

Long Term Funding Plan for NCPA Retiree Medical Plan

March 31, 2016

Background

In June of 1992 the NCPA Commission established a Retirement Medical Reserve Account to provide medical insurance benefits for eligible retired employees. Over the years, money has been accumulated in a reserve and invested by the NCPA Treasurer/Controller to cover the estimated liability for this benefit going forward as determined on an actuarial basis. This actuarially calculated annual contribution, also referred to as the ARC, has been included in the NCPA budget annually since 1998. Over the years, the NCPA Commission has changed the benefits of the plan, and each year the funding level is adjusted to achieve 100% funding of the liability for this program over time. As circumstances change, the funding level also changes. In 2002, the fund was 100% funded, however that level has dropped in recent years to the 70-80% range.

In 2007, NCPA transferred administration and investment of the Retiree Medical Reserve Account to CalPERS to provide for higher investment returns. CalPERS requires an actuarial report be completed every two years to update the required contribution levels or ARC. In October 2015, the most recent actuarial report was issued, and due to changes in actuarial assumptions, accounting standards and amortization methodology, the ARC was increased substantially and the unfunded liability went from 78.0% funded to only 60.7% funded.

To stabilize the Retiree Medical plan and reduce the unfunded liability over a shorter amortization period, the NCPA Commission has adopted the following long term funding plan.

Plan Elements

1. Establish a goal to obtain a minimum funding level of 80% within 15 years and confirm the policy of funding 100% or more of the ARC each year

Best practices and guidelines from the various credit rating agencies indicate that a minimum funding level of 80% is desired, as well as funding 100% of the ARC and conducting actuarial valuations at least every 3 years. NCPA's current practice is to fund 100% of the ARC and to conduct the actuarial study at least every 2 years as required by the CalPERS Prefunding Trust Agreement.

2. Reduce actuarial liability by developing a cap for health care premiums going forward

This long-term strategy includes working closely with the labor unions to develop changes to the medical benefit plans that can cap or reduce the health care costs assumed in the actuarial calculations. Health care increases are a key driver of the calculated liability in the actuarial studies. This strategy will include possible contract changes with the labor unions over the next several years.

3. Shorten the amortization period used in the actuarial calculations from 28 years to 15 years

This strategy will increase the ARC by approximately \$395,000 a year, but will shorten the period of payments for the liability, similar to refinancing a mortgage over 15 years versus 30 years. Funding of this additional payment will begin in FY2017.

4. Consider additional funding sources for increased funding of the ARC, including further budget reductions or new revenues (from members or new services/customers)

In an effort to minimize additional costs to the members, cost reductions, savings from the budget and possible allocation of new revenues will be considered as sources of funding for the increased costs for this long-term funding plan. Further Commission review will be required as to details of this strategy and action will be contingent on the realization of new revenues and budget savings.

5. Conduct a new actuarial study in 2017 to obtain the status of the plan and review with the Finance Committee

As with every strategy, periodic review is important. In accordance with best practices, NCPA will conduct a new actuarial study in 2017 (minimum of 2 years) to determine the new funding levels and assess the unfunded liability at that time. A review of this Long Term Funding Plan will occur after the study is completed in order to adapt or change the plan as needed.