



SOCIETY OF ACTUARIES

**Health Spring Meeting
June 2009**

Session # 5 PD: Public Sector Disability Plans

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Public Sector Disability Plans

Considerations for Insured Plans

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American Fidelity Markets

- Secondary Education
- Higher Ed (Colleges)
- Municipalities
- Non-Public Sector

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Marketing Approach

- Mostly Voluntary Plans
- Fully Insured Basis
- Worksite Marketing
- STD and LTD Offerings

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Unique Global Characteristics

- Economic Swings a Lesser Issue
- Tax Revenues are Important
- Providers of Essential Services

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Unique Demographic Characteristics

- In Education Market -- High Female Content
- Wide Range of Occupations and Risks

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Unique Benefit Characteristics

- Presence of State Retirement Plans
- Potential to Opt Out of Social Security
- Other Income Replacement & Sick Pay

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Pricing Challenges

- School Year Versus Calendar Year
- Limited Number of Working Hours
- Sick Pay Treatment
- Rates and Plans Apply to a Variety of Risks

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Pricing Challenges

- Involvement of Unions
- Associations Are More Common

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Questions?

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Public Sector Disability Plans

SOA Spring Meeting

Toronto, Ontario

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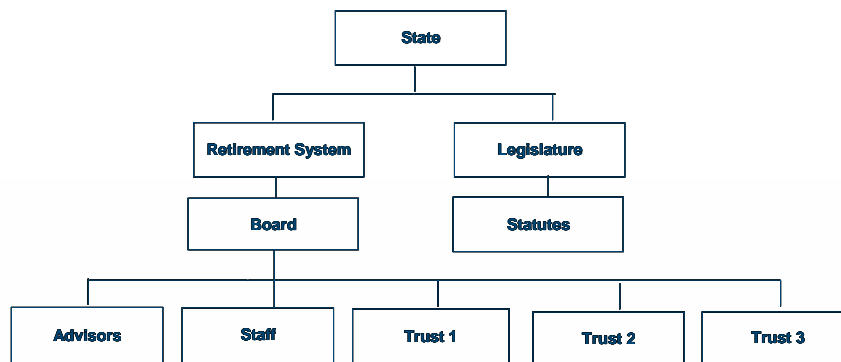
Self-Insured Public Sector Plans

- Structure and Management
- Special Considerations
- Accounting Rules
- Current Challenges



Structure and Management

Structure and Management Example: State Retirement System



Structure and Management Trust Funds

- Benefits are promised by statute and/or plan documents
- Trust assets must be used for beneficiaries only
- Assets may not be shared among trusts
- Trust inflows are contributions and earnings
- Trust outflows are benefits and expenses

Structure and Management Board of Trustees

- Fiduciary responsibility for management of trust
- Appointed, elected, and/or statutory members
- Set investment policies
- Approve valuation assumptions
- Review plan changes and contribution rates
- Hire staff and advisors

Structure and Management Staff

- Executive Director (hired by Board)
- Finance Officer
- Investment Officer
- Administrative Officer
- Legal Counsel

Structure and Management Advisors

- Hired by Board to work with staff
- Investment advisors and managers
- Actuaries
- Third party administrators
- Insurance companies (for insured benefits)

Special Considerations

Special Considerations

Work is exposed to public scrutiny

- Board meetings are open to public
- Actuarial reports are public documents
- New accounting rules increase financial disclosure

Special Considerations

Public sector plans experience political pressure

- Contribution rates weighted against budgets
- Preference for local advisors
- Legislature has rapid turnover and little expertise
- Some Board members may be political appointees
- Unhappy participants may contact politicians for assistance

Special Considerations

Public Sector plans may not be fully funded

- No minimum funding requirements
- Trust assets may be less than claim reserve
- Some plans managed on a pay-as-you-go basis
- Benefits must eventually be paid
- Conversion to insured plan may be challenging

Accounting Rules

Accounting Rules Comprehensive Annual Financial Report (CAFR) Statement of Plan Net Assets

Assets	
Cash	100
Investments	10,000
<u>Receivables</u>	<u>400</u>
Total Assets	10,500
Liabilities	
Benefits Payable	200
<u>Other Payables</u>	<u>100</u>
Total Liabilities	300
Net Assets Held in Trust	10,200

Note: Actuarial liability (reserves) is not included.

Accounting Rules

GASB Statements 43 and 45

Accounting for Other Post-Employment Benefits (OPEB)

- OPEB:** Non-pension benefits accrued during working years but paid after employment ceases.
- Examples:** Retiree health, retiree life, long term disability.
- Accounting:** Requires accrual accounting basis, using recognized actuarial cost method, to attribute benefit costs to working years.
- Disclosure:** CAFR must show required supplementary information, including actuarial liability and funding status.
- Funding:** These are accounting standards only and do not require funding.

Accounting Rules

GASB 43 Methodology

- Step 1:** Project future disability benefits for active employees
- Step 2:** Project future disability benefits for disabled members, including IBNR claims at valuation date
- Step 3:** Determine present value of future benefits by discounting to valuation date

Accounting Rules GASB 43 Methodology (cont.)

- Step 4: Determine normal costs by spreading present value of benefit for active members over working years
- Step 5: Determine actuarial liability = PV of Future Benefits minus PV of Future Normal Costs
- Step 6: Determine Unfunded Actuarial Liability = Actuarial Liability minus Plan Assets
- Step 7: Determine Annual Required Contribution = Normal Cost + Amortization of UAL

Accounting Rules GASB 43 / 45 Example

	<u>Actives</u>	<u>Disabled</u>	<u>Total</u>
PV Future Benefits	\$30,000	\$15,000	\$45,000
PV Future Normal Costs	\$20,000	---	\$20,000
Actuarial Liability	\$10,000	\$15,000	\$25,000
		Plan Assets:	\$10,500
		Unfunded Actuarial Liability:	\$14,500

Accounting Rules GASB 43 / 45 Example

\$2,000	Total Normal Costs
<u>\$1,000</u>	Amortization of Unfunded Actuarial Liability
\$3,000	Annual Required Contribution
\$300,000	Annual Payroll
1.0%	ARC as % of Payroll

Accounting Rules GASB Considerations

- Choice of actuarial cost method
- Choice of amortization period
- Amortize as level dollar or level percent of pay
- Detailed projection of active lives is required

Pension expertise is essential!

Accounting Rules GASB Considerations

“Premium” can be an ambiguous concept

- Traditional LTD premium
- Actual employer contribution
- ARC from GASB valuation
- Normal cost from GASB valuation

Current Challenges

Current Challenges

- Stock market decline
- Increase in ARC's
- Budget shortfalls
- Funding problems
- Increased scrutiny