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:	September 7, 2010
SUBJECT:	**Other Post Employment Benefit (OPEB) Policy Revision**

REQUEST

It is requested that the Board of Supervisors adopt the attached Resolution revising the Placer County Other Post Employment Benefit Policy (Exhibit 1).

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 both the government and private sectors as retirees are living longer and the actual retirement age is decreasing.

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 care. 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 is now treated on an accrual basis similar to pensions.

The 2009 actuarial report placed Placer County's unfunded liability at $212 million dollars[1]. 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, 2009). Given this fact, the report does not include costs related to future employees; it does not consider a lower retirement age for our current employee base; and significant changes to health insurance rates, in excess of those estimated in the report, would also adversely impact future actuarial liability. All of the aforementioned factors would cause the County's 2009 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 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 $20 million in an interest bearing trust account over two fiscal cycles with 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 and confidential employees are scheduled to move to an 80/20% health premium cost sharing formula beginning 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.

Good management of the County's OPEB liability will be critical to the County's maintaining a stable credit profile. Standard & Poor's views unfunded actuarial retiree healthcare obligations as debt-like in nature since the OPEB obligation affects debt as well as management and financial factors. 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 support sound financial management and quality credit ratings.

In keeping with prior policy direction, staff has proposed an updated *Other Post Employment Benefit Policy* for the Board's consideration (Exhibit 1).

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 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 78 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. Under the original OPEB Policy, staff transferred all plan assets to the CalPERS irrevocable trust in order to maximize the investments long-term rate of return.

OPEB POLICY AMENDMENT

The Placer County Other Post Employment Benefit Policy adopted in 2006 established a basis to address this outstanding obligation. The following revisions are recommended to clarify the policies intent and enhance current county practices:

1. IRREVOCABLE TRUST: All OPEB plan assets are to be deposited with the Placer County's California Employers Retiree Benefits Trust (CERBT) to maximize the long-term rate of return on the investment.
2. BUDGET: Collect the net annual required contribution and any additional funding through payroll.
3. NEW POSITIONS: With every new employee hired "outside" of current Placer County service, advance fund at least 50% of the current estimated liability amount limit growth to the County's unfunded liability.
4. ADVANCE FUND OPEB LIABILITY: Direct additional funding to the CERBT through official Board actions during the year-end close process, the budget process, or when additional, unexpected or one-time funding materializes during the fiscal year.
5. LEGISLATION: Continue to monitor and / or introduce legislation that would maximize the County's flexibility to manage / administer benefits and minimize the growth of future liabilities.

FISCAL IMPACT

Adoption of the Placer County Other Post Employment Benefits Policy will promote financial stability and long-term planning by providing direction to the County Executive Office in managing the County's financial affairs. In addition, the Policy will assist the County in addressing, as well as providing for, post employment benefits as part of the annual budget process. During the August 2010 Budget Workshops, the Board authorized the inclusion of $1 million to assist departments with funding "new position" OPEB charges.

Attachments
Resolution: Placer County Other Post Employment Benefit (OPEB) Policy
Exhibit 1: Placer County Other Post Employment Benefit Policy

Before the Board of Supervisors
County of Placer, State of California

In the matter of: | **Resolution No:** ....

A RESOLUTION ADOPTING the Placer County Other Post Employment Benefit (OPEB) Policy | **Ordinance No:** ....

First Reading: ....

The following RESOLUTION was duly passed by the Board of Supervisors of the County of Placer at a regular meeting held on September 7, 2010, by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

____
Chairman, Board of Supervisors

Attest:
Clerk of said Board

____

BE IT HEREBY RESOLVED by the Board of Supervisors OF THE County of Placer that the revised Placer County Other Post Employment Benefit Policy as set out in the attached Exhibit 1 is hereby adopted, superseding and replacing the policy statement adopted in Resolution No. 2006-324.

EXHIBIT 1: PLACER COUNTY
OTHER POST EMPLOYMENT BENEFIT POLICY
(Revised 9/7/10)

PURPOSE: To promote fiscal responsibility and long-term planning efforts by adhering to an Other Post Employment Benefit (OPEB) Policy that will assist the County in addressing, as well as providing for, post employment benefits.

POLICY

1. IRREVOCABLE TRUST FUND: Transfer all OPEB plan assets to Placer County's California Employers Retiree Benefits Trust (CERBT), an irrevocable trust, in order to maximize the investment's long-term rate of return.

2. COUNTY BUDGET:

    1. PAYROLL: With each budget cycle, at a minimum, fully fund the net actuarially determined, annual required contribution (ARC) for that year (formula = ARC less retiree health and dental payments).
        1. OPEB funding in excess of the net ARC will be collected through payroll.
        2. Using this figure, calculate the average cost per filled allocation that must be collected that fiscal year through payroll. Collect these funds every payroll cycle and transfer them to the CERBT at least monthly.
        3. In keeping with GASB 45 requirements, prepare the County's OPEB Actuarial Report in order to update the ARC and unfunded liability amounts.
        4. Reconcile the payroll amount collected at mid-year with the minimum ARC amount required and, if necessary, adjust the amount being collected through payroll.

    2. NEW POSITIONS: With every new employee hired from "outside" of current Placer County service, advance fund at least 50% of the current estimated liability amount. The balance needed to fully fund the obligation will be funded through payroll contributions collected over that employee's employment.
        1. This action will advance fund a portion of the "new" employee's OPEB liability.
        2. This advanced funding shall be transferred to the CERBT in the year the employee is hired.
        3. Funds collected in excess of the "new" employee's OPEB liability over the course of employment will be applied toward the County's unfunded liability.
        4. Allocation of "advance funding" will be considered with the annual budget.

3. ADVANCE FUND OPEB LIABILITY: Direct additional funding to the CERBT through official Board actions during the year-end close process, the budget process, or when additional, unexpected or one-time funding materializes during the fiscal year.

4. LEGISLATION: Continue to monitor and / or introduce legislation that would maximize the County's flexibility to manage / administer benefits and minimize the growth of future liabilities.