Public Employee
Post-Employment
Benefits Commission

Preliminary Presentation of Commission Case Studies

August 23, 2007

Discussion Topics

- Overview of Case Study Project
- Presentation of Case Study Profiles
  - City of Thousand Oaks
  - County of Alameda
  - Western Municipal Water District
- Conclusion and Next Steps

Overview of Case Study Project

Objective

- The purpose of the case studies is to document the range of approaches that public agencies have used to address pension and OPEB liabilities.
- The case studies do not endorse any one approach, but rather put forth multiple models from which public agencies may choose.

Methodology

- Staff worked with Commission members, agency experts, and multiple associations to identify the voluntary case study participants.
- An effort was made to select agencies that represent different sizes, geographic regions, and pension/OPEB strategies.
- Information was collected via written surveys and follow-up interviews conducted with agency and retirement system staff.

Overview of Case Study Project *(continued)*

Timeline

- Today's presentation provides preliminary results for a select number of case study profiles.
- Staff plans to present additional profiles for Commission discussion at subsequent hearings.
- The entire case study project is planned for completion in October 2007.

City of Thousand Oaks – Benefits Overview

Pensions

- Current benefit formula is “2% at 55” for miscellaneous employees (no city safety employees).
- Pension costs (as represented by total employer contributions) have historically ranged from 2.7% to 13.3% of annual payroll.

OPEB

- Health care for active and retired employees is provided through the CalPERS Health Benefits Program (PEMHCA).
- In 2001, the city capped retiree health care premiums at $435/month. Any difference between the actual premium cost and monthly allowance is covered by the retiree.

City of Thousand Oaks – Benefits Overview *(continued)*

Vesting and Eligibility

- Vesting for **both** pensions and retiree health care includes five consecutive years of employment with the city and direct retirement from the city at a minimum age of 50.
- Health care benefits are considered vested due to historical practice which has been subsequently ratified in bargaining agreements with employee groups.

City of Thousand Oaks – Assessing OPEB Liability

- In 2006, the city conducted an actuarial study that identified a $22.8 million unfunded OPEB liability using a 4% discount rate.
- A later actuarial study in 2007 compared the city's funding options.

Funding Method	Discount Rate	Annual Required Contribution (ARC)	Unfunded Liability
Pay-As-You-Go (Normal cost will rise from $0.9m now to $1.3m in 2011)	4.09%	$2.3 million and increasing over time	$22.8 million
Prefund at $6 million (Above normal costs and ARC)	7.75%	$1.13 million and stable rising to $1.2m in 2011	$17 million

- Based on the study's results, the city determined that prefunding a trust with a substantial amount of money would significantly reduce their OPEB liability and future ARC payments.
- The city reviewed several options and became the first employer to enroll in the **CalPERS Employers' Retiree Benefits Trust Fund**.

CalPERS Employers' Retiree Benefits Trust Fund

- The California Employers' Retiree Benefits Trust Fund was established to provide public employers with an investment vehicle for prefunding future retiree health insurance and other OPEB costs.
- Although created by legislation in 1988, the fund was not activated until March 2007.
- The fund is subject to the same actuarial assumed rate of return of 7.75% as the CalPERS Public Employees Retirement Fund (PERF).
- There is no minimum contribution for public employers to participate and employers can make withdrawals from the fund as needed.
- Currently, only public employers that contract with CalPERS for health benefits are eligible. CalPERS is sponsoring legislation (AB 554, Hernandez) that would allow all public employers to participate.

City of Thousand Oaks – Implemented Approach

- In 2007, the City of Thousand Oaks made an initial contribution of $6 million to the trust fund.
- Funds came from fund balance reserves set aside over a six-year period to address OPEB liability. Cost of OPEB liability has been built into utility rates and user fees.
- All future contributions to the trust will be set at the city's ARC to ensure stable costs in future years.

County of Alameda – Benefits Overview

Pensions

- Operating under provisions of the 1937 Act, the Alameda County Employees' Retirement Association (ACERA) is a multi-employer, cost-sharing DB plan for employees of Alameda County, the Superior Court for Alameda County, and five special districts located in the county.

- ACERA's pension system has two tiers.
  - Tier I offers "3% at 50" for safety employees and "2.62% at 62" for general employees. Tier I is closed to employees hired after 1983.
  - Tier II offers "3% at 50" for safety employees and "2.09% at 62" for general employees. There are currently 6,800 members in Tier II.

- Vesting is set for retirement at a minimum age of 50 with 10 years of qualifying service; at any age with 30 years of qualifying service; or at age 70, regardless of service credit.

- Net assets held in trust for pension benefits were **$5.2 billion** as of December 31, 2006. The fund is considered **85.5% funded**.

County of Alameda – Benefits Overview *(continued)*

OPEB

- Retiree health care is not considered a vested benefit in Alameda County.
- All funding of retiree health care is through ACERA's Supplemental Retiree Benefit Reserve (SRBR).
- Retirees receive a **monthly medical allowance** that subsidizes their health care costs.
- The actual amount of the allowance depends on the retiree's number of years of service. The subsidy ranges from 50% for retirees with 10+ years of services to 100% for retirees with 20+ years of service.

Article 5.5 of the 1937 Act

- Under Article 5.5 of the 1937 Act, any of the twenty ’37 Act counties can create a **Supplemental Retiree Benefit Reserve** (SRBR).
- To date, only the Boards of Supervisors for the counties of Alameda, Kern and Tulare have adopted this section.
- After funding various reserves required by the law, **50% of excess earnings, is placed in the SRBR to be used only for the benefit of retired members and their beneficiaries**. The other 50% is placed in an account for the employer and employees.
- The law grants discretionary authority over the use of SRBR funds to the Board of Retirement.

County of Alameda – Implementation of Article 5.5

- Established on January 1, 1985, the Alameda County SRBR has been used to pay for retiree health benefits.
- Benefits currently funded from Alameda's SRBR include healthcare insurance subsidies, supplemental COLA, Medicare Part B reimbursement, vision, dental, and increased retiree death benefits.
- SRBR funding is limited to **a percentage of investment earnings up to the actuarial assumed interest rate and 50% of net surplus earnings over the actuarial assumed interest rate**. ACERA semiannually credits 50% of net surplus earnings to the SRBR. The remaining 50% is credited to an **employer and employee reserve account**.
- In 2006, over $500 million of SRBR funds was available in SRBR reserve accounts.
- The most recent actuarial valuation determined that the **Post-Employment Medical Benefits** program was **79.1% funded**.

County of Alameda – Implementation of Article 5.5 *(continued)*

- Federal tax rules require that Post-Employment Medical Benefits be paid through a 401(h) account with contributions from the county and participating employers.
- After these contributions are made by the county, ACERA transfers an equal amount from the Post-Employment Medical Reserve to supplement employer contributions for pensions.
- There is no requirement or guarantee that employers will contribute to the 401(h) account. ACERA's board has no authority to demand future funding from employers to fund the SRBR.

Western Municipal Water District – Benefits Overview

Pensions

- Current benefit formula is "2.5% at 55," an increase from the previous formula of "2% at 55." The enhancement was made in July 2007 after the Board of Directors conducted a salary survey to determine competitiveness.
- As a PERS agency, pensions are considered vested if the employee completes at least 5 years of employment and retires directly from the district at a minimum age of 50.

OPEB

- A "blended cost pool" includes both active and retired employees. Retiree health care premiums are currently capped at the lowest plan ($743/month), subject to increases in premiums.
- Prior to 2006, the district funds the program on a pay-as-you-go basis. From 1999-2005, annual costs for retiree health care ranged from $44,237 to $111,384.
- Health care benefits are considered vested if the employee completes at least ten years of employment and retires directly from the district at a minimum age of 55.

Western Municipal Water District – Assessing OPEB Liability

- In 2005, the Board considered the competition between special districts for managers and the associated rise in employment costs. Retiree health benefits were considered an important factor in employee recruitment and retention.
- The Board commissioned an actuarial study for the district for the retiree health benefit in order to meet GASB requirement.
- The study identified an **Unfunded Actuarial Assumed Liability (UAAL)** of **$5.8 million**.
- In 2006, the Board approved full **prefunding** of the unfunded liability and placed $5.8 million into a **VEBA Trust**.

Voluntary Employees' Benefits Association (VEBA)

- Similar to a 401(k), a VEBA is a tax-exempt trust whose funds are used to pay eligible medical expenses.
- Under Internal Revenue Service Section 501(c)9, a VEBA must provide for the "payment of life, sick, accident or other benefits to the members of such association or their dependents or designated beneficiaries."
- Membership of a VEBA "must consist of individuals who have become entitled to participate by reason of being employees and whose eligibility for membership is defined by reference to objective standards that constitute an ***employment-related common bond*** among such individuals."
- All contributions are made on a pre-tax basis and contributions are allowed to grow tax free in pooled account.
- VEBA meets GASB guidelines as an "irrevocable trust."

Western Municipal Water District – Implemented Approach

- The Board's decision to create a VEBA was based on several points, including:
  - Retaining a loyal employee base was a strategic priority for the district.
  - Addressing OPEB liability was part of the district's long-term financial plan.
- The district's VEBA account investments are managed by US Bank. (All other management/administration is conducted in-house.)
- The Board has since paid the Annual Required Contribution (ARC) for 2007 fiscal year, which was $306,187 due to prefunding.

THANK YOU!

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Alameda County

- Pat O'Connell, Auditor-Controller

Western Municipal Water District

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