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LANE TRANSIT DISTRICT
BOARD OF DIRECTORS

JOINT MEETING OF THE
HUMAN RESOURCES COMMITTEE
AND
FINANCE COMMITTEE

January 24, 2012

4:30 p.m.

LTD BOARD ROOM
3500 E. 17th Avenue, Eugene
(off Glenwood Blvd.)

Public testimony will not be heard at this meeting

AGENDA

I. CALL TO ORDER

II. ROLL CALL

III. Dubick _____ Kortge _____ Gillespie _____ Necker _____

IV. REVIEW PENSION PLAN ACUTARIAL ASSUMPTIONS

V. REVIEW MEDICARE SUPPLEMENT BENEFIT

VI. NEXT MEETING

VII. ADJOURNMENT

BOARD HUMAN RESOURCES COMMITTEE
AGENDA ITEM SUMMARY

DATE:	January 24, 2012
ITEM TITLE:	REVIEW LTD PENSION PLAN ACTUARIAL ASSUMPTIONS
PREPARED BY:	Mary Adams, Director of Human Resources and Risk Management
ACTION REQUESTED:	Staff Guidance

BACKGROUND:

In 2011 the Lane Transit District Board of Directors approved a motion to create a new pension plan for all administrative employees hired on or after January 1, 2012. This new plan is a defined contribution model. This decision means that the current Lane Transit District Salaried Employees' Retirement Plan is closed to new entrants. As a result, there are two specific decisions the District must now make regarding the closed plan.

One decision is to determine how the current plan assets are valued. The other decision is the length of time that the District should take to pay off the plan's unfunded actuarial liability. There are options for both decisions, and each option has fiscal impacts on the plan costs.

At the January 24 Joint meeting of the Board's Human Resources and Finance Committees, plan Actuary Will Clark-Shim of Milliman will be present to answer questions and review the options.

ATTACHMENTS: Milliman letter to LTD, dated December 19, 2011

PROPOSED MOTION: None

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December 19, 2011

VIA E-MAIL

Ms. Diane Hellekson
Lane Transit District
3500 E. 17th Avenue
P.O. Box 7070
Eugene, Oregon 97401-0470

Re: Lane Transit District Salaried Employees' Retirement Plan Contribution Rates for Upcoming Fiscal Years

Dear Diane:

As discussed, this letter reviews potential changes to the contribution rates to the above-named Plan starting with the 2012-2013 fiscal year. We wanted to solicit your comments prior to providing information to the Trustees.

Our proposed contribution rate consists of **11.5% of covered pay** to cover the ongoing costs of accruing benefits (the "Normal Cost"), **plus one of the following** alternative schedules for paying off unfunded actuarial liability and covering administrative expenses.

Fiscal Year	20-Year Layered	20-Year Fresh Start	30-Year Fresh Start
2012-2013	$567,000	$556,000	$492,000
2013-2014	$584,000	$556,000	$492,000
2014-2015	$500,000	$556,000	$492,000
2015-2016	$517,000	$556,000	$492,000

These alternatives are generally towards the lower end of what the District might consider for contribution rates. The 30-Year Fresh Start alternative uses the longest amortization period which meets the parameters of GASB 27 and GASB 50.

Our suggestion would be to contribute amounts no less than under one of the 20-Year schedules.

For comparison purposes, the recommended 2011-2012 contribution was 18.3% of payroll. If calculated in the same manner, the 2012-2013 contribution schedules above would be 23.7%, 23.5%, and 22.1% of payroll, respectively.

The basis for these alternative schedules is discussed below.

Effect of Plan Closure

The Plan was closed to new entrants effective January 1, 2012. The closure of the Plan affects Plan accounting. Since the total covered payroll of the Plan will generally start to decrease in future years, GASB standards do not allow for the continued use of percent-of-payroll amortization of the Unfunded Actuarial Liability (UAL). Instead, amortization of the UAL should occur in level dollar installments.

This letter shows projected LTD contribution levels in the following format: The Normal Cost continues to be expressed as a percent of covered payroll, because ongoing accrual costs are directly related to covered payroll. UAL amortization payments and administrative expenses are expressed as flat annual dollar amounts. The District could potentially budget the flat annual dollar amounts on a per payroll basis throughout the year.

We note that an argument could be made that since the closure of the Plan was enacted after July 1, 2011, the July 1, 2011 valuation could avoid recognizing the closure and continue its percent-of-payroll amortization approach. We do not necessarily recommend this, because the change in Plan terms was known while the valuation was being performed, and because contribution rates will go into effect after the closure of the Plan.

Discussion of District Decisions

The District has several alternatives it could consider for setting the new contribution rates. The alternatives are based upon how the District handles two interrelated decisions:

Decision 1) Should the Plan's actuarial value of assets of $10.67 million be reset to the market value of assets of $11.55 million?

Discussion: The Plan's investment returns are "smoothed" over a three year period in order to reduce the effect of investment return volatility on contribution rates. As of July 1, 2011, the actuarial (smoothed) value of assets is $0.88 million lower than the actual market value of assets.

In our opinion, it is best to select an asset smoothing method with a long-term focus. It is not a good idea to selectively reset the asset value to the market value (and smooth going forward) when the market value of assets exceeds the smoothed value of assets.

However, with the closure of the Plan, a one-time reset to market value to offset the effect of the Plan closure might help transition to the new contribution calculations.

Decision 2) Over what length of time should the District aim to pay off the Plan's UAL?

Discussion: The maximum length of time allowed under GASB standards is 30 years. However, for a closed plan, a 30-year period is generally not appropriate.

One relevant benchmark for this Plan is its average expected working lifetime of 9 years. A conservative contributions policy might seek to pay off the UAL in 9 years. However, the effect of a 9-year amortization policy would be to increase District contributions by approximately $300,000 per year relative to the 20-year Fresh Start amortization.

Current District policy is to pay off UAL on a 20-year timeframe, with "layers" of UAL established at each valuation. Simply maintaining this amortization period is projected to increase District contributions by approximately 5% of total payroll in 2012-2013. The increase in contributions is largely attributable to recognizing the remaining investment losses during 2008-2009.

One principle of actuarial funding is to match the contributions with the time during which employees are rendering service. Therefore, in future years, the UAL amortization period should shorten as the remaining employees approach retirement. A good goal would be to pay off the entire UAL prior to the last retirement under the Plan. We project fewer than 10 remaining active members in the Plan in 20 years' time.

Potential District Contribution Rates

Based on the discussion above, we have offered three potential approaches to setting contribution rates for 2012-2013 and beyond. The descriptions are shown below, and the resulting contribution rates are shown in the first page of this letter.

20-Year Layered - The District could continue its current contribution policy by maintaining the current layers (which increase 5% each year) and add future 20-year layers on a level-dollar amortization basis. The effect of this policy is best seen by looking at the 20-Year Layered contributions in the table on the first page of this letter.

With each subsequent biennial valuation, a good goal would be to shorten the 20-year period by two years until the UAL is paid off. This is called a "closed" amortization period. However, once the closed amortization period gets sufficiently short (e.g. 10 or fewer years), a return to layered amortization may make sense.

20-Year Fresh Start - The District could "fresh start" its actuarial value of assets to market, and fresh start its 20-year amortization payment. This approach results in a level dollar contribution which would be payable over the 20 fiscal years starting with 2012-2013.

30-Year Fresh Start - The District could "fresh start" its actuarial value of assets to market, and fresh start to a 30-year amortization payment. This approach results in a level dollar contribution which would actually be payable over the next <u>29</u> fiscal years – i.e. until 30 years from the July 1, 2011 valuation date. This approach is the most aggressive approach which would be consistent with current GASB standards.

Considerations for Future Years

Now that the Plan is closed to new entrants, it will mature more rapidly than in prior years. As a result, its investment horizon will shorten, and more conservative asset allocations may gradually become a better match to the liability profile. In turn, the expected rate of return on Plan assets will likely need to decrease, and this will increase Plan liabilities.

In addition, pending changes to actuarial standards are likely to require a narrower corridor from which we can select an actuarial expected rate of return. This change may put downward pressure on the actuarial assumption for Plan investment return, which may in turn increase Plan liabilities.

Finally, proposed changes to GASB standards are penciled in for the 2013-2014 fiscal year. The primary effect of these changes will be greater volatility in the Plan's financial accounting. These changes do not have a direct impact on the District's contribution decisions. Similar to current standards, the new standards will encourage the District to contribute an actuarially determined amount consistent with returning to full funding and avoiding insolvency.

Enclosed is a Milliman PERiScope article on the proposed changes in GASB standards.

Reliance and Limitations

In preparing this report we relied without audit on information (some oral and some in writing) supplied by Kernutt Stokes Brandt & Co., LLP (KSB) and the District. This information includes, but is not limited to, plan provisions, employee data, and unaudited financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. These results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

Except as otherwise noted herein, our calculations are based upon the actuarial assumptions and methods, plan terms, and employee data summarized in our November 10, 2011 letter to Todd Lipkin re June 30, 2011 CAFR information. Projections in this letter assume that future experience, including a 7.5% annual investment return, follow these actuarial assumptions.

All costs, liabilities, rates of interest, and other factors for the Plan have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the Plan and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the Plan. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements. The Board of Trustees has the final decision regarding the appropriateness of the assumptions.

Actuarial computations presented in this report under GASB Statements No. 25 and 27 are for purposes of fulfilling financial accounting requirements. The calculations in this report have been made on a basis consistent with our understanding of GASB Statements No. 25 and 27.

Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report.

Milliman's work is prepared solely for the internal business use of the Lane Transit District Salaried Employees' Retirement Plan. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception(s):

(a) The District may provide a copy of Milliman's work, in its entirety, to the District's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the Plan.

(b) The District may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

We would look forward to discussing these contribution rate alternatives with you in the near future.

Sincerely,

Peter R. Sturdivan, FSA, EA, MAAA
Principal and Consulting Actuary

William H. Clark – Shim, FSA, EA, MAAA
Consulting Actuary

PRS/WHC:wp

cc: Ms. Mary Adams

BOARD HUMAN RESOURCES COMMITTEE
AGENDA ITEM SUMMARY

DATE: January 24, 2012

ITEM TITLE: REVIEW MEDICARE SUPPLEMENT

PREPARED BY: Mary Adams, Director of Human Resources and Risk Management

ACTION REQUESTED: None

BACKGROUND: For many years Lane Transit District has provided a subsidy toward the cost of retiree health care. The subsidy, last increased in the 2007-10 Collective Bargaining Agreement, is $250 per month toward the cost of the retiree health care plan if the employee is not Medicare eligible (under age 65), and $125 per month toward the cost of a Medicare supplement once the retiree is Medicare eligible.

Since this is a subsidy toward the cost of monthly premium costs, LTD staff administers the monthly premium and bills retirees for any balance due. This administrative process is time consuming. Dean Kortge, member of the LTD Human Resources Committee, has asked that this program be reviewed at the January 24, 2012, joint meeting of the Board Human Resources and Finance Committees.

ATTACHMENTS:

1. Medicare Benefit Delivery Cost Summary
2. Insurance Expenditures - graph
3. Insurance Expenditures - data

PROPOSED MOTION: None

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LTD Projected Retiree Insurance Expenditures - 2012					
Plan Name	**Premium amt/mo**	**Cost to District**	**Cost to Retiree**	**# Subscribers**	**2012 Annual Cost** (2)
Regence MedAdvantage w/o Rx	$ 30.00	$ 30.00	$ -	3	$ 1,080.00
Regence MedAdvantage w/ Rx	$ 61.00	$ 61.00	$ -	63	$ 46,116.00
Regence MedAdvantage Enhanced	$ 125.00	$ 125.00	$ -	26	$ 39,000.00
Providence (1)	$ 130.00	$ 125.00	$ 5.00	25	$ 37,500.00
Clear Choice (PacificSource)	$ 99.00	$ 99.00	$ -	1	$ 1,188.00
PacificSource Retiree (pre-age 65)	$ 572.30	$ 250.00	$ 322.30	25	$ 75,000.00
Totals	-			143	$ 199,884.00

(1) Providence has some rate variance - overall total is slightly lower

(2) Amt of premium LTD pays (does not include retiree self-pay amount)

Estimated Administrative Costs

Lane Transit District pays insurance carrier invoices, and each plan has a separate bill. HR reconciles invoices, and Finance sends out bills to retirees who owe a balance. LTD conducts an annual informational meeting for the retirees on Medicare, in which all retirees currently on a plan, or who will be in the upcoming year, are invited to attend. We also field questions from retirees, help them with billing issues, and handle the open enrollment each year.

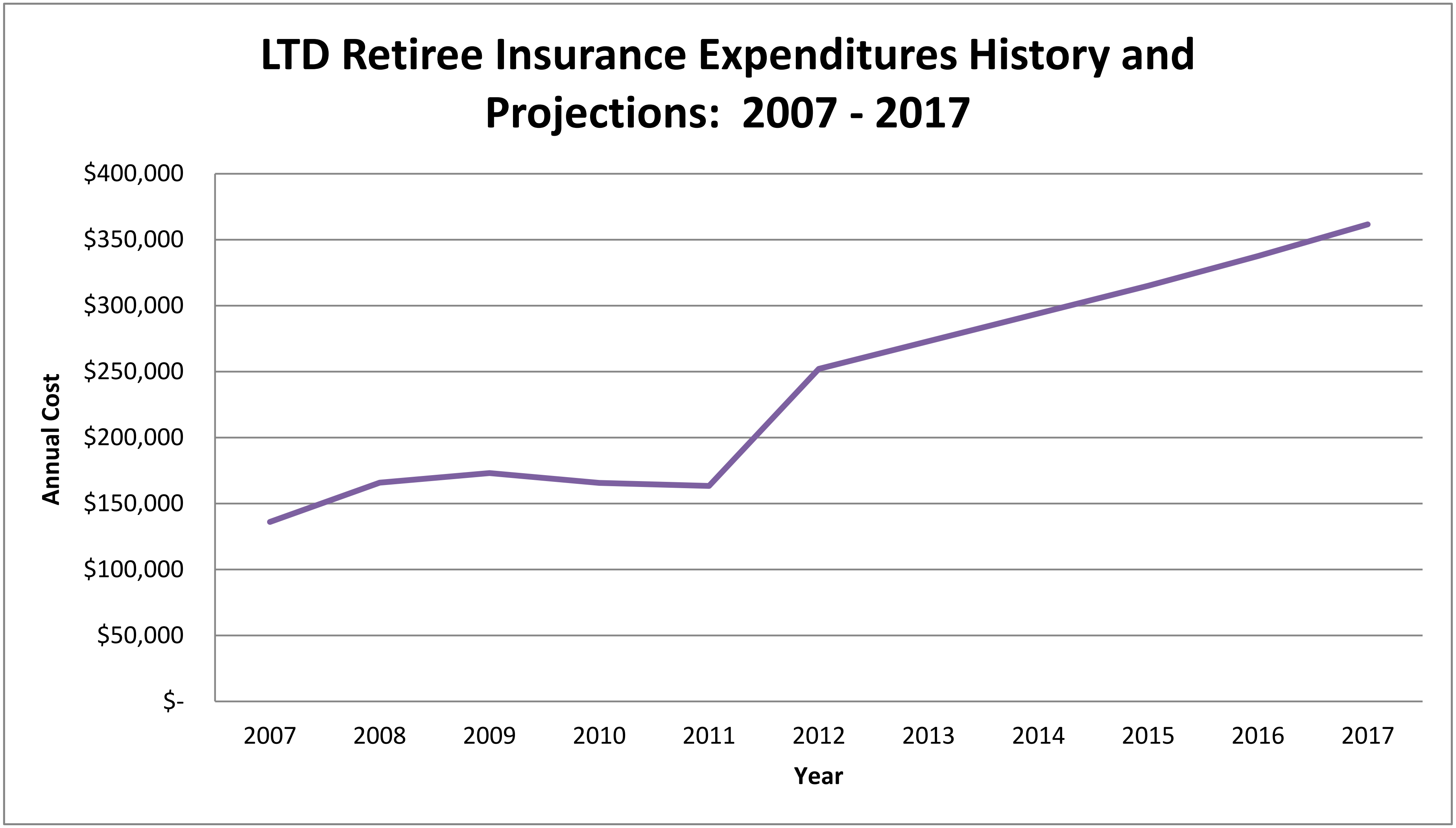
Task (number of hours/annually)	Susan	David	Zach	Grand Total
Reconciliation	24			24
Enrollments	24			24
Billing			96	96
Administrative Support	16	30		46
Laoded Rate	$29.43	$47.58	$30.24	
Estimated Total Annual Costs	**$1,883.52**	**$1,427.40**	**$2,903.04**	**$6,213.96**

LTD Projected Retiree Insurance Expenditures 2012				2013		2014		2015		2016		2017	
Plan Name	**Premium amt/mo**	**# Subscribers**	**2012 Annual Cost (2)**	**# Subscribers**	**Annual Cost (2)**	**# Subscribers**	**Annual Cost (2)**	**# Subscribers**	**Annual Cost (2)**	**# Subscribers**	**Annual Cost (2)**	**# Subscribers**	**Annual Cost (2)**
Regence Med Advantage w/o Rx	$ 125.00	3	$ 4,500.00	0	$ -	0	$ -	0	$ -	0	$ -	0	$ -
Regence Med Advantage w/ Rx	$ 125.00	63	$ 94,500.00	60	$ 90,000.00	65	$ 97,500.00	67	$ 100,500.00	72	$ 108,000.00	75	$ 112,500.00
Regence Med Advantage Enhanced	$ 125.00	26	$ 39,000.00	40	$ 60,000.00	44	$ 66,000.00	49	$ 73,500.00	51	$ 76,500.00	55	$ 82,500.00
Providence (1)	$ 125.00	25	$ 37,500.00	30	$ 45,000.00	33	$ 49,500.00	38	$ 57,000.00	42	$ 63,000.00	45	$ 67,500.00
Clear Choice (PacificSource)	$ 125.00	1	$ 1,500.00		$ -		$ -		$ -		$ -		$ -
PacificSource Retiree	$ 250.00	25	$ 75,000.00	26	$ 78,000.00	27	$ 81,000.00	28	$ 84,000.00	30	$ 90,000.00	33	$ 99,000.00
Totals	-	143	$ 252,000.00	156	$ 273,000.00	169	$ 294,000.00	182	$ 315,000.00	195	$ 337,500.00	208	$ 361,500.00

(1) Providence has some rate variance - overall total is slightly lower

(2) Amt of premium LTD pays (does not include retiree self-pay amount)

Average Ages	
Group	**Average Age**
Active Employee	60.31
Retirees	70.48
Age of Retirees over past 5 years	62.68


LTD Retiree Insurance Expenditures History and Projections: 2007 - 2017
$400,000
$350,000
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$-
Annual Cost
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
Year