



Office of the State Actuary

“Supporting financial security for generations.”

May 20, 2020

Ms. Laura Lopez
State Senior Financial Consultant
Office of Financial Management
P.O. Box 43113
Olympia, WA 98504-3113

**SUBJECT: REVISED – OPEB ACTUARIAL VALUATION FOR THE STATE’S
JUNE 30, 2020 FISCAL YEAR-END**

Dear Laura:

This letter documents the results of an actuarial valuation of the post-retirement medical subsidies offered to retirees and their spouses by the state, as a participating employer in the Public Employee Benefits Board’s (PEBB) retiree medical plans. The primary purpose of this valuation is to determine the state’s Other Post-Employment Benefits (OPEB) liability under the Governmental Accounting Standards Board Statement No. 75 (GASB 75) financial reporting requirements. This valuation should not be used for other purposes.

The valuation results are attached in the “FY 2020 GASB 75 Tables_Revised” spreadsheet. The purpose of the spreadsheet is to provide the Office of Financial Management (OFM) the required information to include in their *2020 Comprehensive Annual Financial Report* (CAFR). The spreadsheet contains the following information:

- ❖ Components for the Schedule of Changes in Total OPEB Liability (TOL) and Related Ratios:
 - Service Cost; Interest; Difference Between Expected and Actual Experience; Changes in Benefit Terms; Changes in Assumptions; Benefit Payments; Covered Employee Payroll.
- ❖ OPEB Expense.
- ❖ Deferred Outflows and Inflows of Resources.
 - Subsequent Recognition Years.
- ❖ Sensitivity of the TOL to Changes in Healthcare Trend and Discount Rate Assumptions.
- ❖ Summary of Plan Participants (see attached spreadsheet).
- ❖ Summary of Assumptions and Methodology (see attached spreadsheet).



The GASB 75 results were revised from the communication sent on April 30, 2020 to reflect a new benefit payment figure provided by OFM.

Our [2018 PEBB OPEB Report](#) produced GASB 75 accounting results based on a June 30, 2018, valuation date. For purposes of this analysis, we rolled forward those results to a measurement date of June 30, 2019, reflecting service cost, assumed interest, and actual benefit payments. Additionally, we lowered the discount rate from 3.87 percent to 3.50 percent consistent with the Bond Buyer 20-Bond general obligation index. Otherwise, all data, assumptions, and methods used in the roll forward are consistent with the [2018 PEBB OPEB Report](#).

Consistent with the [2018 PEBB OPEB Report](#) and GASB 75 reporting requirements, we prepared the analysis using assumptions that include the excise tax related to the Patient Protection and Affordable Care Act. We highlight this because recent legislation under [H.R. 1865](#), also referred to as the Further Consolidations Appropriations Act of 2020, repealed the excise tax. This change is not reflected because the repeal occurred after the June 30, 2019, measurement date. We estimate exclusion of the excise tax would reduce liability by approximately 2 to 3 percent. Please see the [2018 PEBB OPEB Report](#) for an illustration of how exclusion of the excise tax can impact the results.

We believe that the assumptions and methods used in this valuation are reasonable and appropriate for the primary purpose stated above. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results. In our opinion, all methods, assumptions, and calculations are appropriate and in conformity with generally accepted actuarial principles and standards of practice as of the date of this publication.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. While this report is intended to be complete, we are available to offer extra advice and explanations as needed.

Lisa A. Won, ASA, FCA, MAAA
Deputy State Actuary

Michael T. Harbour, ASA, MAAA
Actuary

cc: Brian Tinney, Assistant Director of Accounting
Office of Financial Management
Kyle Stineman, ASA, Senior Actuarial Analyst
Office of the State Actuary
Frank Serra, Actuarial Analyst
Office of the State Actuary

Attachment: FY 2020 GASB 75 Tables_Revised.xlsx
O:\OFM\2020\OPEB.Actuarial.Valuation.Cert.Letter.Revised.docx



Attachment

Schedule of Changes in Total OPEB Liability and Related Ratios	
Post-Employment Benefits Liability	
<i>Measurement Date of June 30, 2019</i>	
<i>(Dollars in Thousands)</i>	
Total OPEB Liability (TOL)	
Service Cost	\$235,002
Interest	203,850
Difference Between Expected and Actual Experience*	-
Changes in Benefit Terms	-
Changes in Assumptions*	379,623
Benefit Payments**	(93,249)
Other	-
Net Change in Total OPEB Liability	725,226
Total OPEB Liability – Beginning	5,078,633
Total OPEB Liability – Ending	\$5,803,859
Covered Employee Payroll**	\$8,711,144
TOL as a Percentage of Covered Payroll	66.63%

Note: Figures may not agree due to rounding.

**The recognition period for these changes is nine years. This is equal to the average expected remaining service lives of all active and inactive members.*

***Source: OFM*

OPEB Expense for Measurement	
Date of June 30, 2019	
<i>(Dollars in Thousands)</i>	
Service Cost	\$235,002
Interest Cost	203,850
Amortization of Differences Between Expected and Actual Experience	22,140
Amortization of Assumptions Changes	(212,542)
Changes in Benefit Terms	-
Other Changes in Fiduciary Net Position	-
Total OPEB Expense	\$248,450



<i>(Dollars in Thousands)</i>	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$154,981	\$0
Changes of Assumptions	337,443	1,682,789
Transactions Subsequent to the Measurement Date*	-	-
Total	\$492,424	\$1,682,789

Note: Deferred outflows will increase future OPEB expense and deferred inflows will decrease future OPEB expense.

**OFM is the source of the Transactions Subsequent to the Measurement Date. Please see the 2020 CAFR.*

Subsequent Years	
<i>(Dollars in Thousands)</i>	
2021	(\$190,402)
2022	(\$190,402)
2023	(\$190,402)
2024	(\$190,402)
2025	(\$190,402)
Thereafter	(\$238,354)

Note: Negative deferral reflects greater future inflows than outflows.

Sensitivity Analysis - Healthcare Trend			
<i>(Dollars in Thousands)</i>	1% Decrease	Current Trend Rate	1% Increase
Total OPEB Liability	\$4,697,343	\$5,803,859	\$7,293,062

Sensitivity Analysis - Discount Rate			
<i>(Dollars in Thousands)</i>	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	\$7,028,279	\$5,803,859	\$4,852,848