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:	November 7, 2006
SUBJECT:	**Other Post Employment Benefit (OPEB) Policy**

REQUEST

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

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. In addition, a new challenge has appeared in the form of changes in financial reporting requirements for retiree benefit costs.

The new public sector accounting 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. Essentially, the new OPEB reporting will follow the current requirements for pension benefits since both are a form of deferred compensation. OPEB costs have traditionally been accounted for and financed on a pay-as-you-go basis but will now be treated on an accrual basis similar to pensions. In FY 2007-08, GASB 45 will require reporting of the County's net OPEB obligation in its Comprehensive Annual Financial Report (CAFR).

The 2006 actuarial report places Placer County's unfunded liability at $328 million dollars[1]. The large size of this liability can be directly related to the generous benefits that our employees receive upon retirement. The 2006 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 2006). Given this fact, the report does not include employees what will be added to the workforce in the future, nor does it consider personal choices which might lower the retirement

[1] Assumes a 20 year amortization period and 4.5% rate of return.

age of out current employee base. In addition, significant changes to health insurance rates, in excess of those estimated in the report, would also adversely impact future actuarial liability reports. In essence, all of the aforementioned factors would cause the County's 2006 unfunded liability to grow.

With a clear picture of the County's OPEB actuarial liability exposure, Placer County's Board of Supervisors has taken proactive measures to advance fund this obligation:

- $20 million was placed in an interest bearing trust account (over two fiscal cycles).
- Effective July 1, 2006 departments are charged a percent of every dollar of salary paid that is being deposited to the OPEB trust. This charge will continue in future budget cycles, with the OPEB percent increasing every year, until the actuarially determined annual required contribution is fully funded.
- Engaged labor groups with regard to cost sharing of health insurance costs.
- Plan to establish an irrevocable trust for OPEB plan assets[2]

While GASB 45 does not require that the County fund OPEB, continuing to pay only the pay-as-you-go amount would result in a growing unfunded actuarial liability and net OPEB obligation. There are several advantages with advance funding of OPEB:

1. Employers can build an asset base to offset the actuarial accrued liabilities and provide for payment of the benefits as they come due in future years.
2. Contributions to a funded OPEB plan over time should be more stable than the pay-as-you-go method for the County system.
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, 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.

How Placer County manages this OPEB liability will be key to maintaining a stable credit profile. Standard & Poor's views unfunded actuarial retiree healthcare obligations as debt-like in nature. From a credit rating standpoint, the OPEB obligation affects debt, management and financial factors. Credit quality could suffer if changes resulting from OPEB adversely affect the County's financial position or flexibility. Steady contributions that mark progress toward reaching the actuarially determined annual contribution level will be critical to maintaining sound credit quality.

Placer County has identified a variety of ways to address this issue and the Other Post Employment Benefit Policy is attached for Board's consideration (Exhibit 1). As noted previously, advance funding of the obligation was a first step taken by the Board to address the OPEB liability. An equally important step was to ease the pressure of OPEB benefits on the

[2] Current assets have been placed in an interest bearing trust account in the County Treasury. Irrevocable Trust instruments to invest and manage OPEB plan assets do not currently exist. Establishment of this type of trust is under discussion, and expected to be addressed at the State level by CalPERS in the near future.

County by increasing employee contributions to health insurance plans. Given that the County's OPEB promise was made through labor agreements, this action could only be achieved through collective bargaining. As a result of recent negotiations, a cost shift in the County's provided health benefit will occur effective January 1, 2008 when the majority of the County's workforce will begin to cost share their health insurance benefits on a 90/10% ratio. This new health insurance cost sharing agreement marks a significant change from past practice, and was critical to limiting future County OPEB liability exposure.

Under the OPEB Policy, staff will establish and transfer all OPEB plan assets to an irrevocable trust in order to maximize the investments long-term rate of return. The Policy also provides direction for various Trust funding methods: the County transfers an amount equal to the employee health care contributions for health insurance premiums into the Trust at no less than their annual basis; a percent of every dollar of salary paid each payroll cycle is placed in the Trust; for every new position allocation added the department will be required to advance fund the anticipated OPEB cost; and personnel benefit cost reductions will be redirected to the Trust.

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.

Attachments
Resolution: Adopting the Placer County Other Post Employment Benefit (OPEB) Policy
Exhibit 1: Placer County Other Post6 Employment Benefit Policy

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

In the matter of:

A RESOLUTION ADOPTING the Placer County Other Post Employment Benefit (OPEB) Policy

Resolution No: ....

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 November 7, 2006, 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 Placer County Board of Supervisors that the Placer County Other Post Employment Benefit Policy is adopted as shown in the exhibit attached hereto.

2H

EXHIBIT 1: PLACER COUNTY
OTHER POST EMPLOYMENT BENEFIT POLICY

PURPOSE

To promote fiscal prudence and long-term planning by establishing an Other Post Employment Benefit (OPEB) Policy that will assist the County in addressing, as well as providing for, post employment benefits as part of the annual budget process.

POLICY

1. IRREVOCABLE TRUST FUND: When available, establish and transfer all OPEB plan assets to an irrevocable trust in order to maximize the investment's long-term rate of return.

2. HEALTH INSURANCE COST SHARING: Employer will transfer an amount equal to the employee health care contributions for health insurance premiums into the OPEB Irrevocable Trust Fund at no less than their annual basis.

3. COUNTY BUDGET:

   - PAYROLL: Charge a percent of every dollar of salary paid each payroll cycle, and deposit these funds into the OPEB Irrevocable Trust Fund. Increase this percent every year until the actuarially determined, annual required contribution is fully funded.

   - NEW POSITION ALLOCATIONS: Every new position allocation added to the Position Allocation Listing will require the department to advance fund the anticipated OPEB cost, less projected payroll contributions. The intent of this action is to fully fund the OPEB obligation for that position. Said advance funding shall be transferred to the OPEB Irrevocable Trust Fund in the year the position is added.

   - BENEFIT SAVINGS: During each budget cycle, personnel benefit cost reductions will be redirected to the OPEB Irrevocable Trust Fund. Examples of personnel benefits include, but are not excluded to, workers compensation, health insurance, pension, dental and vision, and FICA.

4. LEGISLATION: Monitor legislation for changes in investment options and other actions related to Government Accounting Standards Board Statement 45.