Examining OPEB Trends– A Panel Discussion

Carrie Lombardo, Chief Marketing and Employer Services Officer – MERS
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GASB Overview and Reporting

Presented by:

Marie Stiegel, Associate, Plante Moran

What changed with the accounting rules?

- First pensions, next up…..**OPEB**
- New accounting standards issued June 2015 changing accounting for OPEB
- GASB No. 74 and GASB No. 75
- Generally, same impact as GASB 67/68

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New OPEB Standards

	OPEB Plans	Govt Employers providing OPEB
Pronouncement	GASB 74	GASB 75
Effective Date	Fiscal years beginning after June 15, 2016	Fiscal years beginning after June 15, 2017
Implementation:		
June yr end	2017	2018
September yr end	2017	2018
December yr end	2017	2018
March yr end	2018	2019

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Overview

- This is a BIG DEAL! (But we all knew this was coming….)
- Very similar to the pension standards (GASB 67/68)
  - OPEB, like pension, is part of the employment exchange and should be recognized as the obligation is incurred (not as it is funded)
  - Funding approach versus approach focused on interperiod equity
  - The government-wide and full accrual statements will report a liability called "Net OPEB liability"
  - Changes in the net OPEB liability will be immediately recognized in expense, with some limited exceptions
  - No significant changes to accounting for OPEB in modified accrual statements.

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Basic OPEB Formula

Employers will now record the NET OPEB liability on the full accrual statements

TOTAL OPEB liability − OPEB Plan Net Position = **NET** OPEB liability

*These amounts will be measured as of the "**measurement date**"*

Applicability

- Definition of OPEB
  - Same as in GASB 45
  - Postemployment healthcare
  - Death benefits, life insurance, disability and long-term care – when provided outside a pension plan
- Existence of Trusts
  - OPEB provided through:
    - Plans administered through trusts that meet the specific criteria
    - Plans NOT administered through trusts that meet the specific criteria
- Types – DB and DC
  - DB plans
    - Single employer
    - Cost-sharing multiple-employer
    - Agent multiple-employer

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Trust - Specific criteria

- Contributions from employers to the OPEB plan and earnings on those contributions are irrevocable
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms
- OPEB plan assets are legally protected from creditors of employers, the plan administrator and plan members

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How is this different than GASB 43/45?

- (Aside from the obvious recording of the Net OPEB Liability)
- Triennial valuations are no longer allowed
- Entry age is the only actuarial method allowed
- Goodbye Community Rated exception to the implicit rate subsidy (age-adjusted premiums)
- Benefits “in force” as of measurement date versus benefit changes passed and communicated to members before the valuation is completed (but after the valuation date)
- Significant changes to note disclosure and RSI requirements

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Government #1 – 86% Funded

	2013	2013, with GASB 68	Add in OPEB impact
Assets:			
Cash and investments	$ 43,578,759	$ 43,578,759	$ 43,578,759
Receivables	25,959,949	25,959,949	25,959,949
Inventories & prepaids	5,434,732	5,434,732	5,434,732
Net pension asset	2,240,191	-	-
Capital assets	735,087,871	735,087,871	735,087,871
Total assets	812,301,502	810,061,311	810,061,311
Liabilities:			
Accounts payable/ Accruals	18,582,860	18,582,860	18,582,860
Noncurrent liabilities	19,951,682	19,951,682	19,951,682
Net OPEB liability	-	-	**56,136,559**
Net pension liability	-	**27,147,595**	**27,147,595**
Total liabilities	38,534,542	65,682,137	121,818,696
Net position:			
Net investment in capital assets	733,587,871	733,587,871	733,587,871
Restricted	-	-	-
Unrestricted	40,179,089	**10,791,303**	**(45,345,256)**
Total net position	$ 773,766,960	$ 744,379,174	$ 688,242,615

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OPEB Strategies

Presented By: Tara Tyler, MERS

OPEB Strategies

- Utilize MERS Medical Trust
  - Transfer earmarked assets into a trust
  - Bond unfunded liability
- Increase cost sharing, co-pays/deductibles
- Medicare Advantage Plan
- Savings can be used to fund OPEB

OPEB Strategies

- Set up DC style account
  - Replace or offer in addition to retiree healthcare
    - Offer to New Hires, Existing Employees and/or Retirees
    - Provide Options to employees

Future Employees

- Stop the bleeding – Provide an account in lieu of retiree healthcare
  – Attracts employees
  – Portable
  – Employee manages investments
- Employees hired on or after Date X
  – Employer contributes $200 per month
  – Employee contributes $100 per month
  – 5 yr vesting

Existing Employees

- Offer in addition to retiree healthcare
  - Offer employer contribution
  - Lower plan coverages
- Supplement existing retiree health care with DC style account
- Buy out vested employees and convert (mandate) all others to DC style account

Existing Employees

- Provide a one time option for employees to take buy out
  - Employees may have spousal coverage
  - Employee may be fearful of meeting vesting requirements
    - Employer will contribute $4,800 per year of service, plus 5% of base wages ongoing
    - Vesting may be applied, cliff or graded

Current Retirees

- Provide an account to supplement healthcare costs
  - Co-pays/deductibles
- Replace healthcare with stipend
  - Retiree purchases their own insurance
    - Employer will contribute $300/month for single coverage, $500/month for couple
    - Contributions may cease at Medicare Age of Retiree

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Current Retirees

- Cease healthcare coverage at age 65
- Shift additional cost of premium to retiree
- Offer DC style plan if retiree signs up for Medicare
- Offer Medicare Advantage plan
  - Group or Individual

City of Kalamazoo
Case Study

The Situation – Employees and Retirees

- 442 active employees eligible for retiree health care
- 809 pensioners with retiree health care

Retiree Group	Total with RHC	Pre-2007	Post-2006
Public Safety	369	278	91
Other Units	278	116	162
Non-Bargained	162	82	80

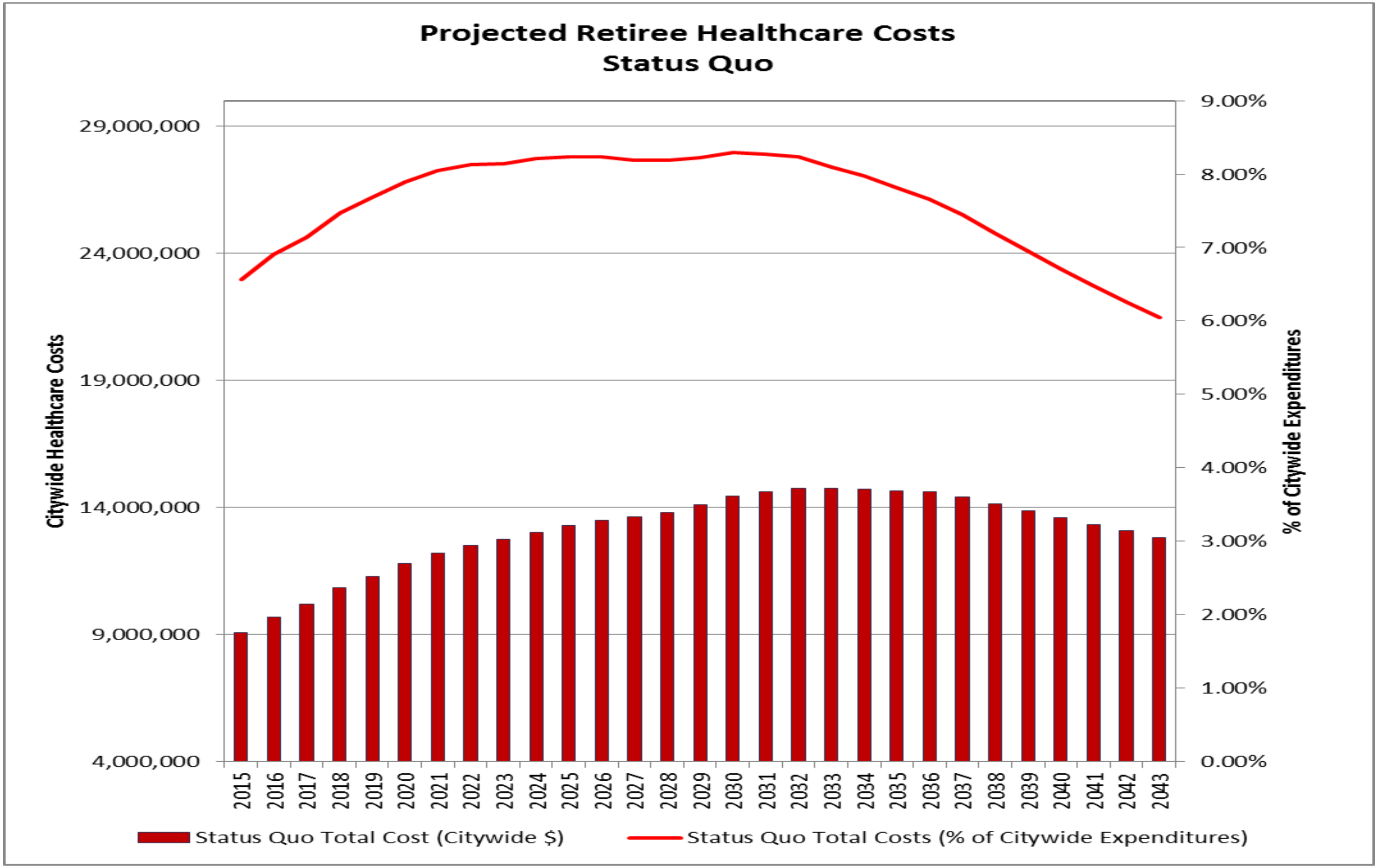
- Retiree health care provided for through collective bargaining agreements which contractually bound City to provide health care in retirement and capped retirees contribution

The Situation – OPEB Liability (2014, pre-OPEB Bond)

- Breakout of unfunded liability by 3 groups ($millions):

Retiree Health Care Liability (millions $)		
Liability @ 4% (12/31/13)	195	
Rate Change (2014) from 4% to 7.5%	-61	
Adjusted Liability @ 7.5% (2014)	**134**	
Mortality Update (2014)	4	
Medicare Part A/B (2014)	-10	
Adjusted Liability @ 7.5% (2014)	**128**	
Assets (12/31/14)	-10	
Unfunded Liability (12/31/14)	**118**	
Adjusted Liability @ 7.5% (2014)		**pct**
Pre-2007 (Legacy) Retirees	47	37%
Post-2006 Retirees	56	44%
Actives	25	20%
	128	

The adjustments from a 4% to a 7.5% Discount Rate reflected the City's primary goal of identifying "pre-funding" assets to invest in an OPEB Trust Fund



As of 2014: retiree healthcare costs were projected to be $379M (red columns) from 2015 through 2043. Red line peaks in 2030 @8.3% citywide, 17% for the General Fund.

The Situation – The Spark

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Economy & competitive position

Michigan's broken legacy:
As Kalamazoo stalled, its neighbor curbed retiree health-care costs

6 November 2013

by **Ted Roelofs**
Bridge Magazine contributor

KALAMAZOO/PORTAGE – A quick drive through Kalamazoo and its bordering neighbor to the south, Portage, reveals some obvious differences. Others are less so.

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Kalamazoo retiree health-care costs driving big hole in city finances

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Steps Taken: The Legacy Cost Task Force

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Kalamazoo legacy costs: task force begins meetings to tackle $190 million problem

2 comments

By Emily Monacelli | emonacel@mlive.com
Follow on Twitter
on February 19, 2014 at 8:29 PM, updated February 20, 2014 at 6:08 AM

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KALAMAZOO, MI -- A task force charged with developing options to tackle the city of Kalamazoo's $190 million unfunded healthcare liability met for the first time Wednesday.

"I know there's a lot of emotion, a lot of passion around this, and there should be," said Kalamazoo City Manager Jim Ritsema, who requested the Kalamazoo City Commission approve the task force. "This is not an easy issue."

Ritsema, who co-chairs the task force with Vice Mayor David Anderson, said the idea for the task force came out of a Bridge Magazine article based off of a Michigan State University study that compared Kalamazoo's unfunded

LEGACY COSTS IN KALAMAZOO

- 73 Kalamazoo city retirees accept incentive to switch to Medicare
- $6,000 incentive to switch to Medicare offered to Kalamazoo retirees to reduce legacy costs
- Editorial: More work to be done on Kalamazoo retiree healthcare costs
- Issuing $90 million in retiree health care bonds is best of 'painful options,' Kalamazoo city commissioner says
- Kalamazoo City Commission approves issuing $90 million in bonds to pay for retiree health care

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Legacy Cost Task Force report formally accepted by Kalamazoo City Commission

14 comments

The Kalamazoo City Commission, shown at its Aug. 18 meeting, voted Tuesday to formally accept the Legacy Cost Task Force's recommendation that it issue up to $100 million in bonds to manage the city's $188 million in unfunded retiree health cost liability. *(Kalamazoo Gazette File)*

By Alex Mitchell | amitche5@mlive.com
on September 03, 2014 at 10:42 AM, updated September 03, 2014 at 12:26 PM

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Process: Legacy Cost Task Force/Stakeholders

- 21 member Task Force established by City Commission by a Resolution which authorized City Manager to appoint members
- Vice-Mayor and City Manager co-chaired
- Members included:

Stakeholder Group	No. Reps.		Stakeholder Group	No. Reps.
City Commission	3		NBU	1
City Retirees	5		Business	2
City Administration	4		Higher Education	1
City Union	2		Resident	3

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Process: Legacy Cost Task Force/Stakeholders

- Established anticipated time-frame and frequency for meetings (bi-monthly from February through Summer 2014)
- Facilitator engaged to run meetings
- Followed Open Meetings Act
- All proceedings video recorded and posted on dedicated Legacy Cost Task Force webpage on the City's website
- Ground rules for participants: respect, 70% acceptance, etc.
- Non-negotiables:
  - Status quo is not an option
  - Proposed plan needs to be sustainable
  - City needs to honor "promise" of retiree health care
- Time allotted for public comment at each meeting

Process: Legacy Cost Task Force/Stakeholders

- Organizational meeting
- Informational meetings:
  - What are the City's retiree health care benefits, who receives them, and how are they funded?
  - What are actuarial figures, methods, and assumptions?
  - What is the law around retiree health care and the financing options (including OPEB Bonding)?
- Brainstorming options
- Narrowing of options for consideration
- OPEB Bonding: a strategic approach
- Deliberation, draft recommendation, vote

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Goals: Legacy Cost Task Force

- **Goal #1. Generate a pool of RHC assets** to take advantage of long-term investment opportunities to help finance RHC benefits

- **Goal #2. Eliminate budgetary volatility in the operational funds** (including the General Fund) by moving inflationary RHC costs to the RHC Trust Fund

- **Goal #3. Manage the RHC liability and costs** so that the RHC Trust Fund would be able to pay RHC costs for at least the life of the RHC bonds

Considerations: Legacy Cost Task Force

- **The "Status Quo" pay-as-you-go approach** left the City with a large retiree health care (RHC) liability of $195M as of 12/31/13; with $7M of dedicated assets (only 3% of the liability), the City's unfunded liability was $188M.

- **Option: Continue PAYGO: the estimated cost for RHC** in 2014 was $8.5M Citywide, and $6.2M or 13% of the General Fund, and was projected to reach almost 17% of the General Fund's budget in 2030**….not sustainable.**

- **Option: Fund the ARC:** the Annual Required Contribution of $14.5M would have increased cost the General Fund $4M per year (or 8%)**…not a viable option.**

- **Option: use OPEB Bonds:** proceeds would be placed into an OPEB Trust Fund to finance the liability by leveraging long-term investment earnings, and help to stabilize the budget**….a solution?**

- **Aha moment occurred midway through process when it was realized that we weren't going to solve the problem but rather we needed to view any options as ways to manage the problem**

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Process: Legacy Cost Task Force/Stakeholders

Legacy Cost Task Force Recommendations (**and City actions**):

- To reduce/contain costs, City Administration work collaboratively with retirees and current employee groups to create an aligned, uniform health care program that focuses on lowering costs, maximizing efficiency, and taking advantage of state and Federal programs **(City formed a Health Care Committee to advise the City Manager on cost savings measures that involve changing the culture of health care in the City)**
- Issue up to $100 million of OPEB bonds **(City issued $90 million in January 2015)**
- Have a plan in place to lower the OPEB liability by maximizing/incentivizing Medicare participation **(City secured 73 new Medicare participants in 2015 through incentives - $2,000 per year x 3 years to RHSA or $10,000 death benefit)**

Process: Legacy Cost Task Force/Stakeholders

Legacy Cost Task Force Recommendations (**and City actions**):

- The sale of the bonds doesn't impair the City's bond rating **(City's AA- rating affirmed)**
- Paying debt service on the OPEB bonds from operating funds **(the City has begun to pay these amounts in 2015)**
- Pay retiree claims and costs from the OPEB trust **(the City has begun to pay retiree health care costs out of the OPEB Trust in 2015)**
- Fund the remaining Annual Required Contribution (ARC) and normal cost of retiree health care from operating funds at $3.5 million/year **(the City will begin to make these payments in 2016)**

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Considerations: OPEB Bonding: Risks/Costs

- **If "arbitrage" is not achieved** by sufficient investment earnings, and/or if the stock market takes a tumble and does not recover, the operating funds of the City would need to pay RHC PAYGO costs during the life of the bonds/ARC, causing budgetary stress.

- **RHC Bonding** replaces "soft costs" (pay-as-you-go health care costs or PAYGO) and unfunded liability with some "hard costs" (debt service).

- **Hard costs:** the bond issue would cover a portion of the unfunded liability (current estimate = 75% or $90M), debt service = $5.7M/yr.

- **Soft costs**: the remaining unfunded liability (25% or $30M) is being paid in fixed installments of $3.5M/yr.

- **Total annual Costs:** $9.2M/yr fixed for 30 years (roughly = 2015 PAYGO).

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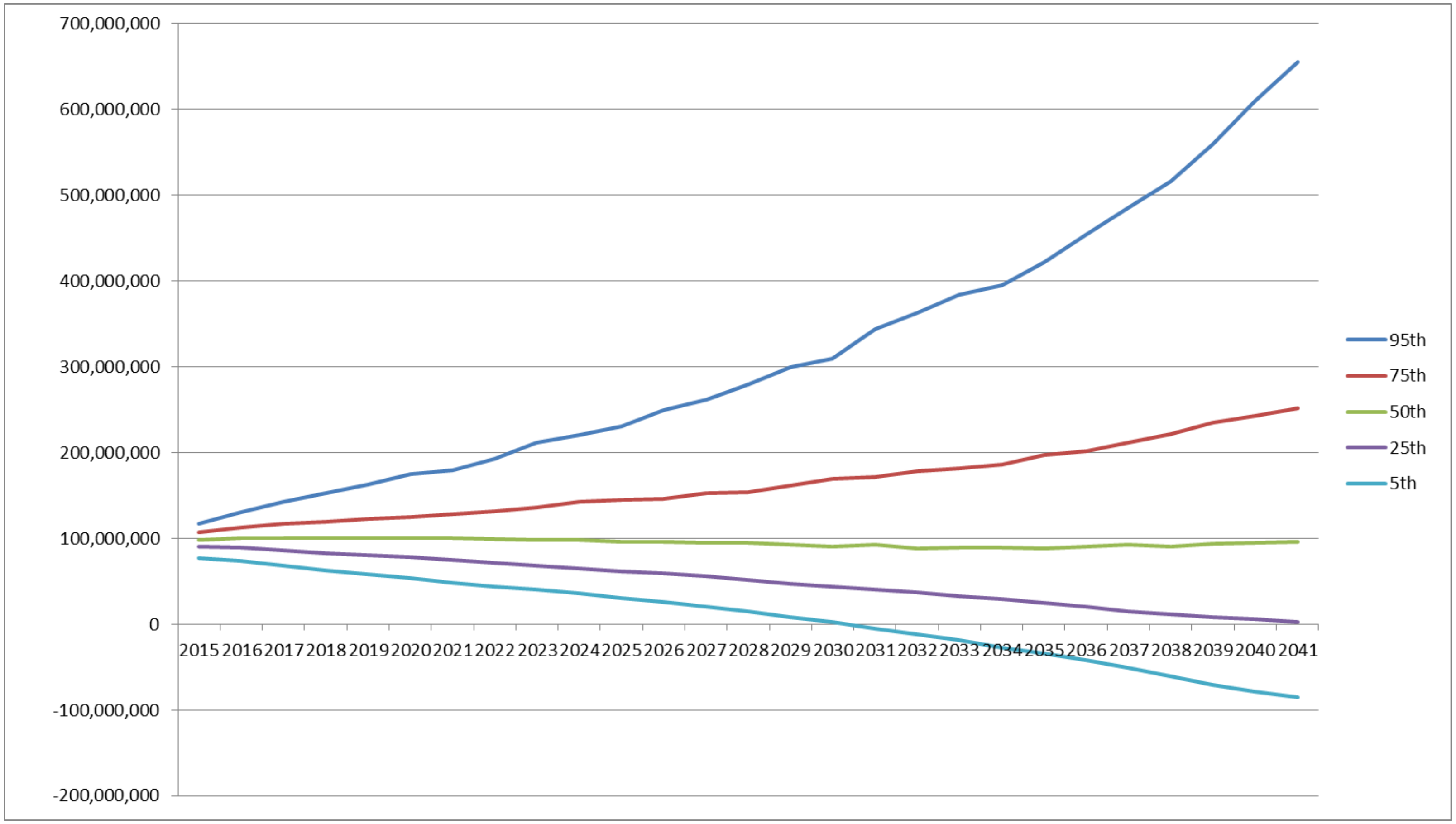
Considerations: OPEB Bonding: Risk Analysis

7.5% rate of return for OPEB Trust (assumed rate)



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Outcomes: OPEB Bonding

Goal #1: Generate a pool of RHC assets

- The OPEB Bond created a pool of assets to invest, generating revenue to help pay retiree future healthcare costs.
- Positive investment returns (above and beyond the interest rate paid on the RHC Bonds, which were issued in January 2015 with a rate of 4.4%) are needed to help pay retiree health care costs.
- The City is assumed to earn 7.5% by investing bond proceeds through a retiree health care trust fund, similar to investments for City pension benefits.
- The positive difference between interest earned (7.5%) and interest paid (4.4%) is called “arbitrage”.

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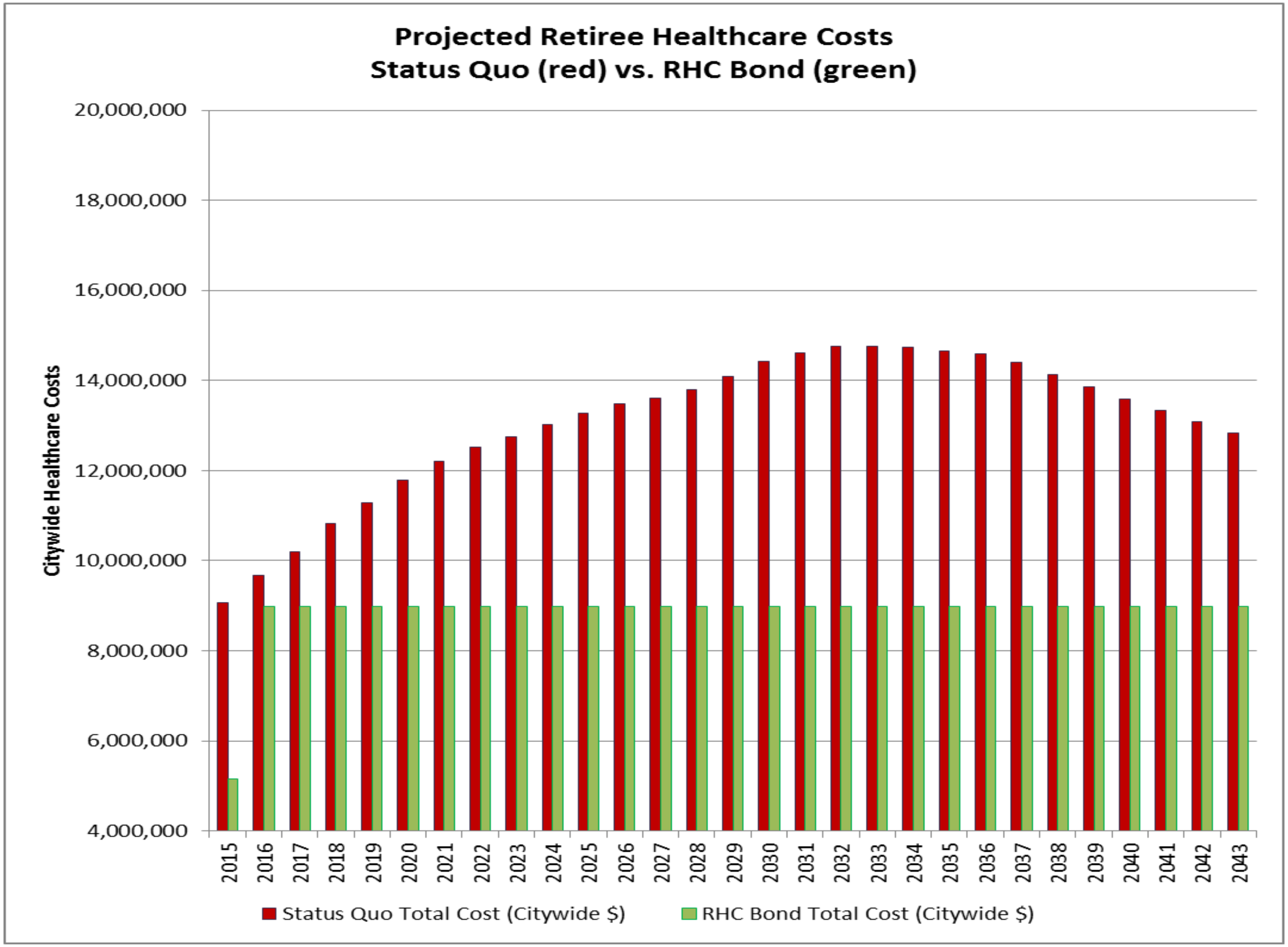
Outcomes: OPEB Bonding

Goal #2: Eliminate budgetary volatility in the operational funds

- The RHC bond approach benefits the City by reducing volatility in operational expenditures, as compared with PAYGO approach.

- The RHC bond approach created one-time relief for the General Fund in 2015 of $2.5 million, erasing a multi-million dollar deficit. This provided the new Administration with valuable time to implement Priority Based Budgeting and to seek sustainable new revenue sources through the recommendations of our Blue Ribbon Revenue Panel, which is currently at work.

Outcomes: OPEB Bonding



The difference between the red and green bars = savings to operating funds (est. > $100M)

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Outcomes: OPEB Bonding

Goal #3: Manage the RHC liability and costs: <u>new plan designs</u>

- The City offered an incentive program to 213 “legacy” retirees who have fixed contractual retiree health care benefits and who are able to opt in or out of Medicare. 73 of the 213 legacy retirees joined Medicare in 2015, and more are expected to sign up in 2016. Estimated savings are $500k/yr in the short-term and over $1.3M/yr within 10 years; resulting in a $10M of reduction in the City’s RHC liability.

- The City has bargained MOUs with all of our bargaining units where the City agrees to finance the other 25% of the RHC liability (at $3.5M/yr over 30 years), and the bargaining units agree to bargain to create sustainable costs for the OPEB Trust Fund. Fixing the City’s payment in the MOU (rather than letting it float) was critical to maintaining trust with the bargaining units, and enhances budget stability.

Lessons Learned

- Involve stakeholders up front through the process AND through continual communication and relationship-building--build trust!
- Have a great team of staff and consultants (with a budget approved ahead of time) that are sufficient to crunch the mountain of numbers, to provide independent validation and process coordination, and to provide timely legal advice (financial advisors, health care consultants, accountants, actuaries, attorneys)
- Keep long-term perspective in managing OPEB—problem didn’t occur overnight and wasn’t going to be fixed overnight either!
- **Communicate, communicate, communicate!** Videos, Website, emails, and the personal touch.

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Wayne County Case Study

Municipal Employees' Retirement System

CURRENT FINANCIAL CONDITION OF THE COUNTY

STRUCTURAL DEFICIT AND LIQUIDITY

Wayne County began running deficits in the 2008-2009 fiscal year and continued to run deficits until the 2012-2013 fiscal year. These deficits were:

- 2008-09 of $18.7 million
- 2009-10 of $33.4 million
- 2010-11 of $34.1 million
- 2011-12 of $53.1 million
- 2012-13 of $13.4 million

These fiscal years resulted in an accumulated deficit of $157,500,000. The detail is provided in the following chart:

CURRENT FINANCIAL CONDITION OF THE COUNTY

STRUCTURAL DEFICIT AND LIQUIDITY

($ in millions)	FISCAL YEAR ENDED ACTUAL						
	2008	2009	2010	2011	2012	2013	2014
Revenues							
Property taxes	$ 370.1	$ 353.7	$ 324.8	$ 295.8	$ 278.2	$ 263.4	$ 286.7
Other taxes	19.1	16.6	15.7	15.1	13.0	13.0	13.0
Parking fees	15.3	12.6	12.1	12.7	13.1	5.8	6.8
Cobo Hall liquor tax	3.5	2.9	2.8	3.0	4.8	6.3	7.4
State shared revenue	47.9	34.1	38.7	50.0	37.9	38.2	40.0
State court equity	19.8	18.6	17.9	16.4	14.8	14.3	13.7
Grants	51.1	49.6	48.9	60.1	44.0	35.8	33.2
Charges for services	67.7	67.4	62.9	107.0	120.3	113.8	117.4
Other revenue	7.3	11.5	8.7	6.9	7.3	16.6	23.8
Total revenues	601.8	567.0	532.5	567.0	533.4	507.2	542.0
Expenditures							
Salaries and wages	(130.5)	(123.2)	(107.0)	(119.8)	(115.0)	(108.6)	(107.8)
Overtime	(7.8)	(9.2)	(9.0)	(11.5)	(17.1)	(18.6)	(16.5)
Fringe benefits							
Health - Active	(25.0)	(20.9)	(20.0)	(22.9)	(25.0)	(22.7)	(20.8)
Health - Retiree	(20.4)	(17.1)	(16.4)	(18.7)	(20.4)	(18.6)	(17.1)
Pension	(18.4)	(24.1)	(23.7)	(12.1)	(34.4)	(44.1)	(44.1)
Other Benefits	(13.7)	(14.5)	(14.0)	(14.8)	(12.8)	(13.9)	(13.4)
Other operating expenditures	(146.6)	(154.8)	(150.6)	(159.9)	(144.3)	(125.0)	(127.9)
Other restructuring Initiatives	-	-	-	-	-	-	-
Operating expenditures	(362.4)	(363.8)	(340.7)	(359.7)	(369.0)	(351.5)	(347.6)
Net operating surplus	239.4	203.2	191.8	207.3	164.4	155.7	194.4
Transfers out to other funds	(251.0)	(210.7)	(216.1)	(241.2)	(219.8)	(199.2)	(198.8)
Debt service	(1.0)	(5.6)	(8.7)	(9.6)	(7.0)	(7.8)	(5.6)
Other non-operating	(5.2)	(5.6)	(4.4)	(7.4)	(7.8)	(11.0)	(12.5)
Structural surplus (deficit)	(17.8)	(18.7)	(37.4)	(50.9)	(70.2)	(62.3)	(22.5)
Transfer from Delinquent Taxes [1]	18.0	-	4.0	16.8	17.1	48.9	91.6
Annual surplus (deficit)	$ 0.2	$ (18.7)	$ (33.4)	$ (34.1)	$ (53.1)	$ (13.4)	$ 69.1
Accumulated Unassigned	$ (4.9)	$ (23.6)	$ (56.9)	$ (91.0)	$ (144.1)	$ (157.5)	$ (88.4)

[1] FY 2014 and FY 2015 includes one time transfers from the Delinquent Tax Revolving Fund of $91.6 million and $78.9 million.

Source: Wayne County Department of Management and Budget

CURRENT FINANCIAL CONDITION OF THE COUNTY

STRUCTURAL DEFICIT AND LIQUIDITY

The accumulated deficit amassed from 2008 to 2013 was substantially eliminated using extraordinary transfers from the DTRF of $91.6 million in FY 2013-14 and $78.9 million in FY 2014-15. While a portion of the annual DTRF transfer could be considered ongoing annual revenues, a significant portion of the FY 2013-14 and FY 2014-15 transfers represented one-time revenues. As a result, the DTRF will no longer have sufficient funds to hide the structural deficit in the future.

The use of the DTRF to resolve the accumulated deficit was a band aid that masked the serious problems with the structural deficit the County must immediately work to correct. Because the DTRF funds were always part of the County's "pooled" cash account, the transfer of those funds to the County's general fund did nothing to correct the County's cash problems caused by years of deficit spending.

CURRENT FINANCIAL CONDITION OF THE COUNTY

STRUCTURAL DEFICIT AND LIQUIDITY

The chart below demonstrates that, including transfers from the DTRF, the County's structural deficit will create a new accumulated deficit over $202.9 million by 2020 without immediate remedial action. More importantly, these future budget projections are ominous and foreboding the cash flow crisis the County will soon experience.

WAYNE COUNTY GENERAL FUND WITHOUT REMEDIAL ACTIONS

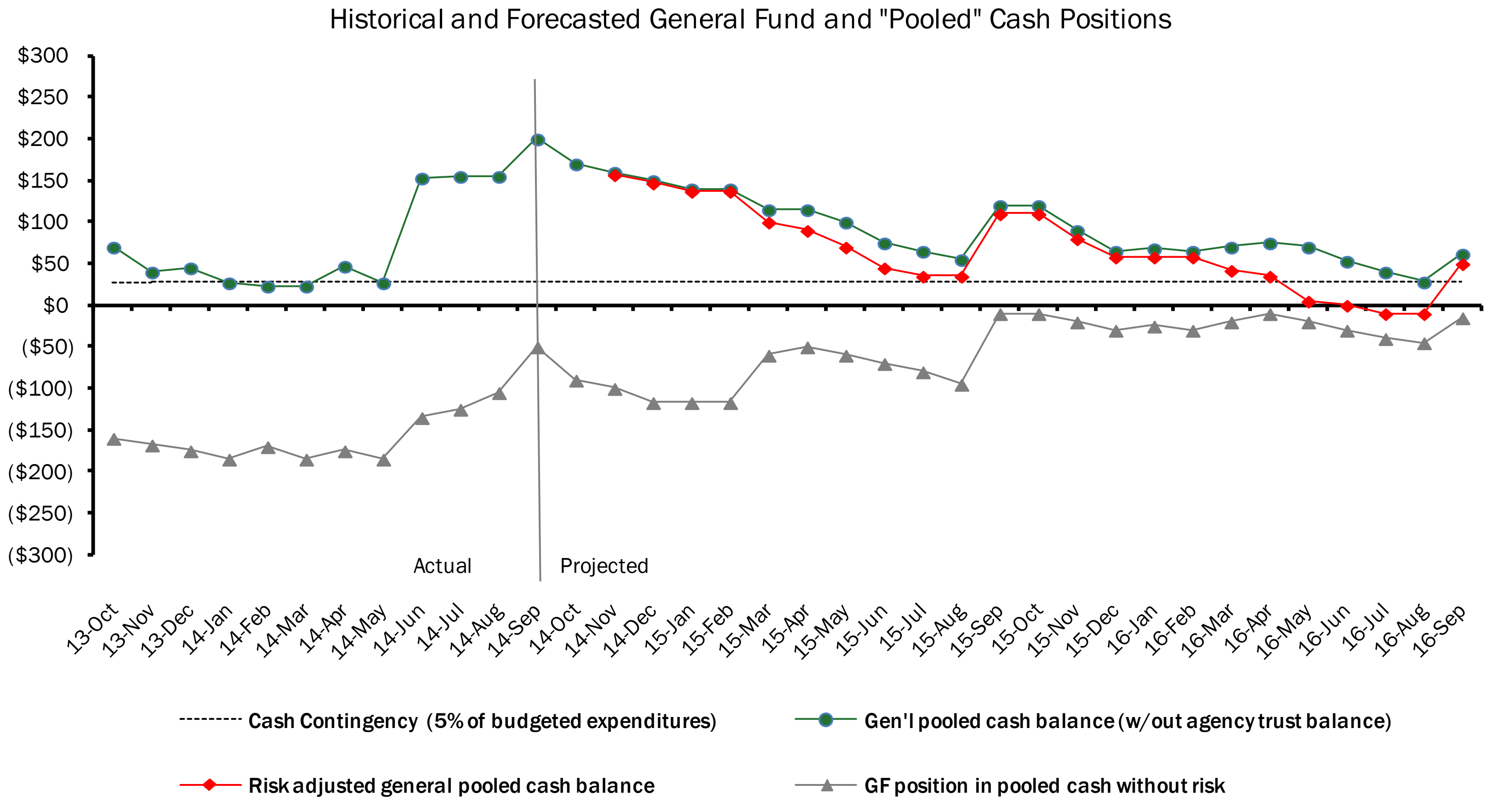
($ in millions)	FORECAST WITHOUT REMEDIAL ACTIONS					5 YEAR TOTAL
	2015	2016	2017	2018	2019	
Revenues						
Property taxes	$ 275.1	$ 275.8	$ 275.3	$ 279.0	$ 285.1	$1,390.3
Other taxes	13.3	13.3	13.4	13.4	13.4	66.8
Parking fees	6.1	6.1	6.1	6.1	6.1	30.5
Cobo Hall liquor tax	7.4	7.4	7.6	7.8	8.0	38.2
State shared revenue	50.0	50.0	50.0	50.0	50.0	250.0
State court equity	13.7	13.6	13.6	13.6	13.6	68.1
Grants	8.3	10.3	9.6	9.6	9.6	47.4
Charges for services	110.8	112.3	113.1	113.9	114.8	564.9
Other revenue	7.5	7.4	7.5	7.5	7.6	37.5
Total revenues	492.2	496.2	496.2	500.9	508.2	2,493.7
Expenditures						
Salaries and wages	(110.0)	(110.0)	(110.0)	(110.0)	(110.0)	(550.0)
Overtime	(15.6)	(15.6)	(15.6)	(15.6)	(15.6)	(78.0)
Fringe benefits						
Health - Active	(22.4)	(23.6)	(31.5)	(33.0)	(35.6)	(146.1)
Health - Retiree	(18.3)	(20.8)	(17.4)	(19.4)	(20.9)	(96.8)
Pension	(46.4)	(48.1)	(50.0)	(52.0)	(54.1)	(250.6)
Other Benefits	(14.2)	(14.2)	(14.4)	(14.5)	(14.6)	(71.9)
Other operating expenditures	(128.2)	(126.0)	(127.1)	(128.9)	(126.7)	(636.9)
Other restructuring Initiatives	-	-	-	-	-	-
Operating expenditures	(355.1)	(358.3)	(366.0)	(373.4)	(377.5)	(1,830.3)
Net operating surplus	137.1	137.9	130.2	127.5	130.7	663.4
Transfers out to other funds	(196.9)	(199.8)	(199.8)	(199.8)	(199.8)	(996.1)
Debt service	(5.5)	(4.7)	(4.3)	(4.2)	(4.1)	(22.8)
Other non-operating	(9.5)	(9.1)	(9.0)	(9.0)	(9.1)	(45.7)
Annual surplus (deficit) less DTRF Transfers	(74.8)	(75.7)	(82.9)	(85.5)	(82.3)	(401.2)
Transfer from Delinquent Taxes [1]	153.4	39.5	33.3	30.9	29.7	286.8
Annual surplus (deficit)	$ 78.6	$ (36.2)	$ (49.6)	$ (54.6)	$ (52.6)	$ (114.4)
Accumulated Unassigned	$ (9.9)	$ (46.1)	$ (95.7)	$ (150.3)	$ (202.9)	$ (202.9)

Source: Wayne County Department of Management and Budget

CURRENT FINANCIAL CONDITION OF THE COUNTY

STRUCTURAL DEFICIT AND LIQUIDITY

In February 2014, the County's "pooled" cash balance was $22 million, breaching the recommended standard of, at least, a 5% cash contingency balance. According to projections, we will continue dangerously low levels of "pooled" cash and will, potentially, run out of cash by June 2016 without remedial action.



Note: Does not include Delinquent Tax - net (use)/source after Nov. 14.

CURRENT FINANCIAL CONDITION OF THE COUNTY

UNDERFUNDED PENSION

The last actuarial report prepared by Gabriel Roeder Smith and Company for the Wayne County Employees Retirement System (WCERS) including the Wayne County Airport Authority (WCAA) is dated September 30, 2013. It covered the fiscal year through September 30, 2014. This Report concludes that the WCERS is underfunded in the amount of $910,500,000 and the assets in the pension system cover only 45% of what is needed to insure the full payment of all future pensions.

Comparatively, Detroit's pension plans were approximately 71% funded pre-bankruptcy. The County's ratio of unfunded actuarial accrued liabilities to annual payroll is 681%, or almost 7 to 1. That ratio in Detroit, just prior to bankruptcy, was only at 5 to 1. The WCERS is paying nearly as much in annual defined benefit pension payments, $123,700,000, as the County is paying in defined benefit plan salaries $125,500,000. There are 2,055 active county employees participating in the defined benefit plans and 5,308 county retirees or beneficiaries receiving annual pension payments. These numbers are ominous for WCERS ability to pay all future pension obligations. WCERS is grossly underfunded.

CURRENT FINANCIAL CONDITION OF THE COUNTY

UNDERFUNDED HEALTH CARE

The healthcare coverage provided by the County to its employees and its retirees is grossly underfunded. According to the County's most recent Other Post Employment Benefits (OPEB) actuarial valuation, the County retiree health care underfunding is $1.3 billion and funded at 0.8% of liabilities. The County currently has over 5300 retirees and 3200 active employees. OPEB obligations represent 40% of the County's long term obligations. Currently, 81% of County retirees are Medicare eligible and by 2020, 93% of County retirees will be Medicare eligible.

Categories	Contracts	Average Age
Employees	**3,241**	**49**
Retirees	**5,317**	**72**
Pre-Mirror	4,142	75
Medicare	3,348	79
Pre-Medicare	794	61
Mirror	1,175	63
Medicare	406	73
Pre-Medicare	769	57

CURRENT FINANCIAL CONDITION OF THE COUNTY

UNDERFUNDED HEALTH CARE

The chart below shows the OPEB underfunding:

Presented below is the summary of GASB 45 results for the fiscal year ending September 30, 2014 compared to the prior fiscal year as shown in the County's Notes to Financial Statement.

*Results shown in thousands

	As of October 1, 2012	As of October 1, 2013		
	Total	Total	MHA	County
Actuarial Accrued Liability	$ 1,568,535	$ 1,333,744	$ 8,075	$ 1,325,669
Actuarial Value of Assets	$ 0	$ 11,177	$ 0	$ 11,177
Unfunded Actuarial Accrued Liability	$ 1,568,535	$ 1,322,567	$ 8,075	$ 1,314,492
Funded Ratio	0.0%	0.8%	0.0%	0.8%

	FY 2012/13	FY 2013/14		
	Total	Total	MHA	County
Annual Required Contribution	$ 89,439	$ 77,541	$ 693	$ 76,848
Annual OPEB Cost	$ 89,486	$ 77,531	$ 628	$ 76,903
Annual Employer Contribution	$ 53,908[1]	$ 35,901	$ 309	$ 35,592

	As of September 30, 2013	As of September 30, 2014		
	Total	Total	MHA	County
Net OPEB Obligation	$ 216,571	$ 256,805	$ 1,719	$ 255,086

	As of October 1, 2014		
	Total	MHA	County
Total Active Participants[2]	3,430	0	3,430
Total Retiree Participants	4,984	46	4,938

The active participants' number above may include active employees who currently have no health care coverage. Refer to Summary of Participants section for an accurate breakdown of active employees with and without coverage.

[1] FY 2012/13 annual employer contribution includes (a) $44,802 in actual retirees' expense and (b) $9,106 in pre-funding contribution.

[2] Total active participants above only includes active employees who are eligible for retiree health benefits (regardless of current coverage election).

CURRENT FINANCIAL CONDITION OF THE COUNTY

UNDERFUNDED HEALTH CARE

Below is a breakdown of total GASB 45 liabilities allocated to past, current, and future service as of October 1, 2013 compared to the prior year.

*Results shown in thousands

	As of October 1, 2012		As of October 1, 2013					
		Total		Total		MHA		County
Present Value of Future Benefits	$	**1,887,890**	$	**1,604,299**	$	**8,075**	$	**1,596,224**
Active Employees		795,901		717,307		0		717,307
Retired Employees		1,091,989		886,992		8,075		878,917
Actuarial Accrued Liability	$	**1,568,535**	$	**1,333,744**	$	**8,075**	$	**1,325,669**
Active Employees		476,546		446,752		0		446,752
Retired Employees		1,091,989		886,992		8,075		878,917
Normal Cost	$	**26,061**	$	**23,662**	$	**0**	$	**23,662**
Future Normal Cost	$	**293,294**	$	**246,893**	$	**0**	$	**246,893**

Present Value of Future Benefits (PVFB) is the amount needed as of October 1, 2012 and 2013 to fully fund the County's retiree health care subsidies for existing and future retirees and their dependents assuming all actuarial assumptions are met.

Actuarial Accrued Liability is the portion of PVFB considered to be accrued or earned as of October 1, 2012 and 2013. This amount is a required disclosure in the Required Supplementary Information section.

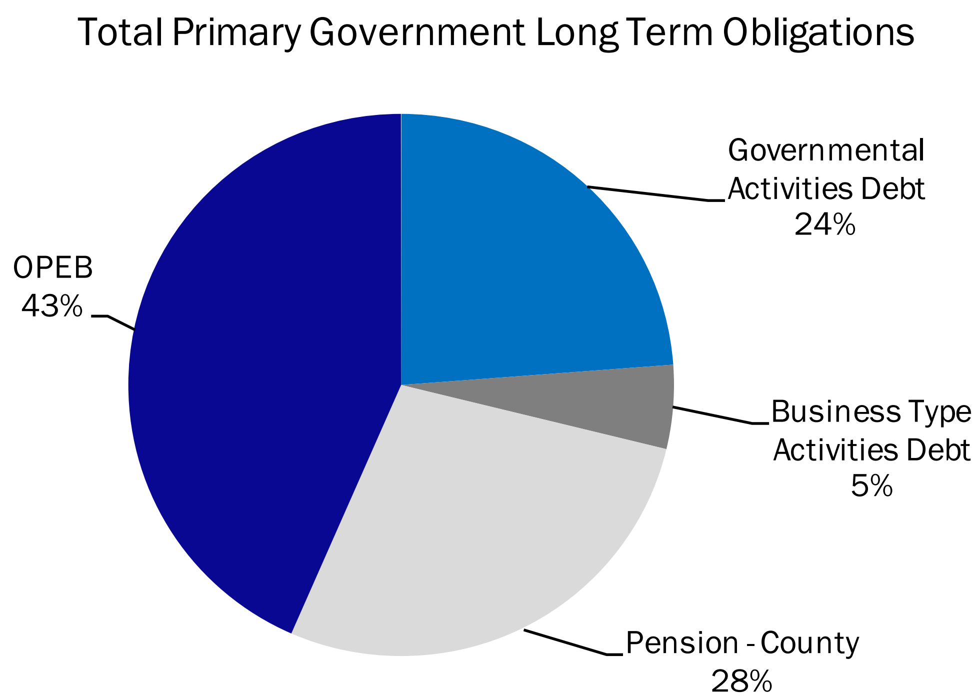
Normal Cost is the portion of the total liability amount that is attributed and accrued for current year's active employee service by the actuarial cost method.

Future Normal Cost is the portion of the total liability amount that is attributed to the future employee by the actuarial cost method.

CURRENT FINANCIAL CONDITION OF THE COUNTY

SUMMARY OF LONG TERM OBLIGATIONS

Over 70% of the County's long term obligations relate to health care and pension liabilities. This is depicted below:



Without remedial action, health care and pension liabilities will encompass an increasing percentage of the County's long term obligations. TheCounty has limited ability to address pension problems, however, the County does have ability to address health care for actives and retirees

RETIREE LAWSUIT

Plaintiffs filed a class action Complaint, later amended, in December, 2009, seeking injunctive relief and damages. The Court denied Plaintiffs' motion for preliminary injunction on January 21, 2010. On October 5, 2010, the Court certified a class of "retired employees of Wayne County, who now and immediately prior to retirement, were members of collective bargaining groups, who received health insurance, and who experienced a unilateral change in their benefits in October, 2009.

The Court subsequently entered orders regarding Summary Disposition on November 12, 2012, November 27, 2012, December 6, 2012, December 14, 2012, and February 28, 2013 siding with the County that retiree health benefits for this class were not vested. The County took the position that Judge Baxter decision as to pre-1990 retirees was correct, namely that their benefits were not vested.

The Parties recognized that final resolution of this litigation, which was almost five years old, could take another four to five years until all trials and appeals are exhausted.

HEALTHCARE

Savings will occur with the implementation of proposed changes to County healthcare benefits for the following classes of employees and retirees:

EMPLOYEES

- Defined Benefit Healthcare benefits for future retirees will be eliminated.

"PRE-MIRROR" RETIREES

- Retirees who retired prior to 2007-09 will be offered two alternative plans depending on their Medicare eligibility:
  - Medicare Eligible: A $130 per month/spouse stipend to obtain health care pursuant to Medicare Advantage Plans on the open market or as otherwise provided by the County in its discretion as group plans.
  - Pre-Medicare Eligible:

FIXING WHAT NEEDS TO BE FIXED

STRUCTURAL DEFICIT & LIQUIDITY

Adjusted Gross Income (from prior year's federal income tax return)	Monthly Stipend Payment
Retiree	
Less than $30,000	$100
$30,000 to $45,000	$200
$45,000 or more	$400
Retiree and Spouse (or retiree and one dependent)	
Less than $35,000	$150
$35,000 to $65,000	$300
$65,000 or more	$750

OPEB UAAL REDUCTION - POST RESTRUCTURING

WAYNE COUNTY
MODELING SUMMARY (ALL GROUPS) *Results are shown in thousands*

Summary of Actuarial Accrued Liabilities (AAL) Savings for All Groups

Group 1: Active employees (all MIRROR) with 20 YOS at 10/1/2015			
	RMSA	**Non RMSA**	**Total**
Enrollment	558	2,872	3,430
AAL as of 10/1/2014 baseline	$783	$487,268	$488,051
AAL as of 10/1/2014 20 YOS at 10/1/2015	$0	$43,191	$43,191
AAL as of 10/1/2014 age 62 decrement	$0	$38,961	$38,961
AAL as of 10/1/2014 age 62 commencement	$0	$46,026	$46,026

Summary of changes valued:
- No access to County's health plans at retirement for RMSA actives
- For non-RMSA actives, replace existing retiree health benefits with stipend (no access to County's health plans at retirement):
  - Scenario 1 - only for those with 20 years of service at 10/1/2015
  - Scenario 2 - only for those who retire at age 62
  - Scenario 3 - for all active employees but the stipend benefit will only start at age 62
- No subsidized life insurance benefits at retirement

Group 2: Retirees (non MIRROR)		
Enrollment	3,994	
AAL as of 10/1/2014 baseline	$588,918	
	Proposed Floor	**Proposed Max**
AAL as of 10/1/2014 after changes	$101,675	$115,763

Summary of changes valued:
- Replace existing retiree health benefits with stipend (no access to County's health plans at retirement)
- Replace $29.90 monthly Medicare Part B reimbursement with $5.00 monthly stipend
- Subsidized life insurance benefits will continue

Group 3: Retirees (MIRROR)	
Enrollment	944
AAL as of 10/1/2014 baseline	$290,753
AAL as of 10/1/2014 after changes	$226,045

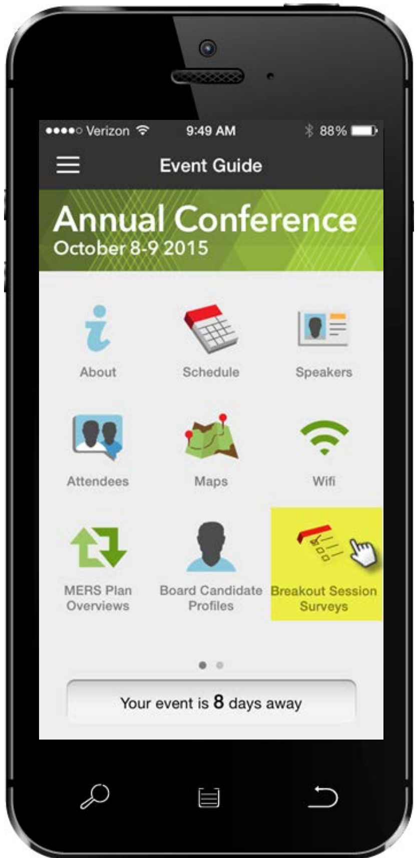
Summary of changes valued:
- All retirees will enroll in HDHP plan (pre/post-65) at retirement
- Current retiree contribution arrangements will not change
- Subsidized life insurance benefits will continue

All Groups		
	Proposed Floor	**Proposed Max**
AAL as of 10/1/2014 baseline	$1,367,722	$1,367,722
AAL as of 10/1/2014 after changes Group 1 Scenario 1	$370,911	$384,999
AAL as of 10/1/2014 after changes Group 1 Scenario 2	$366,681	$380,769
AAL as of 10/1/2014 after changes Group 1 Scenario 3	$373,746	$387,834

OPEB PAYGO REDUCTION - POST RESTRUCTURING

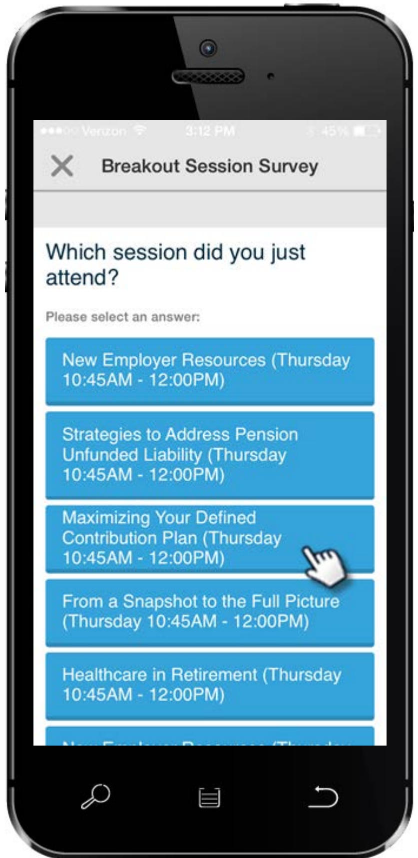
FYE	Baseline: Group 1: Active (all MIRROR)	Baseline: Group 2: Retirees (non MIRROR)	Baseline: Group 3: Retirees (MIRROR)	Baseline: Total	After changes (Group 1 Scenario 1): Group 1: Active (all MIRROR)	After changes (Group 1 Scenario 1): Group 2: Retirees (non MIRROR)	After changes (Group 1 Scenario 1): Group 3: Retirees (MIRROR)	After changes (Group 1 Scenario 1): Total
2015	$1,260	$28,803	$7,967	$38,030	$627	$11,959	$6,149	$18,735
2016	$2,381	$29,702	$8,486	$40,569	$1,074	$11,069	$6,550	$18,693
2017	$3,666	$30,429	$8,991	$43,086	$1,483	$10,205	$6,928	$18,616
2018	$5,088	$31,194	$9,585	$45,867	$1,855	$9,575	$7,376	$18,806
2019	$6,564	$31,897	$10,158	$48,619	$2,206	$9,064	$7,806	$19,076
2020	$7,936	$32,485	$10,760	$51,181	$2,458	$8,586	$8,252	$19,296
2021	$9,441	$33,004	$11,205	$53,650	$2,707	$8,187	$8,615	$19,509
2022	$10,999	$33,404	$11,814	$56,217	$2,941	$7,814	$9,083	$19,838
2023	$12,824	$33,744	$12,273	$58,841	$3,279	$7,460	$9,443	$20,182
2024	$14,726	$33,808	$12,583	$61,117	$3,536	$7,013	$9,696	$20,245
2025	$16,750	$33,809	$12,879	$63,438	$3,789	$6,568	$9,901	$20,258
2026	$19,158	$33,679	$13,275	$66,112	$4,082	$6,142	$10,219	$20,443
2027	$21,680	$33,652	$13,491	$68,823	$4,161	$5,758	$10,431	$20,350
2028	$24,137	$33,609	$13,708	$71,454	$4,161	$5,396	$10,613	$20,170
2029	$26,388	$33,378	$13,913	$73,679	$4,073	$5,042	$10,812	$19,927
2030	$29,120	$33,087	$14,161	$76,368	$3,960	$4,703	$11,066	$19,729
2031	$31,599	$32,703	$14,436	$78,738	$3,761	$4,385	$11,275	$19,421
2032	$34,196	$32,266	$14,668	$81,130	$3,524	$4,087	$11,477	$19,088
2033	$36,889	$31,701	$14,846	$83,436	$3,295	$3,794	$11,674	$18,763
2034	$39,967	$31,046	$15,161	$86,174	$3,099	$3,518	$11,943	$18,560
2035	$42,790	$30,323	$15,472	$88,585	$2,888	$3,254	$12,208	$18,350
2036	$45,641	$29,486	$15,818	$90,945	$2,692	$2,997	$12,491	$18,180
2037	$48,587	$28,538	$16,221	$93,346	$2,559	$2,751	$12,809	$18,119
2038	$51,706	$27,542	$16,629	$95,877	$2,426	$2,523	$13,129	$18,078
2039	$54,673	$26,460	$17,052	$98,185	$2,323	$2,304	$13,451	$18,078
2040	$57,108	$25,346	$17,426	$99,880	$2,235	$2,098	$13,733	$18,066
2041	$59,398	$24,170	$17,684	$101,252	$2,149	$1,902	$13,928	$17,979
2042	$61,554	$22,918	$17,908	$102,380	$2,072	$1,713	$14,092	$17,877
2043	$63,602	$21,622	$18,104	$103,328	$1,997	$1,539	$14,230	$17,766
2044	$65,762	$20,299	$18,137	$104,198	$1,927	$1,375	$14,236	$17,538
30-year Total	$905,590	$904,104	$414,811	$2,224,505	$83,339	$162,781	$323,616	$569,736
Pay-go Savings					-$822,251	-$741,323	-$91,195	-$1,654,769

Please Complete a Session Survey!



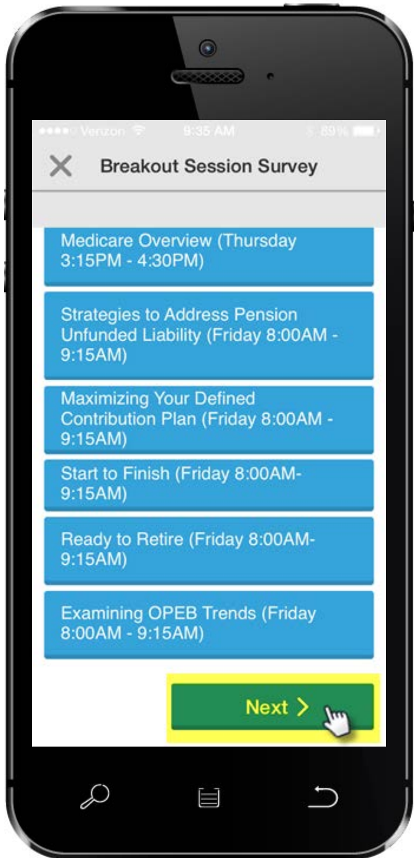
Step 1:

Locate and access the "**Breakout Session Surveys**" Icon



Step 2:

Select the date and time of the session you just attended



Step 3:

Scroll down and click "**Next**" to complete the survey

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Questions?

Contacting MERS

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