

Re: Actuarial Information for Employer Accounting and Financial Reporting under GASB Statement 75

Prepared for the Employer: **Easter Seals of TN**

Gabriel, Roeder, Smith & Company (GRS) has been engaged by the State of Tennessee to perform an Actuarial Valuation of Other Post-Employment Benefits (OPEB) provided through the State's group insurance plans. While we do not have a contract with your organization, we are providing this report at the request of our Client-Principal, the State of Tennessee. We are pleased to present herein the results of the valuation of benefits provided to retirees of Easter Seals of TN covered under the Local Government Insurance Plan (LGIP) which you as Employer offer to retiring employees of your organization.

This report provides actuarial information in accordance with Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This information is intended to assist in preparation of the financial statements of the Employer in relation to benefits provided through the Local Government Insurance Plan. This report does not address liabilities for benefits provided through The Tennessee Plan, supplemental medical insurance for retirees with Medicare. Financial statements are the responsibility of management, subject to the auditor's review. Please let us know if the auditor recommends any changes.

This report was prepared at the request of the State and is intended for use by the Employer and those designated or approved by them. This report may be provided to parties other than the Employer in its entirety and only with the permission of the Employer or the State. GRS is not responsible for unauthorized use of this report.

Our actuarial calculations for this report were prepared for the purpose of complying with the requirements of GASB Statement No. 75. These calculations have been made on a basis that is consistent with our understanding of this Statement. The calculation of the plan's liability for this report is not applicable for the purpose of pre-funding the OPEB plan. A calculation of the plan's liability for purposes other than satisfying the requirements of GASB Statement No. 75 may produce significantly different results.

This report is based upon information through June 30, 2017 furnished to us by the State officials for the June 30, 2017 actuarial valuation. This information, including plan provisions and census data for active members, retirees and beneficiaries, was reviewed for internal consistency, but it was not audited by us. We are not responsible for the accuracy or completeness of the information provided by the State.

The calculations are based upon the actuarial valuation as of June 30, 2017 with results presented in a report dated July 16, 2018 on file with the State of Tennessee. As such they depend on assumptions regarding future events, which may or may not materialize. They are also based upon plan provisions outlined in the June 30, 2017 actuarial valuation report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important relevant plan provisions are not described or referenced, or that conditions have changed since the calculations were made, you should contact the author of this report prior to relying on information in this report.

This report complements the June 30, 2017 actuarial valuation report dated September 12, 2018, and information herein should be considered along with the information from that report, especially for additional discussions of the nature of actuarial calculations and for more information related to participant data, economic, demographic, health care trend and morbidity assumptions, and benefit provisions. Refer to that full actuarial report for disclosures of OPEB plan provisions and detailed actuarial assumptions.

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; and changes in plan provisions or applicable law. The scope of this report does not include an analysis of the potential range of such future measurements.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge, the information contained in this report is accurate and fairly represents the actuarial position of the plan as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice, and with applicable statutes. 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 author of this report prior to making such decision.

James J. Rizzo and Piotr Krekora 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 signing actuaries are independent of the plan sponsor.

We will be pleased to answer any questions pertaining to this report.

Respectfully submitted,

GABRIEL, ROEDER, SMITH AND COMPANY



James J. Rizzo, ASA, EA, MAAA, FCA  
Senior Consultant & Actuary



Piotr Krekora, ASA, EA, MAAA, FCA  
Consultant & Actuary

## Executive Summary

Actuarial Valuation Date	June 30, 2017
Measurement Date of the Total OPEB Liability	June 30, 2017
Employer's Fiscal Year Ending Date (Reporting Date)	June 30, 2018

### Membership as of the Actuarial Valuation Date

Number of	
- Retirees and Beneficiaries	0
- Inactive, Nonretired Members	0
- Active Members	108
- Total	108
Estimated Covered-Employee Payroll	N/A

### Total OPEB Liability

Total OPEB Liability	\$ 48,388
Total OPEB Liability as a Percentage of Covered-Employee Payroll	N/A

### Development of the Single Discount Rate

Long-Term Municipal Bond Rate*	3.56 %
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<b>Total OPEB Expense</b>	<b>\$ 10,591</b>
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<b>Estimated Outflow of Resources due to Benefits Paid After the Measurement Date</b>	<b>\$ 469</b>
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### Deferred Outflows and Deferred Inflows of Resources by Source to be Recognized in Future OPEB Expenses

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ 0
Changes in assumptions and other inputs	0	2,447
Contributions/Benefits Paid After the Measurement Date	469	0
<b>Total</b>	<b>\$ 469</b>	<b>\$ 2,447</b>

*\*Source: Fidelity General Obligation AA rate as of June 30, 2017. This is the rate for Fixed Income Yield Curve Data for Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity's "20-Year Municipal GO AA Index." In describing this index, Fidelity notes that the municipal curves are constructed using option adjusted analytics of a diverse population of over 10,000 tax exempt securities.*

#### Note Disclosures

This actuarial valuation report relates to the OPEB Plan provided through the Local Government Insurance Plan (LGIP) and administered by the State. The preparer may edit the narrative portion of these note disclosures to suit the individual needs and style.

#### Other Postemployment Benefits (OPEB) for Retiree Health Insurance

*Plan description .* The employer provides certain retiree health insurance benefits in a single employer defined benefit OPEB Plan through the LGIP which is administered by the State of Tennessee. All employees covered by the LGIP and hired prior to July 1, 2015 are covered by the OPEB Plan. According to State law in effect on the measurement date, employees first hired on or after July 1, 2015 are not eligible to continue health insurance coverage under the OPEB Plan after retiring. Any changes to the law will be recognized in future measurements. For eligible employees, some employers provide a direct subsidy toward the premium for certain employees; all employers provide an implicit subsidy; and the retiree pays any balance of the required premium remaining.

*Funding policy.* There are no assets or trust fund accumulating to pre-fund the OPEB obligation. The funding policy is to pay the OPEB obligation as it comes due each month on a pay-as-you-go basis. The total premium rate structure required for LGIP coverage is established by and may be amended by the Benefits Administration unit of the State and the State Insurance Committee. The local employer sets its own level of subsidy for the designated classification of members.

*Eligibility.* Eligibility to commence OPEB coverage is the same as eligibility for retirement under the Tennessee Consolidated Retirement System (TCRS), with the added conditions of (a) having being at least age 55 with at least 10 years of employment with the employer and three continuous years of insurance coverage in the LGIP immediately prior to final termination for retirement (or age 55 with at least 20 years of such employment if only one year of such coverage) and (b) receiving a monthly pension from TCRS. Additional rules apply for OPEB coverage for TCRS-approved disabilities. Alternative conditions are made for any locally sponsored public safety retirement plan or utility board member.

With the exception of a small group of grandfathered individuals, retirees are required to discontinue coverage under the LGIP and this OPEB Plan upon attaining eligibility for Medicare benefits. In addition to subsidies that may be provided by the local employers for retiree premiums, the OPEB benefits include access to coverage for the retiree and dependents under the Medical, Prescription, Dental, Vision, and Long Term Care (LTC access for retirees was discontinued effective January 1, 2018).

*Benefits.* The employer may provide a flat dollar or percent subsidy depending on years of service, job classification, health plan option and tier selected. The State does not provide a subsidy for local government participants.

## Schedule of Changes in Total OPEB Liability and Related Ratios Measurement Year Ended June 30, 2017 (Ultimately 10 Years Will Be Displayed)

Measurement Year Ended June 30,	<u>2017</u>
<b>A. Total OPEB Liability</b>	
1. Service Cost	\$ 9,429
2. Interest on the Total OPEB Liability	1,450
3. Changes of benefit terms	0
4. Difference between expected and actual experience of the Total OPEB Liability	0
5. Changes in assumptions and other inputs	(2,735)
6. Benefit payments	-
<b>7. Net change in Total OPEB Liability</b>	<u>\$ 8,144</u>
<b>8. Total OPEB Liability – Beginning</b>	<u>40,244</u>
<b>9. Total OPEB Liability – Ending</b>	<u><u>\$ 48,388</u></u>
<b>B. Estimated Covered-Employee Payroll</b>	N/A
<b>C. Total OPEB Liability as a Percentage of Covered-Employee Payroll</b>	N/A

## Notes to Schedule of Changes in Total OPEB Liability and Related Ratios

Valuation Date: June 30, 2017  
Measurement Date: June 30, 2017

### Methods and Assumptions Used to Determine Total OPEB Liability:

Actuarial Cost Method	Entry Age Normal.
Inflation	2.25%
Discount Rate	3.56%
Salary Increases	Salary increase rates used in the July 1, 2017 actuarial valuation of the Tennessee Consolidated Retirement System (TCRS); 3.44% - 8.72%, including inflation.
Retirement Age	Retirement rates used in the July 1, 2017 actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). They are based on the results of a statewide experience study (undertaken on behalf of TCRS).
Mortality	Mortality tables used in the July 1, 2017 actuarial valuation of the Tennessee Consolidated Retirement System (TCRS). They are based on the results of a statewide experience study (undertaken on behalf of TCRS).
Healthcare Cost Trend Rates	Based on the Getzen Model, with trend starting at 7.50% for 2018 calendar year, and gradually decreasing 33-year period to an ultimate trend rate of 3.53% with 0.18% added to approximate the effect of the excise tax.
Aging factors	Based on the 2013 SOA Study "Health Care Costs - From Birth to Death".
Expenses	Administrative expenses are included in the per capita health costs.

### Other Information:

Notes See the Actuarial Valuation Report as of July 1, 2017 (dated July 16, 2018).

Changes in assumptions and other inputs include the change in the discount rate from 2.92% as of the beginning of the measurement period to 3.56% as of June 30, 2017. This change is reflected in the Schedule of Changes in Total OPEB Liability.

There were no benefit changes during the measurement period.

**Statement of OPEB Expense**  
**Employer Fiscal Year Ended June 30, 2018**  
**(Based on Measurement Year Ended June 30, 2017)**

**OPEB Expense**

1. Service Cost	\$ 9,429
2. Interest on the Total OPEB Liability	1,450
3. Current-Period Benefit Changes	0
4. OPEB Plan Administrative Expense	0
5. Recognition of Outflow/(Inflow) of Resources due to Liabilities	<u>(288)</u>
<b>6. Total OPEB Expense</b>	<b>\$ 10,591</b>

**Recognition of Deferred Outflows and Inflows of Resources**

Differences between expected and actual experience and changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

At the beginning of the current measurement period, the average of the expected remaining service lives for purposes of recognizing the applicable combined deferred outflows and inflows of resources established in the current measurement period is 9.5 years.

**Statement of Remaining Deferred Outflows and  
Inflows of Resources  
Employer Fiscal Year Ended June 30, 2018  
(Based on Measurement Year Ended June 30, 2017)**

**A. Outflows and Inflows of Resources by Source to be Recognized in Current OPEB Expense**

	<b>Outflows of Resources</b>	<b>Inflows of Resources</b>	<b>Net Outflows of Resources</b>
1. Differences between expected and actual experience	\$ 0	\$ 0	\$ 0
2. Changes in assumptions and other inputs	0	288	(288)
<b>3. Total</b>	<b>\$ 0</b>	<b>\$ 288</b>	<b>\$ (288)</b>

**B. Average of the Expected Remaining Service Lives**

9.5

**C. Deferred Outflows and Deferred Inflows of Resources by Source to be Recognized in Future OPEB Expenses**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Net Deferred Outflows of Resources</b>
1. Differences between expected and actual experience	\$ 0	\$ 0	\$ 0
2. Changes in assumptions and other inputs	0	2,447	(2,447)
<b>3. Total</b>	<b>\$ 0</b>	<b>\$ 2,447</b>	<b>\$ (2,447)</b>

**D. Deferred Outflows and Deferred Inflows of Resources by Year to be Recognized in Future OPEB Expenses**

<b>Year Ending June 30</b>	<b>Net Deferred Outflows of Resources</b>
2019	\$ (288)
2020	(288)
2021	(288)
2022	(288)
2023	(288)
Thereafter	(1,007)
<b>Total</b>	<b>\$ (2,447)</b>

**E. Estimated Outflow of Resources due to Contributions/Benefits Paid After the Measurement Date**

\$ 469



## Sensitivity of Total OPEB Liability and Other Relevant Information

### Sensitivity of Total OPEB Liability to the Discount Rate Assumption

Regarding the sensitivity of the total OPEB liability to changes in the discount rate, the following presents the plan's total OPEB liability, calculated using a discount rate of 3.56%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

<b>1% Decrease</b>	<b>Current Discount Rate Assumption</b>	<b>1% Increase</b>
<b>2.56%</b>	<b>3.56%</b>	<b>4.56%</b>
\$ 52,608	\$ 48,388	\$ 44,463

### Sensitivity of Total OPEB Liability to the Discount Rate Assumption

Regarding the sensitivity of the total OPEB liability to changes in the healthcare cost trend rates, the following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

<b>1% Decrease</b>	<b>Current Healthcare Cost Trend Rate Assumption</b>	<b>1% Increase</b>
<b>(6.00% to 3.77%)</b>	<b>(7.00% to 4.77%)</b>	<b>(8.00% to 5.77%)</b>
\$ 42,019	\$ 48,388	\$ 56,065

### Discount Rate

For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of this actuarial roll-forward, the municipal bond rate is 3.56% (based on the daily rate of Fidelity's "20-Year Municipal GO AA Index" closest to but not later than the measurement date). The discount rate was 2.92% as of the beginning of the measurement year.

### Plan Assets

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

### Summary of Outstanding Outflows/(Inflows)

<u>Date Established</u>	<u>Source</u>	<u>Recognition Period (years)</u>	<u>Original Amount</u>	<u>Years Remaining</u>	<u>Amount Unrecognized Beg. of Period</u>	<u>Amount Recognized in Current Expense</u>	<u>Amount Deferred to Future Periods</u>
<b><u>Deferred Outflows of Resources</u></b>							
-	None	9.5	\$ -	N/A	-	\$ -	-
		SUBTOTAL:	-		-	-	-
<b><u>Deferred Inflows of Resources</u></b>							
6/30/2018	Assumption Changes	9.5	2,735	9.5	2,735	288	2,447
		SUBTOTAL:	2,735		2,735	288	2,447
<b>GRAND TOTAL:</b>			<b>\$ 2,735</b>		<b>\$ 2,735</b>	<b>\$ 288</b>	<b>\$ 2,447</b>