Rancho Santiago Community College District

2017 GASB 75 Valuation

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Goal:

- Provide information to allow Rancho Santiago Community College District to understand the most recent GASB 75 valuation and make informed decisions about retiree health benefits

Background

- GASB 75 replaces GASB 45
- Requires public agencies to account for retiree health benefits like pensions under GASB 68
  - Accrue benefits while people are working
  - Retiree premiums/costs taken from liability
- GASB standards apply to accrual basis financial statements
  - Used in Accreditation reviews
  - Used by bond-rating agencies
- Budgets based on amounts paid for retiree benefits
  - Amounts paid for retiree health premiums/costs
  - Contributions to a trust or reserves

Background

- **GASB 45 took effect in the 2007-08 fiscal year for Rancho Santiago**
- **Rancho Santiago had periodically evaluated the liabilities before GASB 45 effective (first TCS valuation in 2005)**
- **Rancho Santiago has been accumulating reserves for retiree health benefits for many years**
- **GASB 75 will now require annual valuations rather than biennial under GASB 45**
- **Under GASB 75, every other year, a simpler "roll-forward" valuation can be done**

Assumptions and Methods: General

- **Assumptions and methods must comply with GASB 75**
- **Assumptions and methods must comply with Actuarial Standards of Practice (ASOP)**

Key Valuation Assumptions

- 3.5% interest rate (was 4.5% last time)
  - GASB 75 requires rate to be set based on a 20 year Aa GO bond index for plans not being fully funded through an irrevocable trust
- 4% annual increase in retiree costs paid by Rancho Santiago
- CalPERS and CalSTRS demographic tables (i.e. mortality, turnover and retirement)

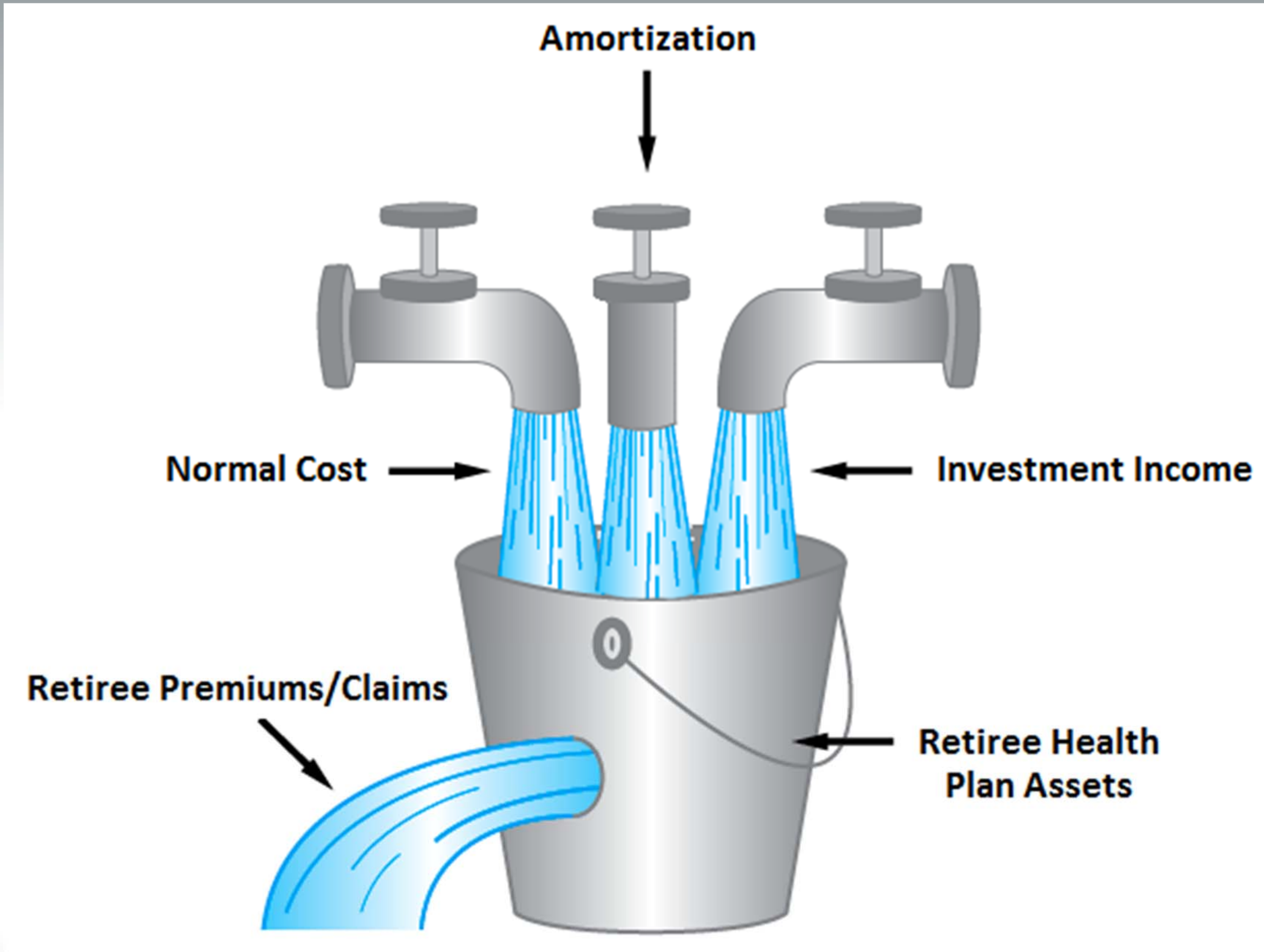
Valuation Results at 6/30/18

- **Actuarial Accrued Liability (the present value of earned benefits): $167.3 million (was $129.6 million)**
- **Expected 2017-18 retiree costs: $8.3 million (Note: retiree costs reflect actual claims and other costs – not necessarily the same as rates used internally by Rancho Santiago)**
- **The above ARC does not reflect liability offset for accumulated reserves of about $54.0 million (not considered plan assets under GASB 74/75)**

Valuation Results at 6/30/18

- Costs and liabilities increased more than anticipated
  - Interest Assumption decreased from 4.5% to 3.5% (increases liability 25% to 30%)
  - Added implicit rate subsidy of 10.1% of Medicare premium

Valuation Funding Model



Looking Forward

- Rancho Santiago will need to have a “roll-forward” valuation as of 6/30/18
    - Liability will be updated one year
    - Actual 6/30/18 plan assets will be used
    - The interest rate will be updated to reflect change in 20 year Bond Index from 3.5% to 3.8%
- A new “full valuation” will be needed as of 6/30/19
    - New liability will be determined using new demographic and benefit cost info
    - It’s likely that interest rate will increase again as the 20 Year Bond Index rises to more usual levels

Looking Forward

- Future full valuation liability increases will be uneven due to actuarial gains and losses– extent depends on plan design
- The rate of increase will slow as the number of retirees with lifetime benefits decreases
- Unless limited by plan design or agreement, actual premium increases can be much different from assumed
- CalPERS and CalSTRS periodically update their demographic tables – can cause increase or decrease

THANK YOU