



**DATE:** June 8, 2017

**TO:** Programs and Administration Committee

**FROM:** Pat Cabrera, Administrative Services Director

**BY:** Todd High, Financial Services Manager

**SUBJECT:** Fiscal Year 2016-17 Funding Approval for Retiree Medical Benefits

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## **SUMMARY**

At the June 8, 2017 Programs and Administration (P&A) Committee meeting, staff will recommend that the Committee makes a recommendation to the Authority Board to authorize the Executive Director to contribute an additional \$250,000 to the Agency's California Employers' Retiree Benefit Trust Fund (CERBT) for Other Post-Employment Benefits (OPEB) liabilities.

## **DISCUSSION**

Since 2008, the Agency has been a participant in CalPERS CERBT. This prefunding trust fund exists to cover employee OPEB liabilities which in the Agency's case pertains to medical benefits. A change in Governmental Accounting Standards Board (GASB) standards as discussed below is expected to result in a small net liability for the OPEB recorded on the Agency's balance sheet. Like the pension fund, the CERBT manages both the assets and liabilities of the fund to determine (through actuarial analyses) how solvent the trust is in order to meet the needs of the organization. However, in terms of differences, the pension fund is managed by CalPERS which sets mandatory employer rates (under a 30 year amortization period) to ensure adequate funding to support retirement payments. The CERBT, which is also managed by CalPERS, is a voluntary program, i.e., the Agency is not required to establish a trust fund; however, with this new GASB rule it must report its long term liability. The Agency has taken prior steps to fully fund the OPEB, and while it is still significantly funded, changes in actuarial assumptions have shown it slip slightly below 100%.

Governmental Accounting Standards Board (GASB) Statement 75 will be effective for the Agency's fiscal year beginning July 1, 2017. GASB 75 essentially makes the accounting for OPEB liabilities consistent with that of GASB 68 for Pension Plans. The impact of this new pronouncement is expected to result in a net liability for the OPEB recorded on the Agency's balance sheet. The annual expenses will be based on changes in the net liability each year and may be more varied from year to year due to shorter amortization periods. It is expected that for many municipalities the impact

of the OPEB liability will be substantial but since we made a significant payment to the trust in 2012, the impact on us is much smaller.

As of April 30, 2017, the market value of the Agency's assets in the CERBT was \$4,243,760. The cumulative contributions from the Agency were \$3,853,036, investment earnings have been \$1,440,007 and the disbursements for retiree premiums and administrative expenses have been -\$1,049,283. The average annualized internal rate of return through February 28, 2017 was 7.27%.

As of the May 2016 actuarial report for the Agency's OPEB, the funding status was 94.6%. This reflects very well on the Agency compared to the average 28.1% funded status of California City & County CERBT participants based on CalPERS data. The benefits of a well-funded OPEB are expected to provide more stable financial outcomes (i.e. less variability of annual expenses or significant unfavorable changes in financial position.)

The Agency has already contributed the annual actuarial calculated funding for FY 2016-17 of \$142,105 and is requesting the approval to contribute an additional \$250,000 to fund the CERBT. As the Agency's workforce ages and becomes eligible to receive medical benefits in retirement, the OPEB distributions will increase. For the twelve months ended June 30, 2016, the retiree premiums were \$130,383; these premiums are projected to increase to approximately \$204,500 in 2020 and \$308,000 in 2025.

By contributing in advance of these expected distributions, the Agency will likely benefit from higher investment earnings to mitigate the future costs. Furthermore, based on current labor cost projections, the Agency is projecting to have labor cost savings from vacancy savings and labor rate differentials which are more than adequate to offset the increased OPEB contribution this fiscal year. Therefore, there is no increase in the FY 2016-17 overall budget or need to draw down on the Agency's fund balance to make this additional payment.

## **RECOMMENDATION**

Staff recommends that the P&A Committee recommend that the Authority Board authorize the Executive Director to contribute an additional \$250,000 to the Agency's CERBT account to fund the OPEB liabilities.