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November 14, 2019

The Honorable S. Chris Jones, Chairman, House Appropriations Committee  
The Honorable Thomas K. Norment, Jr., Co-Chairman, Senate Finance Committee  
The Honorable Emmett W. Hanger, Jr., Co-Chairman, Senate Finance Committee  
The Honorable Keyanna Conner, Secretary of Administration

Subject: Impact of Renewal Cost on Employee and Employer Premiums for FY 2021

The attached report is pursuant to Item 81, G of Chapter 854, 2019 Virginia Acts of Assembly.

Please contact me if there are any questions.

Sincerely,

A handwritten signature in blue ink that reads "Emily S. Elliott".

Emily S. Elliott

Enclosures



**REPORT ON THE IMPACT OF RENEWAL COST ON  
EMPLOYEE AND EMPLOYER PREMIUMS**

**Department of Human Resource Management  
November 14, 2019**

This report is submitted as required by Chapter 854, Item 81, G of the 2019 Virginia Acts of Assembly, which states:

*The Department of Human Resource Management shall report to the Governor and Chairmen of the House Appropriations and Senate Finance Committees, by October 15 of each year, on the renewal cost of the state employee health insurance program premiums that will go into effect on July 1 of the following year. This report shall include the impact of the renewal cost on employee and employer premiums and a valuation of liabilities as required by Other Post-Employment Benefits reporting standards.*

## **Summaries of Rating Projections**

### **Overview**

The following information was prepared by Aon, the company that provides the state employee health program's actuarial services, and reviewed by the Department of Human Resource Management. It summarizes the renewal cost of the state employee premiums for fiscal year 2021 that will go into effect on July 1, 2020, and the key drivers of FY 2021 projections compared to the FY 2020 rates.

The three charts shown in this report provide summaries of rate projections for FY 2020 through FY 2022 and these include:

- Recast FY 2020 Projection
- FY 2021 Projection
- FY 2022 Projection

Each chart includes three scenarios (A, B, and C). Scenario A represents the most aggressive projection, Scenario B the most likely projection, and Scenario C the most conservative projection. It is important to note that each scenario represents a reasonable actuarial outcome. Historically, this range has been utilized in final budget setting based on the Commonwealth's fiscal priorities and internal assessment of the risk to be assumed for the applicable budget cycle.

Each chart shows the baseline rates under the three scenarios. Separate tables at the end of the document provide the underlying claim trend assumptions based on the Incurred but not

Reported (IBNR) valuation completed mid-September and Aon's current outlook for future trends.

- Projected Cost per Contract Unit is synonymous with *actuarial rate* or *per contract unit per month (PCUPM)*. (For these projections, it represents a per-employee equivalent unit cost and serves as the actuarial baseline for cost projections in the requested three Fiscal Year (FY) iterations). The assumptions inherent in the contract unit measure take into account the relative cost of each dependent class (spouse or child) relative to an employee. The per-employee or contract unit equivalent is the “base” level of exposure for rating purposes.
- The COVA Care Basic plan is shown because it is the basis for employer contributions. This chart shows rate projections and percentage increases or decreases from each fiscal year's premium rates per contract unit.
- Claim trend analysis inherent in Aon's future trend outlook includes detailed claim patterns to forecast future inflationary impact. The latter includes: price inflation; utilization rates of health care providers; government (Medicare/Affordable Care Act (ACA)) cost shifting; plan changes; and, other current factors influencing health provider cost. Historical claim experience for the Commonwealth is also considered when establishing the estimated trends.
  - The updated trend analysis is based on review of the most recent 36 months of claims and Aon forward looking trends.
  - The trend tables for Fiscal Years 2020-2021 and 2021-2022 are shown in the “Trend Tables” section of this document. Overall Scenario B health plan trend is +6.6% and +6.7% respectively for these years.

## Recast FY 2020 Projection

The recast is the first step in the three fiscal year projection process required by the Commonwealth. It provides an early estimate of how actual current FY costs compare to previously projected costs/rates. The recast is based on claim data through June 2019, consistent with the IBNR valuation completed in mid-September. This analysis also provides an updated important baseline for projecting rates for FY 2021.

- The chart compares the recast actuarial rate projection for FY 2020 with the previous year's FY 2020 rate projection and the claim data used to establish the FY 2020 rates.
  - This recast projection utilized an additional year of claim experience and the updated trend outlook.
  - The chart shows the recast comparison for each plan component and rolls it up to the total. For Scenario B, Medical is -1.0%, Dental -5.1%, Rx -4.1%, MISA/Behavioral Health -5.8%. The overall total, based on the weighted value of each component's relativity to premium is -2.0%. Factors contributing to this overall reduction in rates are favorable claims experience and a result of the new contracts awarded to third-party administrators effective July 1, 2019.
- The recast vs. FY 2020 rate comparison is shown for each component of the COVA Care Basic rate. However, the Total percentage increase is the critical cost impact factor in the table.

Commonwealth of VA Summary of FY2020 Rating Projections Actives, COBRAs, and Retirees without Medicare							
	Enrollees(@July19)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total
FY2020 COVA Rates	76,398	\$538.01	\$19.07	\$183.02	\$740.09	\$21.91	\$762.00
FY2020 Projected Cost per Contract Unit							
Scenario A							
COVA Care	76,398	\$527.88	\$17.95	\$172.23	\$718.06	\$20.46	\$738.52
% Increase		-1.9%	-5.9%	-5.9%	-3.0%	-6.6%	-3.1%
Scenario B							
COVA Care	76,398	\$532.67	\$18.11	\$175.54	\$726.31	\$20.64	\$746.96
% Increase		-1.0%	-5.1%	-4.1%	-1.9%	-5.8%	-2.0%
Scenario C							
COVA Care	76,398	\$537.45	\$18.28	\$178.85	\$734.57	\$20.82	\$755.40
% Increase		-0.1%	-4.2%	-2.3%	-0.7%	-4.9%	-0.9%

## FY 2021 Projection

Developing an estimated cost for the upcoming fiscal year (FY 2021) is the second step in the Commonwealth's requested three year projection cycle. The Exhibit shown below contains the rate projections and expected cost increase for FY 2021, which will be effective on July 1, 2020, for COVA Care under its current plan design and including any changes as a result of the Request for Proposal (RFP). This chart builds on the outcome of the recast step above and blends current experience and trends compared to current rates.

- The FY 2021 rate increase is shown for each component of the COVA Care Basic rate. For budget planning purposes, the total percentage increase is the critical cost impact factor in the table.
- The chart shows the rate change comparison for each plan component and rolls it up to the total. For Scenario B, Medical is 2.0%, Dental -2.3%, Rx +4.2%, MISA/Behavioral Health +2.4%. The overall projected total increase, based on the weighted value of each component's relativity to premium, is +2.4%.

Commonwealth of VA Summary of FY2021 Rating Projections Actives, COBRAs, and Retirees without Medicare								
	Enrollees(@July19)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total	
FY2020 COVA Rates	76,398	\$538.01	\$19.07	\$183.02	\$740.09	\$21.91	\$762.00	
FY2021 Projected Cost per Contract Unit								
Scenario A	COVA Care	76,398	\$538.55	\$18.28	\$184.96	\$741.79	\$22.03	\$763.82
	% Increase		0.1%	-4.2%	1.1%	0.2%	0.5%	0.2%
Scenario B	COVA Care	76,398	\$548.60	\$18.63	\$190.79	\$758.02	\$22.43	\$780.44
	% Increase		2.0%	-2.3%	4.2%	2.4%	2.4%	2.4%
Scenario C	COVA Care	76,398	\$558.66	\$18.98	\$196.63	\$774.27	\$22.82	\$797.08
	% Increase		3.8%	-0.5%	7.4%	4.6%	4.2%	4.6%

## FY 2022 Projection

Development of the FY 2022 rate increase is the third and final step in the Commonwealth's requested three year projection cycle. Similar to the FY 2021 projection, the increase is shown for each component of the COVA Care Basic rate. The total percentage increase is the critical cost impact factor in the table.

The chart shows the rate change comparison for each plan component and rolls it up to the total. For Scenario B, Medical is +5.0%, Dental +3.0%, Rx +12.0%, MISA/Behavioral Health +8.7%. The overall projected total increase, based on the weighted value of each component's relativity to premium, is +6.7%.

Commonwealth of VA  
Summary of FY2022 Rating Projections  
Actives, COBRAs, and Retirees without Medicare

	Enrollees(@July19)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Estimated FY2021 COVA Rates (A Scenario)	76,398	\$538.55	\$18.28	\$184.96	\$741.79	\$22.03	\$763.82
Estimated FY2021 COVA Rates (B Scenario)	76,398	\$548.60	\$18.63	\$190.79	\$758.02	\$22.43	\$780.44
Estimated FY2021 COVA Rates (C Scenario)	76,398	\$558.66	\$18.98	\$196.63	\$774.27	\$22.82	\$797.08
FY2022 Projected Cost per Contract Unit							
Scenario A							
COVA Care	76,398	\$560.06	\$18.66	\$206.99	\$785.71	\$23.75	\$809.46
		4.0%	2.1%	11.9%	5.9%	7.8%	6.0%
Scenario B							
COVA Care	76,398	\$575.86	\$19.19	\$213.64	\$808.69	\$24.38	\$833.07
		5.0%	3.0%	12.0%	6.7%	8.7%	6.7%
Scenario C							
COVA Care	76,398	\$591.66	\$19.72	\$224.01	\$835.39	\$25.02	\$860.40
		5.9%	3.9%	13.9%	7.9%	9.7%	7.9%

## Trend Tables

These tables show the trend for each plan component and roll it up to the total. For Scenario B, FY 2020-FY 2021 Medical is +5.0%, Dental +3.0%, Rx +10.5%, and MISA/Behavioral Health +9.0%. The overall projected total trend (Scenario B), based on the weighted value of each component's relativity to premium is +6.6%.

		FY2020 - FY2021 Trend Assumptions*					
		Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Scenario A	COVA Care	4.00%	2.00%	9.50%	5.54%	8.00%	5.60%
Scenario B	COVA Care	5.00%	3.00%	10.50%	6.54%	9.00%	6.61%
Scenario C	COVA Care	6.00%	4.00%	11.50%	7.53%	10.00%	7.60%

For Scenario B, FY 2021-FY 2022 Medical is +5.0%, Dental +3.0%, Rx +11.0%, and MISA/Behavioral Health +9.0%. The overall projected total trend (Scenario B), based on the weighted value of each component's relativity to premium is +6.7%.

		FY2021 - FY2022 Trend Assumptions					
		Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Scenario A	COVA Care	4.00%	2.00%	10.00%	5.68%	8.00%	5.74%
Scenario B	COVA Care	5.00%	3.00%	11.00%	6.68%	9.00%	6.74%
Scenario C	COVA Care	6.00%	4.00%	12.00%	7.66%	10.00%	7.72%

\*The FY2020-FY2021 trend assumptions reflect the raw claim trend used for the FY2021 projection, excluding any changes from the new contracts. After incorporating the Rx rebate savings and administrative fee reductions as a result of the new contracts, the composite trend drops down to 5.8%, before accounting for the premium reward impact.



## **Other Post-Employment Benefits**

The following actuarial report provides a valuation of liabilities in accordance with GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 75). The Actuarial Valuation Report that provided base information for this report may be found at <http://www.dhrm.virginia.gov/docs/default-source/GASB-75/2019-dhrm-gasb-75---aon-actuarial-valuation-report.pdf?sfvrsn=4>.



**Department of Human Resource Management**

**Commonwealth of Virginia State Health Plans Program  
For Pre-Medicare Retirees**

**GASB No. 75 Schedules**

**For the Fiscal Year Ending June 30, 2018  
with select information for fiscal years 2017 and 2019**

**Measurement Date June 30, 2018**

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Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

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September 13, 2019

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## INDEPENDENT AUDITOR'S REPORT

### Report on the Schedules

We have audited the accompanying schedule of employer allocations of the **Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees**, as of and for the years ended June 30, 2018 and June 30, 2017, and the related notes. We have also audited the total for all state employers of the columns titled OPEB liability as of and for the years ended June 30, 2018, and June 30, 2017, and total OPEB expense as of and for the year ended June 30, 2018, included in the accompanying schedule of OPEB liability and OPEB expense of the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees, and the related notes. In addition, we have audited the total for all state employers of the columns titled total deferred outflows of resources and total deferred inflows of resources included in the accompanying schedule of deferred outflows and deferred inflows of resources of the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees, as of and for the years ended June 30, 2018, and the related notes. We have also audited the accompanying schedule of benefit payments of the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees as of and for the years ended June 30, 2018, and June 30, 2019.

### *Management's Responsibility for the Schedules*

The Department of Human Resource Management's management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

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### *Auditor's Responsibility*

Our responsibility is to express an opinion on the schedule of employer allocations, the schedule of benefit payments, and the columns titled OPEB liability, total OPEB expense, total deferred outflows of resources, and total deferred inflows of resources (specified column totals) included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations, the schedule of benefit payments, and specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Department of Human Resource Management, as well as evaluating the overall presentation of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

### *Opinions*

In our opinion, the schedules referred to above for the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees present fairly, in all material respects, the employer allocations and the OPEB liability for the total of all participating state employers as of and for the years ended June 30, 2018, and June 30, 2017; total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense as of and for the year ended June 30, 2018, for the total of all participating employers; and benefit payments as of and for the years ended

June 30, 2018, and June 30, 2019, in accordance with accounting principles generally accepted in the United States of America.

*Restriction of Use*

Our report is intended solely for the information and use of management of the Department of Human Resource management, the Commonwealth Joint Legislative Audit and Review Commission, and the Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees employers and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

AUDITOR OF PUBLIC ACCOUNTS

JMR/clj

**Department of Human Resource Management  
State Health Plans Program for Pre-Medicare Retirees  
Schedule of Employer Allocations  
For Fiscal Years Ended June 30, 2018 and 2017**

Employer Code	Employer Name	June 30, 2017		June 30, 2018	
		Employer Contribution	Employer Allocation Percentage	Employer Contributions	Employer Allocation Percentage
20600	VCU Health System Authority	\$ 4,942,404	0.47453%	\$ 4,885,739	0.43232%
36000	Fort Monroe Authority	231,532	0.02223%	340,565	0.03014%
40700	Virginia Port Authority	40,799	0.00392%	37,532	0.00332%
	All Other State Agencies	1,036,319,651	99.49932%	1,124,847,842	99.53422%
	Total for All State Employers	\$ 1,041,534,386	100.00000%	\$ 1,130,111,678	100.00000%

The accompanying notes are an integral part of the Schedule of Employer Allocations.

**Department of Human Resource Management  
State Health Plans Program for Pre-Medicare Retirees  
Schedule of OPEB Liability and OPEB Expense  
For the Fiscal Years Ended June 30, 2018 and 2017**

Employer Code	Employer Name	OPEB Liability June 30, 2017	OPEB Liability June 30, 2018	Total OPEB Expense FY 2018
20600	VCU Health Systems Authority	\$ 6,163,705	\$ 4,347,621	\$ (150,481)
36000	Fort Monroe Authority	288,745	303,055	26,288
40700	Virginia Port Authority	50,880	33,398	(4,547)
	All Other State Agencies	1,292,401,134	1,000,956,413	18,671,623
	Total for All State Employers	\$ 1,298,904,464	\$ 1,005,640,487	\$ 18,542,883

The accompanying notes are an integral part of the Schedule OPEB Liability and OPEB Expense.

**Department of Human Resource Management  
State Health Plans Program for Pre-Medicare Retirees  
Schedule Of Deferred Outflows and Deferred Inflows of Resources  
For the Fiscal Year Ended June 30, 2018**

Employer Code	Employer	Deferred Outflows of Resources				Deferred Inflows of Resources			
		Difference Between Expected and Actual Experience	Change of Assumptions	Changes In Proportionate Share	Total Deferred Outflows of Resources	Difference Between Expected and Actual Experience	Change of Assumptions	Changes In Proportionate Share	Total Deferred Inflows of Resources
20600	VCU Health Systems Authority	\$ -	\$ -	\$ -	\$ -	\$ 876,605	\$ 1,738,840	\$ 1,106,049	\$ 3,721,494
36000	Fort Monroe Authority	-	-	107,814	107,814	61,105	121,207	326	182,638
40700	Virginia Port Authority	-	-	-	-	6,734	13,358	24,070	44,162
	All Other State Agencies	-	-	35,150,439	35,150,439	201,821,600	400,334,612	34,127,793	636,284,005
	Total for All State Employers	\$ -	\$ -	\$ 35,258,253	\$ 35,258,253	\$ 202,766,044	\$ 402,208,017	\$ 35,258,238	\$ 640,232,299

The accompanying notes are an integral part of the Schedule of Deferred Outflows and Deferred Inflows of Resources.

**Department of Human Resource Management  
State Health Plans Program for Pre-Medicare Retirees  
Schedule of Benefit Payments  
For Fiscal Years Ended June 30, 2018 and 2019**

Employer Code	Employer Name	Benefit Payments FY 2018	Benefit Payments FY 2019
20600	VCU Health Systems Authority	\$ 163,455	\$ 178,748
36000	Fort Monroe Authority	7,657	12,460
40700	Virginia Port Authority	1,349	1,373
	All Other State Agencies	34,273,102	41,153,366
	Total for All State Employers	\$ 34,445,563	\$ 41,345,947

The accompanying notes are an integral part of the Schedule of Benefit Payments.



**Department of Human Resource Management**  
**State Health Plans Program for Pre-Medicare Retirees**  
**Notes to GASB No. 75 Schedules**  
**For the fiscal Year Ended June 30, 2018**

**Note 1: Summary of Significant Accounting Policies**

**Pre-Medicare Retiree Healthcare Plan**

Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes. This program was established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. It is the same health insurance program offered to active employees and managed by the Virginia Department of Human Resource Management. After retirement, the Commonwealth of Virginia no longer subsidizes the retiree's premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit.

**Note 2: General Information about Pre-Medicare Retiree Healthcare**

The Department of Human Resource Management (Human Resource Management) is an agency of the Commonwealth of Virginia. Human Resource Management is the administrator of the Commonwealth's employee health insurance program. The Commonwealth provides a health benefits program established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare.

Following are eligibility requirements for Virginia Retirement System retirees:

- You are a retiring state employee who is eligible for a monthly retirement benefit from the Virginia Retirement System (VRS), and
- You start receiving (do not defer) your retirement benefit immediately upon retirement\*, and
- Your last employer before retirement was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage/COBRA), and
- You enroll no later than 31 days from your retirement date.

*\*For VRS retirees, this means that your employing agency reported a retirement contribution or leave without pay status for retirement in the month immediately prior to your retirement date. Some faculty members may also be eligible if they are paid on an alternate pay cycle but maintain eligibility for active coverage until their retirement date.*

Effective January 1, 2017\*\*, following are eligibility requirements for Optional Retirement Plan retirees:

- You are a terminating state employee who participates in one of the qualified Optional Retirement Plans, and
- Your last employer before termination was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage in the State Employee Health Benefits Program for active employees at the time of your termination, and
- You meet the age and service requirements for an immediate retirement benefit under the non-ORP Virginia Retirement System plan that you would have been eligible for on your date of hire had you not elected the ORP, and
- You enroll in the State Retiree Health Benefits Program no later than 31 days from the date you lose coverage (or lose eligibility for coverage) in the State Health Benefits Program for active employees due to your termination of employment.

*\*\*This change applies to ORP terminations effective January 1, 2017, or later. Eligibility for those who terminated employment prior to January 1 should be determined based on the policy in place at the time of their termination.*

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan and is administered by Human Resource Management. There were approximately 5,200 retirees and 91,800 active employees in the program in fiscal year 2018. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

**Note 3: Actuarial Assumptions and Methods**

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2018. Human Resource Management selected the economic, demographic and health care claim cost assumptions and prescribed them for use for purposes of compliance with GASB 75. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.21 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 5.0 percent for medical and pharmacy and 4.0 percent for dental.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.19 years
Discount Rate	3.87%
Projected Salary Increases	4.0%
	Medical & Rx: 8.21% to 5.00% Dental: 4.00%
Medical Trend Under 65	Before reflecting Excise tax
Year of Ultimate Trend	2025
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males and females setback 1 year.
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date of June 30, 2018.

Changes of Assumptions: The following actuarial assumptions were updated since the June 30, 2017 valuation based on recent experience:

- Spousal Coverage – reduced the rate from 50% to 35%
- Retiree Participation - reduced the rate from 70% to 60%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB to 2020. Additionally, the discount rate was increased from 3.58% to 3.87% based on the Bond Buyers GO 20 Municipal Bond Index.

**Note 4: Pre-Medicare Retiree Healthcare OPEB Liability**

The Commonwealth’s Pre-Medicare Retiree Healthcare total OPEB liability of \$1.0 billion was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2018.

**Changes in the Total OPEB Liability**

	<b>Total OPEB Liability</b>
<b>Balance at 6/30/17</b>	\$ 1,298.9
<b>Changes for the year:</b>	
Service cost	94.7
Interest	49.2
Changes of benefit terms	0.0
Difference between Expected and Actual Experience	(191.0)
Changes of Assumptions	(211.8)
Benefit Payments	(34.4)
<b>Net Changes</b>	<u>(293.3)</u>
<b>Balance at 6/30/18</b>	<u>\$ 1,005.6</u>

***Sensitivity Analysis***

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Commonwealth, as well as what the Commonwealth's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage-point higher (4.87 percent) than the current discount rate:

	<b>1% Decrease (2.87%)</b>	<b>Current Rate (3.87%)</b>	<b>1% Increase (4.87%)</b>
Total OPEB liability	\$1,076.0	\$1,005.6	\$938.7

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following presents the total OPEB liability of the Commonwealth, as well as what the Commonwealth's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.21 percent decreasing to 4.0 percent) or 1-percentage-point higher (9.21 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	<b>1% Decrease (7.21% decreasing to 4.00%)</b>	<b>Trend Rate (8.21% decreasing to 5.00%)</b>	<b>1% Increase (9.21% decreasing to 6.00%)</b>
Total OPEB Liability	\$897.0	\$1,005.6	\$1,133.4

***Note 5: Deferred Outflows/Inflows of Resources***

For the year ended June 30, 2018, the State Health Plans Program for Per-Medicare Retirees (Program) recognized OPEB expense of \$18.5 million. At June 30, 2018, the Program reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (\$ millions):

	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
Difference between actual and expected experience	\$ 0.0	\$(202.8)
Changes of Assumptions	\$ 0.0	\$(402.2)
Changes in proportion	\$ 35.3	\$ (35.3)
Sub Total	<u>\$ 353</u>	<u>\$(640.3)</u>
Amounts associated with transactions subsequent to the measurement date	\$ 41.3	N/A
Total	<u>\$ 76.6</u>	<u>\$(640.3)</u>

\$41.3 million reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transaction subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows (\$ millions):

<b>Year End June 30:</b>	
2019	\$(125.4)
2020	\$(125.4)
2021	\$(125.4)
2022	\$(125.4)
2023	\$ (91.0)
Thereafter	\$ (12.4)

**Note 6: Employer Contributions**

To establish each employer's portion of the OPEB liability, Human Resource Management uses each employer's premium contribution as a percentage of the total contributions collected for each year. The total employer contributions for fiscal year 2018 were \$1,130,111,678. Once each percentage is calculated, the percentage for each employer is multiplied by the total OPEB liability in order to determine each employer's portion of the OPEB liability.

**Note 7: Contact Information for DHRM**

Please contact The Department of Human Resource Management for questions and concerns:

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