

To: Board of Supervisors

From: Ronald Grassi, Assistant CAO

Subject: March 2, 2009 Agenda item # 1

RE: Retiree Health Options / GASB 45

- **GASB 45 is an Accounting Standard with no requirement to fund**

In June 2004 the Governmental Accounting Standards Board (GASB) issued GASB statement 45 a new rule for accounting and financial reporting of Postemployment Benefits Other Than Pensions (OPEB). The promise of the County to provide health care coverage for retirees creates an OPEB liability for El Dorado County.

- **Retiree Health Benefit**

In September 2000 resolution number 261-2000 (Exhibit B-1) provided for a graduated shared cost between the retirees and the County to cover the expense of Retiree Health Care. If an employee has worked 20 years for El Dorado County they would receive 67% of their retiree health care premium paid for by the County. For 15 – 19 years of service 50% is absorbed by the County, and for 12-14 years 33% is paid by the County. Employees who retire with less than 12 years of service are not eligible for this benefit.

- **1.2% County Contribution Cap**

The resolution further states in Section C-2 miscellaneous provisions that the “County contribution for all bargaining units under this program shall not exceed 1.2% of total County payroll cost during any given fiscal year pursuant to the provisions of the Retiree Health Benefits Contribution Plan Document”. For example if the total County payroll for all bargaining units is \$159 million then the 1.2% cap is \$1.9million. The \$1.9 million would be representative of the County’s maximum exposure in the given fiscal year. Currently, the County cost of this benefit is approximately \$1.5 million.

- **El Dorado County a Pioneer In Retiree Health Benefit Funding**

El Dorado County in 2002 made the financial decision to begin setting aside money for retiree health benefits this was a very fiscally prudent decision. Especially, since the GASB 45 accounting regulation was not established until 2004. In a survey conducted by the California State Association of Counties (CSAC) September 2005 only 4 Counties had established a funding mechanism to cover the retiree health benefits unfunded liability. This clearly establishes El Dorado County as a pioneer in the area of retiree health benefit funding.

- **Actuarial Analysis**

Consistent with the GASB 45 regulations in order to determine the total County exposure or unfunded liability an actuarial report is required (Exhibit B-2). The actuarial analysis is based on the County’s employee/retiree demographics and various assumptions amortized over 20 to 30 years. The Actuarial Valuation Report based on a 20 year amortization table reflects an annual required contribution (ARC) of \$13.3 million.

- **Actuarial Issues**

Pursuant to GASB 45 the ARC is not taking into consideration the 1.2% cap on the County contribution. The assumption is not allowed until the point in time when the cap effects benefit payment distributions, or the percentage split between retiree and the County.

The actuarial report also does not consider any funding mechanisms that are not designated in an irrevocable trust account. Therefore, the County is not receiving any credit for the \$15 million currently set aside in the El Dorado County Treasury. The County may want to look at establishing an irrevocable trust and other investment options. Currently, the funds are very secure however; they are earning a minimal interest rate.

- **El Dorado County has enough funds set aside to cover the cost of Retiree Health Benefit for approximately the next 11 years**

By June 30, 2009 it is estimated that \$17 million will have been designated as reserves to cover the future cost of retiree health benefits. The annual operating cost of the program is about \$1.5 million thus there is enough funds set aside to cover the cost for approximately the next 11 years.

- **El Dorado County does not have a legal requirement to pre-fund**

Pursuant, to discussion with County Counsel there is no legal requirement to pre-fund retiree health benefits, and in the event a reserve has been established during a period of economic slowdown the entity can postpone deposits.

The current Memorandum of Understandings (MOU) with the County bargaining units reflects that the County contribution shall not exceed 1.2% of total County payroll costs during any given fiscal year. A minimum contribution is not stated.

- **A rate holiday will help offset budget shortfalls**

Based on the current 5 year projection a rate holiday has the value of around \$5.6 million to the 2009/2010 general fund however that value does represent a cost transfer to another year. If the actual cost of the retiree health is budgeted (\$1.5M) and not paid out of the Retiree Health Fund then the value would be around \$4.6M. A downside is that for non-general fund and grant programs there is a permanent loss of revenue in the Retiree Health Fund in that the cost of the benefit is not recovered and is permanently lost.

El Dorado County is struggling through some very tough economic times, thus choices will have to be made. The core function of County government is to provide service to our communities. Many departments are straining to meet target allocations and continue providing a sustainable level of service. A retiree health rate holiday will help solve part of the budget shortfall. This action may have an effect on the County's ability to issue bonds or borrow money. However, the rate holiday could save jobs and facilitate departments in providing service to the communities of El Dorado County.

In summary

GASB 45 is an accounting standard with no requirement to fund. El Dorado County has enough funds set aside to cover the County contribution of retiree health benefits for approximately the next 11 years. A rate holiday would help offset budget shortfalls and may save jobs. The value of \$4.6M in the general fund equates to approximately 58 FTE at an average cost of \$80K per employee.