

plante moran

# Unfunded Liabilities

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# Agenda

- State of Affairs
- Bridging the Funding Gap
- State Reporting Requirements
- Accounting and Financial Reporting



# State of Affairs



# Current Status of Unfunded Liabilities

- **Defined Benefit (Pension) Liabilities**
  - Total Pension Liabilities = \$35.4 billion
  - Total Pension Assets = \$28 billion
  - Unfunded Pension Liability = \$7.4 billion
- **Retiree Healthcare (OPEB) Liabilities**
  - Total OPEB Liabilities = \$13 billion
  - Total OPEB Assets = \$3 billion
  - Unfunded OPEB Liability = \$10 billion
- **Funding levels vary significantly across communities, and the accuracy of these funding levels is highly dependent on the significant and numerous actuarial assumptions utilized**

\*Financial Information from "Responsible Retirement Reform for Local Government Task Force" report prepared in July 2017



# How Did We Get Here?

- Pension and OPEB benefits used as a tool to attract and retain talent
- More prevalent defined benefit offerings by public employers
- Lack of statutory and constitutional funding requirements (OPEB)
- Actuarial assumptions used in valuations vs. reality
- Revenue challenges



# Bridging the Funding Gap



# Potential Plan Changes

- Approach will be different for retirees, actives, and future hires
  - Revisions to multipliers
  - Exclusion of items from final average compensation
  - Increased employee contributions or retiree cost sharing of health care premiums
  - Use of cash stipends as a replacement tool for retiree health care
  - Close plans – offer Defined contribution plan for new hires
  - Eligibility requirements
  - Reviewing benefits cost structure – similar benefits, offered at lower cost
- These changes in most cases are subject to collective bargaining negotiations, which will likely result in achieving less than the desired changes



# Build Budget Capacity

- Establish a target and timeline to achieve certain funding levels – goals should include short, intermediate and long-term thresholds
- Ensure alignment between funding policy and established milestones for funding
- If there is a gap between funding required and funding available to successfully implement the funding policy, establish a methodology to “build” budget capacity over time to required thresholds





# Pension/OPEB Bonds

- Public Act 46 of 2015 extended issuance until December 31, 2018
- Issuing debt to fund the Pension/OPEB liability
  - Goal:
    - Fund the Pension/OPEB liability as of a certain date
    - Achieve investment earnings in excess of borrowing rate
  - Challenges:
    - Total OPEB Liability can be volatile
    - Debt service requirement from local government
    - Investments achieve a better rate than the borrowing rate



# State Reporting Requirements



# Public Act 202

- Annual reporting for all local governments that offer or provide defined pension and/or OPEB retirement benefits
- “Underfunded Status”
  - OPEB:
    - <40% funded based, AND
    - ARC for all OPEB systems is greater than 12% of governmental funds revenue
  - Pension:
    - <60% funded based, AND
    - ARC for all pension systems is greater than 10% of governmental funds revenue



# Public Act 202

- If “Underfunded Status”
  - Community has the opportunity to file a “waiver” to provide a plan for how the underfunding is being addressed
  - If “waiver” is not approved, the local unit will need to submit a Corrective Action Plan (CAP) to the Municipal Stability Board



# Public Act 202

- CAP Considerations

- Pension:

- Close current benefit plans and offer defined contribution pension plan
    - Limit multiplier
    - Reduce or limit new accrued benefits
    - Adjust Final Average Compensation

- OPEB:

- Close current benefit plan and offer defined contribution health care plan
    - Cost sharing of premiums/copays
    - Capping employer costs
    - If spouse has available coverage, utilize those benefits



# Accounting and Financial Reporting



# Accounting and Financial Reporting

- GASB 68 (Pensions) and GASB 75 (OPEB) not only required the recording of unfunded pension and OPEB liabilities on the government-wide financial statements, they also did the following:
  - Resulted in more scrutiny of actuarial assumptions, resulting in many revisions that ultimately increased measurements of total pension and OPEB liabilities
  - Parameters established regarding assumptions for GASB 68 and 75. These assumptions are potentially different than those used for funding valuations.
  - Disclosures regarding sensitivity to certain assumptions (discount rate and health care cost trend)



# Accounting and Financial Reporting

- For local units that have significant unfunded pension and OPEB liabilities on the government-wide financial statements, it likely results in an unrestricted net position deficit

## Net Position

Net investment in capital assets	\$	104,000,000
Restricted		12,000,000
Unrestricted (deficit)		<u>(6,000,000)</u>
<b>Total Net Position</b>	<b>\$</b>	<b><u><u>110,000,000</u></u></b>





Questions?



# Thank you!

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