

**Presentation  
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# **Facing the Challenge of Retiree Health Care – Oakland County**

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# Profile of Oakland County



- 910 square miles
- Population of 1.2 million
- \$35 billion payroll – 720,201 employees
- AAA bond rating by Moodys / S&P
- 4<sup>th</sup> wealthiest county - USA
- International commerce leader in MI
- 15 higher learning institutions
- 32 downtown areas
- 89,000 acres of recreation area
- 1,400 lakes and 72 golf courses
- Detroit Pistons
- Woodward Dream Cruise

Oakland County

# Government Structure

- Executive form of county government (approved by the electorate in 1974) - less than 60 exist across the nation
- Current County Executive is second to serve in this position:
  - First elected in 1992
  - Currently serving fourth 4-year term
- Five other county-wide elected officials; Circuit Court / District Court operations as well.

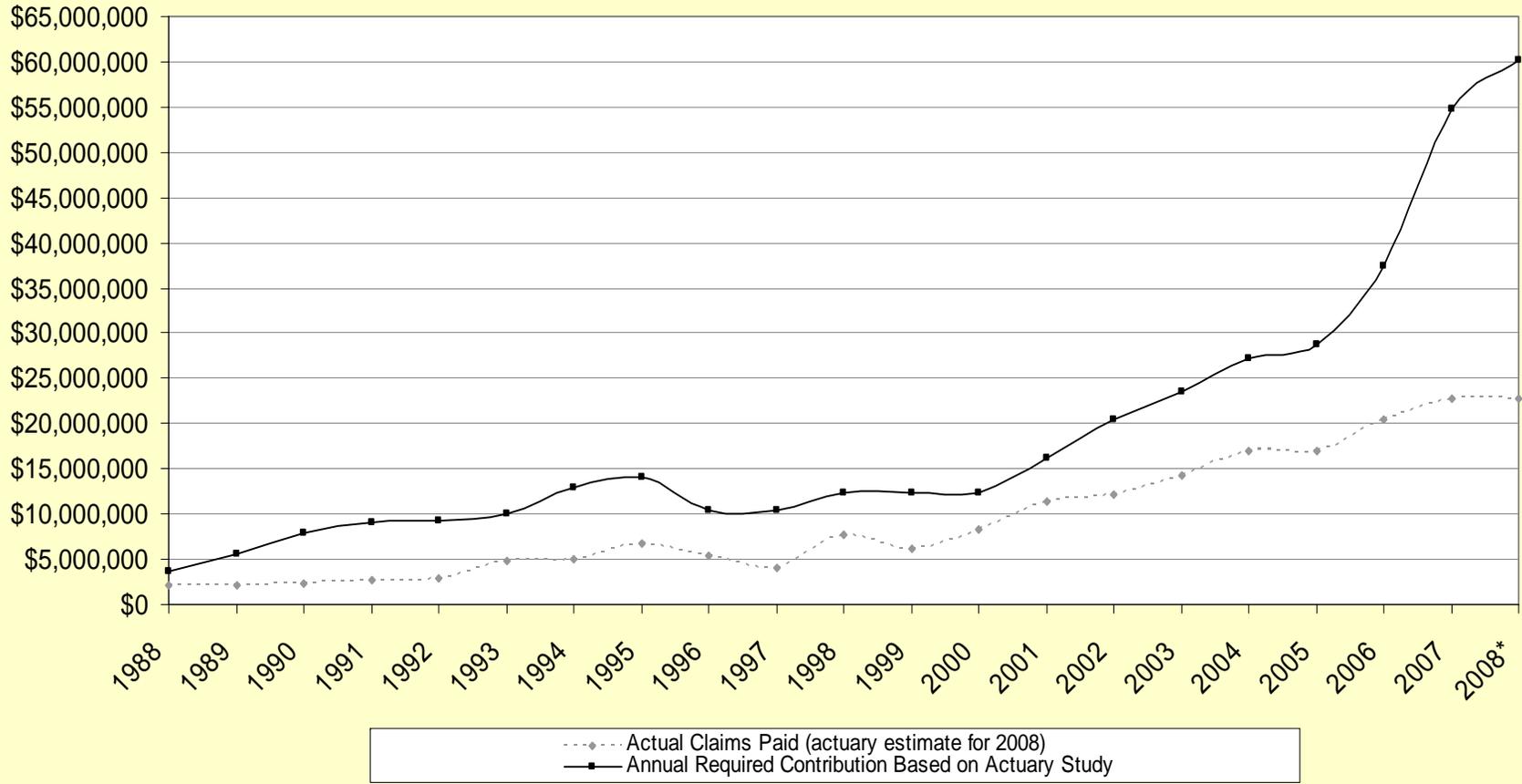
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# Funding OPEB

- Oakland County began funding the OPEB annual required contribution (ARC) in 1987:
  - Oakland has funded the ARC each and every year thereafter.
  - Oakland is well ahead of standard practice not only in the government sector but the private sector as well.
- Oakland County's OPEB liability is now fully funded

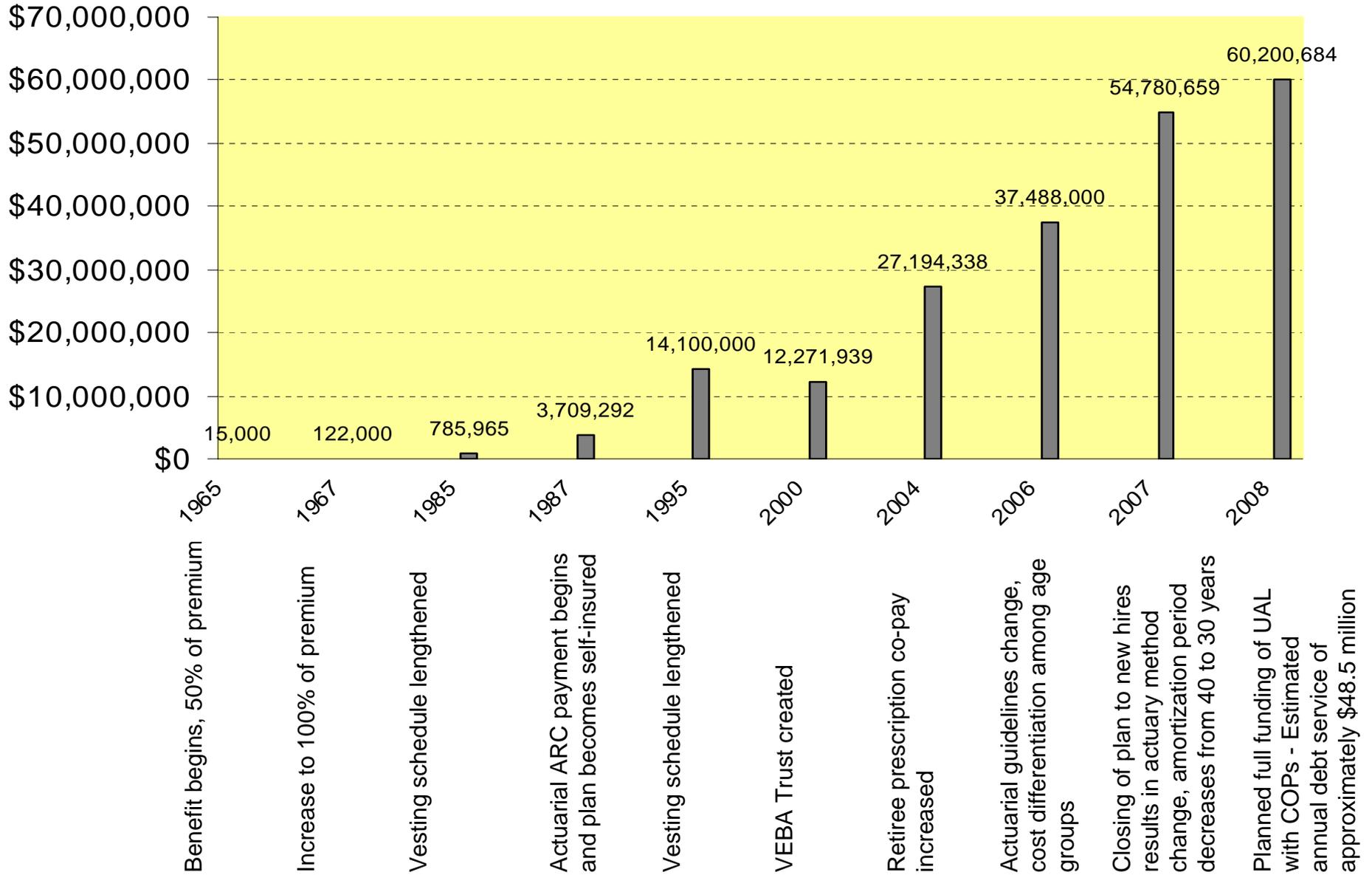
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# Oakland County, MI Retiree Health Care Funding History



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**OAKLAND COUNTY, MICHIGAN  
TIME LINE OF RETIREE HEALTH CARE MAJOR CHANGES AND  
ANNUAL COST OF ARC CORRESPONDING WITH EACH POINT IN TIME**



# OPEB Cost Control Strategies

Over time, Oakland County has made various OPEB changes to control costs - impacting current retirees/employees:

- Buy out offered to deferred retirees.
- Increased co-pays/deductibles for health services.
- Implemented tiered pharmaceutical co-pays.
- Issued competitive bid for pharmaceutical management services.

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# OPEB Cost Control Strategies

- Impacting new, not yet hired employees (“sacrificing the unborn”):
  - Increased vesting period for employee benefit.
  - Increased vesting period for spouse and dependent benefit.
  - Closed traditional defined benefit OPEB plan and replaced with fixed retirement health savings plan.

# Oakland County Funding Status – Retirees' Healthcare Program

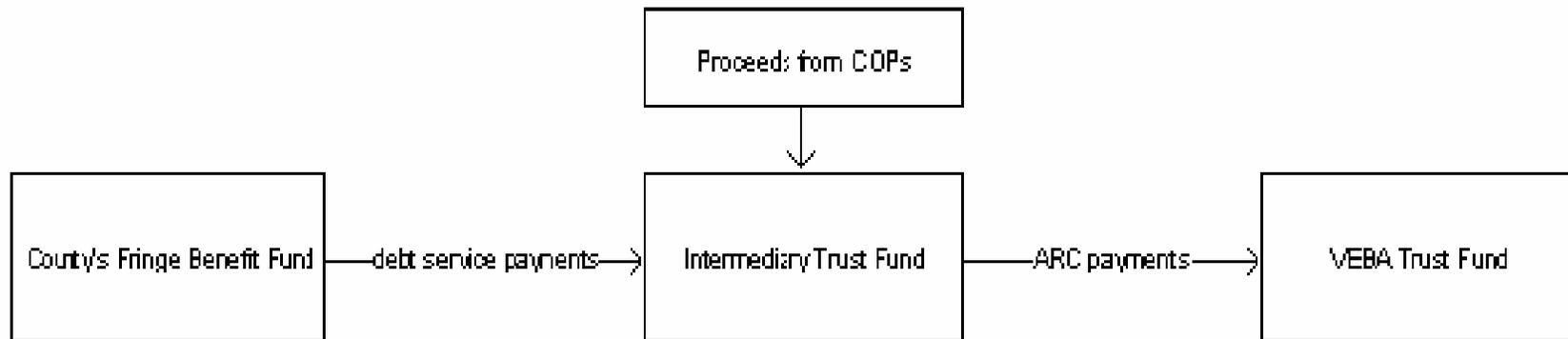
- Amounts from most recent actuarial valuation as of September 30, 2006 – 36.5% pre-funded:
  - Total accrued liability: \$ 829.7 million
  - Valuation of assets: \$(303.1 million)
  - **Unfunded accrued liability: \$526.6 million**
- Annual required contribution for 2008: \$60.2 million in each of the next 30 years.

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# OPEB Debt Issuance

- Oakland County issued \$557 million in trust certificates of participation (COPs) in July 2007 to fund the remaining OPEB liability.
- The annual debt service over a **20-year period** is approximately \$48.5 million.
- The debt service amount is considerably less than the ARC of \$60.2 million over a **30-year amortization period**.
- Estimated to save the county approximately \$150 million in net present value over the 30-year period.

# Trust Certificates of Participation - (COP)



## Assumptions

- Principal amount of COP \$552 million (net of issuance costs).
- Anticipated interest rate on debt: 5.5% to 5.75%. Actual interest rate was 6.23%.
- Average rate of return on earnings in trust: 7.5%.
- Annual debt service approximately \$48.5 million.
- Annual ARC payment: \$60.2 million.

# OPEB Debt Strategies

- May not be a good solution for some entities.
- Considerations:
  - Significant prior progress in pre-funding.
  - A source of funds to pay the debt service.
  - A favorable bond rating.
  - Actions have been taken to limit future growth of benefit costs.
  - Market conditions are favorable (i.e., debt rate is significantly less than expected return on long-term investments in retiree health care trust fund).

# Resource Information

- Oakland County Insight Article, "Financing Health Care for Retirees," July 2006

[http://www.oakgov.com/exec/assets/docs/insight/retiree\\_health\\_07\\_2006.pdf](http://www.oakgov.com/exec/assets/docs/insight/retiree_health_07_2006.pdf)

- Answers to FAQ's regarding Oakland County's planned use of debt:

[http://www.oakgov.com/exec/insight/retiree\\_072406.html](http://www.oakgov.com/exec/insight/retiree_072406.html)

- Suggested reading: "The Implementation of GASB 45, Case Studies of 15 Counties," Dr. Paula Stanford, National Center for the Study of Counties, Carl Vinson Institute of Government, University of Georgia, December 2007, Prepared in cooperation with the National Association of Counties

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