



DATE: September 21, 2015

AGENDA ITEM #2

TO: Financial Commission

FROM: Kim Juran-Karageorgiou, Administrative Services Director

SUBJECT: Other Post-Employment Benefits (OPEB)

RECOMMENDATION:

- A. Receive presentation on the OPEB Actuarial Report as of June 30, 2014
- B. Receive report on OPEB Trust and Investment options and provide input on establishing an Internal Revenue Code Section 115 Irrevocable Trust for the City's OPEB reserve

BACKGROUND

The City Retiree Healthcare Plan (Plan) is a single-employer defined benefit healthcare plan administered by the City. The Plan provides healthcare benefits to eligible retirees and their dependents through the PERS healthcare program (PEMHCA). Benefit provisions are established and may be amended through agreements and memorandums of understanding between the City, its non-represented employees and the unions representing City employees.

The City provides a retiree medical contribution using the "5% unequal method," where the retiree contribution is increased annually until it equals the PEMHCA minimum contribution. In FY 2015/16, the City's contribution averaged \$122 per month. The City does not provide contributions for retiree dental, vision or life insurance benefits.

The City pays for retiree healthcare benefits on a pay-as-you go basis. In FY 2014/15 City contributed \$42,417 for current benefit payments. Retired plan members and their beneficiaries pay the annual premium cost not paid by the employer.

As of June 30, 2014, \$850,000 has been set aside in the General Fund as a reserve with future budgets projected to make increased annual contributions thereafter. While this set aside is intended for use against the City's OPEB liability, only funds placed in an Internal Revenue Code (IRC) Section 115 Irrevocable Trust count towards the liability according to accounting standards (GASB 45). For this reason, the City's OPEB reserve is not included in the City's actuarial report.

DISCUSSION

The City's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the past three years, the amount actually contributed to the Plan, and changes in the City's Net OPEB obligation:

<i>Annual OPEB Cost and Net OPEB Obligation</i>			
	2012-13	2013-14	2014-15
Annual required contribution	261,000	285,000	560,000
Interest on net OPEB obligation	34,000	42,000	48,000
Amortization of net OPEB obligation	(61,000)	(79,000)	(97,000)
Annual OPEB cost (expense)	234,000	248,000	511,000
Payments made	(33,511)	(37,344)	(42,417)
Implied Subsidy			(67,000)
Increase in net OPEB obligation	200,489	210,656	401,583
Net OPEB obligation – beginning of year	793,457	993,946	1,204,602
Net OPEB obligation – end of year	993,946	1,204,602	1,606,185

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for FY 2014/15 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	Cumulative OPEB Obligation
6/30/2013	234,000	33,511	14%	200,489	993,946
6/30/2014	248,000	37,344	15%	210,656	1,204,602
6/30/2015	511,000	109,417	21%	401,583	1,606,185

The funded status of the Plan as of June 30, 2015 was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2009	0	1,662	0%	10,884	15%
6/30/2011	0	2,136	0%	10,369	21%
6/30/2014	0	4,394	0%	10,874	40%

As noted earlier, the City's existing set aside of \$850,000 in the General Fund cannot be counted as an asset towards the City's OPEB obligation since these funds are not held in an IRC Section 115 Irrevocable Trust. If the City were to establish an OPEB trust, the City's funded ratio would increase to 19% and reduce the City's long-term liability shown in the financial statements. Furthermore, establishing a Section 115 Trust would enable the City to invest the funds in a manner that would allow for a greater rate of return than currently earned in the City's investment portfolio. This topic will be discussed in further detail at the Financial Commission meeting on September 21, 2015.