

AGENDA ITEM DETAILS

Subject: Review of the Texas Employees Group Benefits Program: Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2021

BACKGROUND:

Each fiscal year, ERS must report State of Texas and employer liabilities associated with providing retirees of state agencies and higher education institutions with certain post-employment (retiree) benefits, other than retirement benefits. For the state, this valuation includes health insurance only. The acronym for this valuation is referred to as OPEB, which stands for "Other Post-Employment Benefits". While the purpose of the valuation is to highlight and report future costs, there is no requirement that these future costs be pre-funded or funded on a pay as you go basis.

The Texas Legislature determines funding for GBP health insurance benefits every two years. Funding comes from member and employer contributions. The coverage offered through the GBP is not a constitutionally guaranteed benefit and neither the state nor ERS is required to maintain funds to pay future benefits. Optional insurance coverages are not included in the valuation since the employer does not provide any funding for optional coverages.

GASB No. 74 requires that a plan's financial statements disclose the Actuarially Determined Contribution, but does not require it to be funded. This amount is determined in conformity with relevant Actuarial Standards of Practice. Participating employers are not required to contribute the Actuarially Determined Contribution to the plan each year; instead, GASB No. 74 requires that the plan's financial statements include a schedule that compares the Actuarially Determined Contribution with the actual employer contributions for each year.

ERS contracts the valuation to Rudd and Wisdom, Inc., consulting actuary for the Texas Employees Group Benefit Program (GBP). Rudd and Wisdom conducts the valuation in accordance with Chapter 2266, Texas Government Code, and in accordance with the financial reporting standards for state governmental plans established by the Governmental Accounting Standards Board (GASB) Statement Number 74.

The GBP is a cost-sharing multiple-employer plan that meets the following criteria under GASB No. 74:

1. Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable,
2. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms, and
3. OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. Defined benefit OPEB plan assets are also legally protected from creditors of the plan members.

Summary of Valuation Methodologies and Assumptions – For purposes of the FY21 OPEB valuation, Rudd and Wisdom has used the Entry Age cost method as required by GASB No. 74 and which is the same as that used in valuing the ERS retirement plan.

Where appropriate, Rudd and Wisdom uses the same demographic and economic assumptions adopted by the ERS and Teacher Retirement System (TRS) Boards for purposes of conducting their respective pension plan valuations. Because most of the employees and retirees covered by the GBP are also covered by either ERS or TRS, use of their respective assumptions allows for consistency. The OPEB valuation also incorporates the

long-term inflation assumption adopted by ERS for purposes of the retirement plan valuation. Rudd and Wisdom revises the demographic and economic assumptions used in the OPEB valuation each time new assumptions are adopted by the ERS or TRS Boards if such assumptions are adopted by the OPEB valuation date.

The following assumptions have been updated since the previous valuation to reflect recent plan experience and expected trends:

- Percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- Percentage of Higher Education vested terminated members assumed to have terminated less than one year before the valuation date.
- Percentage of members assumed to be married and electing coverage for their spouse.
- Proportion of future retirees assumed to elect health coverage at retirement, and proportion of future retirees expected to receive the Opt-Out Credit at retirement.
- Annual rate of increase in the Patient-Centered Outcomes Research Institute fee payable under the Affordable Care Act.

The discount rate was adjusted as a result of requirements by GASB to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher.

Assumptions for Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on short-term expectations.

The assumption for expenses directly related to the payment of GBP HealthSelect medical benefits has been updated to reflect recent contract revisions.

Summary of Valuation Results – The results of the GBP OPEB actuarial valuation for Fiscal Year 2021 are summarized in the following tables:

Number of Group Benefits Program Members as of August 31, 2021

	Members	Covered Spouses	Covered Dependent Children	Total
Actives	224,904 ¹	38,224 ²	118,711 ²	381,839
Deferred Vesteds	14,969	0 ²	0 ²	14,969
Retirees and Nominees	134,517 ³	32,109	11,080	177,706
Total	374,390	70,333	129,791	574,514

¹ Includes return-to-work retirees and employees who have not yet satisfied the waiting period.

² Rather than use current spouse/dependent child coverage information, actuarial assumptions are used to estimate the future number of spouses and dependent children that will be covered at retirement.

³ Includes 5,044 retirees not enrolled in a health plan and 328 retirees who receive the Opt-Out Credit in lieu of health benefits.

\$ Thousands				
Actuarial Valuation Date	Total OPEB Liability	Normal Cost	Amortization	Actuarial Determined Contribution
August 31 2021	\$36,011,160	\$1,617,052	\$1,103,466	\$2,720,518
August 31 2020	\$33,149,579	\$1,564,918	\$1,025,319	\$2,590,236
Change	\$2,861,581	\$52,134	\$78,147	\$130,282

ATTACHMENTS

1. Exhibit A – Actuarial Valuation of Other Post-Employment Benefits Provided under the Texas Employees Group Benefits Program for FY ending August 31, 2021, Rudd and Wisdom, Inc.
2. Slides - Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2021