MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

TO:	Honorable Board of Supervisors
FROM:	Thomas M. Miller, County Executive Officer Submitted by: Therese Leonard, Principal Management Analyst
DATE:	March 22, 2011
Subject:	Other Post Employee Benefits (OPEB) Report as of June 30, 2011

REQUEST

It is requested that the Board of Supervisors receive a report regarding Other Post Employment Benefits as of June 30, 2011.

BACKGROUND

The principal reason employers promise retirement benefits to employees is to attract and retain qualified personnel. Fulfillment of these retiree benefit obligations has become a major concern in government and private sectors as retirees are living longer and the retirement age is declining.

The retiree benefit financial reporting standard, Government Accounting Standards Board (GASB) Statement 45, more fully reveals the costs of employment by requiring governments to include Other Post Employment Benefit (OPEB) costs in their financial statements. GASB 45 relates to payments and services provided for retirees other than pensions, primarily for health insurance. Prior to FY 2007-08, governments' OPEB costs were accounted for and financed on a pay-as-you-go basis. Starting with FY 2007-08 the County began to report for OPEB in the Comprehensive Annual Financial Report (CAFR) as the obligation, under these new rules, is now treated on an accrual basis similar to pensions.

The 2011 actuarial report placed Placer County's unfunded liability at $192 million dollars[1], down $20 million from the $212 million included in the 2009 report. The Board accomplished this significant liability decline by shifting funds previously set aside for OPEB to the CalPERS Trust and through implementation of an 80/20% health insurance cost sharing formula. This decreased was achieved despite other actuarial elements moving in the opposite direction. In staff's meeting with the independent preparer of the OPEB report; Mr. John Bartel, he specifically commented that the Board of Supervisors should be recognized for taking prudent and sound fiscal responsibility/actions to manage the OPEB liabilities.

The unfunded liability was "point-in-time", meaning that it was based upon a number of assumptions regarding the County's workforce as of a specific date (June 30, 2011). Given this fact, the report does not include costs related to future employees or possible significant increases to health insurance rates. Such factors could adversely impact future actuarial liability. All of the aforementioned factors would cause the County's 2011 unfunded liability to grow.

[1] Assumes a 30 year amortization period and 7.75% rate of return.

With a clear understanding of the County's OPEB liability exposure, on November 7, 2006 (updated September 2010) the Board of Supervisors adopted the *Placer County Other Post Employment Benefit Policy* Resolution No. 2006-324. Over the next few years this policy guided the establishment of an irrevocable trust and OPEB funding decisions. The Board took aggressive measures to advance fund this obligation and placed $25 million in an interest bearing trust account over three fiscal cycles by prior fund balance carryover. In addition, in 2006 payroll charges created the basis for future funding and the County's labor team engaged labor groups with regard to health premium cost sharing. As a result of labor negotiations, a cost shift in the County's health premium payments began in January 1, 2008 when the majority of the County's workforce began to cost share their health insurance benefits on a 90/10% ratio, and continued in January 2010 when the Deputy Sheriffs Association members began to pay 20% of their health premium costs. Additionally, the County management, confidential and Placer Public Employee Organization (PPEO) employees moved to an 80/20% health premium cost sharing formula January 2011. These new health cost sharing arrangements marked a significant change from past practice, and are critical to limiting the County's OPEB liability exposure.

There are advantages with pre-funding OPEB:

1. Build an asset base to offset the liabilities and provide for payment of future benefits.
2. Contributions over time should be more stable than the pay-as-you-go method.
3. Growth in real assets provides greater benefit security since progress of funding by tangible investments can be measured and monitored over time.
4. As the asset base builds, and the funding ratio increases, and a larger share of the revenues into the plan would come from investment income.
5. Provides the ability to use a higher discount rate to value liabilities, and the plan asset's portfolio would be designed to generate a higher long-term rate of return.

Continued good management of the County's OPEB liability will be critical to the County's maintaining a stable credit profile as these unfunded actuarial retiree healthcare obligations are viewed as debt-like in nature. Credit quality could suffer if changes resulting from OPEB adversely affect the County's financial position or flexibility. Steady contributions mark progress toward funding the current unfunded liability and support sound financial management practices and quality credit ratings.

CALIFORNIA EMPLOYER'S RETIREE BENEFIT TRUST FUND

CalPERS established the California Employer's Retiree Benefit Trust Fund (CERBT) to administer OPEB obligations and on December 11, 2007 the County's Board adopted and executed an agreement to participate in this Trust. By joining the Trust, Placer County will be able to finance future OPEB costs in large part from future investment earnings produced by CalPERS. Other benefits of prefunding include:

1. Enable the employer to make actuarially determined periodic payments to partially or completely fund its future obligations.
2. Earnings on assets reduce future employer contributions.
3. Higher investments return assumptions reduce annual expenses and unfunded liability.
4. Prevents the net obligation from becoming a significant liability on the balance sheet.
5. Can contribute to a more favorable credit rating.
6. Enhances financial security for retirees.

CalPERS has over 79 years of experience in administering employer plans and, until recently, benefited from a history of exceptional risk adjusted investment performance. Fees charged by the agency to administer the plan are low, and the agency offers quality customer service.

FISCAL IMPACT

In keeping with GASB 45 rules, the California Employer's Retiree Benefit Trust Fund requires an updated OPEB Actuarial Report be completed every two years. The County's financial stability is strengthen by its participation in the CERBT which, coupled with the Board adopted OPEB Policy, provides the direction necessary to guide the County Executive Office in managing the County's financial affairs as well as providing for other post employment benefits as part of the annual budget process.