

NOTE 9 – POSTEMPLOYMENT HEALTHCARE PLAN

During the year ended December 31, 2007, the County elected to adopt the provisions of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB No. 45), which requires the County to accrue other postemployment benefits (OPEB) expense related to its postretirement healthcare plan based on a computed *Annual Required Contribution (ARC)* that includes the current period's service cost and an amount to amortize unfunded actuarial accrued liabilities. Instead of recording expense on a "pay-as-you-go" basis, the County, under GASB No. 45, has recorded a liability of \$15.083 million for the difference between the actuarially calculated ARC and the estimated contributions made since the adoption of GASB No. 45. Such liability is included in other noncurrent liabilities in the accompanying December 31, 2008 balance sheet.

The effect of GASB No. 45 for the current fiscal year was to decrease the County's excess of revenue over expenses before capital contributions and the County's increase in net assets for the year ended December 31, 2008 by approximately \$8.435 million.

Plan Description The King County Health Plan (the Health Plan) is a single-employer defined-benefit healthcare plan administered by the County. The Health Plan provides medical, prescription drug, vision, and other unreimbursed medical benefits to eligible retirees. The Health Plan's actuary is Healthcare Actuaries. The Health Plan does not issue a separate stand-alone financial report.

Funding Policy The LEOFF 1 medical benefit requirements are established by RCW 41.26.150(1) with local disability boards administering the LEOFF 1 medical service expenses. LEOFF 1 retirees are not required to contribute to the Health Plan. All other retirees are required to pay the COBRA rate associated with the elected plan as set by the Human Resources Director.

For the fiscal year ended December 31, 2008, the County contributed an estimated \$3.24 million to the Health Plan. The County's contribution was entirely to fund "pay-as-you-go" costs under the Health Plan and not to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation The basis for the County's annual OPEB cost (expense) is the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, will cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following displays the components of the County's annual OPEB cost, the estimated amount contributed to the Health Plan, and changes in the County's net OPEB obligation to the Health Plan for the year ended December 31, 2008 (in thousands):

Normal cost — Unit Credit Method	\$ 3,806
Amortization of unfunded actuarial accrued liability (UAAL)	-
Amortization of unfunded actuarial accrued liability (UAAL) at transition	<u>7,989</u>
Annual Required Contribution (ARC)	11,795
Interest on net OPEB obligation	265
Adjustment to annual required contribution	<u>(385)</u>
Annual OPEB cost (expense)	11,675
Contributions made	<u>(3,240)</u>
Increase in net OPEB obligation	8,435
Net OPEB obligation — beginning of year	<u>6,648</u>
Net OPEB obligation — end of year	<u>\$ 15,083</u>

NOTE 9 - CONTINUED

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Health Plan, and the net OPEB obligation follows (in thousands):

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2007	\$11,795	43.6%	\$ 6,648
12/31/2008	\$11,675	27.8%	\$15,083

Funded Status and Funding Progress The funded status of the Health Plan as of December 31, 2008 (in thousands),

Actuarial accrued liability (AAL) — Unit Credit	\$145,393
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$145,393
Funded ratio (actuarial value of plan assets ÷ AAL)	0.0%
Covered payroll	\$890,310
UAAL as a percentage of covered payroll	16.3%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. GASB 45 requires that the schedule of funding progress, presented as required additional information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of Health Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions The basis of projection of benefits for financial reporting purposes is the substantive plan (the Health Plan as understood by the County and members of the Health Plan). It includes the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and members of the Health Plan to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The December 31, 2008 valuation used the unit credit actuarial cost method. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 11.0% for KingCare medical, 8.5% for KingCare Rx, and 11.0% for HMO medical/Rx, each reduced by decrements to an ultimate rate of 5.0% after 12 years. The vision trend rate is 1.0%, the miscellaneous trend rate is 7.0%, and the Medicare Premium trend rate is 8.5%, for all years. All trend rates include a 3.0% inflation assumption, with the exception of vision trends. The amortization of the UAAL at transition uses a level dollar amount on a closed basis. The remaining amortization period at December 31, 2008 was 28.0 years. The UAAL is recalculated each year and amortized as a level dollar amount on an open basis over 30 years.

Component Unit – Harborview Medical Center (HMC)

In July 2004, GASB issued statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" (GASB 45). GASB 45 is effective for the year ended June 30, 2008. This statement will require the recording of the accumulated liability for retiree health care and life insurance costs, which the University of Washington subsidizes.

NOTE 9 - CONTINUED

Health care and life insurance programs for employees of the State of Washington are administered by the Washington State Health Care Authority (HCA). All University of Washington employees, including Medical Center employees, are employees of the State of Washington. The HCA calculates the premium amounts each year that are sufficient to fund the statewide health and life insurance programs on a pay as you go basis. These costs are passed through to individual state agencies based upon active employee headcount; the agencies pay the premiums for active employees to the HCA. The agencies may also charge employees for certain higher cost options elected by the employee.

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors.

The health care premiums for active employees, which are paid by the agency during employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the OPEB obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an explicit subsidy). For 2008 this amount was \$164 per month per retiree eligible for parts A and B of Medicare. This is also passed through to state agencies via active employee rates charged to the agency.

There is no formal State or University plan that underlies the subsidy of retiree health and life insurance.

An actuarial study performed by the Washington Office of the State Actuary calculated that the total OPEB obligation of the State of Washington at July 1, 2007 was \$3.8 billion and that the 2008 annual cost was \$314 million. The Actuary calculated the OPEB obligation based on individual State employee data, including age, retirement eligibility, and length of service. The probability of an employee of a given age and length of service retiring and receiving OPEB benefits is based on statewide historical data.

The Actuary's allocation of the overall statewide liability related to the University, including its unconsolidated affiliates (which includes the Medical Center), was approximately \$600 million, and the annual allocated estimated cost to the University for FY 2008 was approximately \$60 million. This estimated expense represents the amortization of the liability for fiscal year 2007 plus the current expense for active employees.

Since sufficient specific employee data and other actuarial data are not available at levels below the statewide level, such amounts have not been determined nor recorded in the University's nor the Medical Center's financial statements. This liability is recorded at the statewide level. The Medical Center was billed and paid \$44,012 and \$39,608 thousand, respectively, for health care expenses in 2008 and 2007 which included its funding of the OPEB liability.

The State Actuary's report is available at:

http://osa.leg.wa.gov/Actuarial_Services/OPEB/PDF_Docs/2007_OPEB_Report.pdf



King County