Retiree Medical Actuarial Long-term Funding Plan

Finance Committee

February 10, 2016

The Issue

- Changes in actuarial assumptions and market losses to assets have increased the unfunded liability for the NCPA Retiree Medical Plan by substantial amounts
- Prudent financial planning suggests development of a plan to fully fund this obligation is needed

Quantifying the Issue

	In millions 2013	In millions 2015
Accrued Actuarial Liability	$22.5	$36.7
Assets	17.5	22.3
Unfunded AAL	$5.0	$14.4
Funded %	78.0%	60.7%
Annual Required Contribution (ARC)	$0.9	$2.3

- Funding % down substantially due to changes in assumptions
- ARC increases $1.4 million over current budget

Reasons to Stabilize the Retiree Medical Plan

- <u>Minimum</u> funding of post retirement obligations per Rating Agency recommendations is 80%;

> **From S & P Report:**
>
> Qualitative Factors Negatively Affecting The Initial Assessment Include:
>
> Concerns about pension funding, which could be evidenced by a funded ratio of less than 80%, an actuarial study that is more than three years old, or a trend of not fully funding the annual required contribution for the pension or postemployment benefits

- NCPA is actively seeking new members to improve economies of scale; a large liability may be a negative factor in expanding membership
- End of life is approaching for certain plants; funding of liability could occur sooner, rather than the 28 years assumed in the actuarial calculations


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Strategies Proposed

- Negotiate health care premiums to cap exposure (will require future union negotiations)
  - Union agreed to participate in the solution

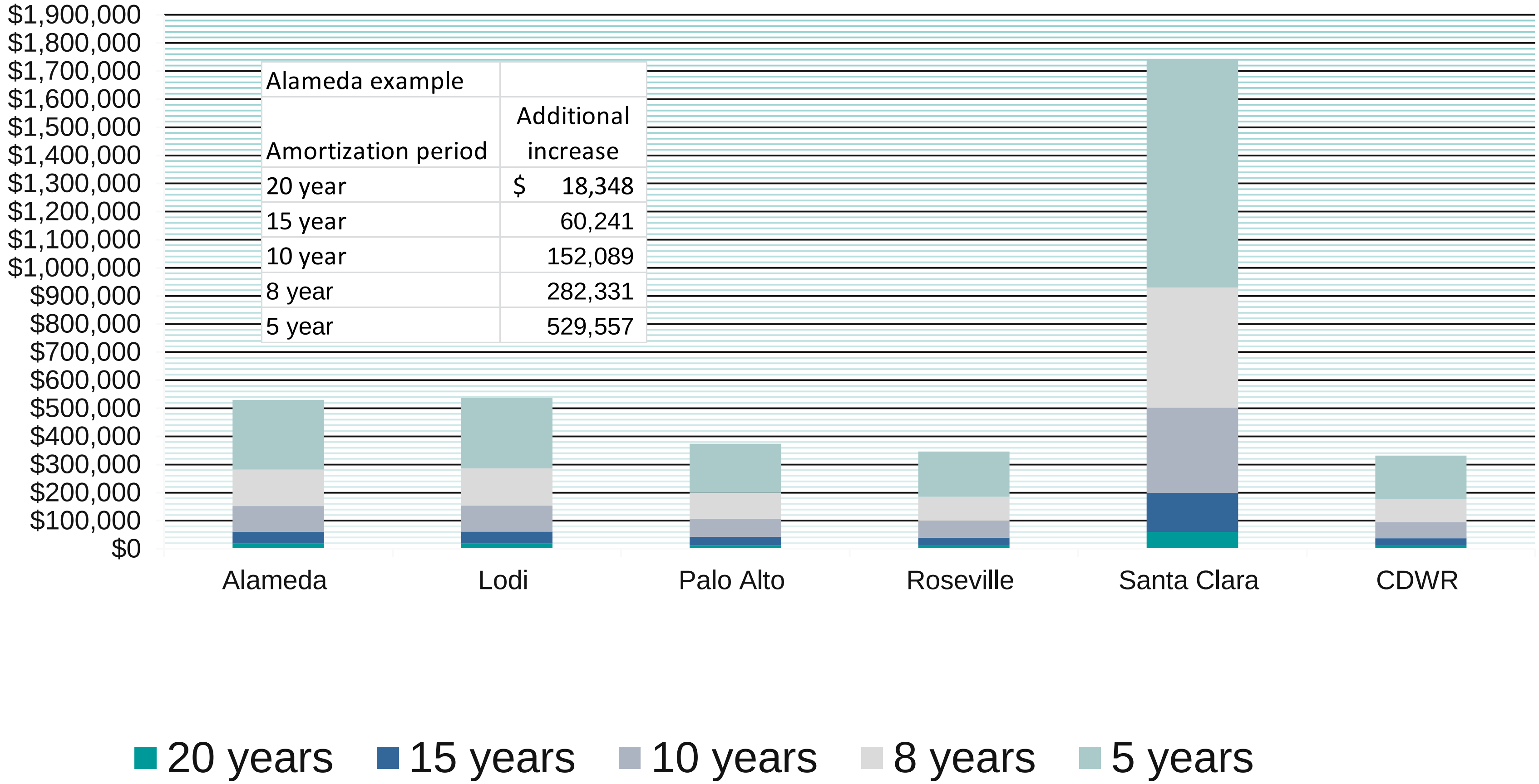
- Review impact of shorter amortization of unfunded liability
  - Looked at various scenarios and impact (by member)

Proposed Long-term Funding Plan

- Options considered:

		Change From 2017 ARC	Changes between Scenarios	Percent increase to NCPA budget $642mm
New 2017 ARC	$ 2,302,000			
20 Yr Funding	2,475,000	173,000	173,000	0.0269%
15 Yr Funding	2,697,000	395,000	222,000	0.0615%
10 Yr Funding	3,168,000	866,000	471,000	0.1348%
8 Yr Funding	3,530,000	1,228,000	362,000	0.1911%
5 Yr Funding	4,633,000	2,331,000	1,103,000	0.3627%

Financial Impact of Funding Options – By Year



Alameda example	
Amortization period	Additional increase
20 year	$ 18,348
15 year	60,241
10 year	152,089
8 year	282,331
5 year	529,557

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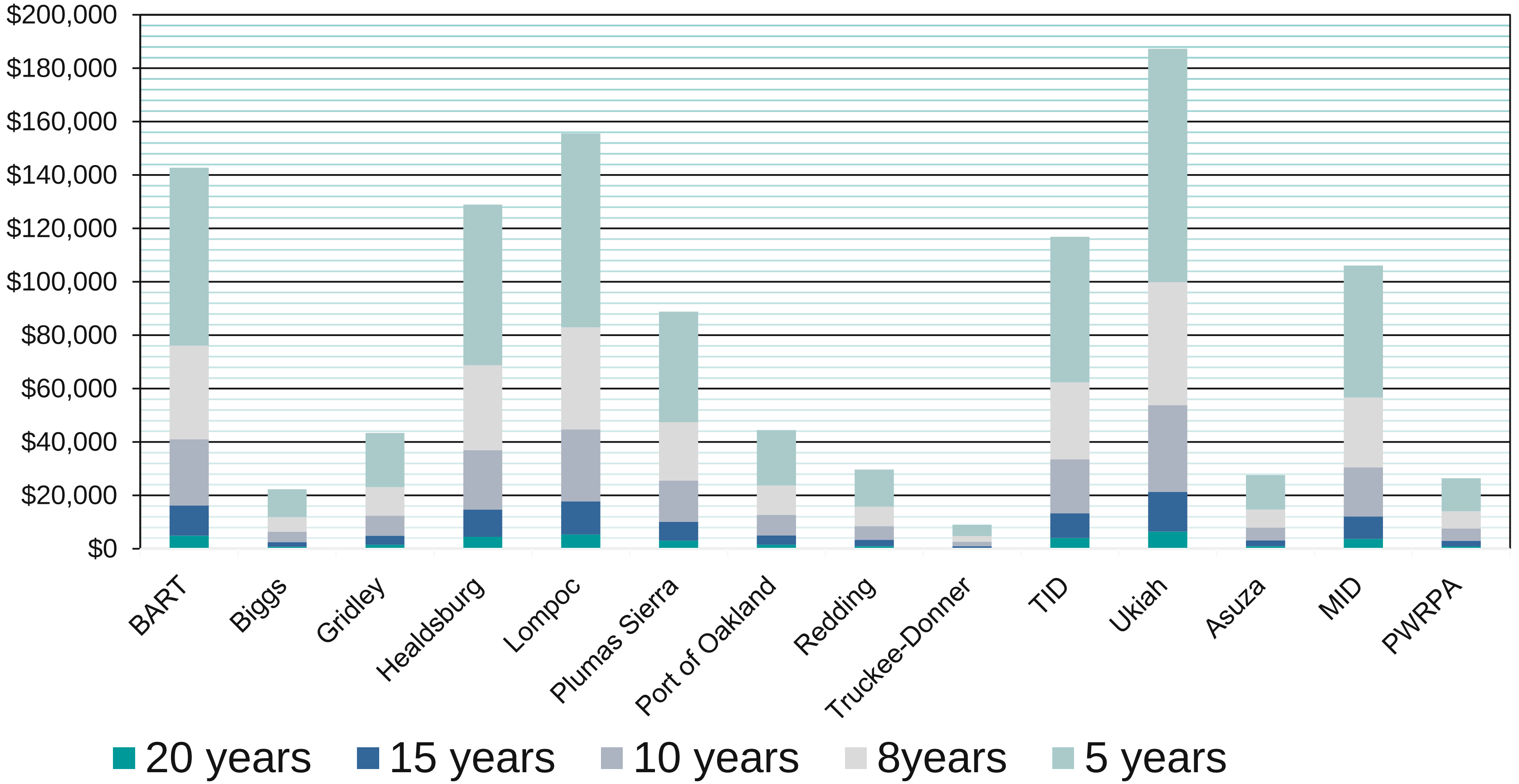

Recommendation

- Establish plan to reduce retiree medical liability including:
  - Formalize plan with Commission approval
  - Negotiate health care premiums to cap exposure over the next several years
  - Shorten amortization of unfunded liability from 28 years to 8 years beginning FY 17
    - ARC funding goes from $2.3 million to $3.5 million
  - Use new services revenues to offset a portion of the additional funding each year
- Plan to conduct new Actuarial Valuation in FY 2017 and adjust as necessary