MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

TO:	Honorable Board of Supervisors
FROM:	Holly Heinzen, Interim County Executive Officer
	By: Therese Leonard, Principal Management Analyst
DATE:	March 27, 2012
SUBJECT:	**Other Post Employment Benefits Policy (Discussion)**

ACTION REQUESTED

Receive a report on the County's Other Post Employment Benefit Policy as it relates to "new hires" from the County Executive Office.

BACKGROUND

Postemployment healthcare benefits are the most common form of Other Post Employment Benefits (OPEB) and are a significant financial commitment for many governments. Reporting guidelines provide governing Boards with a foundation from which to make informed policy decisions related to the cost of future benefits promised in exchange for each year an employee works. Counties are required to report the amount that the County has contributed toward its OPEB obligation in the Comprehensive Annual Financial Report (CAFR); costs that relate entirely to transactions (exchanges of employee services for the promised future benefits) that *have already occurred*. In general, the more of its OPEB obligation that a government ***defers***, the higher its unfunded liability will be and the greater the future cash flow demands on the government and its tax payers. *Estimated benefit costs associated with projected future years of service are not reported.*

During the Board presentation on January 10, 2012 staff reported that Placer County's unfunded OPEB liability was $195.8 million dollars at June 30, 2011[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 that date.

This memorandum has been prepared in response to the Board's request for staff to follow up with alternatives for future Board discussion related to current OPEB funding policy direction or, specifically, charges that are assessed for each new employee hired into county service. In keeping with the request, members of the Finance Committee met to discuss the current adopted OPEB Policy and identify alternatives to the "new hire" charge that could be brought back to the Board for discussion. Finance Committee members include Kathy Martinis, County Auditor-Controller; Jenine Windeshausen, Treasurer-Tax Collector; Gerald Carden, Chief Deputy County

[1] Assumes a 30 year amortization period and 7.61% rate of return.

Counsel; Holly Heinzen, Interim County Executive Officer; and staff from the County Executive Office (CEO).

PLACER COUNTY OPEB POLICY

The Placer County Other Post Employment Benefit Policy was first adopted in 2006 and provided the basis by which the County managed and funded the large outstanding liability related to retiree benefits other than pension. In 2010 the Board adopted an update to the Policy that clarified and strengthened the Board's intent, and is used by CEO to guide County's budget practices (Attachment #1). Long term, the policy goal is to one-day finance retiree health insurance premium expenses from the County's Trust future investment earnings; a goal that may take decades to achieve. Key elements of the adopted OPEB policy are:

1. IRREVOCABLE TRUST: Plan assets are deposited with the Placer County's California Employers Retiree Benefits Trust (CERBT) to maximize long-term investment returns.
2. BUDGET: Identify and 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 to 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.

OPEB funding policies are adopted at the local level. OPEB liabilities will be very different from one agency to another primarily because of the huge disparity in the retiree health and other benefits promised. In addition, due to an adverse economic climate, an agency's ability to fund the obligation beyond the pay-as-you-go method also varies as can be seen in Attachment #2.

FINANCE COMMITTEE / "NEW HIRE" OPEB CHARGE

Three different options for the "new hire" charge were discussed by Finance Committee members:

1. Current OPEB Policy
2. 2-Year Phase-in of the New Hire Charge
3. No New Hire Charge; Pay the Annual Required Contribution (ARC)

In order to present a fair impact analysis for each of these options all assumptions remained constant[2].

[2]Flat retiree health costs; all actuarial report assumptions materialize; $0 investment gain/loss; 80 "new" retirees add $51,710 each (net) to the liability per year, and the new hire charge at $37,240 (46 each year with 122 added for Public Safety programs in year three).

Year 1 was the Base Year and data taken from the June 30, 2011 report; the impact analysis begins in Year 2 - FY 2011-12.

Table #1:

	YEAR 2 - FY 2011-12			YEAR 3 - FY 2012-13			YEAR 4 - FY 2013-14		
	Current Policy	2 Yr Phase-in New Hire	Pay ARC Only	Current Policy	2 Yr Phase-in New Hire	Pay ARC Only	Current Policy	2 Yr Phase-in New Hire	Pay ARC Only
OPEB Liability	$ 320,886	$ 320,886	$ 320,886	$ 336,428	$ 336,428	$ 336,428	$ 343,991	$ 343,991	$ 343,991
Less: Assets	(134,567)	(133,711)	(132,854)	(155,571)	(152,498)	(147,711)	(172,759)	(172,153)	(163,686)
Unfunded Liability	$ 186,319	$ 187,175	$ 188,032	$ 180,856	$ 183,930	$ 188,717	$ 171,231	$ 171,838	$ 180,305

*** 000's Omitted (actuarial value)**

As illustrated in Table #1 by providing funding in addition to the ARC, the unfunded liability was reduced by over $9 million (by Year 4). As was the case with both the 2-Year Phase-in and Pay ARC Only, the larger unfunded liability resulted in a larger Trust payment (Table #2 below).

Table #2

	YEAR 2 - FY 2011-12			YEAR 3 - FY 2012-13			YEAR 4 - FY 2013-14		
	Current Policy	2 Yr Phase-in New Hire	Pay ARC Only	Current Policy	2 Yr Phase-in New Hire	Pay ARC Only	Current Policy	2 Yr Phase-in New Hire	Pay ARC Only
Total ARC	$ 26,409	$ 26,463	$ 26,518	$ 27,136	$ 27,331	$ 27,636	$ 26,847	$ 26,885	$ 27,424
Less: *Retiree health*	(11,661)	(11,661)	(11,661)	(11,661)	(11,661)	(11,661)	(11,661)	(11,661)	(11,661)
Cash to CERB	$ 14,748	$ 14,802	$ 14,857	$ 15,475	$ 15,670	$ 15,975	$ 15,186	$ 15,224	$ 15,763

*** 000's Omitted (actuarial value)**

The Year 4 ARC operating cost ranged from $15.1 million (Current Policy) to $15.76 million (Pay ARC Only). The difference between the current policy for new hires and a 2-year phase-in of the up-front OPEB cost had a minimal impact on the Trust payment, and appears to correct by the second year of the phase in.

Of importance, retiree health premium costs ($11.66 million) continue to be paid out of the County's annual operating budget regardless of how much the County contributes to the Trust and the amount is projected at $29.3 million by 2021. Once the Trust is sufficiently funded (estimated at 80-100%), these retiree health payments would no longer be paid from the County's operating budget but, instead, would be paid from Trust investment earnings; a goal of the Board adopted OPEB Policy.

Table #3

	YEAR 2 - FY 2011-12			YEAR 3 - FY 2012-13			YEAR 4 - FY 2013-14		
	Current Policy	2 Yr Phase-in New Hire	Pay ARC Only	Current Policy	2 Yr Phase-in New Hire	Pay ARC Only	Current Policy	2 Yr Phase-in New Hire	Pay ARC Only
New Hire Cost	$1.7 million	$ 856,520	$ -	$6.3 million	$3.98 million	$ -	$1.7 million	$3.98 million	$ -

The new hire expense that would be charged to department's operating budgets is outlined in Table #3. In Year 3 the analysis includes 168 new employees hired into county service, with 122 identified to staff new Public Safety programs. These figures do not include employees that are being considered to staff the South Placer Adult Correctional Facility in Years 3 and/or 4.

FISCAL IMPACT

The Placer County Other Post Employment Benefits Policy promotes financial stability and long-term planning by providing staff clear direction to manage, budget, and fund the County's significant unfunded OPEB liability. *Upon review of the updated June 30, 2011 OPEB Actuary Report the new hire charge is being reduced to $37,240 (down from $52,000) which should assist departments with meeting this expense.*

The analysis demonstrates that by following the current policy for funding new hires or a 2 year phased in approach, both will achieve the same objective over time; flatten or reduce the unfunded liability. However, while phasing in the new hire cost spreads the budgetary impact out over two years, there is no guarantee that funding would be more available in year two to pay this obligation than it was in year one.

When department budgets are prepared, these new hire costs are included and then considered for funding with all other county operating funding requests. Through this larger analysis, it is determined where new position priorities exist, and whether or not a new employee should be added to the County's employee base. Typically, if a position is approved, funding for the new hire OPEB charge is approved at that time or the department is requested to absorb that cost in their budget savings. In the FY 2011-12 Final Budget, the Board approved $2 million that could be used to assist departments, when other funding was not available, with funding "new position" OPEB charges. In addition, at that time, dollars were identified as being available in the reserve accounts to address new hire expenses above this set-aside amount.

As illustrated in Table #3, by deferring the new hire cost over 2 years, the county's operating budget would have a larger payment ($3.98 million) in the second year of the phase in than they would have had if they followed the current policy ($1.7 million). Of course, the current policy would require a payment of $6.3 million in the first year. Projected costs would be higher if new employees are hired above the current assumptions and by paying only the ARC results in a larger unfunded liability and funding requirement to the Trust over time, and defers the date when retiree health premium payments could be made from the Trust.

Attachments:
#1 Placer County Other Post Employment Benefit Policy
#2 Agency OPEB Financial Reporting

Attachment #1

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.

Attachment #2

OPEB Comparisons to Other Counties (plus Cities of Roseville and Sacramento)

(Dollars in Thousands)

Updated: 1/31/12

	Agency	OPEB Liability	Actuarial Value of Assets	Unfunded Liability	AVA Funded Ratio	Annual Payroll	Unfunded Liability % of Payroll	OPEB Asset/(Liability) on Balance Sheet
	CAFR FY 2010-11							
1	Los Angeles County	22,900,000	-	22,900,000	0.00%	6,700,000	342.62%	(5,346)
2	San Francisco County	4,400,000	-	4,400,000	0.00%	2,500,000	176.00%	(1,099,177)
3	Contra Costa County	1,078,000	61,720	1,016,280	0.06%	599,734	169.41%	(286,672)
4	Alameda County	909,400	630,500	278,900	69.30%	898,300	31.05%	(63,838)
5	Orange County	456,005	94,110	361,895	20.60%	1,267,427	28.60%	41,609
6	**Placer County**	**313,323**	**117,502**	**195,821**	**37.50%**	**164,979**	**118.70%**	**41,603**
7	San Mateo County	243,149	153,171	89,978	63.00%	451,307	19.90%	123,237
8	Santa Cruz County	181,575	-	181,575	0.00%	161,577	112.40%	(81,782)
9	Santa Barbara County	173,944	1,875	172,069	1.10%	280,040	61.40%	(39,751)
10	Shasta County	154,279	13,344	140,935	8.65%	79,213	177.92%	(30,315)
11	Kern County	149,962	-	149,961	0.00%	487,323	30.77%	(51,045)
12	Sacramento County	144,804	-	144,804	0.00%	869,898	16.60%	(14,976)
13	San Joaquin County	108,600	-	108,600	0.00%	367,700	29.50%	(48,484)
14	Riverside County	44,979	14,532	30,447	32.31%	1,052,847	2.89%	21,769
15	Solano County	36,333	9,239	27,094	25.00%	200,948	13.00%	(3,910)
16	Tuolumne County	27,500	-	27,500	0.00%	34,200	80.40%	(6,042)
17	Monterey County	23,292	150	23,142	0.65%	303,426	7.63%	(7,420)
18	San Luis Obispo County	19,718	6,324	13,394	32.10%	154,282	8.89%	1,995
19	Tulare County	12,596	-	12,596	0.00%	205,008	1.00%	(6,313)
20	Lassen County	6,763	-	6,763	0.00%	19,865	34.00%	(1,266)
21	Sierra County	2,306	-	2,306	0.00%	5,489	42.00%	48
22	Calaveras County	95	-	95	0.00%	22,353	0.43%	(381)

Notes:

1. Placer OPEB Liability ranks 6th highest in 22 county comparison.
2. Placer Unfunded Liability % of Payroll ranks 5th in comparison.
3. Placer AVA Funded Ratio ranks 3rd in comparison.
4. Placer Value of Assets ranks 3rd in comparison.

	Agency	OPEB Liability	Actuarial Value of Assets	Unfunded Liability	AVA Funded Ratio	Annual Payroll	Unfunded Liability % of Payroll	OPEB Asset/(Liability) on Balance Sheet
	CAFR FY 2009-10							
1	Santa Clara County	1,399,865	141,418	1,258,447	10.10%	1,267,398	99.30%	(38,238)
2	Marin County	359,934	-	359,934	0.00%	161,948	222.25%	(79,898)
3	Sonoma County	268,454	9,716	258,738	3.60%	308,595	83.80%	(38,845)
4	Imperial County	251,600	-	251,600	0.00%			(39,908)
5	**Placer County**	**248,439**	**36,383**	**212,056**	**14.64%**	**159,786**	**132.71%**	-
6	El Dorado County	167,183	-	167,183	0.00%	134,540	124.30%	(40,204)
7	Yolo County	141,774	-	141,774	0.00%	76,580	185.13%	(37,178)
8	Mendocino County	129,377	-	129,377	0.00%	25,261	512.20%	(5,972)
9	Madera County	114,075	-	114,075	0.00%	64,026	178.17%	(39,132)
10	Stanislaus County	36,877	-	36,877	0.00%	216,990	17.00%	(4,582)
11	Napa County	36,040	4,363	31,677	12.10%	86,030	36.80%	-
12	Butte County	33,472	-	33,472	0.00%	105,639	31.69%	(9,200)
13	Nevada County	29,391	2,030	27,361	6.90%	43,877	62.40%	(3,036)
14	Mono County	27,643	3,567	24,075	12.91%	n/a		685
15	Mariposa County	24,641	-	24,641	0.00%	17,741	138.89%	(4,138)
16	Del Norte County	22,073	-	22,073	0.00%	15,574	141.73%	(2,510)
17	Glenn County	20,416	-	20,416	0.00%	26,895	75.90%	(3,752)

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18	Ventura County	14,719	-	14,719	0.00%	53,606	27.50%	(413)
19	Lake County	13,607	-	13,607	0.00%	40,038	33.99%	(3,364)
20	Humboldt County	13,516	-	13,516	0.00%	85,602	15.79%	(4,111)
21	Kings County	10,183	-	10,183	0.00%	64,337	15.83%	(1,634)
22	Sutter County	9,512	-	9,512	0.00%	52,099	18.00%	(2,378)
23	Colusa County	9,315	-	9,315	0.00%	15,203	61.27%	(927)
24	Alpine County	8,365	-	8,365	0.00%	4,380	190.96%	(518)
25	Amador County	1,212	-	1,212	0.00%	23,603	5.01%	(245)

Notes:

1. Placer OPEB Liability ranks 5th highest in 25 county comparison.
2. Placer Unfunded Liability % of Payroll ranks 8th in comparison.
3. Placer AVA Funded Ratio ranks 1st in comparison.
4. Placer Value of Assets ranks 2nd, but only 6 counties have assets.

City of Roseville	180,097	-	180,097	0.00%	82,912	217.21%	(45,856)
City of Sacramento	376,417	-	376,417	0.00%	275,000	136.70%	(60,700)