

March 27, 2020

The OPEB Board Attn: Mr. Benjamin Quattrucci Department of Administration Building One Capitol Hill Providence, Rhode Island 02908

Re: FY 2021 Contribution Rates after Removal of ACA Excise Tax Liabilities

Dear Mr. Quattrucci:

Enclosed are the results of a supplemental actuarial valuation for the Rhode Island State Employees' and Electing Teachers OPEB you requested to calculate the fiscal year 2021 contributions without the Excise Tax load.

Please call if you have any questions regarding our calculations.

Sincerely,

Jeffrey T. Tebeau, FSA, EA, MAAA

JTT:rmn Enclosure

**Requested By:** Mr. Ben Quattrucci, Financial Reporting Manager

Department of Administration

**Date:** March 27, 2020

Submitted By: Jeffrey T. Tebeau, FSA, EA, MAAA, Abra D. Hill, ASA, FCA, MAAA, and

Kevin T. Noelke, ASA, MAAA Gabriel, Roeder, Smith & Company

This report contains the results of a supplemental actuarial valuation of proposed changes in assumptions for the Rhode Island State Employees' and Electing Teachers OPEB. The purpose of this report is to calculate the effect of the removal of the liabilities associated with the Affordable Care Act (ACA) Excise Tax on the fiscal year 2021 contribution rates. The Excise Tax was repealed in December 2019 as a result of the "Further Consolidated Appropriations Act of 2020," subsequent to the June 30, 2018 valuation, which determines the fiscal year 2021 contribution rates.

Jeffrey T. Tebeau, Abra D. Hill, and Kevin T. Noelke are independent of the plan sponsor, are Members of the American Academy of Actuaries (MAAA), and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

The date of this valuation was June 30, 2018. Supplemental valuations do not predict the result of future actuarial valuations. (Future activities can affect future valuation results in an unpredictable manner.) Rather, supplemental valuations give an indication of the probable effect of **only the assumption changes** on future valuations without comment on the complete end result of the future valuations.

The valuation was based on actuarial data submitted for the June 30, 2018 annual actuarial valuation. Unless otherwise noted, valuation assumptions and methods are consistent with those used in the June 30, 2018 actuarial valuation. Actuarial assumptions are adopted by the OPEB Board.

This report should not be relied on for any purpose other than the purpose described above. This report was prepared at the request of the Financial Reporting Manager and is intended for use by the OPEB Board and may be provided to parties other than OPEB Board only in its entirety and only with permission of the OPEB Board. GRS is not responsible for unauthorized use of this report. No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.



#### **Valuation Data**

The demographic and financial data supplied by the State for the June 30, 2018 actuarial valuation was used for this report. A brief summary of the data used in this valuation is presented below:

		Retired				
		<b>Covered Payroll</b>	Avera	Members		
Group	Number	(\$ in thousands)	Age	Service	Number	
Judges	61	\$10,746	62.7	17.3	47	
Legislature	111	1,719	53.3	8.3	18	
State Employees	11,169	708,887	50.0	14.8	6,730	
Teachers	N/A	N/A	N/A	N/A	146	
State Police	233	21,334	38.6	11.5	173	
Board of Education	1,859	124,967	51.4	13.8	801	

### **Current and Proposed Assumptions**

#### **Current Assumptions:**

An adjustment of 9.5% is applied to pre-65 liabilities to reflect potential future excise taxes under the Patient Protection and Affordable Care Act.

#### **Proposed Assumptions:**

The Excise Tax load on pre-65 liabilities is removed as a result of the "Further Consolidated Appropriations Act of 2020," H.R. 1865, which repeals the Excise Tax ("Cadillac Tax") provision from the Affordable Care Act (ACA).



### **Actuarial Analysis**

The financial effect of the removal of the Excise Tax load is shown below.

	Development of the Actuarially Determined Employer Contributions for the												
Contributions for		Judges		egislature		1, 2020 - June 30 ate Employees	0, 20	021 Fiscal Year Teachers	,	State Police		Board of	
		raages		c 6101 at a 1 c		Baseline \							
Actuarially Determined Employer Contribution (ADEC)  Percentage of Projected Payroll	\$	0 0.00%	\$	0 <i>0.00</i> %	\$	47,312,993 <i>5.93%</i>	\$	0 <i>N/A</i>	\$	6,451,845 <i>26.87%</i>	\$	4,543,053 3.23%	
	Supplemental Valuation												
Employer Normal Cost  Percentage of Projected Payroll  Amortization of Unfunded Actuarial	\$	8,467 <i>0.07%</i>	\$	36,183 1.87%	\$	16,595,451 2.08%	\$	0 <i>N/A</i>	\$	3,762,577 15.67%	\$	1,617,495 1.15%	
Accrued Liabilities Percentage of Projected Payroll		(8,467) (0.07)%		(36,183) (1.87)%		27,685,681 <i>3.47%</i>		0 <i>N/A</i>		1,834,466 <i>7.64%</i>		2,503,602 <i>1.78%</i>	
Amortization Period		30 Years		30 Years		18 Years		N/A		18 Years		18 Years	
Actuarially Determined Employer Contribution (ADEC)  Percentage of Projected Payroll	\$	0 0.00%	\$	0 0.00%	\$	44,281,132 5.55%	\$	0 <i>N/A</i>	\$	5,597,043 23.31%	\$	4,121,097 2.93%	
	Increase (Decrease) from Baseline												
Actuarially Determined Employer Contribution (ADEC)  Percentage of Projected Payroll	\$	0 <i>0.00%</i>	\$	0 <i>0.00%</i>	\$	(3,031,861) <i>(0.38)%</i>	\$	0 <i>N/A</i>	\$	(854,802) (3.56)%	\$	(421,956) <i>(0.30)%</i>	

<sup>\*</sup> For the 2021 fiscal year, the employer contribution shown for State Employees is the ADEC gross of any credits for the health windows contributions. The estimated health windows revenue is \$474,874 or 0.06% of projected payroll for fiscal year 2021.



### **Actuarial Analysis (Concluded)**

The financial effect of the removal of the Excise Tax load is shown below.

		Judges	Legislature		State Employees		Teachers		State Police		Board of Education	
	Baseline Valuation											
Actuarial Accrued Liability	\$	1,299,341	\$	1,545,186	\$	637,845,767	\$	11,889,913	\$	82,956,697	\$	72,201,401
Actuarial Value of Assets		3,923,545		2,901,722		172,929,577		11,250,316		44,011,244		30,296,530
Unfunded Actuarial Accrued Liability	\$	(2,624,204)	\$	(1,356,536)	\$	464,916,190	\$	639,597	\$	38,945,453	\$	41,904,871
Funded Ratio		302%		188%		27%		95%		53%		42%
	Supplemental Valuation											
Actuarial Accrued Liability	\$	1,236,540	\$	1,199,628	\$	612,107,175	\$	11,618,744	\$	76,219,286	\$	69,851,110
Actuarial Value of Assets		3,923,545		2,901,722		172,929,577		11,250,316		44,011,244		30,296,530
Unfunded Actuarial Accrued Liability	\$	(2,687,005)	\$	(1,702,094)	\$	439,177,598	\$	368,428	\$	32,208,042	\$	39,554,580
Funded Ratio		317%		242%		28%		97%		58%		43%
	Increase (Decrease) from Baseline											
Unfunded Actuarial Accrued Liability	\$	(62,801)	\$	(345,558)	\$	(25,738,592)	\$	(271,169)	\$	(6,737,410)	\$	(2,350,291)
Funded Ratio		15%		54%		1%		2%		5%		1%

Please see Comments on pages 5 and 6.



#### **Comments**

**Comment 1** — Our understanding is that the OPEB Board has the legal authority to set the employer contribution rates for participating employers. The contribution rates for FY 2021 were originally set by the OPEB Board based on the June 30, 2018 valuation issued January 23, 2019. From an actuarial perspective, the Board may or may not choose to reflect the repeal of the ACA excise tax and recertify the FY 2021 contribution rates based on this supplemental valuation. We are not attorneys so we cannot opine on the Board's legal options for recertifying the rates.

**Comment 2** — If the FY 2021 contribution rates are recertified based on this supplemental valuation, we recommend revising the FY 2022 contributions (which are determined by the June 30, 2019 valuation). This is because the 2019 valuation considers the contributions that will be made between the valuation date and the year in which contributions are made. If the FY2021 rates are recertified, the FY 2022 contributions rates will change as follows:

	Actuarially Determined Contribution for the July 1, 2021 – June 30, 2022 Fiscal Year								
	State Employees	State Police	<b>Board of Education</b>						
Current	5.30%	23.02%	3.48%						
Revised to Reflect									
Recertified FY2021 Rates	5.33%	23.27%	3.50%						

Contributions for Judges, Legislature, and Teachers would remain at 0.00%/\$0.

**Comment 3** — 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.

**Comment 4** — The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this supplemental are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report.

**Comment 5** — If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision.



### **Comments (Concluded)**

**Comment 6** — No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

**Comment 7** — This report is intended to describe the financial effect of the proposed assumption changes on the Plan. Except as otherwise noted, potential effects on other benefit plans were not considered.

**Comment 8** — In the event that more than one plan change is being considered (for the same subset of members), it is important to remember that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.

**Comment 9** — Readers of this report should keep in mind that actuarial calculations are mathematical estimates based on current data and assumptions about future events (which may or may not materialize). Please note that actuarial calculations can and do vary from one valuation year to the next, sometimes significantly if the group valued is small. As a result, the cost impact of a benefit change may fluctuate over time, as the demographics of the group changes.

