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AGENDA
 COUNTY COUNCIL OF BEAUFORT COUNTY
 WORK SESSION

Thursday, March 3, 2016

9:00 a.m. – Executive Session

10:00 a.m. – Regular Session

Council Chambers, Administration Building
 Beaufort County Government Robert Smalls Complex
 100 Ribaut Road, Beaufort

1. CALL TO ORDER – 9:00 A.M.
2. EXECUTIVE SESSION
 - A. Receipt of legal advice relating to Retiree Healthcare Benefits and potential litigation arising out of Council's decision to terminate them
3. REGULAR SESSION – 10:00 A.M.
 - A. Discussion / Retiree Healthcare Benefits
4. ADJOURNMENT



ADD-ONS

The document(s) herein were provided to Council for information and/or discussion after release of the official agenda and backup items.

Topic: Beaufort County Post-employment Benefit Plan
Fiscal Year 2014 GASB 45 Annual OPEB Cost and Annual Required Contribution

Dates Submitted: March 3, 2016

Submitted By: Alicia Holland

Venue: County Council Work Session

August 1, 2014

Ms. Alicia Holland
Chief Financial Officer
Beaufort County
P.O. Box 1228
Beaufort, SC 29901

Re: Beaufort County Postemployment Benefit Plan – Fiscal Year 2014 GASB 45 Annual OPEB Cost and Annual Required Contribution

Dear Alicia,

The purpose of this letter is to present the Beaufort County (“County”) postemployment benefit plan fiscal year 2014 annual required contribution (“ARC”) and annual OPEB cost under Government Accounting Standards County Statement No. 45 (“GASB 45”) and provide information for the County’s financial statements for fiscal year ending June 30, 2014.

GASB 45 July 1, 2013 Unfunded Accrued Liability

The July 1, 2013 GASB 45 accrued liability and unfunded accrued liability for the County’s postemployment benefit plan is \$53.3 million. The table below shows the July 1, 2013 accrued and unfunded accrued liability by employee status.

UAAL as of July 1, 2013	Total
<i>Actuarial Accrued Liability</i>	\$53,291,000
Actuarial Value of Assets	\$0
<i>Unfunded Actuarial Accrued Liability</i>	\$53,291,000

The determination of the July 1, 2013 accrued liability assumes a starting healthcare trend rate of 8.5%, for pre 65 and post 65 retirees respectively, grading down by 0.5% annually until an ultimate trend rate of 5.0% is reached.

Besides the healthcare cost trend rate assumption, the other significant assumption is the discount rate assumption. The discount rate assumed in this valuation is 4.5%. The discount rate reflects the expected long term rate of return for the assets expected to pay the postemployment benefits. The net effect of lowering the discount is an increase in the liability. The remaining assumptions used are contained in the appendix.

The determination of the July 1, 2013 accrued liability uses the valuation results and information in our September 26, 2013 letter. The postemployment health plan provisions, premiums, projected cash flows and census information are in the appendix.

Alicia Holland
March 3, 2016
County Council Work Session



Fiscal Year 2014 GASB 45 ARC and Annual OPEB Cost

The fiscal year 2014 GASB 45 ARC for the County’s postemployment benefit plan is \$6,202,000. The development of the fiscal year 2014 GASB 45 ARC is provided below.

Fiscal Year 2014 ARC	Total*
Normal Cost	\$3,705,000
Interest on Normal Cost	\$167,000
Amortization Payment	\$2,230,000
Interest on Amortization	\$100,000
Total FY 2014 ARC	\$6,202,000

* Numbers may not add due to rounding

The fiscal year 2014 annual OPEB cost (shown below) is \$6,208,000 and an estimate of the June 30, 2014 net OPEB obligation is \$30,143,000. The estimate of the net OPEB obligation is based on an estimated employer contribution of \$727,000 for fiscal year 2014. The difference between the annual OPEB cost and the estimated employer contribution is \$5,481,000 and represents the increase in the County’s net OPEB obligation.

The development of the fiscal year 2014 annual OPEB cost and an estimate of the June 30, 2014 net OPEB obligation are shown below.

FY 2014 Net OPEB Obligation	Total
Net OPEB Obligation (Asset) – July 1, 2013	\$24,662,000
ARC	\$6,202,000
Interest of Prior Year NOO	\$1,110,000
Adjustment to ARC	\$(1,104,000)
Annual OPEB Cost	\$6,208,000
Employer Contributions*	\$727,000
Increase in NOO	\$5,481,000
Net OPEB Obligation (Asset) – June 30, 2014	\$30,143,000

*PAYGO estimate

The County should use the actual employer contributions to determine the June 30, 2014 net OPEB obligation. Under GASB 45, the County has made contributions if it has done one or more of the following:

- Made payments of benefits directly to or on behalf of a retiree or beneficiary.
- Made premium payments to an insurer.
- Irrevocably transferred assets to a trust, or equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer or plan administrator.



Patient Protection and Affordable Care Act and the County July 1, 2013 GASB 45 Accrued Liability

The results presented in this report incorporate some provisions of the Patient Protection and Affordable Care Act (“Act”) recently signed into law. Among the major provisions of the Act are the individual mandate, affordability subsidies for exchange based coverage, elimination of lifetime limits and an excise tax on high cost coverage.

Starting in 2014, individuals who fail to maintain coverage face financial penalties. Due to these penalties, it is assumed that all future retirees will comply with the individual coverage mandate.

The affordability subsidies are provided to individuals below 400% of the federal poverty level to purchase health coverage from state run exchanges. The decision to opt out of the County postemployment health plan due to the affordability subsidies as well as other reasons (enrollment in spouse plan) is reflected in the participation assumption.

The coverage and cost sharing rules in the Act eliminate lifetime limits for plan years starting six months after March 23, 2010 and no annual limits on or after January 1, 2014. For the purposes of this valuation, future County health costs may be adjusted for these costs sharing changes. The elimination of lifetime dollar limits also apply to grandfathered plans.

The Act also imposes an excise tax on providers of high cost health coverage. Starting in 2018, a 40% excise tax is applied to the value of retiree health coverage exceeding \$11,850 limit. The limit is indexed by CPI each year after.



Actuarial Certification

The calculations developed for this letter have been made on a basis consistent with our understanding of GASB 45. The valuation has been conducted in accordance with generally accepted actuarial principles and practices. The results of this letter are to be used solely for the purpose of meeting employer financial accounting requirements.

In preparing the results of this report, we have relied on employee data, plan information and claims and premium data provided by Beaufort County. While the scope of the engagement did not call for us to perform an audit or independent verification of this information, we reviewed it for reasonableness. The accuracy of the results presented in the report is dependent upon the accuracy and completeness of the underlying information.

The undersigned are members of the American Academy of Actuaries, Associates of the Society of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you would like to discuss any of the information, please call us.

Sincerely,

John Albrecht, ASA, MAAA
Consulting Actuary

Hannah Rosser, ASA, MAAA
Actuary

Cc: Mark Rosenberg, Healthcare Analytics Consulting
Chris Holloway, Healthcare Analytics Consulting

SUMMARY OF PLAN PROVISIONS

Eligibility

Employees with 15 years of service who were hired before June 1, 2008 are eligible for postemployment benefits.

Benefits Available

Medical/Prescription Drug

Eligible pre 65 retirees receive health care coverage through one of the two fully insured active employee plans: Basic PPO and Premium PPO. Medicare eligible retirees may continue coverage through a fully insured Medicare Supplement plan. All plans are provided by Blue Cross Blue Shield of South Carolina.

A summary of the key plan design features for each plan is provided in the tables below:

Basic Medical	In Network	Out of Network
Deductible (2X Family)	\$500	\$1,000
Coinsurance	80%	60%
Out of Pocket Maximum (Single/Family)	\$3,000 / \$6,000	\$5,000 / \$8,000
Office Visit Benefit	\$30	Ded. & Coins.
Rx Drug Copayment (Retail/Mail Order)		
Generic	\$10 / \$20	
Preferred Brand	\$35 / \$80	
Non-Preferred Brand	\$55 / \$140	

Premium Medical	In Network	Out of Network
Deductible (2X Family)	\$350	\$700
Coinsurance	80%	70%
Out of Pocket Maximum (Single/Family)	\$2,000 / \$4,000	\$4,000 / \$6,000
Office Visit Benefit	\$20	Ded. & Coins.
Rx Drug Copayment (2X Mail Order)		
Generic	\$10 / \$20	
Preferred Brand	\$35 / \$80	
Non-Preferred Brand	\$55 / \$140	

Dental & Vision Insurance

Eligible retirees may continue coverage under the active dental and vision plans.

Life Insurance

A fully insured life insurance benefit is provided to eligible retirees on a fully contributory basis in a volume of \$10,000. Dependents may be added at a \$1,000 level. The current premium paid by retirees for the \$10,000 coverage is \$1.00 per month, and the premium for dependent coverage is \$0.55 per month.

SUMMARY OF PLAN PROVISIONS

Participant Contributions

Full Premium Rates

The full monthly premium rates for medical/Rx, dental, and vision benefits are provided in the table below, effective January 1, 2013.

	Basic Medical	Premium Medical	Medicare Supplement	Dental	Vision
Retiree Only	\$438.81	\$493.13	\$388.86	\$27.63	\$7.00
Retiree + Spouse	\$963.62	\$1,082.91	\$857.08	\$53.83	\$11.66
Retiree + Child(ren)	\$814.08	\$914.84	\$721.05	\$59.39	\$19.24
Retiree + Family	\$1,319.34	\$1,482.65	\$1,168.87	\$82.84	\$19.24

Monthly Premium Subsidy

Eligible retirees who elect *both* medical and dental coverage at retirement receive a subsidy as a percent of the active employer contribution for single coverage, which is calculated according to the following schedule:

Years of Service at Retirement	Subsidy Percent of Active Employer Contribution
15-20	50%
21-27	75%
28+	100%

The retiree subsidy is applied only to the retiree's portion of medical and dental premiums. Retirees must pay 100% of premium costs for their dependents, as well as 100% of all premium costs for vision and life insurance coverage.

The current active employer contributions for single coverage are \$433.85 for the Basic Plan and \$429.76 for the Premium Plan.

SUMMARY OF ACTUARIAL ASSUMPTIONS

Valuation Date

July 1, 2012, projected to July 1, 2013

Discount Rate

A 4.50% annual discount rate is used.

Census Data

The census data was provided by the County as of September 2013.

Actuarial Cost Method

Projected unit credit with benefits attributed from the date of hire to expected retirement age.

Amortization Method

The unfunded actuarial accrued liability is amortized over a period of 25 years on a closed basis. It is calculated assuming a level percentage of projected payroll.

Health Care Cost Trend Rates as of July 1, 2012

The following annual trend rates are applied on a select and ultimate basis:

Benefit	Select	Ultimate
Medical/Rx	9.0%	5.0%
Dental/Vision	5.0%	5.0%
Medical Administration	5.0%	5.0%

Select trends are reduced 0.5% each year until reaching the ultimate trend.

Per Capita Claim Cost as of July 1, 2012

Per capita health claim costs as of are developed by applying an age-adjustment to a blend of the fully insured premiums. The annual expected claim costs are presented in the table below:

Per Capita Cost	Basic Plan	Premium Plan	Future Retirees
Retiree Age 60	\$7,776	\$8,232	\$8,004
Spouse Age 60	\$7,776	\$8,232	\$8,004

The post 65 health per capita cost is the premium of the fully insured Medicare supplement plan.

Age-Based Morbidity

The assumed per capita health claim costs are adjusted to reflect expected increases related to age. The increase in per capita health claim costs related to age are assumed to be the following:

Age	Increase
42 – 46	3.19%
47 – 51	3.89%
52 – 56	3.58%
57 – 61	4.52%
62 – 64	5.06%

Retiree Plan Election

It is assumed that 35% of future pre-65 retirees will elect the Basic Plan and the remaining 65% will elect the Premium Plan.

SUMMARY OF ACTUARIAL ASSUMPTIONS

Retiree Contributions

Participant contributions are assumed to increase with healthcare cost trend.

Non-Claim Expenses

Non-claim expenses for the plan year beginning July 1, 2012 include pooling charges and administrative fees. Pooling charges are estimated at 5% of premium, and administrative fees are estimated at 10% of premium, as outlined below.

Fixed Costs	Basic Plan	Premium Plan	Future Retirees
Administrative	\$418	\$489	\$453
Pooling	\$209	\$245	\$226

Retirement Age

Sample retirement ages and associated probabilities are provided in the following table. These assumptions are consistent with the June 30, 2012 South Carolina Retirement System actuarial valuation.

GENERAL EMPLOYEES					
For members attaining age 65 before 28 years of service:			For members attaining 28 years of service before age 65:		
Age	Male	Female	Service	Male	Female
55	10%	9%	28	45%	50%
60	9%	11%	33	18%	16%
65	30%	30%	38	20%	16%
70	20%	20%	43	100%	100%
75	100%	100%	48	100%	100%

POLICE OFFICERS					
For members attaining age 55 before 25 years of service:			For members attaining 25 years of service before age 55:		
Age	Male	Female	Service	Male	Female
55	20%	20%	25	35%	22%
60	12%	12%	30	35%	35%
65	30%	30%	35	100%	100%
70	100%	100%	40	100%	100%
75	100%	100%	45	100%	100%

SUMMARY OF ACTUARIAL ASSUMPTIONS

Termination

The rate of withdrawal for reasons other than death and retirement is dependent on an employee's age, years of service and gender. These assumptions are consistent with the June 30, 2012 South Carolina Retirement System actuarial valuation and are provided below.

Male General Employees							
Age/Service	0	5	10	15	20	25	28+
25	0.329	0.117	0.066	0.000	0.000	0.000	0.000
30	0.294	0.109	0.053	0.036	0.000	0.000	0.000
35	0.268	0.101	0.042	0.036	0.025	0.000	0.000
40	0.246	0.092	0.033	0.036	0.025	0.017	0.000
45	0.226	0.082	0.027	0.029	0.025	0.017	0.000
50	0.208	0.072	0.022	0.029	0.020	0.017	0.000
55	0.194	0.060	0.021	0.020	0.020	0.000	0.000
60	0.183	0.000	0.000	0.000	0.000	0.000	0.000
Female General Employees							
Age/Service	0	5	10	15	20	25	28+
25	0.298	0.138	0.094	0.000	0.000	0.000	0.000
30	0.271	0.125	0.069	0.039	0.000	0.000	0.000
35	0.251	0.113	0.051	0.039	0.025	0.000	0.000
40	0.233	0.101	0.037	0.039	0.025	0.017	0.000
45	0.217	0.089	0.028	0.030	0.025	0.017	0.000
50	0.204	0.079	0.023	0.030	0.020	0.017	0.000
55	0.195	0.069	0.024	0.020	0.020	0.000	0.000
60	0.187	0.000	0.000	0.000	0.000	0.000	0.000

POLICE OFFICERS		
Years of Service	Male	Female
0	0.2500	0.2500
5	0.0954	0.0954
10	0.0537	0.0537
15	0.0302	0.0302
20	0.0170	0.0170
24	0.0000	0.0000

Mortality

RP-2000 projected to 2015, applied on a gender-specific basis

Plan Participation Percentage

It is assumed that 90% of all employees and 60% of their dependents who are eligible for retiree benefits actually participate in the postemployment benefit plan. This assumes that a one-time irrevocable election to participate is made at retirement.

Dependent Composition at Retirement

It is assumed that 60% of employees are married at retirement. Male spouses are assumed to be three years older than female spouses.

Salary Increase Assumption

3.50% per Annum

SUMMARY OF ACTUARIAL ASSUMPTIONS

Medicare Part D Prescription Drug Subsidy

Based on GASB Technical Bulletin No. 2006-1, an employer should apply the measurement requirements of GASB Statement 45 to determine the actuarial accrued liabilities, the annual required contribution of the employer, and the annual OPEB cost *without reduction* for RDS payments. For this reason, we have excluded the Medicare Part D employer subsidy from this valuation.

Valuation of Excise Tax

An active/retiree blended pre-65 claim cost is projected at health care cost trend and compared to the excise tax cost threshold beginning in 2018 and thereafter. The County will be liable for 40% of the difference between plan costs and the cost threshold, when the plan costs are greater than the cost threshold. Excise tax is not applied to post-65 retiree coverage.

Pre-65 Plan Costs as of July 1, 2012

The annual plan costs assumed in the valuation of excise tax are based on the County's current premium information and plan enrollment and are as follows:

Pre 65 employee	\$5,423
Pre 65 spouse	\$6,486

Excise Tax Threshold

The 2018 annual threshold costs for excise tax are as follows:

Active Single	\$10,200
Active Family	\$27,500
Pre-65 Retiree Single	\$11,850
Pre-65 Retiree Family	\$30,950

The active and pre-65 retiree thresholds have been weighted by current census headcounts. The threshold is assumed to increase at health CPI trend each year.

CPI Trend

Health CPI is assumed to increase at a rate of 3% each year.

CENSUS SUMMARY

A summary of the active employee and retired population used in the July 1, 2012 valuation is provided in the tables below:

Age Group	ACTIVE POPULATION*			RETIRED EMPLOYEES
	Fully Eligible	Not Fully Eligible	Total	
<40	7	193	200	0
40-44	19	70	89	1
45-49	33	78	111	6
50-54	43	54	97	11
55-59	43	49	92	17
60-64	32	28	60	33
65-69	7	19	26	22
70-74	4	1	5	11
75-79	1	0	1	7
80-84	0	0	0	9
85+	0	0	0	2
Total	189	492	681	119

*Includes current waived actives

A summary of the current active employees (who are eligible for postemployment benefits) based on years of service is provided in the table below:

Age	0-4	5-9	10-14	15-19	20-24	25-29	30+	Total
<40	45	110	38	7	0	0	0	200
40-44	8	31	31	12	7	0	0	89
45-49	14	41	23	15	16	2	0	111
50-54	8	23	23	15	13	14	1	97
55-59	6	27	16	12	15	6	10	92
60-64	6	13	9	9	12	5	6	60
65-69	0	12	7	5	0	1	1	26
70-74	0	0	1	3	0	0	1	5
75-79	0	0	0	1	0	0	0	1
80-84	0	0	0	0	0	0	0	0
85+	0	0	0	0	0	0	0	0
Total	87	257	148	79	63	28	19	681

20 YEAR CASH FLOWS

The following exhibit provides the expected cash flows for the postemployment benefit plan based on the current population, plan provisions and actuarial assumptions:

Fiscal Year	Net Benefit Payments
2014	\$727,000
2015	\$841,000
2016	\$960,000
2017	\$1,075,000
2018	\$1,240,000
2019	\$1,454,000
2020	\$1,645,000
2021	\$1,822,000
2022	\$2,010,000
2023	\$2,270,000
2024	\$2,524,000
2025	\$2,807,000
2026	\$3,028,000
2027	\$3,335,000
2028	\$3,661,000
2029	\$3,964,000
2030	\$4,308,000
2031	\$4,624,000
2032	\$5,027,000
2033	\$5,414,000