MEMORANDUM
OFFICE OF THE
COUNTY EXECUTIVE
COUNTY OF PLACER

TO: Honorable Board of Supervisors

FROM: David Boesch, County Executive Officer
By: Andy Heath, Deputy CEO of Finance, Administration, and Budget

DATE: December 9, 2014

SUBJECT: Other Post-Employment Benefits (OPEB) and California Public Employees Retirement System (CalPERS) Unfunded Liabilities Overview and Policy

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Action Requested

1. Receive a report on the current status of Other Post-Employment Benefits (OPEB) and California Public Employees Retirement System (CalPERS) Unfunded Actuarial Accrued Liabilities;
2. Adopt a resolution approving revisions to the Other Post-Employment Benefit County Financial Policy to include a planned time period by which to achieve full funding; and
3. Adopt a resolution appropriating $3,244,917 of one-time funding set aside with approval of the FY 2014-15 Operating Budget and available in the General Fund Balance Assigned for Unfunded Liabilities to the California Employees Retirement Benefit Trust (CERBT).

Background

With the adoption of the Final Budget on September 9, 2014, your Board approved the placement of $3.24 million of available one-time funding into a general Fund Balance assigned for unfunded liabilities. This assigned fund balance was established to serve as a temporary placeholder pursuant to the completion of a long-term liability funding analysis then underway. As previously directed by your Board, this analysis was coordinated by the offices of the County Executive, Treasurer-Tax Collector, and Auditor Controller working through the County's Finance Committee.

Recently received updates to actuarial reports were used to complete the analysis, which included a review of the current status of Other Post-Employment Benefits (OPEB) and CalPERS unfunded liabilities. Based upon review of the updated funding status and recognition of the need to demonstrate continued fiscal prudency in addressing long-term fiscal obligations of the County, staff refined the analysis to consider:

- Development of a "plan" to fully fund the OPEB unfunded liability within a defined time period while maintaining existing OPEB Funding Policy integrity; and

- Implementation of a mechanism to review and analyze the status of CalPERS retirement plan unfunded liabilities and pre-funding potential as a component of the annual budget development process.

Analysis

The County currently provides both retirement and post-employment health benefits plans to retired employees meeting vesting requirements specific to each plan. Annual and long-term employer-borne costs for each of these benefit plans are articulated in actuary reports, which are periodically updated to include estimated costs of providing earned and anticipated benefits accruing to retired employees over the life of each respective plan. Current funding status for each plan is presented below:

Plan	Total Liability	Unfunded Liability	Funded Level (%)	FY 2015-16 Annual Cost (1)
OPEB (2)	$350,801,000	$129,087,000	63.2%	$9,700,000
CalPERS Safety Plan (3)	$314,488,707	$111,556,841	64.5%	$6,092,038
CalPERS Misc Plan (3)	$971,201,112	$322,863,541	66.8%	$19,739,906

(1) Amount due for amortized portion of Annual Required Contribution (ARC)
(2) Amortization period = 24 years
(3) Amortization period = 30 years

Other Post-Employment Benefits (OPEB) Plan

The County provides ealthcare benefits to its retirees under its Retiree Healthcare Plan in accordance with various labor agreements and practices. The County's annual OPEB cost exposure is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with prescribed government accounting practices. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal (pay-as-you-go) costs each year *and* amortize any unfunded actuarially determined liabilities (or funding excess) not to exceed thirty years. Given that the County has been funding the amortized component of the OPEB ARC for six years, amounts of funding required pursuant to the recently computed actuarial evaluation are based on a 24-year "closed period" (i.e. the amortization period remaining to fully fund the unfunded liability).

Annual required payments made towards the unfunded liability, in addition to existing County policy regarding pre-funding requirement related to the filling of positions with new County employees, are placed into a County-owned Irrevocable Trust Fund managed by the California Employee's Retirement Benefit Trust (CERBT). The CERBT currently manages more than $4.1 billion in assets for more than 425 California public employers, with approximately $240 million being held for Placer County. County assets are invested into CERBT Strategy #1 – set at an

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annual discount rate of 7.33%. Over the last several years, interest earned in the CERBT coupled with the County's diligence in paying the ARC and the pre-funding amount for new employees, has resulted in a decline of the unfunded liability from $212 million in 2009 to $129 million today. With the understanding that a fully funded liability ultimately "frees up" funding that would otherwise be required to fund the amortized ARC, staff considered alternatives modifying the amortization period while continuing to place amounts currently funded into the CERBT on an annual basis.

For FY 2014-15, the County Operating Budget includes a total of $9.7 million towards payment of the amortized ARC ($4,332 per filled position) and $3.7 million in additional funding related to the filling of positions with new County employees, for a total of $13.4 million. Consistent with alternatives considered to prepare the recent actuarial update, $13.4 million in combined annual funding towards the amortized component of the ARC results in the County achieving a fully funded liability in slightly less than 15 years as shown below:

OPEB Unfunded Liability Funding Component	(25 YR Remaining) Annual Cost FY 2014-15	(24 YR Remaining) Annual Cost FY 2015-16	Annual Cost OPEB 15 Year Plan	Annual Cost OPEB 12 Year Plan
OPEB Amortization	$9,700,000	$9,700,000	$12,767,000	$14,858,000
Up-Front OPEB	$3,662,052	Unknown	$0	$0
Total OPEB Cost	*$13,362,052*	*$9,700,000+*	*$12,767,000*	*$14,858,000*

A shorter amortization period allows the County to set in motion a defined "plan" to fully fund the outstanding liability given the experience to date. Benefits of a redefined approach to funding the amortized ARC include:

- Implementation of a plan to fully fund the outstanding OPEB liability within a defined time period (15 years);
- Implementation of countywide approach to funding OPEB, eliminating potential departmental budgetary burdens associated with an up-front OPEB charge to hiring qualified outside employment candidates;
- The new employee up-front OPEB charged to departments is absorbed into the ongoing payroll rate charged to departments, thus:
    - Eliminating variability in annual amounts of OPEB funding while maintaining existing levels of overall annual funding; and
    - Implementing a uniform annual rate charged for the OPEB liability as a normal and ordinary benefit reimbursable by applicable federal and state funding.

Refining the approach to fund the OPEB liability using a 15-year amortization period strategically addresses future operating budget development while ultimately eliminating up to $16 million in ongoing operational costs by 2031. Additional one-time funding that becomes

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available each year may be funded into the CERBT at your Board's discretion, thereby potentially further reducing the 15-year amortization period.

CalPERS Retirement Plans

The County provides retirement (pension) benefits to vested retirees through plans administered by CalPERS – the Miscellaneous Employees Plan and the Safety Employees Plan. Like long-term healthcare costs, the County's annual retirement cost exposure is calculated based on an Actuarially Determined Contribution (ADC), annually updated by CalPERS actuary staff. The unfunded liability component of the ADC for each of the County's retirement plans includes distinct elements related to prior benefit changes, and assumption changes and annual gains and losses earned by the CalPERS Retirement Fund; and amortization periods for each component of the unfunded liability are based on the reason and timing of specific changes. Amortization periods for each component range from nine to thirty years, with the vast majority of the outstanding liability being amortized between twenty-six and thirty years.

In addition to ongoing normal (pay-as-you-go) costs, the amortized component of the ADC is used to determine annual employer contribution rates for each plan. Amortized rate components for each CalPERS plan for the current and upcoming fiscal year are noted below:

CalPERS Retirement Plan	FY 2014-15 Amortized Rate	FY 2014-15 Amortized Cost	FY 2015-16 Amortized Rate	FY 2015-16 Amortized Cost
Miscellaneous Plan	12.219%	$17,768,060	13.753%	$19,739,906
Safety Plan	14.656%	$5,526,778	15.489%	$6,092,038

Recent changes introduced and investment losses previously incurred by the CalPERS funds have led to significant volatility in the amortized component of the ADC. Unfunded liability rates are expected to remain volatile over the next five years as the impacts of reduced discount rates (reduction from 7.75% to 7.50%), plan changes (demographic changes associated with retirees living longer and retiring earlier) and plan change rate smoothing (rates "ramped up" during first five years following plan change) are built into the total rates paid by employers. Rates are projected to increase in the aggregate by 4.3% and 8.4% of total payroll costs in the Miscellaneous and Safety Plans, respectively, over the next five years. It is also noteworthy to point out that the unfunded liability rate component of the ADC has increased from 4.923% and 10.308% to 12.219% and 14.656% since FY 2008-09 for the Miscellaneous and Safety Plans, respectively.

Similar to analysis conducted for the OPEB liability, staff considered different funding alternatives to existing CalPERS plans - a 20 and 25-year fixed amortization period. Introduction of a lower, fixed amortization period related to the CalPERS unfunded liabilities results in an $8.5 million and $4.2 million increase in annual operating budget costs for a 20-year and 25-year plan, respectively, as shown below:

CalPERS Plan	Unfunded Liability Annual Cost FY 2014-15	Unfunded Liability Annual Cost FY 2015-16	Annual Cost CalPERS 20 Year Plan	Annual Cost CalPERS 25 Year Plan
Miscellaneous Plan	$17,768,060	$19,739,906	$25,493,701	$22,316,167
Safety Plan	$5,526,778	$6,092,038	$8,823,413	$7,723,663
Total	*$23,294,838*	*$25,831,944*	*$34,831,114*	*$30,039,830*

Given the unfunded liability rate volatility recently and anticipated to be experienced, coupled with a likely proposal to lower the existing CalPERS Retirement Fund discount rate from 7.50% to 7.25% (equates to an approximate $40+ million increase in unfunded liability), staff recommends maintaining the current practice of funding the annually required ADC as determined by CalPERS. Benefits of continuing the existing funding approach include:

- Determination of "true" annual impact on unfunded liability as smoothed rate changes are phased in over next five years;
- Gaining an understanding of potential implications of additional changes considered (i.e. lowering discount rate); and
- Ability to analyze more timely results of the annual CalPERS actuarial updates as part of the budget development process, given a recent commitment by CalPERS to make reports available six months earlier - in April as opposed to October each year.

Similar to the recommended approach to funding the OPEB unfunded liability, additional one-time funding that becomes available each year may be placed into either or both CalPERS plans at your Board's discretion.

Conclusion

Pursuant to the analysis presented herein, staff recommends your Board revise the OPEB Policy to incorporate and implement a planned amortization period of fifteen years. A fifteen-year OPEB amortization period sets in motion a plan to fully fund the outstanding OPEB liability by 2031 within existing budgeted funding levels, and allows for one-time funding towards the OPEB liability at your Board's discretion. Staff also recommends both CalPERS Retirement plans continue to be funded using existing methods, allowing for the full impacts of known and potential rate increases to be fully realized and more timely updated actuarial reports to be received prior to funding above the required levels.

Furthermore, staff recommends your Board authorize a one-time payment of $3,244,917 in funding available in a General Fund Balance Assigned for Unfunded Liabilities to the CERBT trust consistent with the analysis presented herein.

Fiscal Impact

One-time funding in the amount of $3,244,917 to be used for long-term liabilities has been considered with the FY 2014-15 Operating Budget and is currently available in a General Fund Balance Assigned for Unfunded Liabilities.

Attachments:

- Resolution Adopting Revised OPEB Policy
- Exhibit 1 – Revised OPEB Policy
- Resolution Appropriating Funding

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

In the matter of: Resol. No: ______________

A RESOLUTION ADOPTING THE PLACER COUNTY OTHER POST EMPLOYMENT BENEFIT (OPEB) POLICY

The following Resolution was duly passed by the Board of Supervisors of the County of Placer at a regular meeting held ____________________________ by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

____
Chair, Board of Supervisors

Attest:

____
Clerk of said Board

BE IT 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. 2010-240.

PLACER COUNTY

OTHER POST EMPLOYEE BENEFIT POLICY

1.0 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 using a defined amortization period.

2.0 POLICY

2.1 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.

2.2 COUNTY BUDGET

2.2.1 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).

a. OPEB funding in excess of the net ARC will be collected through payroll.
b. 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.
c. In keeping with GASB 45 requirements, prepare the County's OPEB Actuarial Report using a planned funding period of 15 years beginning in FY 2015-16 as a means to ~~in order to~~ update the ARC and unfunded liability amounts.

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d. Reconcile the payroll amount collected at mid-year with the minimum ARC amount required and, if necessary, adjust the amount being collected through payroll.

~~2.3 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.~~

~~a. This action will advance fund a portion of the "new" employee's OPEB liability.~~
~~b. This advanced funding shall be transferred to the CERBT in the year the employee is hired.~~
~~c. 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.~~
~~d. Allocation of "advance funding" will be considered with the annual budget.~~

~~2.4~~2.3 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.

~~2.5~~2.4 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.

2.5 REPORTING

The County Executive Office will report back annually to the Board on the progress the County is making toward funding promised benefits.

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a. OPEB funding in excess of the net ARC will be collected through payroll.
b. 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.
c. In keeping with GASB 45 requirements, prepare the County's OPEB Actuarial Report using a planned funding period of 15 years beginning in FY 2015-16 as a means to update the ARC and unfunded liability amounts.

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

In the matter of: Resol. No: ________________

A RESOLUTION APPROPRIATING
$3,244,917 OF ONE-TIME FUNDING SET
ASIDE WITH APPROVAL OF THE FY 2014-15
OPERATING BUDGET AND AVAILABLE IN
THE GENERAL FUND ASSIGNED FOR
UNFUNDED LIABILITIES TO THE
CALIFORNIA EMPLOYEES RETIREMENT
BENEFIT TRUST (CERBT)

The following Resolution was duly passed by the Board of Supervisors of the County of Placer at a regular meeting held ______________________________ by the following vote on roll call:

Ayes:

Noes:

Absent:

Signed and approved by me after its passage.

____

Chair, Board of Supervisors

Attest:

____

Clerk of said Board

WHEREAS, on September 9, 2014, the Board of Supervisors of the County of Placer, State of California added to the General Fund reserves – Assigned for Unfunded

Liabilities the amount of $3,244,917 to serve as a temporary placement of available one-time funding pursuant to completion of a long-term funding analysis that was then underway; and

WHEREAS, the offices of the County Executive, Treasurer-Tax Collector and Auditor-Controller working through the County's Finance Committee received updates to actuarial reports to complete the funding analysis and develop a plan to fully fund the Other Post-Employment Benefits (OPEB) within a defined time period while maintaining existing OPEB Funding Policy integrity; and

WHEREAS, the resulting funding analysis presented to the Board of Supervisors of the County of Placer on December 9, 2014 included a recommendation to allow for the dedication of one-time funding that becomes available each year may be funded in the California Employees Retirement Benefit Trust (CERBT) towards the OPEB liability at the discretion of the Board of Supervisors;

NOW, THEREFORE, BE IT RESOLVED, by the Board of Supervisors of the County of Placer, State of California, that this Board appropriate $3,244,917 to the California Employees Retirement Benefit Trust (CERBT).