

Alliance Benefit Group

Alliance Benefit Group (ABG) of Indiana is an office within Alliance Benefit Group, one of the largest retirement consulting and administration firms in the country. Alliance Benefit Group provides consulting and administration services to over 4,000 plans that hold over \$10 billion in retirement assets. There are offices in sixteen cities including Indianapolis, Chicago, Dallas, Kansas City, Minneapolis and Salt Lake City. Each office is independently owned and shares a national leadership as well as technical resources. ABG of Indiana has the largest actuarial staff among the offices.

The firm began in Indianapolis, Indiana as a family-owned business, founded by Howard Nyhart. It progressed as a family business until an employee stock ownership plan was created and the employees purchased the company in the 1990's.

ABG of Indiana is an employee benefit consulting, actuarial, and administration firm that has been doing business since 1943. We are 100% employee-owned and provide actuarial, defined contribution, defined benefit, flexible spending account administration, and human resource consulting. We have 70+ employees and operate as a corporation. Our actuarial staff includes twelve accredited actuaries and an eleven person support staff of actuarial students and actuarial assistants. All work is done by our own staff without the need to outsource work.

Professional Credentials and Experience

Our combined experience includes the following:

- Engaged by municipalities in 21 states and can call as clients five state capitals and one state-wide employer;
- The types of government employers serviced vary from local fire departments, school districts, cities, counties, state-wide employer, water utilities and public universities, and range from 50 to 30,000 employees;
- Designed liability management solutions using trust-based, benefit, and contribution strategies;
- GASB study for Indiana Senate and House legislators – measured current and alternative retiree designs;
- Post-retirement health care study presented to the United States Senate regarding Medicare retirement age;
- Over 900 retiree healthcare valuations completed so far;
- Services conform to Actuarial Standards of Practice, Actuarial Code of Professional Conduct, and the Government Accounting Standards Board Statements 43 and 45; and
- Qualified to issue a Public Statement of Actuarial Opinion (PSAO) in accordance with the Qualification Standards of the American Academy of Actuaries.

By: *Randy Gomez, FSA, MAAA, EA*



Unique Qualifications

Because ABG is employee-owned, each employee has a vested interest in providing top-notch customer service. We prosper as long as we can keep our clients satisfied.

For most government employers, GASB 45 will be the first time they have had to deal with actuaries. Because of our extensive experience we are able to guide employers through a complicated topic in a manner that non-actuaries can understand, all while making the right decisions for their taxpayers.

We provide “big firm” services at a “small firm” price. Our senior actuaries were trained at large, international actuarial consulting firms prior to coming to ABG. Our approach to GASB 45 is based on processes and techniques commonly used in large actuarial firms and rarely seen in firms our size.

ABG has created proprietary interactive tools that project the liabilities under a variety of scenarios. Those tools allow employers to make critical decisions in a timely and cost-effective manner.

Our business model includes working with employers, on a pre-engagement basis at no cost to them, to help answer questions about GASB 45 requirements, liability management options, the work process, and our services. We commit to a timely performance of the work requested. A typical project timeline is shown below.

1. Planning - County and ABG (week 1)
2. Data collection - County (2-3 weeks)
3. Perform actuarial calculations - ABG (3-4 weeks)
4. Release preliminary report - ABG (Included above)
5. Discuss preliminary report - County and ABG (one week after release)
6. Internal discussion - County (2-3 weeks)
7. Release of final report - ABG (1 week)

Our Understanding of GASB

ABG believes it is important that employers understand the do's and why's of GASB 45, and therefore we include time for client education in our planning. To help with this education phase, below are answers to key questions asked by employers.

What are GASB 43 and 45? GASB 43 and 45 are governmental financial reporting requirements for all state and local governments that sponsor post-employment healthcare benefits. The major covered benefits include medical, dental, life insurance, and disability.

When does it affect my financial statements? The effective date varies by size of the government entity (see table). Employers with dedicated assets in a qualified OPEB trust

| Revenue Size in FYE 2000 | Effective Date |
|--------------------------|-------------------------------|
| \$100 Million | FY Beginning After 12/15/2006 |
| \$10 to \$100 Million | FY Beginning After 12/15/2007 |
| < \$10 Million | FY Beginning After 12/15/2008 |

have an effective date beginning one year earlier.

Why is there a GASB liability if retirees must pay the full COBRA rate? The objective is to disclose retiree healthcare liabilities using expected retiree costs and reasonable assumptions. For most employers, the COBRA rate represents the average cost of participants enrolled in their medical plan. Typically 90% or more of enrollees are actively employed. Continuing with this logic, the COBRA rate is effectively the average cost for an active employee. Statistics clearly show that medical costs for retired employees are considerably higher than for active employees. Therefore, charging the COBRA rate will not be sufficient to cover the expected cost for a retiree.

The chart below illustrates that a \$350 monthly cost (the full COBRA rate) is \$277 less than what the full cost should be for a retiree (\$627). State laws in many cases restrict the maximum retiree contribution to the COBRA rate which means that employers are implicitly subsidizing retiree health coverage and have a GASB 45 liability to deal with.

| Age Band | Enrollment | Health Factor | Monthly Medical Cost |
|----------------------|------------|---------------|----------------------|
| Under 40 | 380 | 80 | \$295 |
| 40 to 55 | 210 | 100 | \$369 |
| Over 55 and Retirees | 60 | 170 | \$627 |
| All Ages | 650 | 95 | \$350 |

How will new disclosures affect our bond or credit rating? Any negative impact will be a function of how large the accounting liabilities are, how much control plan sponsors have over plan design, and the cashflow of any future explicit or implicit subsidies. Rating agencies expect employers to manage their liabilities and may downgrade those that have not implemented a management solution. The unknown factor at this time is when the downgrading may happen.

Why is the liability so large when there are only a few retirees enrolled in the health plan? It isn't only the number of existing retirees that generate the GASB liabilities. Future retirees, spouses of retirees, and healthcare inflation are other factors that generate GASB liabilities.

Services and Fees

ABG has agreed to a fixed fee schedule for the basic services required for a GASB 45 disclosure report. Basic Services:

- Determine the actuarial liability for explicit and implicit subsidies provided by the county;
- Prepare GASB 45 disclosure report required for the Comprehensive Annual Financial Report. The report will also include descriptions of plan provisions, assumptions and methods and census used;
- Provide information to the employer in determining their budget needs such as prefunding contributions, projected PAYGO cost and recommendations on managing the liability;
- Conference call to review preliminary results prior to issuing final results; and
- Provide electronic and paper copies of all studies performed.

The total fee for the basic services outlined above varies by the total number of active and retired employees with the county. Below is the sliding fee schedule by size:

Number of Active and Retired Employees

- < 100: \$2,500*
- 100- 199: \$3,000
- 200- 399: \$4,000
- 400- 799: \$5,000
- 800+: \$6,000

* Employers with less than 100 total active and retired employees may use the alternate valuation method described in GASB 45. The reduced fee for the alternate method is \$1,500.

Additional Services:

| Service | Fee |
|--|-------------------------------------|
| On-site meetings | \$750 per meeting |
| Alternative results using new actuarial assumptions | \$200 per scenario in excess of two |
| Additional programming for health plans | \$300 per plan in excess of three |
| Use of interactive modeling tool: analyzing impact of assumption and design changes | \$1,000 |
| Use of interactive modeling tool: analyzing impact of prefunding and trust-based solutions | \$600 |

Questions? Please contact Randy Gomez at randy.gomez@abgindiana.com or 317.803.7734, or Joe Polley at joe.polley@abindiana.com or 317.803.7772.