FORT PIERCE UTILITIES AUTHORITY
RETIREE MEDICAL PLAN

OCTOBER 1, 2021
ACTUARIAL VALUATION OF
OTHER POST EMPLOYMENT BENEFITS ("OPEB")

INCLUDING DISCLOSURE INFORMATION
IN CONNECTION WITH GASB 75

February 22, 2023

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February 22, 2023

Ms. Michele Harris, CGFO
Assistant Controller
Fort Pierce Utilities Authority
500 Boston Avenue
Fort Pierce, Florida 34950

Dear Michele:

This report presents the results of the October 1, 2021 Actuarial Valuation of the Fort Pierce Utilities Authority Retiree Medical Plan. This report has been prepared for the purposes of financial reporting under Governmental Accounting Standards No. 75. In conjunction with these reporting requirements, this report presents the Entry Age Normal Total OPEB liability and the OPEB Expense.

The actuarial calculations contained in this report have been prepared based on employee data, benefit provisions, and health insurance premium rates provided by the Authority. This information has not been audited by our firm.

The present values contained in this report have been calculated on the basis of actuarial assumptions which, in my opinion, are appropriate for the purposes of this report, are reasonable, and represent my best estimate of anticipated experience under the plan.

Respectfully submitted,

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I. OPEB LIABILITIES

GASB 74/75 IN GENERAL

What is GASB 74 and 75? The Government Accounting Standard Board ("GASB") issued Statements 74 and 75 in 2015. GASB 74 and GASB 75 supersede GASB 43 and 45, respectively. GASB 74 and 75 require local and state governments and public agencies to recognize the value of other post-employment benefits ("OPEB") other than pensions. OPEB obligations pertain to health insurance, dental, vision, prescription or other heath care benefits provided to retirees and their beneficiaries. OPEB reporting is similar to the reporting of retirement pension plan obligations. Under GASB 74/75, OPEB costs are considered part of compensation an employee earns each year, even though the benefits are not received until an employee retirees. GASB 74/75 require governmental entities to recognize the nature and the size of the OPEB long-term obligation and commitment.

How are OPEB's recognized? The outstanding obligations and commitments of OPEBs are determined by an actuarial valuation performed in accordance with GASB requirements. An actuarial valuation is required no less frequently than every two years. Except for very small governmental entities, which may use an Alternative Measurement Method, an actuary must perform an actuarial valuation to determine the OPEB cost and the Total OPEB Liability.

The actuarial valuation uses various key actuarial assumptions. Some of these key assumptions include medical trend rates concerning annual healthcare cost increases, the discount rate, how many employees elect coverage, termination rates, disability rates, mortality rates, and marriage (to determine beneficiary liability).

When is compliance with GASB 74 and 75 required? Compliance with GASB 74 is required for fiscal years beginning after June 15, 2016. Compliance with GASB 75 is required for fiscal years beginning after June 15, 2017. The Authority is not subject to GASB 74 as its OPEB plan is not funded with a trust, as defined in GASB 74.

I. OPEB LIABILITIES
(continued)

GASB 74/75 IN GENERAL (continued)

GASB 75 does not require a plan to be funded and governmental entities may continue to fund OPEB benefits on a pay-as-you-go basis. If OPEB benefits are not funded, the annual OPEB cost and OPEB Liability may be higher.

CHANGES FROM GASB 43/45

GASB 75 requires that OPEB plans use the Entry Age Normal Actuarial Cost Method. This is the method that has been used for recent OPEB actuarial valuations.

Another requirement is that the Total OPEB Liability be recognized on the financial statements of the sponsoring entity. This is done by restating prior periods with an adjustment to the beginning OPEB liability account balance in the first year of restatement. In cases in which restatement is not practical, the beginning balance is adjusted in the current year.

The effects of:

1) differences in expected and actual experience; and

2) changes in actuarial assumptions,

are recognized over the average future working lifetime of active and inactive participants. As of October 1, 2021, this average is 7.5 years.

GASB 74 requires much more extensive reporting of plan assets and future expected costs. The plan is not currently funded, so enhanced asset reporting requirements do not apply.

I. OPEB LIABILITIES

TOTAL OPEB LIABILITY

Benefits under a postretirement medical plan commence upon retirement. GASB Statements 74 and 75 attempt to measure this commitment and allocate its value to years during which the benefit is earned, rather than years during which the benefit is paid. Under the actuarial cost method used, the Entry Age Normal Actuarial Cost Method, the actuarial present value of the current year's benefit accrual is referred to as the service cost.

The Total OPEB Liability, as determined under the Entry Age Normal Actuarial Cost Method, is as follows:

	October 1 2021
Entry Age Normal Total OPEB Liability for:	
Active Participants	$ 1,322,449
Retired Participants	297,172
Beneficiaries	0
Disabled Participants	0
Total Entry Age Normal OPEB Liability:	$ 1,619,621

SERVICE COST

The service cost, as determined under the Entry Age Normal Actuarial Cost Method, represents the current value of benefits accruing to active employees. This amount, computed as of October 1, 2021, is as follows:

	October 1 2021
Entry Age Normal OPEB Service Cost as of October 1, 2021:	$ 43,519

II. OPEB EXPENSE DETERMINATION

OPEB EXPENSE

Under the plan's funding method, the Entry Age Normal Actuarial Cost Method, the actuarial present value of each individual's OPEB is allocated to periods during which the benefit is accrued.

The table below illustrates the development of the OPEB expense for the plan year ending September 30, 2022:

	Plan Year Ending September 30, 2022
Service Cost:	$ 43,519
Interest on the Total OPEB Liability:	37,587
Differences Between Expected and Actual Experience (Exhibit D):	0
Total	$ 81,106

III. SENSITIVITY ANALYSIS

TREND RATE SENSITIVITY

The Authority's true liability for OPEB depends upon future economic and demographic factors which are difficult to predict. The calculations in this report are based on the actuarial assumptions that are outlined in Exhibit B**.** Different assumptions could yield significantly different results. To illustrate this, the following table presents the sensitivity of the OPEB cost resulting from a one percentage point negative and a one percentage point positive change in the medical trend rate assumption set.

Year	1% Decrease in Trend Rate Assumption	Current Medical Trend Rate Assumption	1% Increase in Trend Rate Assumption
2021	3.5%	4.5%	5.5%
2022	3.5%	4.5%	5.5%
2023	3.5%	4.5%	5.5%
Ultimate	3.5%	4.5%	5.5%
Entry Age Normal Total OPEB Liability	$1,453,441	$1,619,621	$1,818,739
Entry Age Normal Service Cost	$34,496	$43,519	$55,191

III. SENSITIVITY ANALYSIS
(continued)

DISCOUNT RATE SENSITIVITY

The following table presents the sensitivity of the OPEB cost resulting from a one percentage point negative and a one percentage point positive change in the discount rate assumption set:

Year	1% Decrease in Discount Rate (1.26%)	Current Discount Rate (2.26%)	1% Increase in Discount Rate (3.26%)
Entry Age Normal Total OPEB Liability	$1,812,513	$1,208,449	$1,457,325
Entry Age Normal Service Cost	$54,865	$29,458	$34,739

IV. GASB REPORTING

IMPLICIT RATE SUBSIDY

The Authority's health care plan is self-insured and serviced by Blue Cross Blue Shield. A premium is paid for medical coverage which is not age related. However, the underlying cost of the medical coverage does vary by age as medical costs tend to increase with age. As a result, older employees receive a more valuable benefit than younger employees. As the premium paid for retirees is the same as for active employees, a more valuable benefit is received by retirees as compared to younger, active employees. GASB 74/75 define this benefit as an implicit rate subsidy and it is to be valued under the Standards. An adjustment from active employee health cost to retiree medical health cost is made to properly account for this subsidy.

The table below presents the determination of the medical coverage implicit rate subsidy:

Initial Year Retiree and Early Retirement Claims from Exhibit E	$	288,720
Projected Premiums Paid by Retired Employees		(216,196)
Medical Coverage Implicit Rate Subsidy for the Year Ending September 30, 2022	$	72,524

The following table illustrates the effect of the implicit rate subsidy adjustment on the medical coverage costs for active employees and retired employees:

	Active Employees	Retired Employees	Total
Annual Medical Premiums Paid	$ 5,733,366	$ 216,196	$ 5,949,562
Projected Premiums Paid by Retirees		(216,196)	(216,196)
Implicit Rate Subsidy	(72,524)	72,524	0
Adjustment due to GASB 74/75	N/A	8,582	8,582
Total Medical Benefit Cost	$ 5,660,842	$ 81,106	$ 5,741,948

V. APPENDIX

EXHIBIT A - SUMMARY OF PLAN PROVISIONS

EXHIBIT B - SUMMARY OF ACTUARIAL BASIS

EXHIBIT C - SUMMARY OF PARTICIPANT DATA

EXHIBIT D - CASH FLOW PROJECTION

EXHIBIT A - SUMMARY OF PLAN PROVISIONS

RETIREE MEDICAL PROGRAM ELIGIBILITY:

To be eligible for post retirement medical coverage, the Authority's employees must:

1) Qualify for a monthly retirement benefit under the Florida Retirement System and

2) Elect to continue medical coverage by paying the applicable monthly premium for employee and/or dependent coverage.

The employer reserves the right to modify or discontinue retiree coverage or any other provision of the Plan at any time.

RETIREMENT AGE:

The attainment of age 60 and 10 years of creditable service, or at least 25 years of creditable service regardless of age.

Prior to October 1, 2012, an age 60 employee could retire with 5 years of service.

RETIREE HEALTH BENEFIT:

Benefit: The Authority allows retirees to continue medical insurance coverage under the Medical Plan provided the retiree pays the requisite premium.

Duration of Benefit: For life, beginning with the date the retirement benefit begins under the Florida Retirement System.

RETIREE AND SPOUSE CONTRIBUTIONS:

The 2021 monthly premium for individual retiree health coverage is $1,056.69 and employee and spouse coverage is $2,113.38. Dental coverage is $32.73 for individual coverage and $65.46 for retiree and spouse. Vision coverage is $4.47 for individual coverage and $8.50 for retiree and spouse.

DEPENDENT MEDICAL COVERAGE:

Spouses and dependents of eligible retirees are eligible for health care benefits, provided the spouse or dependent was already covered under the plan. The retiree is responsible for payment of any dependent or spouse coverage.

EXHIBIT A - SUMMARY OF PLAN PROVISIONS
(continued)

MEDICAL COVERAGE:	The plan provides a Preferred Provider Organization (PPO) Health Plan. The PPO reimburses at a lower percentage for customary and reasonable amounts for non-preferred providers. The following provides a summary of key benefit details: In-network Family Physician Office Visit is $15, Specialist Visit is $25. The majority of other services rendered include a 10% copay after deductible in-network, and 40% copay after deductible out-of-network.
DEDUCTIBLE:	The individual in-network deductible per calendar year is $300, out-of-network deductible is $1,000. The family in-network deductible per calendar year is $900, out-of-network deductible is $3,000.
OUT OF POCKET MAXIMUM:	The out-of-pocket limit is $1,500 in-network, and $3,000 out-of-network. The family limit is $4,500 in-network, and $9,000 out-of-network. There is no maximum plan benefit.
PRESCRIPTION DRUG BENEFITS:	For prescription drugs through a retail network, co-payments are $7 for Generic, $25 for Preferred Brand, and $40 for Non-Preferred Brand, and $105 for specialty drugs for a 30- day supply.
DENTAL BENEFITS:	There is no deductible for preventative services. For basic and major services there is a $100 deductible. Coinsurance for basic care is 80% and for major care is 50%.
VISION BENEFITS:	Eye exam with dilation has a $10 co-payment in-network and up to $30 out-of-network. Other in-network benefits include standard contact lens fit, $40, standard, bifocal, or trifocal lenses, $15 co-payment.

EXHIBIT B - SUMMARY OF ACTUARIAL BASIS

ACTUARIAL ASSUMPTIONS

DISCOUNT RATE: 2.26% per annum. This is the Bond Buyer's 20-Bond GO Index for September 2021. The September 30, 2022 year end disclosures will be based on 4.02% per annum.

MEDICAL TREND RATE:

Year	
2021	4.5%
2022	4.5%
2023	4.5%
Ultimate	4.5%

SALARY INCREASES: 2.50% per annum

RETIREMENT: It is assumed that 100% of eligible employees retire at age 65 with 10 years, or 30 years at any age (plan allows for retirement at 25 years). Rates of early retirement are 10% at age 55, 6% from ages 56 to 61, 25% at age 62, and 10% at ages 63 and 64.

ELECTION OF COVERAGE: It is assumed that 40% of retirees elect medical plan coverage and 5% of retirees continue coverage after Medicare eligibility. It is also assumed that 40% of retirees elect spouse or dependent coverage.

MONTHLY MEDICAL CLAIMS RATE: Retiree Medical Individual Coverage:

Age	Males	Females
55	$1,187	$1,187
60	$1,488	$1,488
61	$1,560	$1,560
62	$1,636	$1,636
63	$1,720	$1,720
64	$1,786	$1,786
65	$828	$828
70	$960	$960
75	$1,113	$1,113
80	$1,290	$1,290

EXHIBIT B - SUMMARY OF ACTUARIAL BASIS
(continued)

MORTALITY:

2021 PPA Mortality Table (RP-2014 Mortality, base year 2006, adjusted to 2021 with Mortality Improvement Scale MP-2019). Sample rates per 1000 lives are as follows:

Age	Males	Females
35	0.5	0.3
45	0.8	0.5
55	2.6	1.6
65	9.4	6.5
75	24.7	18.6
85	77.1	61.7

TERMINATION OF EMPLOYMENT:

Sample rates of termination of employment per 1000 lives are as follows:

Age	Males	Females
25	96.7	96.7
35	87.1	87.1
45	63.5	63.5
55	0.0	0.0

DISABILITY:

No specific disability rates have been assumed. Retirement due to disability is included in the retirement rates above.

MARRIAGE:

It is assumed that 80% of employees are married and that husbands and wives are the same age.

EXPENSES:

Included in the monthly claims rates.

EXHIBIT B - SUMMARY OF ACTUARIAL BASIS
(continued)

ASSET VALUATION METHOD

The plan is funded on a pay-as-you-go basis.

ACTUARIAL COST METHOD

ENTRY AGE ACTUARIAL COST METHOD. This method allocates the actuarial present value of OPEB liability for each individual on a level basis over the salaries of the individual between each individual's entry age and assumed retirement age. The portion of this actuarial present value attributable to the current year is called the normal cost.

The actuarial accumulation of normal costs attributable to prior years composes the actuarial accrued liability. The excess of the actuarial accrued liability over the actuarial value of assets is the unfunded actuarial accrued liability.

Gains (losses) serve to decrease (increase) the unfunded actuarial accrued liability.

All active employees who will meet the plan's eligibility requirements on or before the ultimate assumed retirement age are included in the calculations. Retirees or their survivors who are entitled to a benefit under the provisions of the plan are also included.

EXHIBIT C - SUMMARY OF PARTICIPANT DATA

	Active	Retired	Benefic.	Total
Participation as of October 1, 2019	261	17	0	278
New Participants	46			46
Retirements	(7)	7		0
Deceased				0
Dropped or Declined Coverage		(9)		(9)
Terminations w/o Vested Benefits	(35)			(35)
Participation w/o spouses as of October 1, 2021	265	15	0	280
Spouses of Retirees		2		2
Participation as of October 1, 2021	265	17	0	282

Average Statistics for Active Participants

	2021	2019
Average Age:	47.5	47.8
Average Service:	10.6	10.4

EXHIBIT D - CASH FLOW PROJECTION

Plan Year Ending	Retiree Medical Projected Cash Flow	Retiree Contributions Projected Cash Flow	Early Retirement Projected Cash Flow	Total Projected Cash Flow
09/30/2022	261,764	-201,006	11,766	72,524
09/30/2023	279,993	-218,697	22,724	84,020
09/30/2024	297,303	-229,616	26,656	94,343
09/30/2025	226,638	-176,492	30,928	81,074
09/30/2026	233,216	-183,080	21,606	71,742
09/30/2027	209,167	-167,663	26,632	68,136
09/30/2028	234,836	-181,650	30,641	83,827
09/30/2029	238,416	-185,581	39,329	92,164
09/30/2030	233,305	-183,994	33,754	83,065
09/30/2031	236,085	-186,220	31,943	81,808