



**Department of Human Resource Management**

**Commonwealth of Virginia State Health Plans Program  
For Pre-Medicare Retirees**

**GASB No. 75 Schedules**

**For the Fiscal Year Ending June 30, 2017  
with select information for fiscal years 2016 and 2018**

**Measurement Date June 30, 2017**

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# Commonwealth of Virginia

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September 13, 2018

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## INDEPENDENT AUDITOR'S REPORT

### Report on the Schedules

We have audited the accompanying schedule of employer allocations of the **Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees**, as of and for the years ended June 30, 2017 and June 30, 2016, and the related notes. We have also audited the total for all state employers of the columns titled OPEB liability as of and for the years ended June 30, 2017, and June 30, 2016, and total OPEB expense as of and for the year ended June 30, 2017, included in the accompanying schedule of OPEB liability and OPEB expense of the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees, and the related notes. In addition, we have audited the total for all state employers of the columns titled total deferred outflows of resources and total deferred inflows of resources included in the accompanying schedule of deferred outflows and deferred inflows of resources of the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees, as of and for the years ended June 30, 2017, and the related notes. We have also audited the accompanying schedule of benefit payments of the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees as of and for the years ended June 30, 2017, and June 30, 2018.

### *Management's Responsibility for the Schedules*

The Department of Human Resource Management's management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the schedule of employer allocations, the schedule of benefit payments, and the columns titled OPEB liability, total OPEB expense, total deferred outflows of resources, and total deferred inflows of resources (specified column totals) included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations, the schedule of benefit payments, and specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations, the schedule of benefit payment, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Department of Human Resource Management, as well as evaluating the overall presentation of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

### *Opinions*

In our opinion, the schedules referred to above for the Department of Human Resources Management State Health Plans Program for Pre-Medicare Retirees present fairly, in all material respects, the employer allocations and the OPEB liability for the total of all participating state employers as of and for the years ended June 30, 2017, and June 30, 2016; total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense as of and for the year ended June 30, 2017, for the total of all participating employers; and benefit payments as of and for the years ended June 30,

2017, and June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

*Restriction of Use*

Our report is intended solely for the information and use of management of the Department of Human Resource Management, the Commonwealth Joint Legislative Audit and Review Commission, and the Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees employers and their auditors, and is not intended to be and should not be used by anyone other than these specified parties.

  
AUDITOR OF PUBLIC ACCOUNTS

JMR/clj

**Department of Human Resource Management  
State Health Plans Program for Pre-Medicare Retirees  
Schedule of Employer Allocations  
For Fiscal Years Ended June 30, 2017 and 2016**

Employer Code	Employer Name	June 30, 2016		June 30, 2017	
		Employer Contributions	Employer Allocation Percentage	Employer Contributions	Employer Allocation Percentage
20600	VCU Health Systems Authority	\$ 5,005,992	0.52369%	\$ 4,942,404	0.47453%
36000	Fort Monroe Authority	212,784	0.02226%	231,532	0.02223%
40700	Virginia Port Authority	51,566	0.00539%	40,799	0.00392%
	All Other State Agencies	950,633,278	99.44866%	1,036,319,651	99.49932%
	Total for All State Employers	<u>\$ 955,903,620</u>	<u>100.00000%</u>	<u>\$ 1,041,534,386</u>	<u>100.00000%</u>

The accompanying notes are an integral part of the Schedule of Employer Allocations.

**Department of Human Resource Management  
State Health Plans Program for Pre-Medicare Retirees  
Schedule of OPEB Liability and OPEB Expense  
For the Fiscal Years Ended June 30, 2017 and 2016**

Employer Code	Employer Name	OPEB Liability June 30, 2016	OPEB Liability June 30, 2017	Total OPEB Expense FY 2017
20600	VCU Health Systems Authority	\$ 8,201,657	\$ 6,163,705	\$ 372,061
36000	Fort Monroe Authority	348,619	288,745	22,966
40700	Virginia Port Authority	84,484	50,880	461
	All Other State Agencies	1,557,487,287	1,292,401,134	103,243,693
	Total for All State Employers	<u>\$ 1,566,122,047</u>	<u>\$ 1,298,904,464</u>	<u>\$ 103,639,181</u>

The accompanying notes are an integral part of the Schedule OPEB Liability and OPEB Expense.

**Department of Human Resource Management  
State Health Plans Program for Pre-Medicare Retirees  
Schedule Of Deferred Outflows and Deferred Inflows of Resources  
For the Fiscal Year Ended June 30, 2017**

		Deferred Outflows of Resources				Deferred Inflows of Resources			
Employer Code	Employer	Difference Between Expected and Actual	Change of Assumptions	Changes In Proportionate Share	Total Deferred Outflows of Resources	Difference Between Expected and actual	Change of Assumptions	Changes In Proportionate Share	Total Deferred Inflows of Resources
20600	VCU Health Systems Authority	\$ -	\$ -	\$ -	\$ -	\$ 247,913	\$ 1,306,711	\$ 650,183	\$ 2,204,807
36000	Fort Monroe Authority	-	-	-	-	\$ 11,614	\$ 61,214	\$ 399	\$ 73,227
40700	Virginia Port Authority	-	-	-	-	\$ 2,046	\$ 10,787	\$ 19,538	\$ 32,371
	All Other State Agencies	-	-	20,812,370	20,812,370	\$ 51,982,235	\$ 273,990,244	\$ 20,142,250	\$ 346,114,729
	<b>Total for All State Employers</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,812,370</b>	<b>\$ 20,812,370</b>	<b>\$ 52,243,808</b>	<b>\$ 275,368,956</b>	<b>\$ 20,812,370</b>	<b>\$ 348,425,134</b>

The accompanying notes are an integral part of the Schedule of Deferred Outflows and Deferred Inflows of Resources.

**Department of Human Resource Management  
State Health Plans Program for Pre-Medicare Retirees  
Schedule of Benefit Payments  
For Fiscal Years Ended June 30, 2017 and 2018**

Employer Code	Employer Name	Benefit Payments FY 2017	Benefit Payments FY 2018
20600	VCU Health Systems Authority	\$ 205,206	\$ 163,455
36000	Fort Monroe Authority	9,613	7,657
40700	Virginia Port Authority	1,694	1,349
	All Other State Agencies	43,027,487	34,273,102
	<b>Total for All State Employers</b>	<b>\$ 43,244,000</b>	<b>34,445,563</b>

The accompanying notes are an integral part of the Schedule of Benefit Payments.

**Department of Human Resource Management**  
**State Health Plans Program for Pre-Medicare Retirees**  
**Notes to GASB No. 75 Schedules**  
**For the fiscal Year Ended June 30, 2017**

**Note 1: General Information about Pre-Medicare Retiree Healthcare**

The Department of Human Resource Management (Human Resource Management) is an agency of the Commonwealth of Virginia. Human Resource Management is the administrator of the Commonwealth's employee health insurance program. The Commonwealth provides a healthcare plan established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare. For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the Virginia Retirement System or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

- be receiving (not deferring) the annuity or periodic benefit immediately upon retirement;
- have his or her last employer before retirement be the state;
- be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage); and,
- have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan and is administered by Human Resource Management. There were approximately 5,600 retirees and 91,000 active employees in the program in fiscal year 2017. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

**Note 2: Actuarial Assumptions and Methods**

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2017. Human Resource Management selected the economic, demographic and health care claim cost assumptions and prescribed them for use for purposes of compliance with GASB 75. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 8.62 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 5.0 percent for medical and pharmacy and 4.0 percent for dental.



Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.43 years
Discount Rate	3.58%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 8.62% to 5.00% Dental: 4.00% Before reflecting Excise tax
Year of Ultimate Trend	2025
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date of June 30, 2017.

Changes of Assumptions: The following assumptions were updated since the June 30, 2016 valuation based on the results of a Virginia Retirement System actuarial experience study performed for the period July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Mortality rates updated to a more current mortality table – RP-2014 projected to 2020
- Retirement rates – lowered rates at older ages and changed final retirement from 70 to 75
- Withdrawal rates – adjusted rates to better fit experience at each year age and service through 9 years of service

The discount rate was increased from 2.85% to 3.58% based on the Bond Buyers GO 20 Municipal Bond Index. Spousal coverage was reduced from 70% to 50% based on a blend of recent spousal coverage election rates and the prior year assumption. Based on the 2017 census, new retirees since 1/1/2015 have chosen to cover their spouses approximately 20% of the time. However, active employees cover their spouses at a rate close to 53%.

**Note 3: Pre-Medicare Retiree Healthcare OPEB Liability**

The Commonwealth's Pre-Medicare Retiree Healthcare total OPEB liability of \$1.3 billion was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2017.

**Changes in the Total OPEB Liability**

	<b>Total OPEB Liability</b>
<b>Balance at 6/30/16</b>	\$ 1,566.1
<b>Changes for the year:</b>	
Service cost	116.6
Interest	47.4
Changes of benefit terms	0.0
Difference between Expected and Actual Experience	(61.9)
Changes of Assumptions	(326.1)
Benefit Payments	(43.2)
<b>Net Changes</b>	<u>(267.2)</u>
<b>Balance at 6/30/17</b>	<u>\$ 1,298.9</u>

***Sensitivity Analysis***

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Commonwealth, as well as what the Commonwealth's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current discount rate:

	<b>1% Decrease (2.58%)</b>	<b>Current Rate (3.58%)</b>	<b>1% Increase (4.58%)</b>
Total OPEB liability	\$ 1,391.4	\$ 1,298.9	\$ 1,210.3

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following presents the total OPEB liability of the Commonwealth, as well as what the Commonwealth's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.62 percent decreasing to 4.0 percent) or 1-percentage-point higher (9.62 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	<b>1% Decrease (7.62% decreasing to 4.00%)</b>	<b>Trend Rate (8.62% decreasing to 5.00%)</b>	<b>1% Increase (9.62% decreasing to 6.00%)</b>
OPEB Liability	\$ 1,155.7	\$ 1,298.9	\$ 1,466.8

**Note 4: Deferred Outflows/Inflows of Resources**

For the year ended June 30, 2017, the Commonwealth recognized OPEB expense of \$103.6 million. At June 30, 2017, the Commonwealth reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (\$ millions):

	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
Difference between actual and expected experience	\$ 0.0	\$ 52.2
Changes of Assumptions	\$ 0.0	\$ 275.4
Changes in proportion	<u>\$ 20.8</u>	<u>\$ 20.8</u>
Sub Total	\$ 20.8	\$ 348.4
Amounts associated with transactions subsequent to the measurement date	<u>\$ 34.4</u>	<u>\$ N/A</u>
Total	<u>\$ 55.2</u>	<u>\$ 348.4</u>

\$34.4 million reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transaction subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows (\$ millions):

**Year End June 30:**

2019	\$ (60.3)
2020	\$ (60.3)
2021	\$ (60.3)
2022	\$ (60.3)
2023	\$ (60.3)
Thereafter	\$ (25.9)

**Note 5: Employer Contributions**

To establish each employer's portion of the OPEB liability, Human Resource Management uses each employer's premium contribution as a percentage of the total contributions collected for each year. The total employer contributions for fiscal year 2017 were \$1,041,534,386. Once each percentage is calculated, the percentage for each employer is multiplied by the total OPEB liability in order to determine each employer's portion of the OPEB liability.

**Note 6: Contact Information for DHRM**

Please contact The Department of Human Resource Management for questions and concerns:

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