Actuarial Consulting Support for City of Rockville

Hay Group Capabilities

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MAY 10, 2011

Adam Reese, Craig Graby, Sanjit Puri

ATTACHMENT A

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Agenda

1. Introductions
2. Explanation of the ARC in 3 minutes
3. Experience Study Expertise
4. Pension Plan Expertise
5. OPEB Expertise
6. Valuation Process
7. Clients

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01

Introductions

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Who we are, what we do?

- Hay Group is an independently owned human resources consulting firm
- Our consultants have in-depth knowledge and are able to provide a broad range of employee solutions in the following areas:
  - Actuarial services, employee benefits, compensation, and performance management
  - Design and evaluation of organizations and jobs
  - Assessment, selection and development of managers and teams
  - Executive remuneration and board governance
  - Employee and customer opinion research

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People

Hay Group's Benefit Practice employs actuaries located in several offices throughout the country, including the Metro DC area. Hay Group's actuaries have been at the forefront of the retiree medical area as well as pension plan management.

Retiree Medical Expertise

- Member of the GASB 45 Implementation Guide Task Force
- Member of the American Academy of Actuaries Joint Committee on Retiree Health (Co-chair from 2000 – 2008)
- Vice President Health of the American Academy of Actuaries
- Member of the Actuarial Standards Board Task Force that revised ASOP 6 – the profession's standard of practice on measuring retiree medical benefits
- Author of the prize-winning paper "Valuation of Retiree Medical Benefits"

Pension Plan Management

- Actuary to the Commonwealth of Pennsylvania State Employees' Retirement System for over 80 years.

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Hay Group's actuarial team

Adam Reese, FSA, FCA, MAAA, EA
Client Manager

- GASB 45 Implementation Task Force Member
- Co-Chair of the AAA Joint Committee on Retiree Health
- CMS audits of Medicare Advantage and Medicare Part D Plans
- Actuary to Commonwealth of Pennsylvania State Employees' Retirement System

Sanjit Puri, ASA, MAAA, MBA
Valuation Manager

- Commonwealth of PA – OPEB Valuation Actuary
- City of Baltimore
- Metropolitan Washington Airports Authority
- New York State Teachers' Retirement System
- United States Postal Service

Craig Graby, MAAA, EA
Valuation Manager

- Actuary to Commonwealth of Pennsylvania State Employees' Retirement System
- Chatham County
- Athens-Clarke County
- Metropolitan Washington Airports Authority
- City of New York actuarial audit and pension benchmarking

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Hay Group's actuarial team

Tom Wildsmith, FSA, MAAA, FLMI, CLU, ChFC
Project Manager

- Vice-President Health Practice Area at the American Academy of Actuaries
- CMS audits of Medicare Advantage and Medicare Part D Plans
- Washington State K-12 Health Benefits Study Project Manager

Robert Landau, Esq.
Benefits Attorney

- Assists clients with draft trust agreements
- Supports Part D Plan clients with compliance

Kathleen Gentile, CEBS
Benefits Consultant

- Assists clients with leverage Part D savings
- Assists clients with Early Retirement Reinsurance Program
- Supports clients with compliance

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Hay Group's team

Esther Driessen, MAAA, EA
Pension Actuary

- Supports pension valuation manager
- Ford Foundation
- Port Authority of NY & NJ
- Richmond University Medical Center

Jared Grove
Actuarial Analyst

- Validates data
- Codes valuation software
- Runs valuations and summarizes results

Tova Labell
Actuarial Analyst

- Validates data
- Codes valuation software
- Runs valuations and summarizes results

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Hay Group's Consulting Team

Brent Mowery
Peer Review Actuary

- Senior Principal with responsibilities for quality assurance
- Signing actuary on Commonwealth of Pennsylvania State Employees' Retirement System

Myriam Michaels
Compensation Consultant

- Job evaluation, job classification
- Compensation design
- Organization improvement initiatives

Erin Duggins
Leadership & Talent Manager

- Supports clients in driving organizational effectiveness
- Leadership strategy and alignment
- Organizational change management

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02

Explanation of the ARC In 3 minutes

Annual required contribution
College expense analogy

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	2011	2012	2013	2014	2015	2016	2017	2018
PAYG Funding for College								
College Junior	$12,000	$12,000						
HS 9th grader					$12,000	$12,000	$12,000	$12,000
Total	$12,000	$12,000			$12,000	$12,000	$12,000	$12,000
GASB Rules								
ARC	$18,000	$18,000	$18,000	$18,000	$0	$0	$0	$0
Payments	($12,000)	($12,000)	$0	$0	($12,000)	($12,000)	($12,000)	($12,000)
College Fund Balance (EOY)	$6,000	$12,000	$30,000	$48,000	$36,000	$24,000	$12,000	$0

Valuation Liabilities		
College Freshman	$24,000	Present value of future cashflow
HS Junior	$32,000	Amount we should have accrued by now (8 years @ $4,000 per year = $32,000)
Total	$56,000	

Amortization Period	4	Years (years to date HS Junior enters college)		
Amortization Cost	$14,000	$14,000	$14,000	$14,000
Normal Cost	$4,000	$4,000	$4,000	$4,000
Annual Required Contribution	$18,000	$18,000	$18,000	$18,000

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03

Experience Study Expertise

Experience Study
Recent client experience

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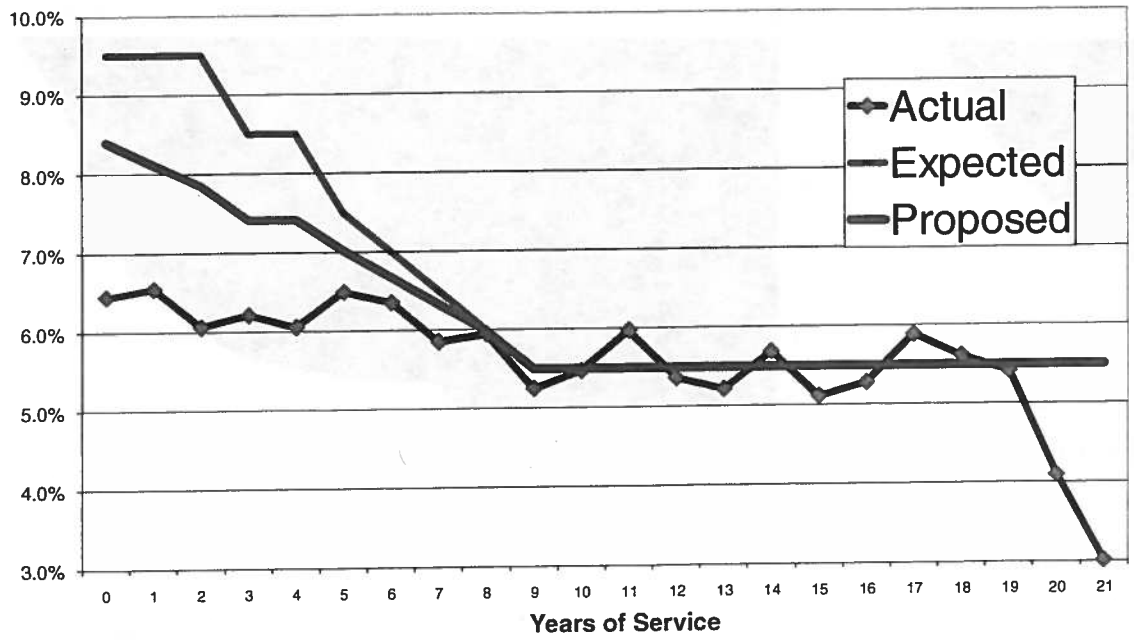
Salary Increase Rates



Recently we conducted an experience study that showed much lower pay increases than expected in the early part of employees' careers.

We discussed the preliminary results with the HR manager and learned that they had recently implemented a "pay for performance" system.

This information explained the lower than expected pay increases and we therefore revised the proposed rates to recommended rates that accounted for the change in pay system.

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Experience Study
Recent client experience

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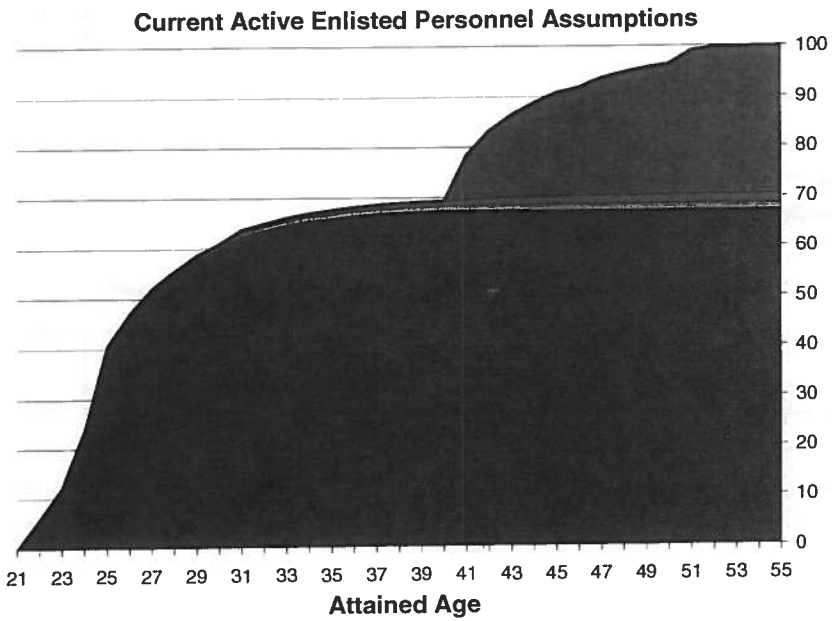

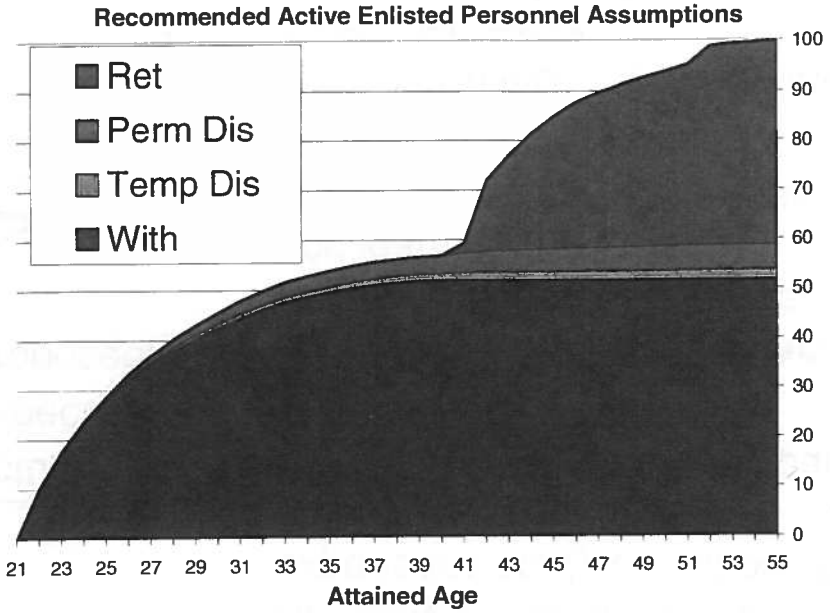

The charts above show the demographic projection of a cohort of 100 Active Enlisted Personnel who are hired at age 21, which is the average age at hire. The chart on the left shows the projection using the current assumptions and the chart on the right shows the projection using the recommended assumptions. Under the current assumptions, 66 percent of members are projected to withdraw and only 34 percent are projected to retire with a benefit, including 4 percent who are expected to receive a disability benefit. Under the recommended assumptions, just over 40 percent are expected to retire with a pension benefit and 7 percent are projected to retire with a disability benefit.

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04

Pension Expertise

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Pension Expertise

Hay Group's actuaries have served governmental plans for over 85 years

- Commonwealth of Pennsylvania State Employees' Retirement System
  - First pension valuation in 1924
  - 2010 Plan redesign introduced a new tier of coverage for new hires
  - QDRO benefit calculations
  - Funding projections for the next 40 years
- Chatham County
  - Pension and OPEB valuation services
  - Established an OPEB trust
  - Asset / Liability study
- Metropolitan Washington Airports Authority
  - Separate plans for Police & Fire and General Employees
  - Experience Study
  - Pension calculation system

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05

OPEB Expertise

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OPEB Expertise

Hay Group's actuaries have been at the forefront on retiree medical issues

- Valued the City of Dallas OPEB benefits in 2002 – identifying major governance issues that resulted in a halving of the liability from changes in vesting, Medicare integration, and contribution policy
- Assisted MWAA adopt GASB 45 early, with establishment of a trust, and a funding policy to extinguish the liability in 30 years
- Assisted Commonwealth of PA in bargaining negotiations – and subsequent changes to the OPEB benefits, introducing retiree contributions, lengthening vesting service, adoption of a MAPD
- For PANYNJ, fully supported them to become a Part D Plan in 2006, saving $4 million cash and reducing the liability by $150 million and the ARC by $10 million.
- For City of Baltimore, assisted them with adoption of GASB 45, analysis of RDS vs PDP savings, adoption of an EGWP PDP

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06

Valuation Process

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Valuation process

Tried, tested used, and improved

- Data request – kickoff meeting – assumptions letter
- Conference call to verify assumptions
- Preliminary results
- Presentation of results
- Final report
- A quality valuation depends on a thorough understanding of the client's benefit program
- Our approach is to confirm our understanding of the program with the client at each step throughout the process

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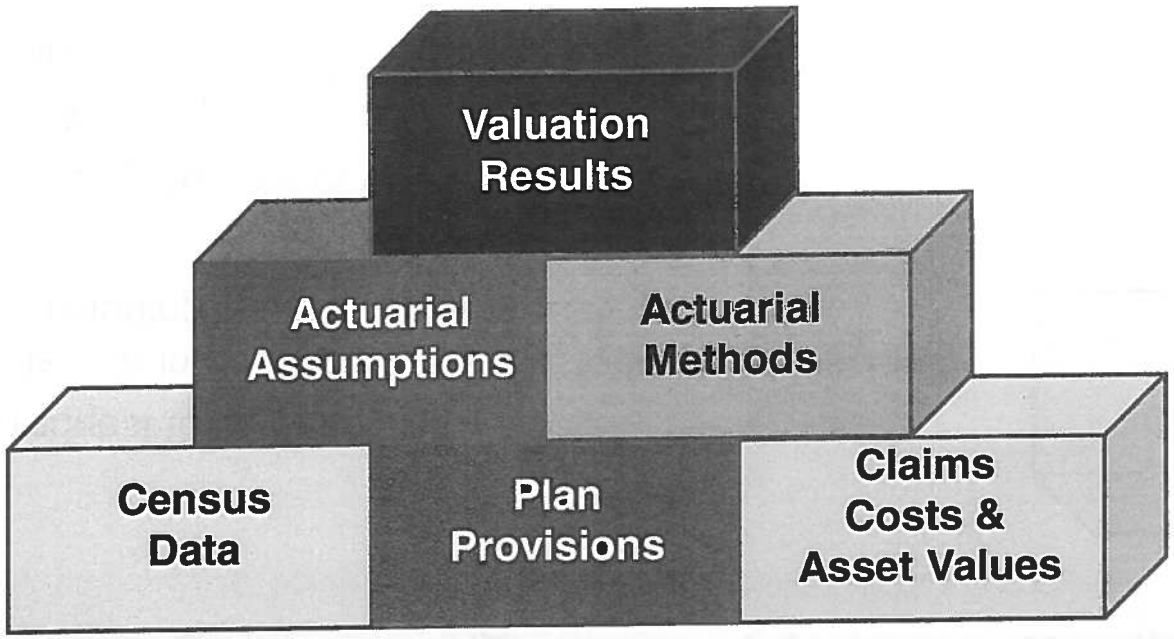
Valuation process



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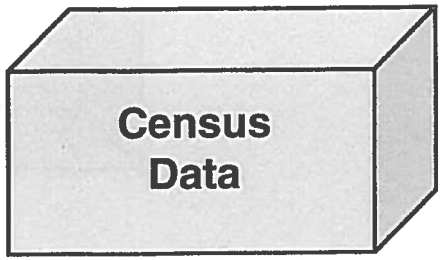
Valuation process

Who?

- Detailed data request to each entity
  - Electronic file with information on active, retired and disabled populations including information such as:
    - Name
    - Social Security number or other unique identifier
    - Date of birth
    - Date of hire
    - Gender
    - Medical plan coverage
- Analyze census for consistency and completeness
- Report summary census statistics and verify accuracy and reasonableness with each identity



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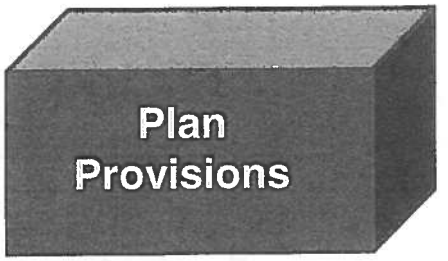
Valuation process

What?

- Critical that we identify and fully understand all relevant benefit plan provisions as well as eligibility and contribution requirements
- Review all plan documents including SPDs and coverage summaries
- Prepare summary of benefit provisions of plans to be valued
- Conference call to review the prepared summary information and confirm our understanding



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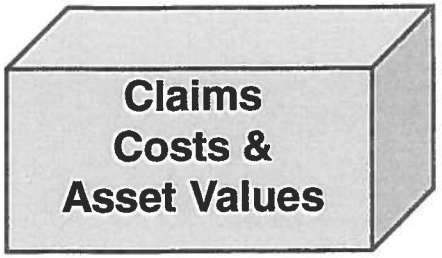
Valuation process

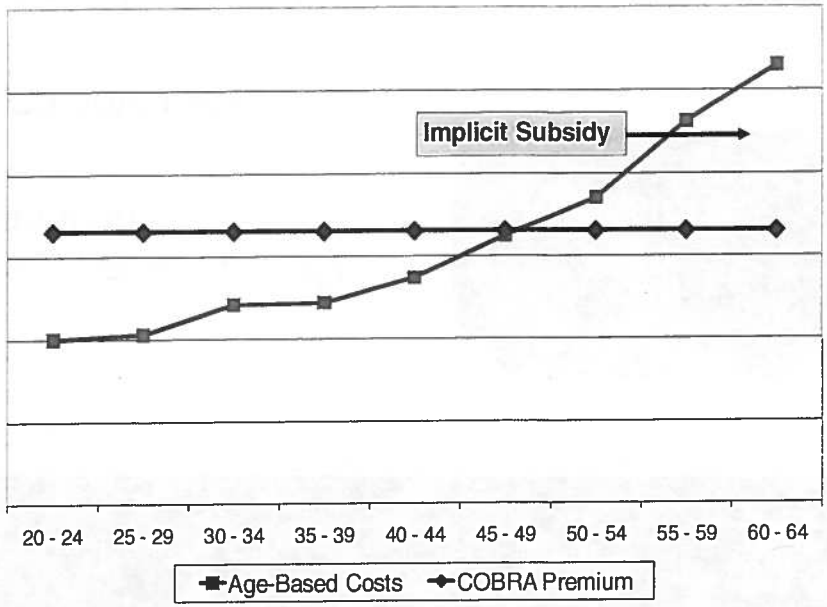
How much?

- Detailed review of the history of the plan's cost
- Review active costs, as well as retiree costs, to ensure that we understand any implicit internal subsidies
- Supplement with national data where own history is not fully credible due to size

Asset Values

- Obtain details of the plan's assets
- Coordinate with investment managers to ensure we understand the investment policy and treatment of special asset classes





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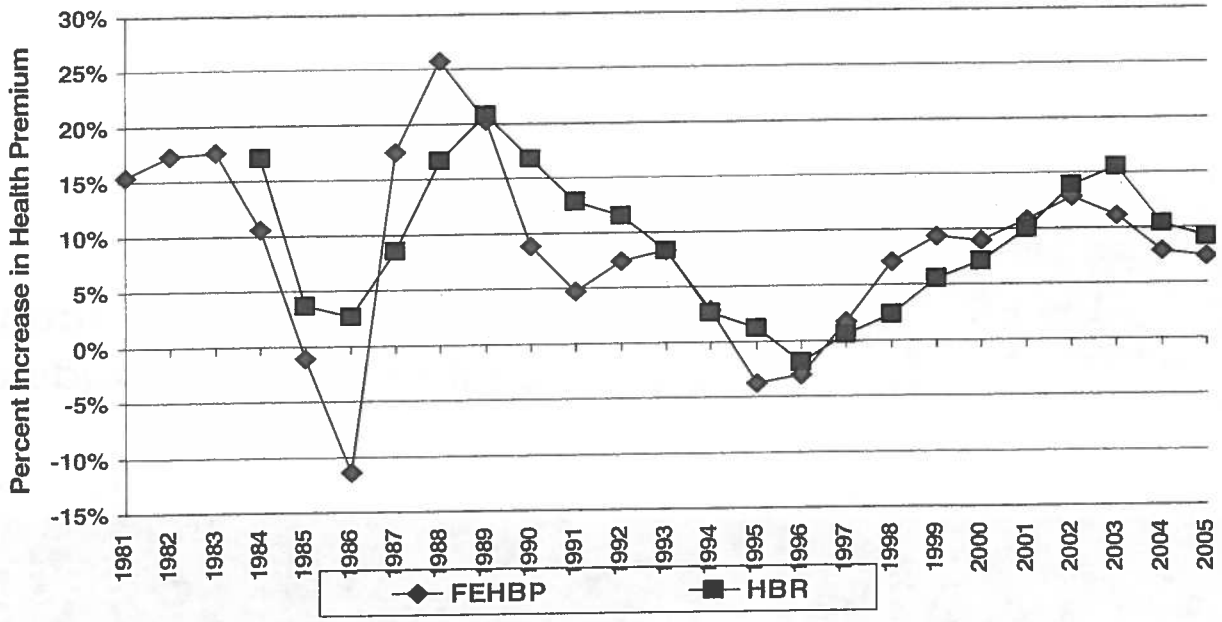
Valuation process

- Discount rate
- Health care cost trend rates
- Demographic assumptions, including:
  - Mortality rates
  - Retirement rates
  - Disability rates
  - Dependency rates
  - Enrollment rates

Actuarial Assumptions



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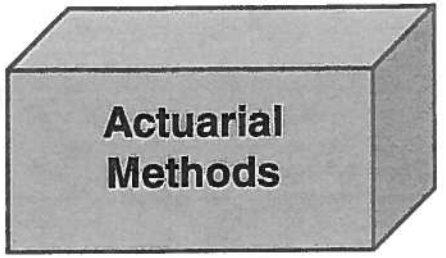
Valuation process

GASB 45 permits employers to use any one of six Actuarial Cost Methods

1. Entry age normal
2. Project unit credit
3. Aggregate
4. Frozen entry age
5. Attained age
6. Frozen attained age



We help the employer choose the method that best fits its needs. We also demonstrate how different amortization approaches work – level dollar and level percent of payroll – that, combined with the actuarial cost method to determine the Annual Required Contribution.

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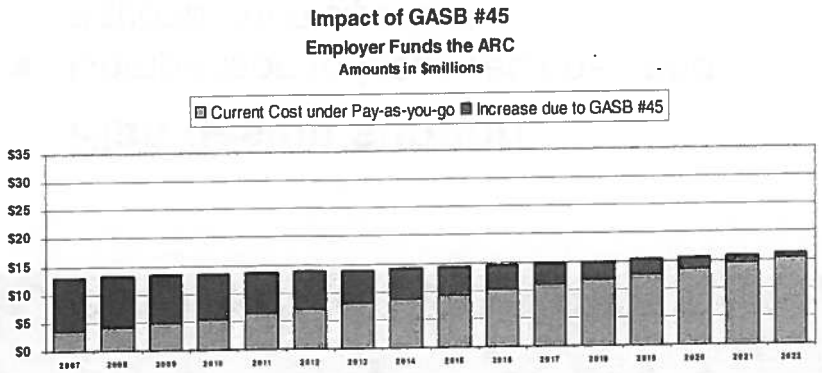
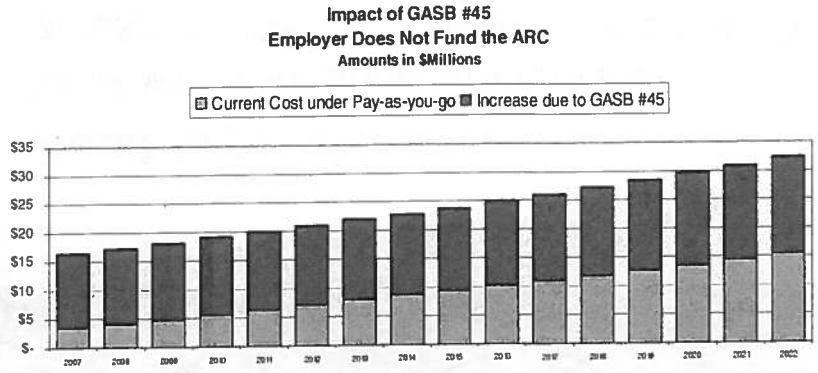
The results

- Provide preliminary results
- Help you understand what the preliminary results mean
- Re-confirm all inputs to the valuation and suggestions for intended audience
- Present final report





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Plan design and audit support

Plan design support

- Comparison to local, regional, and national municipalities
  - Hay Group Benefits Prevalence Report
    - Eligibility, coverage, plan design, cost-sharing
  - Customized studies
  - Total rewards analyses
  - Health actuarial modeling

Audit support

- Work with your audit firm and their actuarial experts to obtain a "clean" audit opinion

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Prevalence of retiree medical
Hay Group Benefits Report

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Retiree Medical Plan Prevalence	Government Employers		Other Employers	
	1992	2008	1992	2008
Normal retiree coverage	76%	73%	57%	41%
Early retiree coverage	80%	78%	61%	44%
Free coverage	39%	21%	41%	14%
Change in prevalence				
Normal retiree coverage		-3%		-16%
Early retiree coverage		-2%		-17%
Free coverage		-18%		-27%

Retiree medical coverage is a very common benefit among governmental employers – with fewer providing the coverage at no cost to participants.

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07

Client Stories

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Our clients include . . .

State and Regional Authorities

- Commonwealth of Pennsylvania
- New York State Teachers' Retirement System
- Port Authority of New York and New Jersey
- Metropolitan Washington Airports Authority
- Administrative Office of the Pennsylvania Courts
- Chatham Area Transit

City clients

- City of Philadelphia, PA
- City of Baltimore, MD
- City of San Antonio, TX
- City of McAllen, TX
- City of Dallas, TX
- City of Farmers Branch, TX
- City of Arlington, TX
- City of Patterson, NJ
- City of Pharr, NV

Community colleges

- Montgomery County, PA
- Metropolitan Community College, MO

County clients

- Alameda County, CA
- Athens-Clarke County, GA
- Bucks County, PA
- Chatham County, GA
- Cumberland County, GA
- Delaware County, PA
- Lehigh County, PA
- Northampton County, PA
- Warren County, NJ
- Washington County, PA
- York County, PA

We have clients of all sizes from a County with under 200 participants to a State with over 200,000.

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Client story: City client – Preparing for Adopting GASB 45

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- Preparing for adoption
  - One valuation covering both City employees and Public School employees
  - Finance director wants one valuation for CAFR purposes, while the HDR Director wants to see City costs separate from School's costs for bargaining purposes
  - Constrained financial budget and political focus as mayor runs for governor
- Prepared a single valuation report with breakouts for each group
  - Evaluated the impact of funding
  - No funding: ARC of $245 million (based on 4% investment rate)
  - Full funding the ARC: ARC of $167 million (7.5% rate)
  - City does not have budget to fully fund the ARC
  - Used a combination of appropriated funds and RDS payments to boost funding
    - Partial funding resulted in ability to use 5% rate

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Client story: Hay Group Creativity = Savings for a Transportation Authority

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Medicare Part D

- Analyzed the financial impact from taking the 28% RDS or becoming a Part D Plan (direct CMS payment)
- Larger annual payments under direct CMS approach
  - **$2.5 million under RDS, $4.1 million under direct CMS payment**
- Assisted Authority becoming a Part D Plan in 2006 and renewing for 2007 & 2008
- Subsequently, GASB disallowed the 28% RDS as an offset to the liability
- As a Part D Plan, Authority lowered its **liability by $150 million**, reduced the **ARC by $10 million**, and saved **$4.1 million in cash in 2006 alone**.
- One of only 10 employers than sponsored their own Part D Plan
- Low-income retirees benefited from the reduced copays in the Federal Part D program
  - Cost of subsidies for lower copays paid for by CMS

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Client story: Liability Management

- Benefits subject to collective bargaining
- State has made several incremental changes to the benefits to manage the liability
  - Lengthened the service needed for eligibility from 15 years to 20 years
  - Introduced retiree contributions as a percentage of final salary
  - Renegotiated the pharmacy benefit management contract
  - Implemented Medicare Advantage Private Fee for Service plan to replace the medical supplement coverage
  - Established a restricted trust and advance fund the benefit

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Why Hay Group?

- Local presence, national practice, global firm
- Unparalleled database on employee benefit programs
- Extensive experience with public school benefit plans
  - Conducted state-wide studies for the Commonwealth of Pennsylvania the State of Michigan and Washington State on health benefits provided to teachers
- Medicare Part D Knowledge and Experience
  - Conducted analysis for CRS before enactment
  - Supported Three Employer Part D Plan Sponsors (of 9 nationally)
  - Also support multiple clients claiming 28% subsidy
  - Actuarial subcontractor for Centers for Medicare and Medicaid Services (CMS)
    - Review of Commercial Part D Plan bids prior to approval
    - Post-approval audit of Commercial Part D Plan bids

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Capabilities and experience

Actuarial Studies

- Post Retirement Benefit Liabilities & GASB
- Annual and Periodic Actuarial Valuations
- Determination and Projection of Pension Benefits
- Financial Experience Audits
- Mergers and Acquisitions Implication
- Plan Terminations

Annual Plan Evaluation

- Competitive Practice Analysis
- Renewal Negotiations
- Claims Analysis and Service Review
- Experience Reviews
- Plan Cost Projections

Benefits Database

- Most Comprehensive Benefits Database in the Industry
- Includes more than 800 annual participants
- Conducted and updated annual survey for past 35 years
- Includes all aspects of Health & Welfare programs and costs

Marketing Efforts

- Developing RFP
- Proposal evaluations
- Assessment of Vendors & Recommendations
- Cost Analysis
- Final Recommendations

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Capabilities and experience

Plan Design and Funding Strategies

- Plan re-design
- Self-insurance
- Reinsurance
- Cash Flow Analysis
- Medicare Part D Integration
- Contribution Strategy

Strategic Planning

- Marketplace Trends
- Legislative Developments

Surveys and Benchmark Studies

- Hay Group Benefits Prevalence Report
- Hay Group Reference Guide
- Hay Group Benefit Alerts

Communications

- Customized Communications/SPDs
- Employee Education/Training
- Reporting Requirements

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How can Hay Group help you?

We know GASB 45 -

- Hay Group's actuarial staff worked on the GASB 45 Implementation Guide, ASOP #6, and literally wrote the book on the valuation of retiree medical benefits, and have leadership roles in the American Academy of Actuaries
- We have the experience you need having implemented GASB 45 for small and large clients – both funded and not-funded

We understand Governmental Employers' needs

- Our clients include State, County, and City plans, School Districts, and Transportation Authorities

We are a national firm with local offices

- Atlanta
- Boston
- Chicago
- Dallas
- Kansas City
- Los Angeles
- Philadelphia
- New York
- San Francisco
- Washington, DC

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About Hay Group

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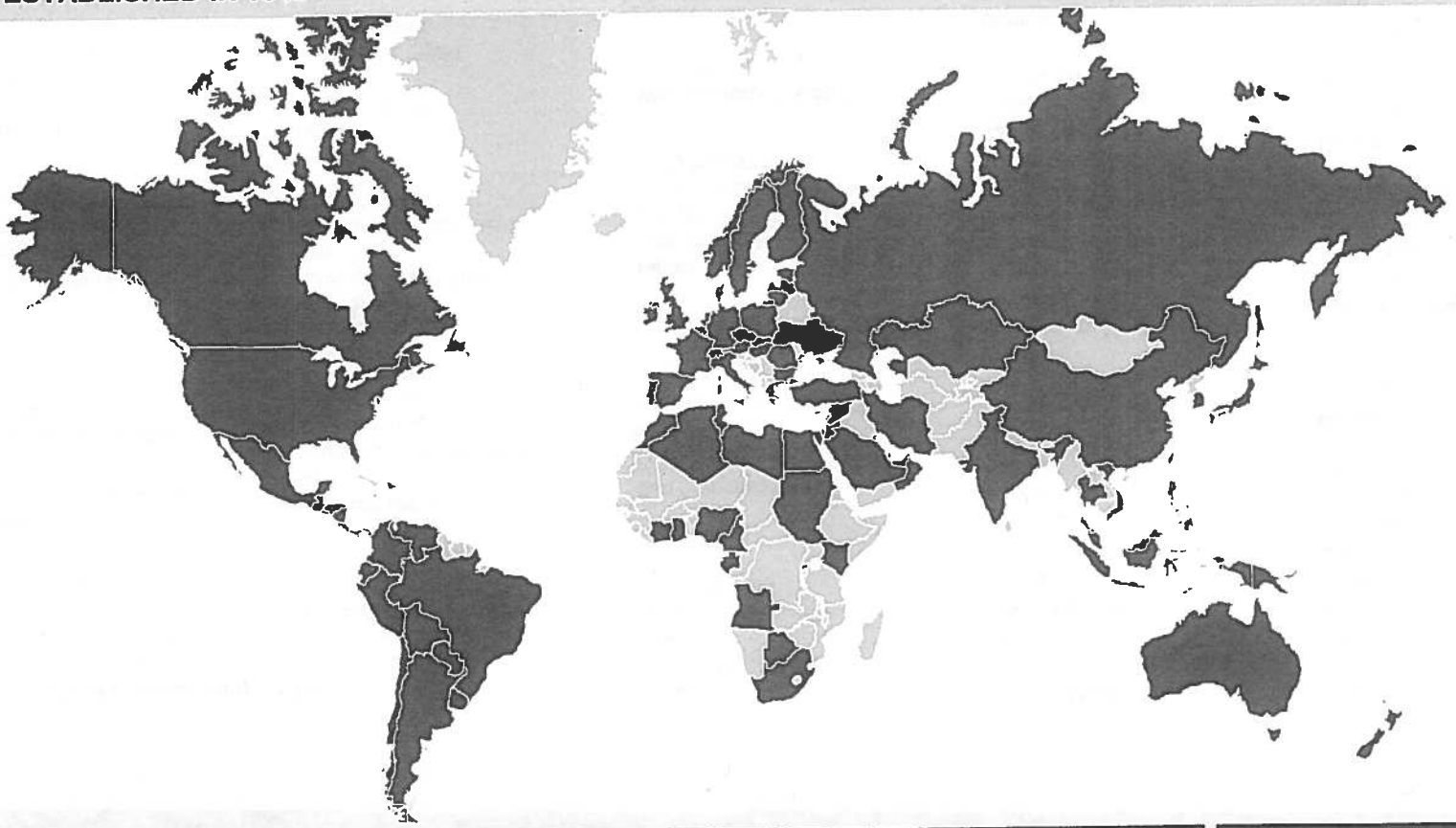

85	*2600*	*7000*	*$450m*
	Employees worldwide	International clients	Turnover

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