2000 Combined Mortality (sex distinct)

*Recommended Mortality Assumption*

*RP-2000 Combined Mortality (sex distinct)*  
*(projected to val date using projection scale AA)*

**6. PAYROLL GROWTH RATE**

Current Payroll Growth Assumption

4%

*Recommended Payroll Growth Assumption*

3%

No other recommended changes to assumptions at this time.

**City of Sanibel**  
**OPEB Experience Study Results**  
**Exhibit B - GASB 45 Impact**

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	<u>Current</u>	<u>New Mortality</u>	<u>New Mortality, Participation, &amp; Spouse Coverage</u>	<u>New Mortality, Participation, Spouse Coverage, &amp; Payroll Growth</u>
Valuation Date	10/1/2012	10/1/2012	10/1/2012	10/1/2012
Applicable for Fiscal Year Ending	<u>9/30/2013</u>	<u>9/30/2013</u>	<u>9/30/2013</u>	<u>9/30/2013</u>
Annual Required Contribution	\$ 70,299	\$ 70,730	\$ 50,980	\$ 53,393
Interest on Net OPEB Obligation	9,166	9,166	9,166	9,166
Adjustment to Annual Required Contribution	<u>(7,345)</u>	<u>(7,345)</u>	<u>(7,345)</u>	<u>(8,362)</u>
Annual OPEB Cost/(Expense)	\$ 72,120	\$ 72,551	\$ 52,801	\$ 54,197
Net Contributions Made	<u>(38,548)</u>	<u>(38,560)</u>	<u>(34,381)</u>	<u>(34,381)</u>
Anticipated Increase/(Decrease) in Net OPEB Obligation	\$ 33,572	\$ 33,991	\$ 18,420	\$ 19,816
Net OPEB Obligation - Beginning of Year	\$ 183,311	\$ 183,311	\$ 183,311	\$ 183,311
Estimated Net OPEB Obligation - End of Year	\$ 216,883	\$ 217,302	\$ 201,731	\$ 203,127
<b>Funded Status as of:</b>	<b>10/1/2012</b>	<b>10/1/2012</b>	<b>10/1/2012</b>	<b>10/1/2012</b>
Actuarial Accrued Liability (AAL)	\$ 631,325	\$ 635,294	\$ 446,332	\$ 446,332
Actuarial Value of Assets (AVA)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$ 631,325	\$ 635,294	\$ 446,332	\$ 446,332
Funded Ratio	0.0%	0.0%	0.0%	0.0%
Covered Payroll	\$ 5,787,718	\$ 5,787,718	\$ 5,787,718	\$ 5,787,718
Ratio of UAAL to Covered Payroll	10.9%	11.0%	7.7%	7.7%

**Key Assumptions:**

	RP-2000 Combined Healthy	RP-2000 Combined Healthy (Projected to Val Date; Scale AA)	RP-2000 Combined Healthy (Projected to Val Date; Scale AA)	RP-2000 Combined Healthy (Projected to Val Date; Scale AA)
Mortality Table	RP-2000 Combined Healthy	RP-2000 Combined Healthy (Projected to Val Date; Scale AA)	RP-2000 Combined Healthy (Projected to Val Date; Scale AA)	RP-2000 Combined Healthy (Projected to Val Date; Scale AA)
Participation Assumption	40%	40%	30%	30%
Spouse Coverage Assumption	50%	50%	25%	25%
Payroll Growth Rate	4%	4%	4%	3%

**CITY OF SANIBEL**  
**OPEB Experience Study Results**

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**EXHIBIT C**

**RETIREMENT, PARTICIPATION AND SPOUSE COVERAGE STATISTICS**  
*(October 1, 2007 to September 30, 2012)*

<b>Year</b>	<b>Retirement Eligible Members</b>	<b>Actual Retirements</b>	<b>No. Electing Medical Coverage</b>	<b>No. Electing Spouse Coverage</b>
<b>2007</b>	20	4	1	0
<b>2008</b>	24	6	4	2
<b>2009</b>	30	4	0	0
<b>2010</b>	33	7	1	0
<b>2011</b>	27	4	2	0
<b>Total</b>	134	25	8	2

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**EXHIBIT D**

RETIREMENT RATES  
*(October 1, 2007 to September 30, 2012)*

<b>Year</b>	<b>Retirement Eligible Members</b>	<b>Actual Retirements</b>	<b>Actual Retirement Rate</b>
<b>2007</b>	20	4	20.0%
<b>2008</b>	24	6	25.0%
<b>2009</b>	30	4	13.3%
<b>2010</b>	33	7	21.2%
<b>2011</b>	27	4	14.8%
<b>Total</b>	134	25	

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**EXHIBIT E**

RETIREMENT RATES BY AGE  
*(October 1, 2007 to September 30, 2012)*

<b>Age</b>	<b>Retirement Eligible Members</b>	<b>Actual Retirements</b>	<b>Actual Retirement Rate</b>
<b>&lt;50</b>	3	0	0.0%
<b>50-54</b>	7	2	28.6%
<b>55-59</b>	74	8	10.8%
<b>60-64</b>	29	9	31.0%
<b>65-69</b>	16	5	31.3%
<b>70+</b>	5	1	20.0%
<b>Total</b>	134	25	

Weighted Average Retirement Age based on Actual Retirements **60.2**

Assumed Weighted Retirement Age **59.3**  
 (Grandfathered General Ee's with 15 years at 12/31/11)

Assumed Weighted Retirement Age **64.3**  
 (General Ee's with Less than 15 years at 12/31/11)

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**EXHIBIT F**

**PARTICIPATION RATES**  
*(October 1, 2007 to September 30, 2012)*

<b>Year</b>	<b>Actual Retirements</b>	<b>Electing Medical Coverage</b>	<b>Actual Participation Rate</b>
<b>2007</b>	4	1	25.0%
<b>2008</b>	6	4	66.7%
<b>2009</b>	4	0	0.0%
<b>2010</b>	7	1	14.3%
<b>2011</b>	4	2	50.0%
<b>Total</b>	25	8	<b>32.0%</b>

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**EXHIBIT G**

**SPOUSE COVERAGE RATES**  
*(October 1, 2007 to September 30, 2012)*

<b>Year</b>	<b>Electing Medical Coverage</b>	<b>Electing Spouse Coverage</b>	<b>Actual Spouse Coverage Rate</b>
<b>2007</b>	1	0	0.0%
<b>2008</b>	4	2	50.0%
<b>2009</b>	0	0	0.0%
<b>2010</b>	1	0	0.0%
<b>2011</b>	2	0	0.0%
<b>Total</b>	8	2	<b>25.0%</b>