

2010 MASBO Winter Conference Hildi Inc. – Negotiations and Plan Design Options for OPEBs

February 19th, 2010

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MASBO Winter Conference

- This presentation was prepared for the 2010 MASBO Winter Conference in St. Louis Park, MN
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Topics to be Covered

- Current OPEB Design Environment
- Current OPEB legislation in Minnesota
- Review of Defined Benefit vs. Defined Contribution
- Plan Design Options

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OPEB Design Goals

- How was your current OPEB design developed?
- What are you trying to reward?
- What effect do your OPEB benefits have on retirement behavior?
- Is your current OPEB design meeting your District's goals?
- What would current employees like to have in OPEB benefits?
- How much will or do you have available to allocate toward OPEBs?
- How much does your total retirement benefits package provide (including severance, OPEBs, and pension?)

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OPEB Liability

Types of Liability

- **Implicit Rate Subsidy Liability**

(MN Statute 471.61)

- **Direct Subsidized Liability**

(Different types of designs at each District – but similarities amongst Districts)

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Legislative Update

- 1) If a School District wanted to issue OPEB Bonds without voter approval, the sale had to take place on the Bonds by October 1, 2009
- 2) A School District can issue OPEB Bonds after October 1, 2009 WITH voter approval
- 3) A School District can submit an annual levy for OPEB payments

A District seeking levy authority must:

- Have created an actuarial liability to pay postemployment benefits to employees after termination of service
- Have a “Sunset Clause” in their current collective bargaining agreement
- Apply for the authority with the Commissioner of Education
- Maximum levy authority cannot exceed:
 - \$9,242,000 for taxes payable in 2010
 - \$29,863,000 for taxes payable in 2011
 - the sum of 2011’s authority and \$14,000,000 for taxes payable in 2012

Minnesota Laws 2009, Chapter 96, Article 1, Sections 16 and 19



Legislative Update

What is a Sunset Clause?

Examples include....

- Hire date restriction
- Retirement date restriction
- Rule of 90 eligibility

Applies to the Defined Benefit style of OPEB...

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Plan Design

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DB vs. DC

Defined Benefit

- Benefit defined as a future stream of payments or an annuity form
- Employer bears most risk
- Secure payments to the participant
- Benefit formula usually based on age, service, and possibly pay
- Cost of living adjustments can be provided
- Sometimes these plans have mandatory ee contributions
- Usually not dependent on the participant's ability to save
- Longevity risk removed for the employee

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DB vs. DC

Defined Benefit OPEB Examples

- Upon retirement at or after age 55 with at least 20 years of service in the District, then single coverage will be paid for by the District until age 65.
- Upon retirement at or after age 55 with at least 10 years of service in the District, then the District will pay up to \$300 a month towards single coverage (not indexed)
- Upon retirement at or after age 55 with at least 5 years of service, the District will provide \$40,000 minus the accumulated matching employer contributions that have been paid into the 403(b). The net amount, upon retirement, will be paid directly into a Health Care Savings Plan.

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DB vs. DC

Defined Contribution

- Contribution is made by employer to an employee account
- Participants can choose how much to save on their own
- Employee bears most risk
- Employee makes investment decisions
- Contribution usually defined as a percentage of salary or an annual flat dollar amount
- Easily understood by participants



DB vs. DC

Defined Contribution OPEB Examples

<<To be inserted before the presentation on February 19th>>

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DB vs. DC

GASB 45 Expense

For DB = ARC or Annual OPEB Cost

For DC = Annual amount that is contributed by the employer to participants' accounts



DB vs. DC

Can we include these DC OPEB costs in our annual levy?

No – only DB OPEBs can be included in the annual levy.

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DB vs. DC

By implementing a Sunset Clause on the DB Style of OPEBs, will we have “gotten rid of” or reduced our GASB 45 liability?

...Depends.

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Advantages of DB Style OPEBs

Discuss

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Advantages of DC Style OPEBs

Discuss

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Possible Plan Design Adjustments

No changes

More extreme changes

- Terminate or eliminate other post employment benefits – mainly retiree health care
- Replace eliminated benefits with some other form of benefit

Relatively minor (but cost effective) changes

- Redefine service requirements for benefits
- Increase required service required for eligibility
- Introduce retiree contributions based on years of service
- Changing the plan's Medicare integration
- Set a dollar limit on the District contribution to the retiree medical/dental plans
- Define the medical/dental benefit as a set dollar amount per month

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Plan Design and Pre-Funding

- Discuss jointly the Plan Design options that your District may want to make along with any Pre-Funding Strategies that have been implemented at your District
- Were OPEB Bonds issued to partially fund the Actuarial Accrued Liability?
- Do you have a Sunset Clause in place on your District's DB OPEBs?
- Will you decide to apply for the annual OPEB payment levy (if you have a Sunset Clause in place)?
- If a District issues OPEB Bonds, then can they apply for the OPEB annual levy?

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