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January 15, 2021

The Honorable Luke E. Torian, Chair House Appropriations Committee
The Honorable Janet D. Howell, Chair Senate Finance and Appropriations Committee
The Honorable Grindly Johnson, Secretary of Administration

Subject: Impact of the Renewal Cost on Employee and Employer Premiums for FY2022

The attached report is submitted pursuant to Item 83. G of Chapter 1289 of the 2020 Virginia Acts of Assembly. Due to the current healthcare situation, the Health Insurance Fund may be able to cover up to 50 percent of the projected increase of 6.4 percent.

Sincerely,

A handwritten signature in cursive script that reads "Emily S. Elliott".

Emily S. Elliott
Director
Department of Human Resource Management



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

Department of Human Resource Management
January 15, 2021

This report is submitted as required by Chapter 1289, Item 83. G of the 2020 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 summarizes the renewal cost of the state employee premiums for fiscal year 2022 that will go into effect on July 1, 2021, and the key drivers of FY 2022 projections compared to the FY 2021 rates. The information package complies with all of prior actuarial methods / procedures endorsed and approved by the APA audit report of October 2011.

The three charts shown in this report provide summaries of rate projections for FY 2021 through FY 2023 and these include:

- Recast FY 2021 Projection
- FY 2022 Projection
- FY 2023 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 IBNP 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 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) 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 March 2017 – February 2020 claims and Aon forward looking trends. Due to the deferral of medical services experienced from March 2020 – June 2020, these months were not considered when determining trend assumptions.
 - The trend tables for Fiscal Years 2021-2022 and 2022-2023 are shown in the “Trend Tables” section of this document. Overall Scenario B health plan trend is +5.95% and +6.02% respectively for these years.

Recast FY 2021 Projection

The recast is the first step in the fiscal three-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 February 2020, consistent with the IBNP valuation completed in mid-September. March 2020 – June 2020 claims data was not used, as the unusually low utilization in these months is not expected to continue. This analysis also provides an updated important baseline for projecting rates for FY 2022.

- The chart compares the recast actuarial rate projection for FY 2021 with the previous year's FY 2021 rate projection and the claim data used to establish the FY 2021 rates.
 - This recast projection utilized an additional eight months 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 +3.8%, Dental +2.5%, Rx -8.5%, MISA/Behavioral Health -1.5%. The overall total, based on the weighted value of each component's relativity to premium is +0.6%. Aon had estimated a rate increase for FY 2021 of +2.4% when rates were established last year. Rates were ultimately held flat. This overall increase in rates is due to the subsidy inherent in the final FY 2021 rates selected offset by more favorable pharmacy costs.
- The recast vs. FY 2021 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 FY2021 Rating Projections Actives, COBRAs, and Retirees without Medicare

	Enrollees(@July20)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total
FY2021 COVA Rates	75,037	\$535.64	\$18.19	\$186.28	\$740.10	\$21.90	\$762.00
FY2021 Projected Cost per Contract Unit							
Scenario A							
COVA Care	75,037	\$550.79	\$18.47	\$166.73	\$735.99	\$21.38	\$757.37
% Increase		2.8%	1.6%	-10.5%	-0.6%	-2.4%	-0.6%
Scenario B							
COVA Care	75,037	\$555.89	\$18.64	\$170.52	\$745.05	\$21.57	\$766.62
% Increase		3.8%	2.5%	-8.5%	0.7%	-1.5%	0.6%
Scenario C							
COVA Care	75,037	\$560.99	\$18.81	\$174.31	\$754.11	\$21.76	\$775.87
% Increase		4.7%	3.4%	-6.4%	1.9%	-0.6%	1.8%

FY 2022 Projection

Developing an estimated cost for the upcoming fiscal year (FY 2022) 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 2022, which will be effective on July 1, 2021, for COVA Care under its current plan design. This chart builds on the outcome of the recast step above and blends current experience and trends compared to current rates.

- The FY 2022 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 +8.9%, Dental +5.5%, Rx -0.7%, MISA/Behavioral Health +5.1%. The overall projected total increase, based on the weighted value of each component’s relativity to premium, is +6.4%.
- **While the projected increase is +6.4%, we believe there are sufficient funds in the HIF to cover up to 50 percent of the increase during the plan year. By subsidizing 50 percent of the increase, the HIF balance should reduce by approximately \$50 Million during the plan year.**

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

	Enrollees(@July20)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total
FY2021 COVA Rates	75,037	\$535.64	\$18.19	\$186.28	\$740.10	\$21.90	\$762.00
FY2022 Projected Cost per Contract Unit							
Scenario A							
COVA Care	75,037	\$572.77	\$18.82	\$178.95	\$770.54	\$22.62	\$793.16
% Increase		6.9%	3.5%	-3.9%	4.1%	3.3%	4.1%
Scenario B							
COVA Care	75,037	\$583.47	\$19.18	\$185.01	\$787.66	\$23.02	\$810.68
% Increase		8.9%	5.5%	-0.7%	6.4%	5.1%	6.4%
Scenario C							
COVA Care	75,037	\$594.18	\$19.54	\$191.27	\$804.99	\$23.42	\$828.41
% Increase		10.9%	7.5%	2.7%	8.8%	7.0%	8.7%

FY 2023 Projection

Development of the FY 2023 rate increase is the third and final step in the Commonwealth’s requested three-year projection cycle. Similar to the FY 2022 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 +4.9%, Dental +3.0%, Rx +8.7%, MISA/Behavioral Health +6.7%. The overall projected total increase, based on the weighted value of each component’s relativity to premium, is +5.8%. **If rates are held flat for FY 2022 and claims experience continues as expected, the FY 2023 increase may be +12.5% absent any HIF subsidy.**

Commonwealth of VA Summary of FY2023 Rating Projections Actives, COBRAs, and Retirees without Medicare

	Enrollees(@July20)	Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Estimated FY2022 COVA Rates (A Scenario)	75,037	\$572.77	\$18.82	\$178.95	\$770.54	\$22.62	\$793.16
Estimated FY2022 COVA Rates (B Scenario)	75,037	\$583.47	\$19.18	\$185.01	\$787.66	\$23.02	\$810.68
Estimated FY2022 COVA Rates (C Scenario)	75,037	\$594.18	\$19.54	\$191.27	\$804.99	\$23.42	\$828.41
FY2023 Projected Cost per Contract Unit							
Scenario A							
COVA Care	75,037	\$595.34	\$19.20	\$192.34	\$806.88	\$23.92	\$830.80
% Increase from Scenario A - FY22		3.9%	2.0%	7.5%	4.7%	5.8%	4.7%
Scenario B							
COVA Care	75,037	\$612.17	\$19.75	\$201.08	\$832.99	\$24.57	\$857.57
% Increase from Scenario B - FY22		4.9%	3.0%	8.7%	5.8%	6.7%	5.8%
Scenario C							
COVA Care	75,037	\$628.99	\$20.31	\$210.19	\$859.49	\$25.24	\$884.74
% Increase from Scenario C - FY22		5.9%	3.9%	9.9%	6.8%	7.8%	6.8%

Trend Tables

These tables show the trend for each plan component and roll it up to the total. For Scenario B, FY 2021-FY 2022 Medical is +5.0%, Dental +3.0%, Rx +8.5%, and MISA/Behavioral Health +7.0%. The overall projected total trend (Scenario B), based on the weighted value of each component's relativity to premium is +5.95%.

		FY2021 - FY2022 Trend Assumptions					
		Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Scenario A	COVA Care	4.00%	2.00%	7.50%	4.93%	6.00%	4.96%
Scenario B	COVA Care	5.00%	3.00%	8.50%	5.93%	7.00%	5.95%
Scenario C	COVA Care	6.00%	4.00%	9.50%	6.93%	8.00%	6.96%

For Scenario B, FY 2022-FY 2023 Medical is +5.0%, Dental +3.0%, Rx +8.75%, and MISA/Behavioral Health +7.0%. The overall projected total trend (Scenario B), based on the weighted value of each component's relativity to premium is +6.02%.

		FY2022 - FY2023 Trend Assumptions					
		Medical	Dental	Rx Drugs	Subtotal	MISA	Total
Scenario A	COVA Care	4.00%	2.00%	7.75%	4.99%	6.00%	5.01%
Scenario B	COVA Care	5.00%	3.00%	8.75%	5.99%	7.00%	6.02%
Scenario C	COVA Care	6.00%	4.00%	9.75%	6.97%	8.00%	7.00%

*The FY 2022-FY 2023 trend assumptions reflect the raw claim trend used for the FY 2022 projection, excluding any changes from the new contracts. After incorporating the Rx rebate savings and administrative fees, the composite trend drops down to 5.7%, 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 <https://www.dhrm.virginia.gov/docs/default-source/gasb-75/fy2020/actuarialvaluationreportfy20.pdf>



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, 2019
with select information for fiscal year 2020**

Measurement Date June 30, 2019

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Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 10, 2020

Department of Human Resource Management
101 N. 14th Street, 12th floor
Richmond, Virginia 23219

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 year ended June 30, 2019 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 year ended June 30, 2019, and total OPEB expense as of and for the year ended June 30, 2019, 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 year ended June 30, 2019, 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 year ended June 30, 2020.

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 year ended June 30, 2019; total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense as of and for the year ended June 30, 2019, for the total of all participating employers; and benefit payments as of and for the year ended June 30, 2020, 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.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

JMR/vks

**Department of Human Resource Management
State Health Plans Program for Pre-Medicare Retirees
Schedule of Employer Allocations
For Fiscal Year Ended June 30, 2019**

Employer Code	Employer Name	June 30, 2019	
		Employer Contributions	Employer Allocation Percentage
20600	VCU Health System Authority	\$ 4,671,690	0.39109%
36000	Fort Monroe Authority	315,489	0.02641%
40700	Virginia Port Authority	21,714	0.00182%
	All Other State Agencies	1,189,526,401	99.58068%
	Total for All State Employers	1,194,535,294	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 Year Ended June 30, 2019**

Employer Code	Employer Name	OPEB Liability June 30, 2019	Total OPEB Expense FY 2019
20600	VCU Health Systems Authority	\$2,655,024	(\$632,480)
36000	Fort Monroe Authority	\$179,301	(\$8,859)
40700	Virginia Port Authority	\$12,340	(\$10,413)
	All Other State Agencies	676,033,758	(\$74,925,303)
	Total for All State Employers	<u>\$678,880,423</u>	<u>(\$75,577,055)</u>

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, 2019

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 Fort	\$ -	\$ -	\$ -	\$ -	\$1,347,193	\$1,839,440	\$1,433,279	\$4,619,912
36000	Monroe Authority Virginia	-	-	87,042	87,042	90,979	124,221	50,642	265,842
40700	Port Authority All Other State Agencies	-	-	-	-	6,262	8,550	39,243	54,055
	Total for All State Employers	\$ -	\$ -	\$45,052,622	\$45,052,622	\$343,028,221	\$468,366,257	\$43,616,500	\$855,010,978
		\$ -	\$ -	\$45,139,664	\$45,139,664	\$344,472,655	\$470,338,468	\$45,139,664	\$859,950,787

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 Year Ended June 30, 2020

Employer Code	Employer Name	Benefit Payments FY 2020
20600	VCU Health Systems Authority	113,036
36000	Fort Monroe Authority	7,634
40700	Virginia Port Authority	525
	All Other State Agencies	28,781,813
	Total for All State Employers	<u>28,903,008</u>

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, 2019

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 4,800 retirees and 89,000 active employees in the program in fiscal year 2019. 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, 2019. 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 7.00 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 4.50 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	6.25 years
Discount Rate	3.51%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 7.00% to 4.50% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2029
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates; 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 set forward 1 year; 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, 2019.

Changes of Assumptions: The following actuarial assumptions were updated since the June 30, 2018 valuation based on recent experience:

- Spousal Coverage – reduced the rate from 35% to 25%
- Retiree Participation - reduced the rate from 60% to 50%

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 modified pre-retirement Mortality base rates to exclude age over 65 instead of apply mortality improvement projection scale BB. The excise tax was modified to reflect updated projection of the tax thresholds. Trend rates were updated based on economic conditions as of 6/30/2019. Additionally, the discount rate was decreased from 3.87% to 3.51% 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 \$678.9 million was measured as of June 30, 2019, and was determined by an actuarial valuation as of June 30, 2019.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 6/30/18	\$ 1,005.6
Changes for the year:	
Service cost	72.7
Interest	40.9
Changes of benefit terms	0.0
Difference between Expected and Actual Experience	(216.9)
Changes of Assumptions	(182.2)
Benefit Payments	(41.3)
Rounding Adjustment	0.1
Net Changes	<u>(326.7)</u>
Balance at 6/30/19	<u>\$ 678.9</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 (2.51 percent) or 1-percentage-point higher (4.51 percent) than the current discount rate:

	1% Decrease (2.51%)	Current Rate (3.51%)	1% Increase (4.51%)
Total OPEB liability	\$726.2	\$678.9	\$634.5

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 (6.00 percent decreasing to 3.50 percent) or 1-percentage-point higher (8.00 percent decreasing to 5.50 percent) than the current healthcare cost trend rates:

	1% Decrease (6.00% decreasing to 3.50%)	Trend Rate (7.00% decreasing to 4.50%)	1% Increase (8.00% decreasing to 5.50%)
Total OPEB Liability	\$606.3	\$678.9	\$764.8

Note 5: Deferred Outflows/Inflows of Resources

For the year ended June 30, 2019, the Commonwealth recognized OPEB expense of \$75.6 million. At June 30, 2019, the Commonwealth reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (\$ millions):

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	\$ 0.0	\$ (344.5)
Change of Assumptions	0.0	(470.3)
Changes in proportion	45.1	(45.1)
Rounding Adjustment	0.1	(0.1)
Sub Total	<u>\$ 45.2</u>	<u>\$ (860.0)</u>
Amounts associated with transactions subsequent to the measurement date	<u>28.9</u>	<u>N/A</u>
Total	<u>\$ 74.1</u>	<u>\$ (860.0)</u>

\$28.9 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 fiscal year ending June 30, 2020. 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):

Year End June 30:	
2020	\$(189.3)
2021	\$(189.3)
2022	\$(189.3)
2023	\$(154.9)
2024	\$ (76.2)
Thereafter	\$ (16.0)

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 2019 were \$1,194,535,294. 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: Benefit Payments

Total benefit payments represent actual payments made subsequent to the measurement date of June 30, 2019. The amount also includes administrative expenses directly related to the OPEB subsequent to the measurement date. The total benefit payment amount is allocated to each employer based on the employer's percentage of total employer contributions. Total benefit payments subsequent to the measurement date of June 30, 2019 are:

Pre-Medicare Retiree Claims	\$ 77,313,875
Pre-Medicare Retiree Contributions	(51,751,156)
OPEB Administrative Expenses	<u>3,340,289</u>
Benefit Payments	28,903,008

Note 8: Contact Information for DHRM

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

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