

Other Post-Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) establishes generally accepted accounting principles (GAAP) for public institutions, including school systems. These are the rules used by independent auditors as they attest to the fair presentation of our annual financial statements. Statements 43 and 45 relate to the financial presentation of Other Post-Employment Benefits (OPEB). The main thrust of GASB Statement No. 45 is to require for the first time that public sector employers recognize the cost of Other Post-Employment Benefits over the active service life of their employees rather than on a pay-as-you-go basis. In simple terms:

An employee earns retiree health care and other benefits while working and the employer should accrue that cost while the employee is working (similar to pension). If the employer has not established a fund for the future benefits, the employer has a liability. An actuarial valuation is required to determine the future liability. The future liability or plan includes the cost of benefits (health, dental and life premiums) plus expenses less a projected return on investment. An actuarial valuation is an estimate of the cost of the plan. Information needed to complete the actuarial valuation is current demographics and benefit costs, an estimate of future retirees (and dependents), demographic assumptions, an estimate of future benefit costs, and trends of current costs and claims. The end result would be to discount the future costs to the valuation date using a discount rate determined by whether the Plan is funded or not funded.

Other Post-Employment Benefits—Harford County Public Schools

The Board provides medical, dental and life insurance benefits to eligible employees upon retirement. The employer's contributions are financed on a pay-as-you-go basis, and the future payment of these benefits is contingent upon the annual approval of the operating budget. Details of the post-employment benefits provided are as follows:

Pre-Medicare retirees can choose between three medical plans; all three plans include prescription drug coverage.

- Carefirst BlueCross BlueShield PPO Core Plan
- Triple Option Plan
- BlueChoice HMO Plan

Post-Medicare retirees can choose between two medical plans; both plans include prescription drug coverage:

- Carefirst BlueCross BlueShield Medical Supplemental Plan
- BlueChoice HMO Supplemental Plan

Retirees can choose between two dental plans:

- Delta Dental PPO Plus Premier
- Delta Dental PPO

Participants with less than 10 years of service receive no subsidy from HCPS. Participants with 10 or more years of service receive an employer subsidy that depends on the date of hire as follows:

Years of Service	Hired Prior to 7/1/2006	Hired After 7/1/2006
0 – 9	None	None
10 - 19	Full BOE Contribution	1/3 BOE Contribution
20 - 29	Full BOE Contribution	2/3 BOE Contribution
30 or more	Full BOE Contribution	Full BOE Contribution

The full BOE contribution is 95% for BlueChoice HMO, 90% for the PPO Core Plan, and 85% for the Triple Option Plan. The full BOE contribution for both dental plans is 90%

Annual OPEB Contributions

		Schedule of Board Contributions (Dollar amounts in thousands)			
		Fiscal Years			
		<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially determined contribution				\$ 69,997	\$ 76,297
Contributions in relation to the actuarially determined contribution				24,018	25,248
Contribution deficiency (excess)	Information for FYE 2016			\$ 45,979	\$ 51,049
Covered-employee payroll	and earlier is not available			\$ 272,319	\$ 281,948
Contribution as a percentage of covered employee payroll				8.82%	8.95%

Net OPEB Obligation

		Schedule of Changes in the Net OPEB Liability and Related Ratios (Dollar amounts in thousands)			
		Fiscal Year			
		<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total OPEB liability					
Service cost				\$ 32,230	\$ 33,423
Interest				30,624	36,491
Changes of benefit terms				-	-
Differences between expected and actual experience				7,859	(37,372)
Changes of assumptions				(135,516)	429,422
Benefit payments				(24,085)	(23,812)
Net change in total OPEB liability				(88,888)	438,152
Total OPEB liability—beginning				1,086,562	997,674
Total OPEB liability—ending (a)				\$ 997,674	\$ 1,435,826
Plan fiduciary net position	Information for FYE 2016 and earlier is not available				
Contributions—employer				\$ 27,139	\$ 25,248
Net investment income				4,551	3,416
Benefit payments				(24,085)	(23,812)
Administrative expense				(1,605)	(14)
Net change in plan fiduciary net position				6,000	4,838
Plan fiduciary net position—beginning				39,943	45,943
Plan fiduciary net position—ending (b)				\$ 45,943	\$ 50,781
Board's net OPEB liability—ending (a) - (b)				\$ 951,731	\$ 1,385,045
Plan fiduciary net position as a percentage of the total OPEB liability				4.61%	3.54%
Covered-employee payroll				\$ 272,319	\$ 281,948
Board's net OPEB liability as a percentage of covered-employee payroll				349.49%	491.24%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant valuation methods and assumptions are as follows:

Valuation Date	July 1, 2018
Actuarial Cost Method	Entry Age Normal Cost Method
Asset Valuation Method	Market value of Assets
Actuarial Assumptions:	
Discount Rate	3.87%
Investment Rate of Return	6.50% per year compounded annually
Payroll Growth Rate	4.25%
Inflation Rate	2.50%
Healthcare Cost Trend Rates:	
Medical and prescription	8.71% initial year of valuation (not applicable to Life) 4.50% final year of valuation (not applicable to Life)
Dental	5.00%

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