



# City of Torrington

## Post-retirement Medical Plan (OPEB)

Review of the July 1, 2022 Actuarial Valuation

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# Agenda



- Purpose of the Valuation
- Summary of Results – Overview
- USI/H&H Survey – CT OPEB Plans
- Funded Status
- City Contribution (ADEC)
- Projected Benefit Payments
- Participant Data
- Investment Return Assumption
- Looking Ahead

# Purpose of the Valuation



The ultimate cost of an OPEB plan is based primarily on the level of benefits promised by the plan. The OPEB fund's investment earnings serve to reduce the cost of plan benefits and expenses. Thus,

$$\text{City's Ultimate cost} = \text{Benefits Paid} + \text{Expenses Incurred} - \text{Investment Return} - \text{Member Contributions}$$

- Actuarial Valuation utilizes an actuarial cost method to assign a portion of this “ultimate cost” to the budget year. The valuation does not determine the cost of the plan but is a tool used to determine the appropriate level of City contributions.
- Actuarially Determined Employer Contribution (ADEC) developed from the valuation is comprised of two components: amortization of unfunded liability (*26 years for 2022 valuation, closed period*) & normal cost (assignment of benefits “earned” for the budget year).

# Summary of Results - Overview

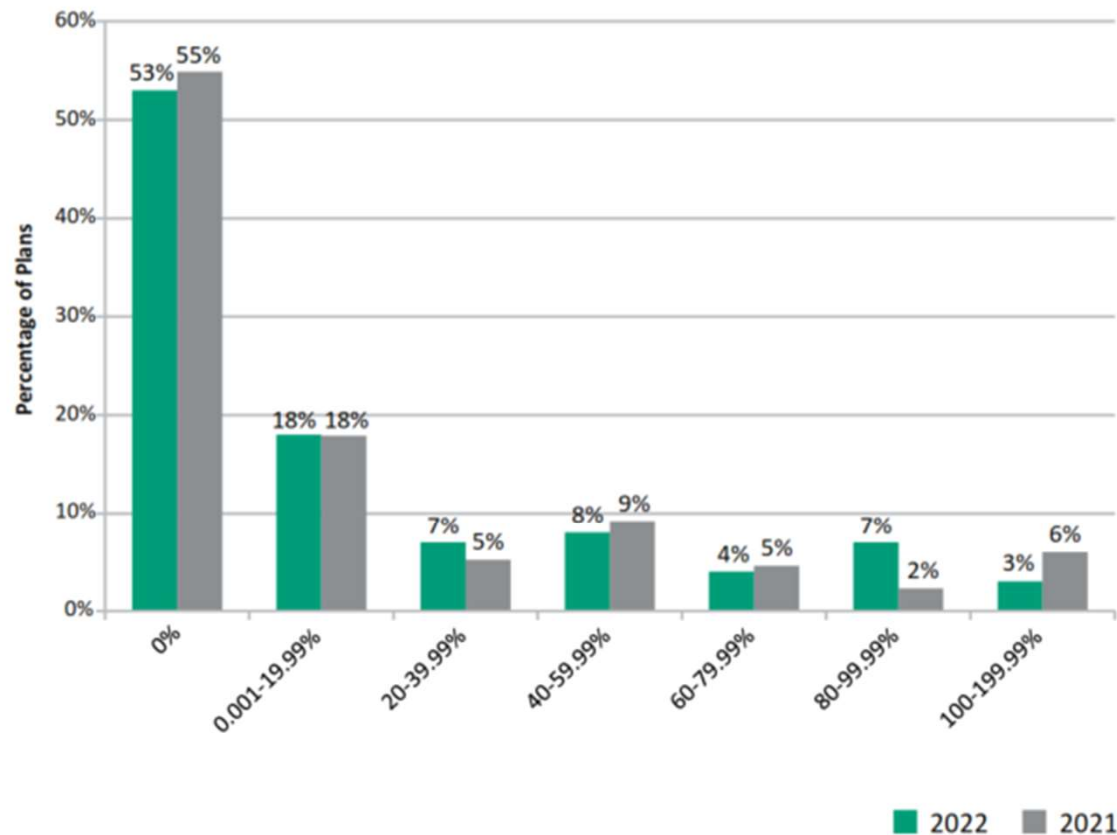


- Very favorable plan experience with respect to premiums and per capita claims costs (due to reduced claims during and after the Covid era). Gain of approximately 12.9% on actuarial liability.
- Assumptions updated for mortality projection scale, BOE certified withdrawal/retirement rates, and healthcare cost trend rates. Net impact was to increase the actuarial liability by about 2.7%.
- Liability Breakdown:
  - Police & Fire                      49%
  - City                                      21
  - BOE                                      30
- OPEB benefits are funded via a trust : 47% of OPEB plans in CT are being funded via an OPEB trust (up from 45% for the 2020 actuarial valuation)

# CT OPEB Plans: H&H Survey (FYE 2022)



## FUNDED RATIO FOR ALL PLANS



The rules governing how municipalities should report pension costs and other post-employment obligations are covered by the Government Accounting Standards Board (GASB). GASB is a private non-governmental organization that creates accounting reporting standards for state and local governments.

Many public sector OPEB plans continue to be unfunded arrangements, as GASB did not define actuarial measurements of liabilities until 2009.

As of FYE 2022, approximately 53% of the OPEB plans in Connecticut are unfunded (vs. 55% last year), with the remaining 47% of plans funded via an OPEB trust, compared to our 2022 report.

# Assumption Review and Changes



- **Discount rate** – Based on the current target asset allocation and our (USI Advisors) capital market assumptions, we believe that a long-term assumption of 6.75% is reasonable. Median for CT public sector *funded* OPEB plans is now 6.25% (based on USI/H&H survey of FYE 2022 CAFRs). Note: discount rate for 6/30/2023 GASB 74/75 disclosure continued to be based on prescribed GASB methodology (was 3.65% at 6/30/23; vs. 3.54% on 6/30/22).
- **Mortality projection scale** - Reflected most recent update to the mortality projection scale (MP-2021), published by the Society of Actuaries.
- **BOE retirement/turnover rates** – Updated rates for BOE certified members, consistent with the updated rates based on the most recent TRB experience study.
- **Healthcare cost trend rates** – Updated to 6.5% for 2022, grading down to ultimate rate of 4.4% for 2033 and later.
- *Net impact of assumption changes : increased actuarial accrued liability by 2.7%.*

# Valuation Summary – Funded Status



	Police and Fire	City	BOE Certified	BOE Non-Certified	Total
Actuarial accrued liability for active members					
Members under age 65	\$7,027,308	\$933,399	\$886,696	\$2,555,275	\$11,402,678
Members over age 65	2,354,486	2,325,630	169,365	4,277,295	9,126,776
Dependents under age 65	6,263,970	1,035,288	231,776	753,833	8,284,867
Dependents over age 65	1,704,547	1,229,731	49,902	687,385	3,671,565
Total	17,350,310	5,524,048	1,337,739	8,273,788	32,485,885
Actuarial accrued liability for inactive members					
Members under age 65	5,099,801	824,881	131,862	813,988	6,870,532
Members over age 65	5,812,681	5,037,754	4,481,357	4,505,250	19,837,042
Dependents under age 65	4,426,770	1,166,846	5,999	823,180	6,422,795
Dependents over age 65	4,118,416	2,757,710	1,059,473	859,173	8,794,772
Total	19,457,667	9,787,191	5,678,691	7,001,591	41,925,140
Total actuarial accrued liability	36,807,977	15,311,239	7,016,430	15,275,379	74,411,025
Actuarial value of assets	593,944	247,066	113,219	246,488	1,200,717
Unfunded accrued liability	36,214,033	15,064,173	6,903,211	15,028,891	73,210,308
Funded ratio	1.6%	1.6%	1.6%	1.6%	1.6%

# Valuation Summary – ADEC (City Contribution)



	Police and Fire	City	BOE Certified	BOE Non-Certified	Total
City's normal cost	\$1,077,846	\$537,049	\$58,957	\$328,035	\$2,001,887
Actuarial accrued liability	36,807,977	15,311,239	7,016,430	15,275,379	74,411,025
Actuarial value of assets	593,944	247,066	113,219	246,488	1,200,717
Unfunded accrued liability	36,214,033	15,064,173	6,903,211	15,028,891	73,210,308
Amortization of unfunded accrued liability	2,802,767	1,165,885	534,271	1,163,154	5,666,077
Contribution before adjustment as of the valuation date	3,880,613	1,702,934	593,228	1,491,189	7,667,964
Fiscal year ending June 30, 2024					
Adjustment for interest and inflation	177,832	80,950	22,375	64,419	345,576
Actuarially determined employer contribution	4,058,445	1,783,884	615,603	1,555,608	8,013,540
Fiscal year ending June 30, 2025					
Adjustment for interest and inflation	51,155	25,489	2,798	15,568	95,010
Actuarially determined employer contribution	4,109,600	1,809,373	618,401	1,571,176	8,108,550

# Projected Benefit Payments



Year	Active as of July 1, 2022	Retired and Terminated as of July 1, 2022	Total Benefit Payments
2022	\$524,378	\$3,702,761	\$4,227,139
2023	827,436	3,699,176	4,526,612
2024	1,057,055	3,842,490	4,899,545
2025	1,352,440	3,813,070	5,165,510
2026	1,723,434	3,773,327	5,496,761
2027	2,070,955	3,741,745	5,812,700
2028	2,300,517	3,620,100	5,920,617
2029	2,654,495	3,500,141	6,154,636
2030	2,835,603	3,338,067	6,173,670
2031	3,201,732	3,184,419	6,386,151
2032	3,400,258	3,080,888	6,481,146
2033	3,644,759	3,015,698	6,660,457
2034	3,963,623	2,881,344	6,844,967
2035	3,900,794	2,748,796	6,649,590
2036	4,135,112	2,709,562	6,844,674
2037	4,528,192	2,633,396	7,161,588
2038	4,731,556	2,600,392	7,331,948
2039	4,949,445	2,529,151	7,478,596
2040	5,226,292	2,440,255	7,666,547
2041	5,430,022	2,383,271	7,813,293

# Participant Data



	Police and Fire	City	BOE Certified	BOE Non-Certified	Total
<b>Total members July 1, 2022</b>					
Active members	123	116	369	238	846
Retirees	147	118	38	109	412
Dependents of current retirees	89	63	7	18	177
Total	359	297	414	365	1,435
<b>Average age July 1, 2022</b>					
Active members	40.7	51.7	45.7	50.3	47.1
Retirees	70.6	72.9	73.4	74.3	72.5
Dependents of current retirees	64.8	69.4	75.6	66.8	67.1
<b>Total members July 1, 2020</b>					
Active members	124	116	354	261	855
Retirees	149	119	58	100	426
Dependents of current retirees	91	60	10	16	177
Total	364	295	422	377	1,458
<b>Average age July 1, 2020</b>					
Active members	41.5	52.0	47.1	50.6	48.0
Retirees	70.6	73.3	72.0	73.5	72.2
Dependents of current retirees	63.6	68.2	71.0	66.3	65.8

# Investment Return Assumption



## Target Allocation and Expected Rate of Return July 1, 2022

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*	Weighting
U.S Large Cap	31.50%	5.00%	1.58%
U.S Mid/Small Cap	13.50%	5.30%	0.72%
Developed International Equities	20.00%	6.40%	1.28%
Intermediate Corporate Fixed Income	21.35%	2.30%	0.49%
Intermediate Government Fixed Income	13.65%	1.80%	0.25%
	100.00%		4.32%
Long-Term Inflation Expectation			2.40%
Long-Term Expected Nominal Return			6.72%

*\*Long-Term Real Returns are provided by USI Advisors. The returns are geometric means.*

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return are developed. Best estimates of the real rates of return for each major asset class are included in the OPEB plan's target asset allocation.

The information above is based on geometric means and does not reflect additional returns through investment selection, asset allocation and rebalancing. The results support a rate between 6.75% and 7.25%. An expected rate of return of 6.75% was used.

## Recommendations for 2024 Valuation

- Review current investment return assumption of 6.75%, based on emerging capital market assumptions and long-term inflation expectations