

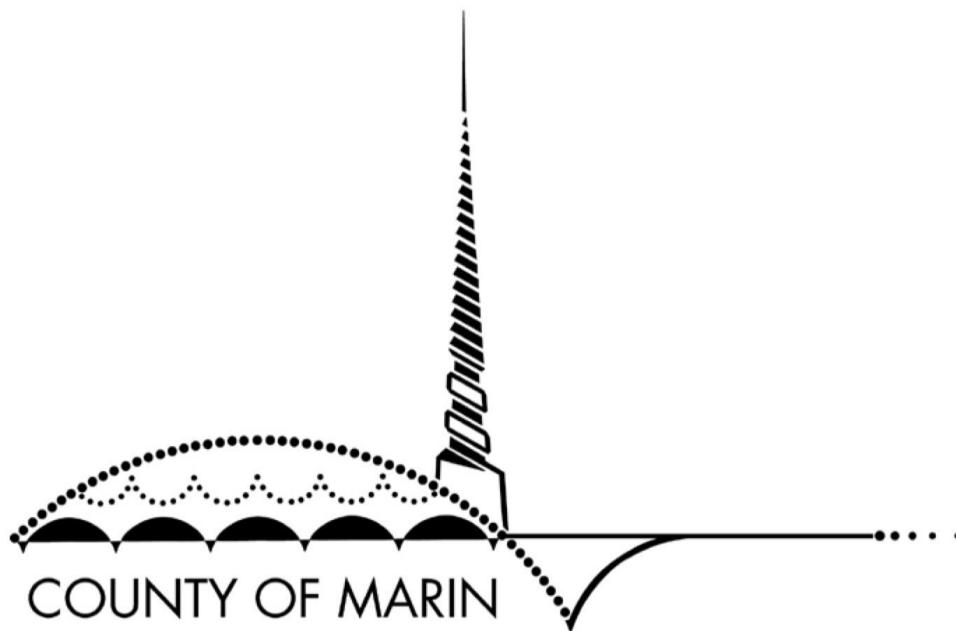
2016-2017 MARIN COUNTY CIVIL GRAND JURY

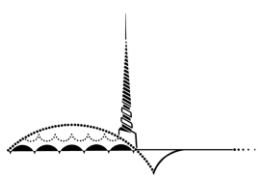
# Marin's Retirement Health Care Benefits

*The Money Still Isn't There*

Report Date: May 10, 2017

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## Marin's Retirement Health Care Benefits *The Money Still Isn't There*

### SUMMARY

Four years ago, the Grand Jury released a report titled *Marin's Retirement Health Care Benefits: The Money Isn't There*,<sup>1</sup> that discussed the funding of public agency liabilities for retiree health benefits. They discovered that most agencies were neither saving adequately nor implementing best practice cost containment strategies, and warned of the consequences.

Since then, some agencies have started paying more attention to their unfunded benefit liabilities and are choosing to prepay at least a portion of their liabilities, as financial advisors recommend. However, while 16 of the 39 agencies we studied in this report collectively *decreased* their unfunded liability by \$108.1 million (the County of Marin reduced its unfunded liability by \$88.3 million), the remaining 23 agencies collectively *increased* their unfunded liability by \$41.9 million. This problem has been escalating for years and will not be magically gone tomorrow. Left unchecked, the growing liabilities may eventually challenge agencies' fiscal health.

The Grand Jury recognizes that all agencies face day-to-day operational challenges and that retiree health liabilities are likely not top-of-mind for many agencies. Officials and board members may not be expert at interpreting financial documents nor aware of the long-term implications of retiree health liabilities for their agency's viability – but they need to be. In this report, we offer strategies to help Marin agencies deal with their Other Postemployment Benefits liability (primarily health benefits) and make it easier for the average person to understand the scope and potential effects of such liabilities on our communities.

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<sup>1</sup> “[Marin's Retirement Health Care Benefits: The Money Isn't There](#).” *Marin County Civil Grand Jury*. 3 June 2013.

## BACKGROUND

Public employees are typically granted two retirement benefits: a pension and “Other Postemployment Benefits” (OPEB) – primarily retiree health care. This report is a follow-up to previous OPEB-related Marin County Grand Jury Reports from: 2004-2005,<sup>2</sup> 2006-2007,<sup>3</sup> and 2012-2013.<sup>4</sup> We wanted to see how local public agencies’ OPEB liabilities have changed since the 2012-2013 Report, and examine the impact of OPEB on agencies' financial health.

## METHODOLOGY

The Grand Jury, in order to understand the financial and historical details of OPEB plans:

- Reviewed Marin County Civil Grand Jury OPEB-related reports and agency responses: 2004-2005, 2006-2007, and 2012-2013.
- Distributed detailed financial questionnaires (and analyzed responses) to the same public agencies surveyed in the 2012-2013 Grand Jury Report (see Appendix A: OPEB Questionnaire to Public Agencies).
- Researched OPEB legal issues.
- Reviewed OPEB-related Governmental Accounting Standards Board Statements 43, 45, 74, and 75 (GASB 43, GASB 45, GASB 74, and GASB 75) and related literature.
- Analyzed all Comprehensive Annual Financial Reports (CAFRs) and audits of public agencies since Fiscal Year 2012.
- Analyzed GASB 45 Actuarial Valuations of OPEB benefits and liabilities, prepared for public agencies.
- Watched city/town council audit and financial presentations.
- Interviewed agency staff and consultants involved with the actuarial process.
- Surveyed literature for examples and best practices of OPEB.

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<sup>2</sup> “[The Bloated Retirement Plans of Marin County, Its Cities and Towns.](#)” *Marin County Civil Grand Jury*. 9 May 2005.

<sup>3</sup> “[Retiree Health Care Costs: I Think I’m Gonna Be Sick.](#)” *Marin County Civil Grand Jury*. 19 March 2007.

<sup>4</sup> “[Marin’s Retirement Health Care Benefits: The Money Isn’t There.](#)” *Marin County Civil Grand Jury*. 3 June 2013.

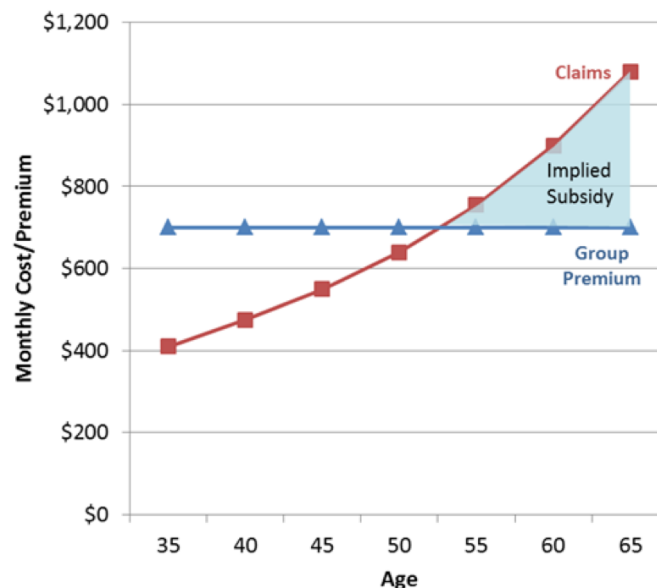
## DISCUSSION

If a public agency provides an employee with *Other Postemployment Benefits* (OPEB), and the employee meets specified periods of service and age, the agency will pay these benefits upon retirement to the employee (and to his/her spouse and/or dependents under some OPEB plans). The liability for providing these benefits is determined by an *actuary* and reported in an *actuarial valuation*. In accounting terminology, such a future financial obligation is called an *Actuarial Accrued Liability* (AAL). If an agency does not annually prepay their actuarial-determined *Annual Required Contribution* (ARC), the agency creates an *Unfunded Actuarial Accrued Liability* (UAAL).

### Retiree Health Care

OPEB “principally involve health care benefits, but also may include life insurance, disability, legal and other services.”<sup>5</sup>

Health care insurance costs continue to rise. These increased costs affect both the active employees and retirees. Public agencies blend employees and retirees into a single health care plan to calculate a premium that applies to both groups. The blending causes active employees, who are statistically healthier, to pay more for their health care to defray some of the additional costs of retiree health care. The additional cost of retiree claims is called an *implied rate subsidy*. If retiree health insurance costs rise, and employees are not charged sufficient premiums, then the public agency will have increased liabilities from the implied rate subsidy shortfall.



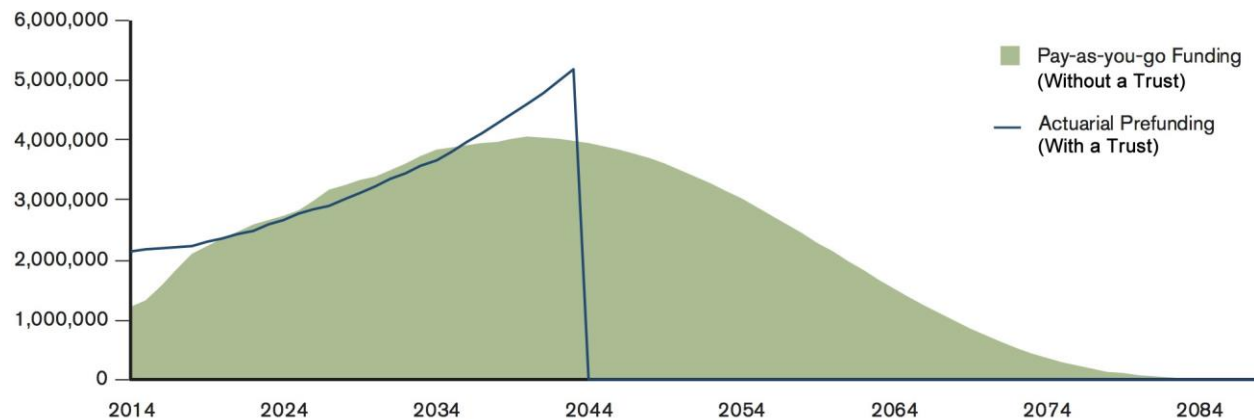
From: “[Retiree Health Care: A Cost Containment How-To Guide](#).” *League of California Cities*. Sep. 2016

<sup>5</sup> “[Other Postemployment Benefits \(OPEB\)](#).” *Governmental Accounting Standards Board*.

## Prefunding vs. Pay-As-You-Go

Public agencies can choose to either prefund their Actuarial Accrued Liability (AAL) or pay the annual retiree benefits as they come due (*pay-as-you-go* or *pay-go*). Prefunding into an OPEB trust fund allows the contributions to be invested, which can further reduce both the agency's AAL and Unfunded Actuarial Accrued Liability (UAAL). While prefunding is a smart long-term strategy, it may affect an agency's ability to pay its short-term bills. That is why some agencies choose pay-go – they do not have a sufficient budget or adequate cash flow. Basic aid school districts<sup>6</sup> for example, depend upon local property tax distribution to cover both their short-term and long-term obligations.

Nevertheless, prefunding OPEB liabilities is a widely accepted best practice. As the Government Finance Officers Association (GFOA) states, “It is widely acknowledged that the appropriate way to attain reasonable assurance that benefits will remain sustainable is for a government to accumulate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefitting employees.”<sup>7</sup> The following graph shows a hypothetical example of the annual cost for an agency's OPEB payments<sup>8</sup> for a closed group (no new employees) and illustrates how prefunding could be less expensive than pay-go, using 7.25% as the assumed rate of return on investments:



	WITHOUT A TRUST	WITH A TRUST
Employer payments	\$160,000,000	\$98,000,000
Investment income (7.25%)	0	62,000,000
<b>Total cost of benefits</b>	<b>160,000,000</b>	<b>160,000,000</b>

<sup>6</sup> Weston, Margaret. “Basic Aid School Districts.” *Public Policy Institute of California*. September 2013.

<sup>7</sup> “Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits (OPEB).” *Government Finance Officers Association*. January 2016.

<sup>8</sup> “Establishing an OPEB trust fund.” *Milliman, Inc.* 2014.

## **The Actuarial Valuation Process**

Actuaries prepare their valuations using Actuarial Standards of Practice and applicable standards of the Governmental Accounting Standards Board (GASB). The accounting standards are issued as implementation guides. During the 2012-2016 time period, actuaries followed the GASB 45<sup>9</sup> implementation. The purposes of a GASB 45 actuarial valuation include:

- Informing an agency of its retiree benefits' financial future obligations,
- Determining how much an agency should consistently prefund to ensure there will be sufficient funding for the retirees' benefits, and
- Determining and measuring the funded status and funding progress of an OPEB plan.

The agency initiates the actuarial valuation process by providing basic data to the actuarial consultant, including:

- **Agency overview:** agency directions and intentions for the valuation.
- **Valuation data:** employee data, updates to health & welfare benefits and/or Memorandums of Understanding (MOUs), new resolutions about agency contributions, plan summaries and rates, and retiree benefits and other contributions paid recently.
- **Assumptions:** rates of retirement, termination, disability, mortality, prefunding, and discount rates.

Within a few months, the actuary arrives at a draft actuarial valuation report. The draft is shared with the finance or budget director, who can correct misunderstandings or misinterpretations. The final (GASB 45) valuation report is then used in the preparation of annual Comprehensive Annual Financial Reports (CAFRs) (See Appendix B: Example Actuarial Valuation Certification.) For agencies that have 200 or more employees, GASB 45 requires actuarial valuations at least biennially, and for smaller agencies at least triennially.

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<sup>9</sup> ["Statement No. 45 of the Governmental Accounting Standards Board: Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."](#) Governmental Accounting Standards Board. June 2004.

## What Has Changed Since the 2012-2013 Report?

In the 2012-2013 report “Marin’s Retirement Health Care Benefits: *The Money Isn’t There*,”<sup>10</sup> the 2012-2013 Marin County Grand Jury reviewed the OPEB funding status of 40 local government agencies. Since one agency (Sewerage Agency of Southern Marin) responded that it was staffed by City of Mill Valley employees, only 39 agencies were examined. This year’s Grand Jury compared the financial information published in agencies’ Audits and Comprehensive Annual Financial Reports (CAFRs) for Fiscal Year 2012 (FY 2012) and FY 2016. (For an example of locating OPEB financial data, please see Appendix C: Finding Key OPEB Information in CAFRs or Audits.) By this comparison, the Grand Jury discovered:

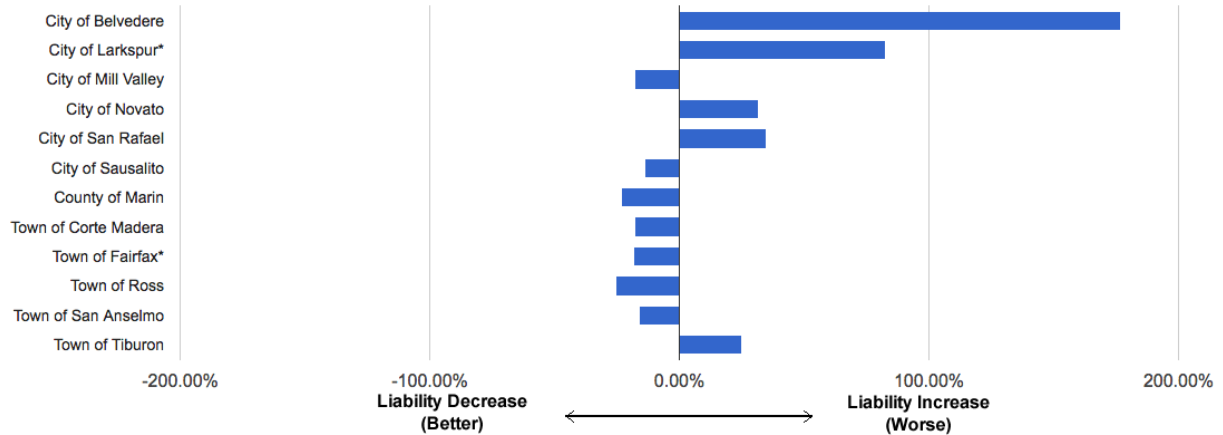
OPEB Highlights	FY2012	FY 2016
# of agencies that funded over 5% of their liability	11	18
# of agencies that funded between 1-5% of their liability	2	0
# of agencies that had not funded any of their liability	26	21
Collective 39-agency liability (AAL)	\$630.7 Million	\$650.2 Million
Collectively set aside (OPEB plan assets)	\$24.6 Million	\$110.2 Million
Collective Unfunded Actuarial Accrued Liability (UAAL)	\$606.1 Million	\$540.0 Million
Collective Unfunded Actuarial Accrued Liability (UAAL) excluding County of Marin	\$223.4 Million	\$245.7 Million

Because agencies have very different budgets, we chose to compare liabilities as the percentage Unfunded Actuarial Accrued Liability (UAAL) change from Fiscal Year FY 2012 to FY 2016. As of April 19, 2017, the City of Larkspur, the Town of Fairfax, and the Central Marin Police Authority had not released their FY 2016 CAFRs. For those agencies, we therefore needed to use their “older” FY 2015 financial data and applicable GASB 45 actuarial valuation data instead. Those agencies are indicated with an asterisk [\*] following their names throughout this report.

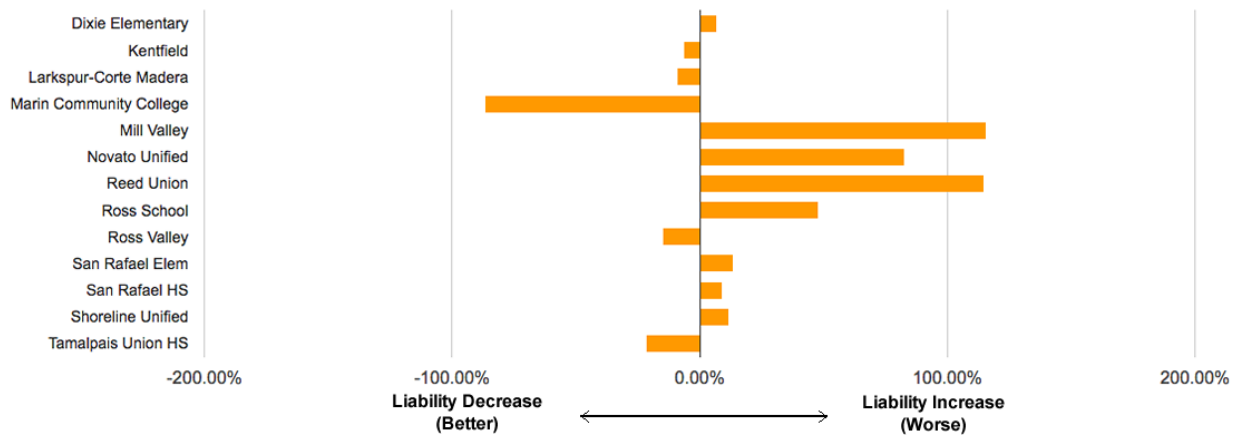
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<sup>10</sup> “[Marin’s Retirement Health Care Benefits: The Money Isn’t There](#).” *Marin County Civil Grand Jury*. 22 May 2013.

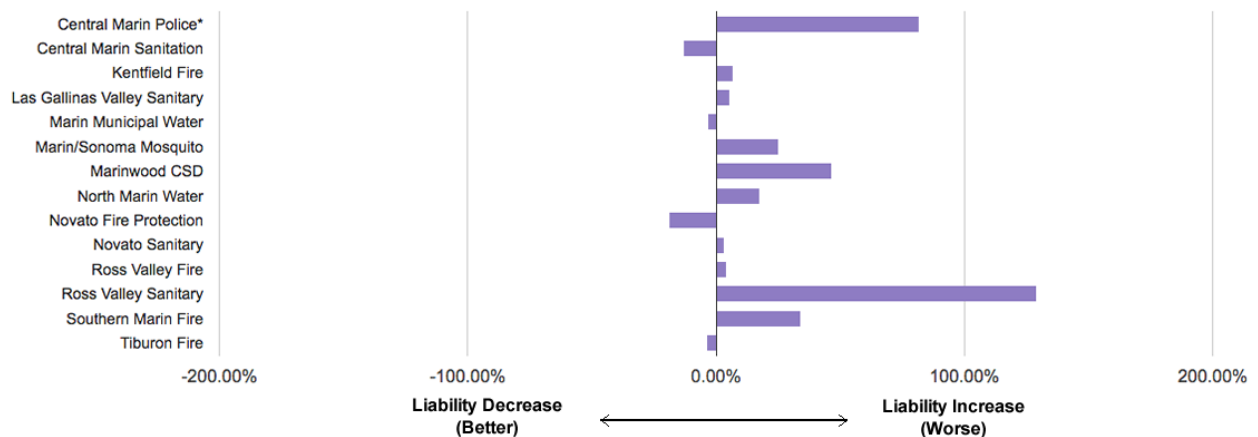
### % UAAL Change For Local Governments (FY 2012 to FY 2016)



### % UAAL Change For School Districts (FY 2012 to FY 2016)



### % UAAL Change For Special Districts (FY 2012 to FY 2016)



By reviewing agencies' published financial documents, we were able to prove that the agencies reduced their unfunded liability by a combination of actions:



- **Fully contributing their Annual Required Contribution (ARC) and establishing an investment account.** By keeping up-to-date with actuarial payments, future financial obligations are kept in check.
- **Setting aside “substantial assets” for OPEB liability.** Putting aside more money into a trust account for future OPEB benefits reduces the unfunded liability.

Since FY 2012, the overall unfunded liability of \$606.1 million (UAAL) was *reduced* to \$540.0 million. However, for agencies that have *increased* their UAAL, we found two basic causes:

- **Underfunding the Annual Required Contribution (ARC).** Agencies that opt to use pay-go and not completely fund their ARC, compound their UAAL each year (i.e., it grows).
- **Not Reporting Implied Rate Subsidies.** As described previously, the implied rate subsidy effectively requires public agencies to calculate an implied liability whenever their retirees participate in group medical plans, but pay the same premiums as active employees. Effective March 31, 2015, all actuarial valuations must include the implicit subsidy liability.<sup>11</sup>

### The Liability Fear

Newspapers regularly cover the looming *unfunded* pension crisis across America. Where will the money come from to pay the retirees' pension? Less commonly reported is the looming *unfunded* OPEB crisis. “The logic has been that the OPEB funding problem is 25 years old, so it can wait another year or two — even though procrastinating simply makes the liabilities mushroom ... The problem of zero-funded OPEB plans is often ignored.”<sup>12</sup> In Marin County, for the 39 agencies we studied, the unfunded pension liability is \$956.3 Million and the unfunded OPEB liability (UAAL) is \$540.0 Million.

Agencies need to look at their future budgets to decide if they will be able to pay an increasingly larger UAAL obligation. If they can, then the unfunded liability is simply an anticipated expense. If they cannot, then the unfunded liability is a much more urgent issue. To give some insight into the agency's potential challenge paying off its UAAL obligation, we compared each agency's most recent Annual Required Contribution (ARC) with its most recent total revenue. See Appendices D (municipalities), E (school districts), and F (special districts) for details.

If an agency does not plan sufficiently for paying their OPEB liability, citizens may be asked to make hard choices:

- **Agencies may try to find the money.** Agencies may reduce services (“crowd-out”), increase fees, attempt to raise taxes or issue bonds (with voter approval). If an agency proposes new taxes or bonds which may be used to reduce OPEB debt, the Grand Jury

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<sup>11</sup> “[Actuarial Standard of Practice No. 6](#).” *Actuarial Standards Board*. May 2014.

<sup>12</sup> Miller, Girard and Link, Jim. “[“New Normal” Retirement Plan Designs](#).” *Government Finance Review*. Aug. 2009.

believes it should fully disclose that purpose, and not use language that is “virtually impenetrable, written by lawyers for lawyers who are also accountants.”<sup>13</sup>

- **Retiree benefits may be reduced.** “However, unlike pensions, OPEBs are typically not guaranteed or protected by state law. State and local governments have much more latitude to scale back OPEBs and share OPEB-related costs with retirees. Many have implemented several changes to that effect.”<sup>14</sup>

## Approaching Cost Containment

Over the years, many organizations have investigated reducing OPEB liabilities through cost containment strategies. Because of legal and political issues, these strategies may not be appropriate for every public agency. Rather than limit agencies to specific strategies, the Grand Jury wants to ensure that decision makers in the agencies are aware of the breadth and depth of these options to better inform any future liability-reducing actions.

In 2006, Governor Schwarzenegger established the *Public Employee Post-Employment Benefits Commission*<sup>15</sup> to identify the extent of unfunded OPEB liabilities and evaluate approaches for addressing the liabilities. The 34 recommendations contained in the Commission’s final report addressed both pension and OPEB funding. While some of these recommendations are now legally required or obsolete, the Grand Jury believes two recommendations are still warranted today:

- ✓ **Public agencies providing OPEB benefits should adopt prefunding as their policy.** As a policy, prefunding OPEB benefits is just as important as prefunding pensions. The ultimate goal of a prefunding policy should be to achieve full funding.
- ✓ **Any employer considering the use of OPEB bonds should fully understand, and make public, the potential risks they bring.** Such risks include: shifting costs to future generations and converting a future estimated OPEB liability into fixed indebtedness.

In 2015, Smart Business Magazine highlighted cost containment strategies<sup>16</sup> for company employee benefits, including:

- ✓ **Consumer-Directed Health Plans (CDHPs).** Combines a high-deductible plan with a health savings account.
- ✓ **Adding Voluntary Benefits.** Employees can add benefits as-needed with pre-tax dollars.
- ✓ **Self-Funding the Health Plan.** Employers directly pay for health care claims, and reduce their financial risk by purchasing stop loss insurance from an insurance carrier.

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<sup>13</sup> Herhold, Scott. “[How ballot questions for bonds mislead voters.](#)” *The Mercury News*. 22 Aug. 2016.

<sup>14</sup> “[Effective Advocacy & Key City Issues.](#)” *League of California Cities*. 20 Jan. 2016.

<sup>15</sup> “[Funding Pensions & Retiree Health Care for Public Employees.](#)” *Public Employee Post-Employment Benefits Commission*. Jan. 2008.

<sup>16</sup> Pritts, Craig. “[Benefit Renewals: Cost containment strategies that can control your health care costs.](#)” *Smart Business Pittsburgh*. Sep. 2015.

- ✓ **Expanding Wellness Programs.** Reportedly, 75% of health costs are preventable.
- ✓ **Reduce Spousal Subsidies or Add Spousal Surcharges.**

In 2016, the League of California Cities OPEB Task Force<sup>17</sup> listed a number of strategies that agencies could consider to reduce OPEB costs. The Grand Jury agrees that these strategies should be examined:

- ✓ **Benefit Changes for Future Employees.** Reduce benefits for new hires.
- ✓ **Benefit Changes for Existing Employees.** Reduce benefits for current employees (not retirees).
- ✓ **Change Contributions to Fixed Amounts.** Instead of paying a percentage of premiums, agencies would pay a fixed dollar amount as premiums increase.
- ✓ **Limit Duration of Retiree Medical Benefit.** Medical benefits would only extend until the retiree is eligible for Medicare.
- ✓ **Close the Benefit to New Employees.** Remove the benefit for new hires.
- ✓ **Adopt or Increase Tenure Requirements.** Require longer employment tenure before being eligible for benefits.
- ✓ **Cover Only Retirees.** Currently public agencies may cover the retiree's dependents as well.
- ✓ **Make Agency Insurance Secondary.** If the retiree has access to additional health care (from a spouse, previous employer, or veteran's program), use that primarily.
- ✓ **Eliminate Retiree Health Care for New Employees.** As pensions have become more generous, require retirees to pay for their own health care.
- ✓ **Buy Down/Buy Out Benefits.** Public agencies would pay a lump sum to reduce or eliminate their health care benefit.
- ✓ **Adjust Health Care Plans.** Changing the health care plans offered can reduce both employee and retiree health costs.
- ✓ **League Health Benefits Marketplace (Exchange).** This plan "provides cities the flexibility lacking in other group coverage medical plan designs to decouple and unbundle active employee and retiree costs, which is key to reducing OPEB liabilities."<sup>18</sup>
- ✓ **Audit Retiree Medical Benefits.** Ensure benefits are both compliant and not duplicative.
- ✓ **Enroll Retirees in Medicare Part A.** To the extent that some retirees are ineligible for full Medicare coverage and must pay for Medicare Part A, it may be more cost effective to pay for their enrollment in Part A.

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<sup>17</sup> "[Retiree Health Care: A Cost Containment How-To Guide](#)." *League of California Cities*. Sep. 2016

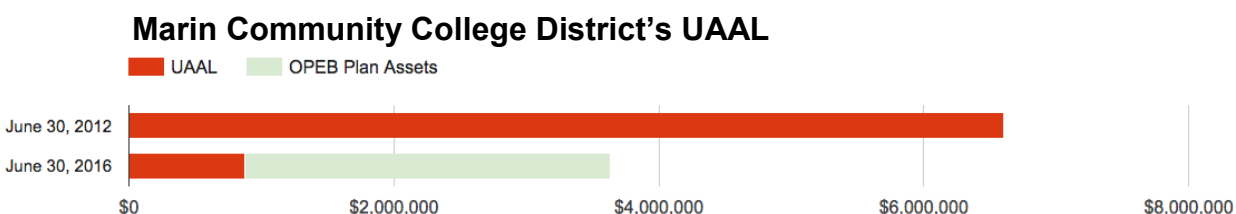
<sup>18</sup> "[Health Benefits Marketplace](#)." *League of California Cities*. Accessed Feb 2017.

- ✓ **Utilize Federally Subsidized Prescription Plan for Medicare Retirees.** As possible, use available subsidies.

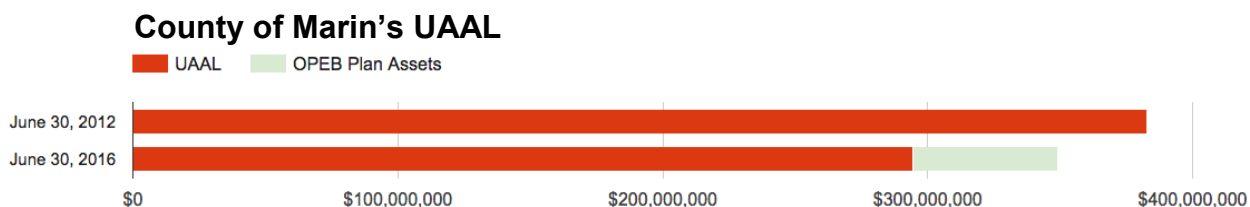
The Grand Jury recognizes that there is no one-size-fits-all acceptable solution to reduce unfunded OPEB liabilities, and that changing benefits requires a dialogue not only with agency staff but also union representatives. Therefore, we encourage agencies to clearly articulate the risk that the promised retiree benefits may not be able to be funded and to work with unions and staff to create a solution that is sustainable and fair for all parties, including the public.

## Making a Dent

The Grand Jury found that some agencies have made notable reductions in their unfunded liability (UAAL) and are implementing best practice cost containment strategies. Their efforts are highlighted below, as reported in their financial statements and actuarial valuations. The valuation dates shown in the charts are from the agencies' actual valuation reports.

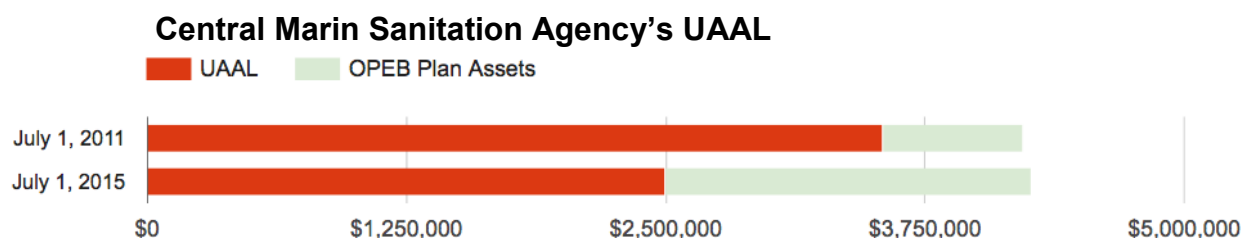


**Marin Community College District** ("College of Marin") decreased its UAAL by changing its OPEB funding policy. Through FY 2012, the district operated its OPEB plan solely on a pay-as-you-go basis ("pay-go"). However, during FY 2013, it established an irrevocable trust with the California Employers' Retiree Benefit Trust (CERBT) to prefund its OPEB costs through CalPERS, in addition to its regular pay-go costs.

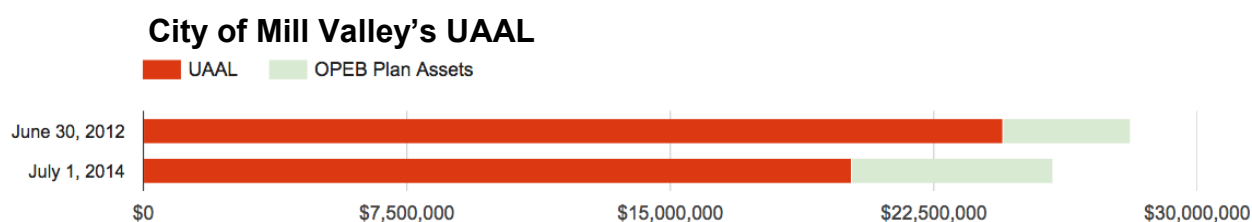


According to the CAFRs and actuarial valuations, the **County of Marin** accomplished its improvements primarily by changing its OPEB funding policy. Through FY 2012, the County was a pay-go funder but had also contributed to a reserve intended to be used to fund its OPEB plan. In February 2013, the County entered into an irrevocable trust agreement with the CERBT to prefund the County's OPEB costs through CalPERS, in addition to the regular pay-go contributions. The County transferred the reserve balance to the CERBT and began prefunding its full ARC during FY 2013. From FY 2013 through FY 2016, the County contributed 103.57% of its total ARC for that period. The most recent actuarial valuation reflects that the County also

decreased its AAL by another factor within its control. It did not increase the maximum benefit for retirees eligible for its OPEB "Plan 3": retirees hired between October 1, 1993 and December 31, 2007 and those hired earlier who elect Plan 3.

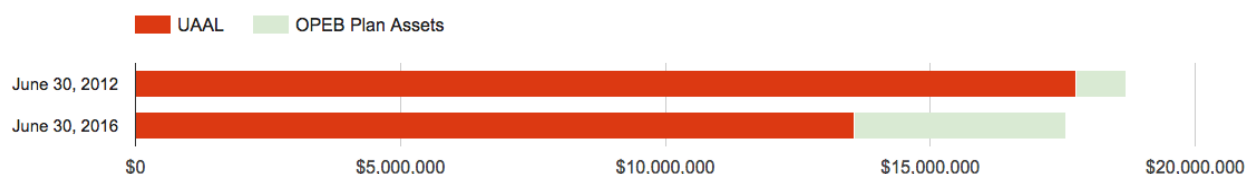


Before FY 2012, the **Central Marin Sanitation Agency (CMSA)** contracted with CalPERS to administer its OPEB plan and entered into an irrevocable trust agreement with the CERBT to prefund future OPEB costs.



Through FY 2014, the **City of Mill Valley's** CAFRs reflect that the City was funding its OPEB on a pay-go basis, plus some amounts to its trust account to prefund future OPEB costs. The most recent actuarial valuation noted the City's increased trust account contributions and the City's intent to consistently make total OPEB contributions greater than or equal to ARC each year. During 2013, Mill Valley implemented two OPEB cost-containment methods for new employees: (1) it increased their length of service required to be eligible for OPEB from 15 years to 20 years; and (2) it restricted any OPEB benefit to the employee only. In March 2017, the City started public discussions to eliminate OPEB benefits for American Federation of State, County and Municipal Employees (AFSCME) union members hired after January 1, 2017 and establishing a Retiree Health Savings Account, which is estimated to save \$3,000/year for each employee.

### Novato Fire Protection District's UAAL

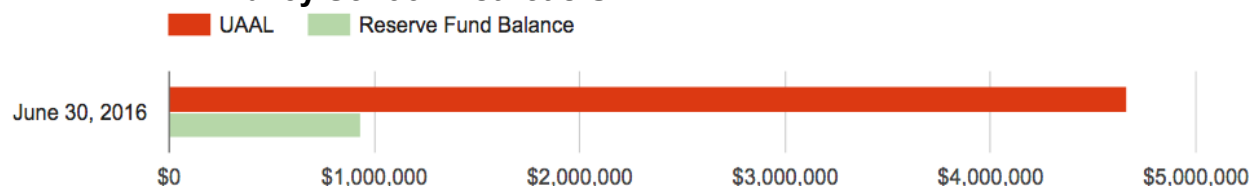


Starting in FY 2012, the **Novato Fire Protection District** (NFPD) has contributed 110.49% of its total ARC. The District implemented a cost-containment method providing that a retiree reaching age 65 must change to Medicare, pay its premiums, and has the option to select a Medicare supplement plan through the district. However, NFPD will only pay a maximum of 80% of the applicable Kaiser Medicare supplemental rate.

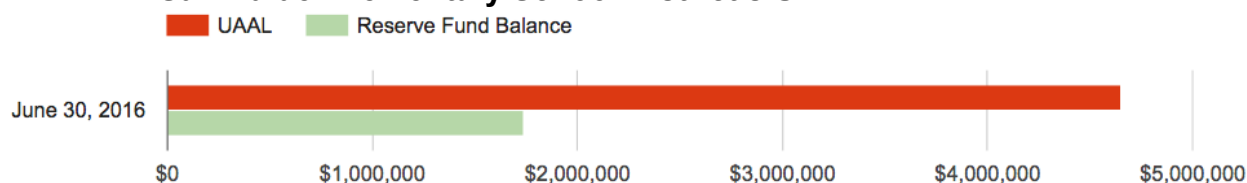
### A Fund Which Would Make a Dent

The Grand Jury also found that at least three school districts in Marin County have established *substantial* Special Reserve Funds for OPEB:

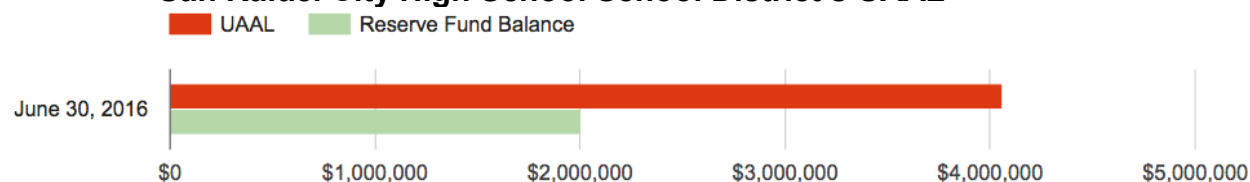
#### Mill Valley School District's UAAL



#### San Rafael Elementary School District's UAAL



#### San Rafael City High School School District's UAAL



California law authorizes these funds and many school districts throughout the state have them. They are commonly referred to as a *Fund 20, Special Reserve Fund for Postemployment Benefits*. Such Funds may be an important step in financing future benefits, and these school districts should be commended for establishing a Fund 20. However, funds set aside for future benefits (as opposed to pay-go costs) should be considered contributions to an OPEB plan only “if the vehicle established is one that is capable of building assets that are separate from and independent of the control of the employer and legally protected from its creditors. Furthermore, the sole purpose of the assets should be to provide benefits under the plan. These conditions



generally require the establishment of a legal trust.”<sup>19</sup> The Mill Valley School District should also be commended for establishing a trust with CERBT. Yet, if a school district deposits its Fund 20 balance into a trust, the district will reduce (or further reduce) its UAAL.

## **GASB 75**

Most Marin agencies began implementing Governmental Accounting Standards (GASB) Statement 45 for their OPEB financial reporting on July 1, 2009. Beginning July 1, 2017, agencies will switch to using GASB 75. The changes to OPEB reporting are similar to changes in the GASB reporting of net pension liability (GASB 67 and 68). It states, “Employers that participate in a defined benefit pension plan administered as a trust or equivalent arrangement are required to record the net pension liability, pension expense, and deferred outflows/deferred inflows of resources related to pensions in their financial statements as part of their financial position.”<sup>20</sup> These changes have increased financial scrutiny, and triggered public agencies across the United States to make changes to their pension funding strategies.<sup>21</sup> The primary objective of GASB 75 is to improve governmental accounting and financial reporting for OPEB, by improving the consistency, comparability and transparency of the information reported.<sup>22</sup> The new reporting standards will cause actuaries to change how they prepare their OPEB valuations and cause agencies to change their financial reporting. (See Appendix G: GASB 45 vs. 75 Overview for more details.) Three important changes are GASB 75’s requirements for *biennial actuarial valuations*, *balance sheet liability reporting*, and *single blended discount rate*.

**Biennial Actuarial Valuations.** GASB 75 requires all agencies to obtain OPEB actuarial valuations biennially. In contrast, GASB 45 allowed agencies having fewer than 200 OPEB plan members to obtain such valuations triennially. This change affects several Marin agencies.

**Balance Sheet Liability Reporting.** GASB 75 requires agencies to report their Net OPEB Liability (NOL) for agencies with an OPEB trust, or Total OPEB Liability (TOL) for agencies that do not have an OPEB trust, *upfront* on the face of their balance sheets. NOL and TOL are the equivalent of UAAL and AAL under GASB 45 with some technical differences. GASB 75 also requires disclosure of how and why OPEB liability changed from year to year.

**Single Blended Discount Rate.** The *discount rate* is the rate used to discount future benefit payments (i.e. actuarial accrued liability) to a present value. A lower rate *increases* that liability, and a higher rate *decreases* that liability. Both GASB 45 and GASB 75 permit having higher long-term discount rates with full prefunding over the amortization period and plan assets exist.

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<sup>19</sup> “[City of Mill Valley, Actuarial Valuation of Other Post-Employment Benefit Programs As of July 1, 2014](#)” Bickmore. Aug. 2015

<sup>20</sup> “[Notes to the Agent Multiple-Employer Defined Benefit Pension Plan GASB 68 Accounting Valuation Reports](#).” California Public Employees Retirement System. 30 Jun. 2016.

<sup>21</sup> Farmer, Liz and Maciag, Mike. “[Why Some Public Pensions Could Soon Look Much Worse](#).” *Governing*. 17 Mar. 2015.

<sup>22</sup> “[Summary of Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions](#).” Governmental Accounting Standards Board. June 2015.

However, GASB 75 requires a single blended discount rate if the plan has some assets, but is projected to be insufficient to make benefit payments at some future point. The single rate combines the long-term rate when assets are projected to cover the payments and a municipal bond (lower) rate when assets are projected to be insufficient.

The Grand Jury also notes that actuaries determined an Annual Required Contribution (ARC) under GASB 45, while GASB 75 uses the term Actuarially Determined Contribution (ADC). However, both terms have a similar meaning. The ARC represents a target contribution required to ensure there are sufficient savings to finance and cover the promised OPEB.<sup>23</sup> GASB 75 similarly defines the ADC as also representing a target contribution to an OPEB plan, determined in conformity with Actuarial Standards of Practice (ASOP). ASOP No. 6, adopted in 2014, defines the ADC as a potential payment to prefund an OPEB plan, using a contribution allocation procedure that may include an amortization method.<sup>24</sup> The ARC method may be used for the ADC.<sup>25</sup>

The Grand Jury believes that GASB 75 will cause a local public agency's financial situation to look much worse. The agency "should expect a larger total OPEB liability because the single blended rate calculated under [GASB] 75 is likely to be lower than the discount rate under existing standards."<sup>26</sup> "The recognition of the Net OPEB Liability in the employer's financial statements will likely be a significant increase in the amount of liability that was reported under prior GASB standards."<sup>27</sup> This change will likely increase scrutiny of the agencies' balance sheet OPEB obligations, and force agencies to focus on addressing these liabilities. For example, the previous section ("Making a Dent") shows that agencies following full prefunding policies with plan assets achieve the goal of reducing their unfunded OPEB liabilities. Under GASB 75, an agency can reach that goal with a prefunding policy and practice supporting a projection that plan assets will be sufficient to make *all* projected benefit payments.

### **"It's Hard to Wrap Your Head Around This!"**

– Marin County Elected Official

"One of the most important responsibilities a local elected official has is oversight of the agency's spending."<sup>28</sup> However, understanding the ins-and-outs of financial and actuarial standards imposed on public agencies is not easy, as evidenced by the (above) official's exclamation. Even if an elected official has business financial expertise, the standards that guide public agencies differ significantly. If an elected official has trouble understanding these

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<sup>23</sup> "[Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits](#)," *Governmental Accounting Standards Board*. 2005.

<sup>24</sup> "[Actuarial Standard of Practice No. 6](#)," *Actuarial Standards Board*. May 2014.

<sup>25</sup> "[GASB Approves New OPEB Employer Accounting Standard \(No. 75\)](#)," *Bartel Associates*. July 2015.

<sup>26</sup> McAllister, Brian and Spinelli, Connie and Belger, Diane. "[Getting familiar with OPEB](#)," *Journal of Accountancy*. 1 Aug. 2016.

<sup>27</sup> "[GASB Issues Two Other Postemployment Benefit \(OPEB\) Related Exposure Drafts](#)," *Milliman*. Aug. 2014.

<sup>28</sup> "[Budgeting and Finance](#)," *Institute for Local Government*. Accessed Feb. 2017.



concepts, how can the average citizen hope to understand the annual Comprehensive Annual Financial Reports (CAFRs), budgets, or Audits?

“Relatively few educational opportunities are provided to help trustees and policy makers understand how liabilities are calculated, in the role and sensitivity of actuarial assumptions, the impact that amortization periods and actuarial smoothing have on the retirement plan’s short-term and long-term contribution rates, and of the full meaning of a plan’s funded status.”<sup>29</sup>

Therefore, the Grand Jury recommends that public agencies improve both their financial literacy and transparency:

- Elected officials should take (and invite the public to attend) a financial literacy class such as one offered by: League of California Cities,<sup>30,31</sup> UC Davis,<sup>32</sup> ICMA University,<sup>33</sup> Government Finance Officers Association,<sup>34</sup> or the California State Association of Counties.<sup>35</sup>
- Financial documents issued by public agencies should be made easier to understand by the average resident.
- Public financial presentations both by and to public agencies should be easier to understand.

For example, the Government Finance Officers Association has established best practices for budget documents,<sup>36</sup> and annually recognizes agencies with “Distinguished Presentation Awards.” Governing Magazine’s “Guide to Financial Literacy: Connecting Money, Policy and Priorities,”<sup>37</sup> explains not only the terminology and purpose of various financial documents, it also offers essential questions that leaders should know to ask. Additional examples of classes and presentations can also be found in Appendix H (Example Financial Literacy Classes and Presentations).

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<sup>29</sup> Kehler, David. “[Public Pension Plan Financing: The Devil’s in the Actuarial Details](#).” *Society of Actuaries*. 2010.

<sup>30</sup> “[New Mayors & Council Members Academy](#).” *League of California Cities*. Accessed Mar. 2017.

<sup>31</sup> “[Municipal Finance Institute](#).” *League of California Cities*. Accessed Mar. 2017.

<sup>32</sup> Brinkley, Dr. Catherine. “[Community Governance](#).” *UC Davis*. Spring 2016.

<sup>33</sup> “[Local Government 101 Online Certificate Program](#).” *ICMA University*.

<sup>34</sup> “[Government Finance Officers Association Training](#).” *Government Finance Officers Association*.

<sup>35</sup> “[California State Association of Counties Upcoming Courses](#).” *California State Association of Counties*.

<sup>36</sup> “[Making the Budget Document Easier to Understand](#).” *Government Finance Officers Association*. Feb 2014.

<sup>37</sup> Marlowe, Justin. “[Guide to Financial Literacy: Connecting Money, Policy and Priorities](#).” *Governing*. 2014.

## We Are Not Alone

Marin County's public agencies are not unique in facing the challenges of OPEB liabilities.

"Total unfunded state other postemployment (OPEB) liabilities have increased, according to S&P Global Ratings' latest survey of U.S. states. For states that have completed new OPEB actuarial studies since our last survey (which used 2013 or prior studies), total liabilities increased \$59.4 billion, or 12% over a span of two years."<sup>38</sup>

In January 2016, California Controller Betty Yee "pegged the state's unfunded liability for other post-employment benefits (OPEB) at \$74.1 billion. That's how much it will cost to allow workers to stay on their health plans after they retire until they're eligible for Medicare, subsidize their premiums, and then provide them with supplemental benefits after Medicare kicks in. The benefit's value can exceed \$16,000 in the case of married couples and \$20,000 in the case of retirees with children."<sup>39</sup>

The City of San Luis Obispo (California) reduced their 2009 estimated \$5.9 million OPEB liability to \$4.2 million by changing their amortization period and changing from pay-go to prefunding their Annual Required Contribution (ARC). In January 2010, the City of Beverly Hills (California) eliminated OPEB liabilities for new non-safety hires by shifting from a defined *benefit* health plan to a defined *contribution* retiree health plan.<sup>40</sup> South Lake Tahoe (California) collaborated with its stakeholders to reduce OPEB liability by 73 percent by creating a new insurance plan.<sup>41</sup>

## Sharing Our Data

Despite the fact that agencies' OPEB financial documents are publicly available, the Grand Jury spent an enormous effort to gather the documents (not all of the documents were available online, nor text-searchable), extract the data, and analyze it. With the rise of the Open Data Movement (examples include: Data.gov, the Data Foundation, OpenGov, Marin County's Open Data Portal, and the City of Sausalito's Budget Transparency Tool), we wanted other organizations – including future Grand Juries – to be able to leverage our public data. Therefore, we have created a data portal consisting of all the Comprehensive Annual Financial Reports (CAFRs) and Audits for the 39 agencies we researched for FY 2011– FY 2016 along with a spreadsheet containing validated data extracted from those and other financial reports (including Annual Required Contributions (ARCs), discount rates, amortization periods, and the change of assets, liabilities, and unfunded liability). This information is available online, for free access here: <https://goo.gl/fSqOfX>.

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<sup>38</sup> Spain, Carol. "[Rising U.S. State Post-Employment Benefit Liabilities Signal An Unsustainable Trend](#)." *Standard and Poors*. 7 Sep. 2016.

<sup>39</sup> Eide, Stephen and Disalvo, Daniel. "[Phase out costly perks for retired state workers](#)." *San Diego Union Tribune*. 1 Apr 2016.

<sup>40</sup> "[Retiree Health Care: A Cost Containment How-To Guide](#)." *League of California Cities*. Sep. 2016

<sup>41</sup> Kerry, Nancy. "[Reducing Unfunded Liabilities for Other Post-Employment Benefits](#)." *Western City*. May 2015.

## CONCLUSION

Other Postemployment Benefits (OPEB) are just one of many financial obligations that public agencies face. Since the amount of the Annual Required Contribution (ARC) is a relatively small percentage for many agencies' annual total revenue, it is easy for them to not be too concerned (especially when faced by a much larger underfunded pension benefit). However, unlike pensions, agencies have more opportunities to reduce their OPEB obligations. The Grand Jury sees the delicate balance that agencies are facing: attracting new employees, negotiating with existing employees and retirees, and responsibly managing expenses in the public's interest. While some Marin agencies continue to reduce their unfunded OPEB liability, we are concerned that many agencies still have not yet done so. We hope that this report will give the agencies the additional reminders and tools to address this looming financial burden before more drastic measures need to be taken.

## FINDINGS

- F1. Many of the municipalities have *decreased* their UAAL obligation since FY 2012.
- F2. Some of the schools that have *increased* their UAAL obligation (since FY 2012) are setting aside OPEB contributions into reserve funds (rather than irrevocable trust funds).
- F3. Many of the special districts have *increased* their UAAL obligation since FY 2012.
- F4. Some of the agencies that stated they comply with their actuarial funding guidelines, are not in compliance as shown in their CAFRs.
- F5. GASB 45 has increased the agency's reporting transparency, but the information in these financial reports is difficult for the average person to understand.
- F6. GASB 45 permits an agency with a full ARC funding policy in its GASB 45 valuation to increase its discount rate, thereby decreasing its OPEB liability and ARC payments.
- F7. Upcoming GASB 75 reporting will further improve an agency's OPEB reporting transparency.

## RECOMMENDATIONS

- R1. Each agency should adopt a *formal, written policy* for contributions to its OPEB plan.
- R2. Each agency's standard practice should be to consistently satisfy its formal, written OPEB contribution policy.

- R3. Each agency's OPEB contribution policy and practice should support a projection under GASB 75 that its OPEB plan assets will be sufficient to make all projected OPEB benefit payments.
- R4. Each agency that uses special reserve funds for Postemployment Benefits should transition to a trust meeting the criteria of GASB 75.
- R5. Each term of service, elected or appointed officials of each agency should take a public agency financial class.
- R6. Each agency should make its CAFRs, Audits, and GASB valuations more readily understandable by the general public.
- R7. Each agency should ensure that all of its public financial *presentations* are more readily understandable and scheduled during hours convenient for the public.
- R8. Each agency should have the following downloadable and text-searchable documents readily accessible on their website: the last five years of CAFRs/Audits and the last three actuarial reports.
- R9. Before the next round of bargaining begins, each agency should prioritize the cost containment strategies to be used, including reducing or eliminating OPEB benefits for future employees.

## **REQUEST FOR RESPONSES**

Pursuant to Penal code section 933.05, the grand jury requests responses as follows:

From the following governing bodies:

### Municipalities

- City of Belvedere (R1-R9)
- City of Larkspur (R1-R9)
- City of Mill Valley (R1-R9)
- City of Novato (R1-R9)
- City of San Rafael (R1-R9)
- City of Sausalito (R1-R9)
- County of Marin (R1-R9)
- Town of Corte Madera (R1-R9)
- Town of Fairfax (R1-R9)
- Town of Ross (R1-R9)
- Town of San Anselmo (R1-R9)
- Town of Tiburon (R1-R9)

### School Districts

- Dixie Elementary School District (R1-R9)
- Kentfield School District (R1-R9)
- Larkspur-Corte Madera School District (R1-R9)
- Marin Community College District (R1-R9)
- Mill Valley School District (R1-R9)
- Novato Unified School District (R1-R9)
- Reed Union School District (R1-R9)
- Ross School District (R1-R9)
- Ross Valley School District (R1-R9)
- San Rafael City Schools (R1-R9)
- Shoreline Unified School District (R1-R9)
- Tamalpais Union High School District (R1-R9)

### Special Districts

- Central Marin Police Authority (R1-R9)
- Central Marin Sanitation Agency (R1-R9)
- Kentfield Fire Protection District (R1-R9)
- Las Gallinas Valley Sanitary District (R1-R9)
- Marin Municipal Water District (R1-R9)
- Marin/Sonoma Mosquito & Vector Control District (R1-R9)
- Marinwood Community Services District (R1-R9)
- North Marin Water District (R1-R9)
- Novato Fire Protection District (R1-R9)
- Novato Sanitary District (R1-R9)
- Ross Valley Fire Department (R1-R9)
- Ross Valley Sanitary District (R1-R9)
- Southern Marin Fire Protection District (R1-R9)
- Tiburon Fire Protection District (R1-R9)

The governing bodies indicated above should be aware that the comment or response of the governing body must be conducted in accordance with Penal Code section 933 (c) and subject to the notice, agenda and open meeting requirements of the Brown Act.

Note: At the time this report was prepared information was available at the websites listed.

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Civil Grand Jury. The California State Legislature has stated that it intends the provisions of Penal Code Section 929 prohibiting disclosure of witness identities to encourage full candor in testimony in Grand Jury investigations by protecting the privacy and confidentiality of those who participate in any Civil Grand Jury investigation.

## GLOSSARY

**Actuary:** A professional dealing with the assessment and management of risk for financial investments, insurance policies, and any other ventures involving a measure of uncertainty.<sup>42</sup>

**Actuarial Accrued Liability (AAL):** The portion of the actuarial present value benefits allocated to prior years of employment—and thus not provided for by future normal costs.<sup>43</sup>

**Actuarially Determined Contribution (ADC):** “A target or recommended contribution to a defined benefit OPEB plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.”<sup>44</sup>

**Annual Required Contribution (ARC):** The ARC is the employer's periodic required contribution to a defined benefit OPEB plan. The ARC is the sum of two parts: (1) the normal cost, which is the cost for OPEB benefits attributable to the current year of service, and (2) an amortization payment, which is a catch-up payment for past service costs to fund the Unfunded Actuarial Accrued Liability (UAAL) over the next 30 years.<sup>45</sup> Despite the name “Annual Required Contribution,” the contribution is not legally required.

**California Employers' Retiree Benefit Trust (CERBT):** This trust fund is dedicated to prefunding Other Post Employment Benefits (OPEB) for all eligible California public agencies. Even those not contracted with CalPERS health benefits can prefund future retiree benefits such as health, vision, dental, and life insurance.<sup>46</sup>

**California Public Employees' Retirement System (CalPERS):** An agency in the California executive branch that serves more than 1.7 million members in its retirement system and administers benefits for nearly 1.4 million members and their families in its health program.<sup>47</sup>

**Discount Rate:** A percentage rate required to calculate the present value of a future cash flow.<sup>48</sup>

**Governmental Accounting Standards Board (GASB):** “The independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. Established in 1984 by agreement of the Financial Accounting Foundation (FAF) and 10 national associations of state and local government officials, the GASB is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments.”<sup>49</sup>

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<sup>42</sup> “[Definition of 'Actuary'.](#)” *Investopedia*.

<sup>43</sup> “[Other Postemployment Benefits: A Plain-Language Summary of GASB Statements No. 43 and No. 45.](#)” *Governmental Accounting Standards Board*.

<sup>44</sup> “[Statement No. 75 of the Governmental Accounting Standards Board.](#)” *Governmental Accounting Standards Board*. No. 350. June 2015.

<sup>45</sup> “[GASBhelp.](#)” *Governmental Accounting Standards Board*.

<sup>46</sup> “[California Employers' Retiree Benefit Trust \(CERBT\) Fund.](#)” *CalPERS*. Accessed March 2017.

<sup>47</sup> “[CalPERS Story.](#)” *CalPERS*. Accessed March 2017.

<sup>48</sup> “[Fixed Income Bond Terms.](#)” *Corporate Finance Institute*.

<sup>49</sup> “[FACTS about GASB.](#)” *Governmental Accounting Standards Board*. 2012–2014.

**Implied Rate Subsidy:** The implicit rate is an inherent subsidy of retiree health care costs by active employee health care costs when health care premiums paid by retirees and actives are the same.<sup>50</sup>

**Net OPEB liability:** Introduced in GASB 75, the liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit OPEB plan that is administered through a trust.<sup>51</sup> GASB 45 uses Unfunded Actuarial Accrued Liability (UAAL) to connote a similar liability.

**Other Postemployment Benefits (OPEB):** Benefits (other than pensions) that U.S. state and local governments provide to their retired employees. These benefits principally involve health care benefits, but also may include life insurance, disability, legal and other services.<sup>52</sup>

**Pay-As-You-Go Funding (Pay-go):** With pay-as-you-go funding, plan contributions are made as benefit payments become due and funds necessary for future liability are not accumulated. That is, contributions made are for current retirees only, causing the majority of retiree health benefits liability to be considered unfunded.<sup>53</sup>

**Public Employees' Retirement System (PERS):** The retirement and disability fund for public employees in California.

**Unfunded Actuarial Accrued Liability (UAAL):** The excess of the Actuarial Accrued Liability (AAL) over the actuarial value of assets.<sup>54</sup>

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<sup>50</sup> "[Glossary: Implied Rate Subsidy](#)." Milliman.

<sup>51</sup> "[Summary of Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions](#)." Governmental Accounting Standards Board. June 2015.

<sup>52</sup> "[Other Postemployment Benefits \(OPEB\)](#)." Governmental Accounting Standards Board.

<sup>53</sup> "[Glossary: Pay-as-you-go funding](#)." Milliman.

<sup>54</sup> "[Other Postemployment Benefits: A Plain-Language Summary of GASB Statements No. 43 and No. 45](#)." Governmental Accounting Standards Board.

## **APPENDIX A: OPEB Questionnaire to Public Agencies**

### **OPEB Questionnaire**

#### **Definitions**

A. Other Post Employment Benefits (OPEB): Benefits (other than pensions) that U.S. state and local governments provide to their retired employees. These benefits principally involve health care benefits, but also may include life insurance, disability, legal and other services.

B. Actuarial Accrued Liability (AAL): Excess of the present value of a OPEB fund's total of future benefits (payable to the OPEB beneficiaries) and fund administration expenses over the present value of the future normal cost of those benefits.

C. Actuarial Value of Assets (AVA): The value of OPEB investments and other property used by the actuary for the purpose of an actuarial valuation (sometimes referred to as valuation assets). Actuaries often select an asset valuation method that smoothes the effects of short-term volatility in the market value of assets.

D. Unfunded Actuarial Accrued Liability (UAAL): The UAAL is the Actuarial Accrued Liability (AAL) minus the value of any assets (AVA) that have been irrevocably set aside to fund future benefits.

E. Annual Required Contribution (ARC): The annual required contribution, or ARC, refers to the amount needed to be contributed by employers to adequately fund an OPEB plan. The ARC is the sum of two factors: a) the cost of OPEB benefits being accrued in the current year (known as the normal cost), plus b) the cost to amortize, or pay off, the OPEB plan's unfunded liability. The ARC is the required employer contribution after accounting for other revenue, chiefly expected investment earnings and contributions from employee participants.

F. Discount Rate: The interest rate used to bring future cash flows to the present to account for the time value of money



## APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)

### Agency Identification

1. Name of Responding Agency. \_\_\_\_\_

### Separate Investment Accounts

*Please respond to this set of questions with regard to the existence of a separate investment account into which you may deposit each year's funds for amortizing your retiree health care benefits' UAAL?*

2. Do you have such a separate investment account?  
\_\_\_\_\_
3. If you have a separate investment account, when did you set up that account?  
\_\_\_\_\_
4. If you do have such a separate investment account, what, is its current value?  
\_\_\_\_\_
5. If you do have a separate investment account, what is the value of your deposits into that account for each of the fiscal years 2011-2012 to the present?
- (1) Fiscal Year 2011-2012 \_\_\_\_\_
  - (2) Fiscal Year 2012-2013 \_\_\_\_\_
  - (3) Fiscal Year 2013-2014 \_\_\_\_\_
  - (4) Fiscal Year 2014-2015 \_\_\_\_\_
  - (5) Fiscal Year 2015-2016 \_\_\_\_\_
6. If you have any other accounts to fund retiree health care benefits, please identify the nature, purpose and current value of those account(s).  
\_\_\_\_\_  
\_\_\_\_\_
7. If you do not have an investment account to fund retiree healthcare benefits why not?  
\_\_\_\_\_

## **APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)**

### **Annual Required Contribution ("ARC")**

8. What is your ARC for each of the fiscal years 2011-2012 to the present?

- (1) Fiscal Year 2011-2012 \_\_\_\_\_
- (2) Fiscal Year 2012-2013 \_\_\_\_\_
- (3) Fiscal Year 2013-2014 \_\_\_\_\_
- (4) Fiscal Year 2014-2015 \_\_\_\_\_
- (5) Fiscal Year 2015-2016 \_\_\_\_\_

9. Have you committed to fully fund each year's ARC?

\_\_\_\_\_

10. If you have you committed to fully fund each year's ARC, when did you make that commitment? \_\_\_\_\_

11. If you have you committed to fully fund each year's ARC in what amount did you fund each year's ARC for fiscal years 2011-2012 to the present?

- (1) Fiscal Year 2011-2012 \_\_\_\_\_
- (2) Fiscal Year 2012-2013 \_\_\_\_\_
- (3) Fiscal Year 2013-2014 \_\_\_\_\_
- (4) Fiscal Year 2014-2015 \_\_\_\_\_
- (5) Fiscal Year 2015-2016 \_\_\_\_\_

12. If you have you not committed to fully fund each year's ARC, in what amount did you fund each year's ARC for fiscal years 2011-2012 to the present?

- (1) Fiscal Year 2011-2012 \_\_\_\_\_
- (2) Fiscal Year 2012-2013 \_\_\_\_\_
- (3) Fiscal Year 2013-2014 \_\_\_\_\_
- (4) Fiscal Year 2014-2015 \_\_\_\_\_
- (5) Fiscal Year 2015-2016 \_\_\_\_\_

## **APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)**

13. What discount rate(s) have you used to calculate your ARC for each year for fiscal years 2011-2012 to the present?

- (1) Fiscal Year 2011-2012 \_\_\_\_\_
- (2) Fiscal Year 2012-2013 \_\_\_\_\_
- (3) Fiscal Year 2013-2014 \_\_\_\_\_
- (4) Fiscal Year 2014-2015 \_\_\_\_\_
- (5) Fiscal Year 2015-2016 \_\_\_\_\_

14. Please explain how you arrived at such discount rate(s) for fiscal years 2011-2012 to the present.

\_\_\_\_\_  
\_\_\_\_\_

15. Please specify the amortization period which you have used for each year fiscal year from 2011-2012 to the present to calculate your ARC and to fund your retiree health care benefits UAAL.

- (1) Fiscal Year 2011-2012 \_\_\_\_\_
- (2) Fiscal Year 2012-2013 \_\_\_\_\_
- (3) Fiscal Year 2013-2014 \_\_\_\_\_
- (4) Fiscal Year 2014-2015 \_\_\_\_\_
- (5) Fiscal Year 2015-2016 \_\_\_\_\_

### **Negotiations to Reduce OPEB Obligations**

16. If from fiscal years 2011-2012 to the present you have negotiated any caps with any employee group(s) or negotiating group(s) on the amounts you commit to pay existing or new employees for retiree health care benefits, please specify the following for each negotiating group:

- (1) The employee group(s) or negotiating group(s):

\_\_\_\_\_

## **APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)**

(2) The nature of the cap: \_\_\_\_\_

(3) The date such cap was negotiated: \_\_\_\_\_

(4) Whether applicable to both new and existing employees:

\_\_\_\_\_

(5) If there is no negotiated cap, what is your cap?

\_\_\_\_\_

17. If from fiscal years 2011-2012 to the present you have negotiated with any employee group or negotiating group a higher retirement age on the amounts you commit to pay existing or new employees for retiree health care benefits, please specify the following for each employee group(s) and negotiating group(s):

(1) The employee group(s) or negotiating group(s):

\_\_\_\_\_

(2) The change in retirement age: \_\_\_\_\_

(3) The date such higher retirement age was negotiated: \_\_\_\_\_

(4) Whether the higher retirement age is applicable to both new and existing employees: \_\_\_\_\_

18. If from fiscal years 2011-2012 to the present you have negotiated with any employee group(s) or negotiating group(s) to require active employees to contribute towards the cost of their retiree health care benefits, please specify the following for each employee group(s) and negotiating group(s):

(1) The employee group(s) or negotiating group(s):

\_\_\_\_\_

(2) The nature of employee contribution:

\_\_\_\_\_

(3) Whether you increased the employee's compensation to satisfy part of this contribution:

\_\_\_\_\_

(4) The date such increased contribution went into effect: \_\_\_\_\_

## **APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)**

(5) Whether applicable to both new and existing employees:

\_\_\_\_\_

(6) The amount of the employee contribution:

\_\_\_\_\_

19. Please explain the nature of reduction in OPEB benefits, if any, when a recipient becomes eligible for Medicare.

\_\_\_\_\_  
\_\_\_\_\_

20. What OPEB benefits (by type and agency funding amount) do you offer to your employees. If the benefits differ between employee group or negotiating groups or based on date of hire, please explain.

\_\_\_\_\_  
\_\_\_\_\_

### **Your Website**

21. Is there a link on your website to provide the latest following information?

\_\_\_\_\_

- (1) actuarial valuation of your AAL,
- (2) your UAAL,
- (3) its consequent percent funded,
- (4) the Discount Rate (annual percentage) used to determine these values, and
- (5) a projection of outlays ("Pay-Go") for retiree health care benefits for each of the current and subsequent 10 years?

(Collectively "Website Link")

22. If you maintain a Website Link, when was this information first put on your website?

\_\_\_\_\_

23. With regard to the Website Link information, to the extent such information is not on your website, why not?

\_\_\_\_\_

## **APPENDIX A: OPEB Questionnaire to Public Agencies (cont'd)**

24. Please provide us the URL for the website page(s) that display this Website Link information.

\_\_\_\_\_

\_\_\_\_\_

### **Financial Reporting**

25. Please provide the audited Comprehensive Annual Financial Report (CAFR) for fiscal year 2012 (2011-2012) in one of the following formats:

- (1) a hyperlink to a publicly available web site containing the appropriate PDF document (preferred): \_\_\_\_\_
- (2) a digital copy of the appropriate PDF file, or
- (3) a printed document.

## APPENDIX B: Example Actuarial Valuation Certification

### ACTUARIAL VALUATION CERTIFICATION

This report presents the City of Novato's Retiree Healthcare Plan ("Plan") January 1, 2014 actuarial valuation. The purpose of this valuation is to:

- Determine the Governmental Accounting Standards Board Statement Nos. 43 and 45 January 1, 2014 Benefit Obligations,
- Determine the Plan's January 1, 2014 Funded Status, and
- Calculate the 2014/15 and 2015/16 Annual Required Contributions.

The report provides information intended for reporting under GASB 43 and 45, but may not be appropriate for other purposes. Information provided in this report may be useful to the City for the Plan's financial management. Future valuations may differ significantly if the Plan's experience differs from our assumptions or if there are changes in Plan design, actuarial methods, or actuarial assumptions. The project scope did not include an analysis of this potential variation.

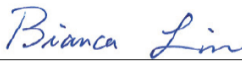
The valuation is based on Plan provisions, participant data, and asset information provided by the City as summarized in this report, which we relied on and did not audit. We reviewed the participant data for reasonableness.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. Additionally, in our opinion, actuarial methods and assumptions comply with GASB 43 and 45. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,



John E. Bartel, ASA, MAAA, FCA  
President  
Bartel Associates, LLC  
October 28, 2014



Bianca Lin, FSA, MAAA, EA  
Assistant Vice President  
Bartel Associates, LLC  
October 28, 2014

Source: "[City of Novato Retiree Healthcare Plan](#)," City of Novato, California. January 1, 2014.



## APPENDIX C: Finding Key OPEB Information in CAFRs or Audits

Where can people find important OPEB-related information in an agency's financial reports?

Example from a Municipality's Comprehensive Annual Financial Report (CAFR) (note: no prefunding contributions made):

<b>NOTE 10 - Postemployment Benefits Other Than Pensions</b>		
<b>Development of 2015 / 2016 Fiscal Year</b>		
<b>Annual OPEB Cost - Based on a 4.00% discount rate</b>		
<b>AAL</b> →	Actuarial Accrued Liability	\$ 3,629,754
	Actuarial Value of Assets	-
<b>UAAL</b> →	Unfunded Actuarial Accrued Liability	<u>\$ 3,629,754</u>
	Amortization Period	23 years
	Annual % of Payroll Amortization of Unfunded AAL	\$ 119,323
	Normal Cost (based on the Entry Age Normal Method)	<u>177,525</u>
<b>ARC</b> →	Annual Required Contribution	296,848
	Interest on Net OPEB Obligation	73,576
	Adjustment to ARC	<u>(89,962)</u>
	Annual OPEB Cost	280,462
	Pay-as-you-go Cost	<u>(105,580)</u>
	Increase in net OPEB Obligation	174,882
	Net OPEB Obligation - beginning of year	1,839,397
	Net OPEB Obligation - end of year	<u>\$ 2,014,279</u>

Example from a Municipality's Comprehensive Annual Financial Report (CAFR):

<b>Required Supplementary Information</b> <b>Schedule of Funding Progress (unaudited)</b> <b>Other Postemployment Benefits Plan</b> <b>As of June 30, 2016</b>						
The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend information from the actuarial studies is presented below:						
Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(a-b)/c]
July 1, 2008	\$ 1,747,300	\$ -	\$ 1,747,300	0%	\$ 3,725,600	46.9%
July 1, 2011	\$ 1,941,900	\$ -	\$ 1,941,900	0%	\$ 4,068,100	47.7%
July 1, 2014	\$ 1,628,827	\$ -	\$ 1,628,827	0%	\$ 1,999,530	81.5%



## APPENDIX C: Finding Key OPEB Information in CAFRs or Audits (cont'd)

Example from School District's Audit:

<b>ARC</b> →	Annual required contribution (ARC)	\$ 24,585
	Interest on net OPEB obligation	(499)
	Adjustment to ARC	<u>1,537</u>
	Annual OPEB cost	25,623
<b>Contribution</b> →	Contributions made:	
	Contributions from governmental funds	<u>(19,944)</u>
	Decrease in net OPEB (asset)	5,679
	Net OPEB Obligation (asset) - July 1, 2015	<u>(12,465)</u>
	Net OPEB Obligation (asset) - June 30, 2016	<u><u>\$ (6,786)</u></u>

### Funded Status and Funding Progress - OPEB Plans

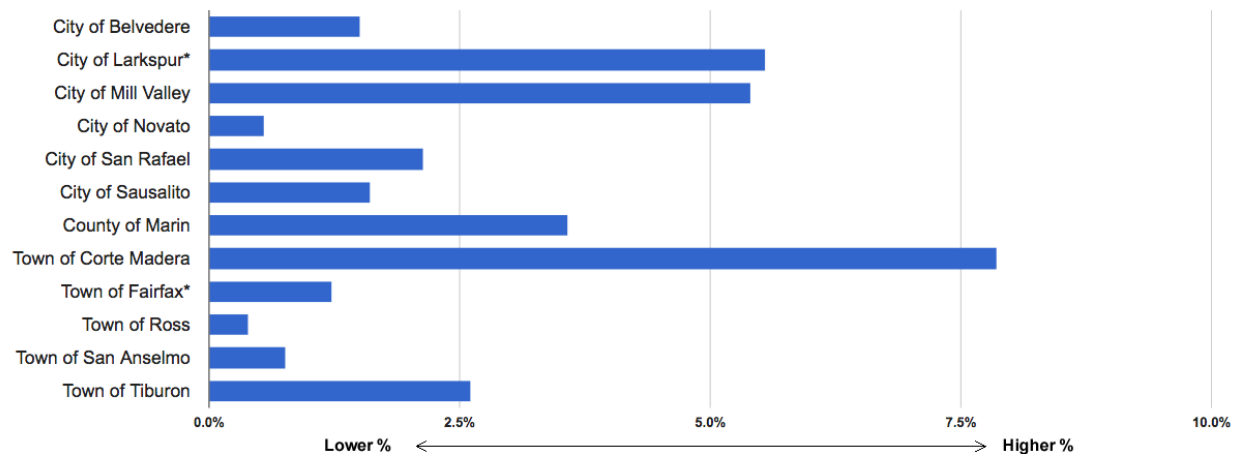
As of July 1, 2014, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial liability (AAL) for benefits was \$189,127 and the unfunded actuarial accrued liability (UAAL) was \$189,127.

## APPENDIX D: Marin Municipalities' ARC as a Percentage of Total Revenue

The amount of an agency's annual required contribution (ARC) can be compared to its total revenue. A higher percentage may signal future budgetary challenges if not properly managed.

Municipality	UAAL FY 2012	UAAL FY 2016	UAAL Change	ARC FY 2016	Total Revenue FY 2016
City of Belvedere	\$374,116	\$1,036,193	662,077	\$118,105	\$7,855,000
City of Larkspur*	\$7,493,551	\$13,698,307	6,204,756	\$1,165,424	\$21,009,094
City of Mill Valley	\$24,481,979	\$20,156,488	(4,325,491)	\$2,157,955	\$39,916,000
City of Novato	\$2,786,000	\$3,673,318	887,318	\$262,000	\$47,954,000
City of San Rafael	\$24,295,000	\$32,727,000	8,432,000	\$2,148,000	\$100,490,000
City of Sausalito	\$6,646,550	\$5,730,670	(915,880)	\$428,391	\$26,588,325
County of Marin	\$382,720,000	\$294,375,000	(88,345,000)	\$21,937,000	\$611,801,000
Town of Corte Madera	\$11,790,000	\$9,704,000	(2,086,000)	\$1,855,000	\$23,593,928
Town of Fairfax*	\$1,024,300	\$835,400	(188,900)	\$116,600	\$9,212,366
Town of Ross	\$417,000	\$383,000	(34,000)	\$36,000	\$9,264,385
Town of San Anselmo	\$1,941,900	\$1,628,827	(313,073)	\$147,364	\$19,216,454
Town of Tiburon	\$2,900,736	\$3,629,754	729,018	\$296,848	\$11,341,758

**Municipalities: FY 2016 ARC as Percentage of Total Revenue**

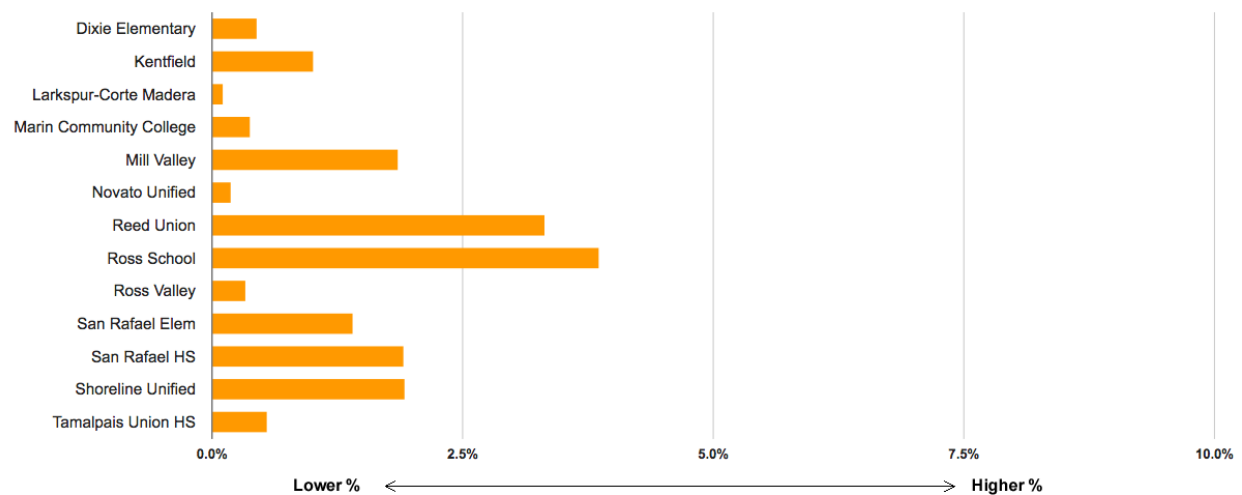


## APPENDIX E: Marin School Districts' ARC as a Percentage of Total Revenue

The amount of an agency's annual required contribution (ARC) can be compared to its total revenue. A higher percentage may signal future budgetary challenges if not properly managed.

School District	UAAL FY 2012	UAAL FY 2016	UAAL Change	ARC FY 2016	Total Revenue FY 2016
Dixie Elementary	\$1,057,000	\$1,128,416	71,416	\$114,463	\$25,361,193
Kentfield	\$1,432,000	\$1,340,399	(91,601)	\$199,312	\$19,712,081
Larkspur-Corte Madera	\$207,671	\$189,127	(18,544)	\$24,585	\$21,966,152
Marin Community College	\$6,604,85	\$877,366	(5,727,491)	\$261,064	\$67,403,849
Mill Valley	\$2,159,158	\$4,662,117	2,502,959	\$945,212	\$50,815,837
Novato Unified	\$823,300	\$1,503,161	679,861	\$175,235	\$94,185,666
Reed Union	\$2,730,727	\$5,867,732	3,137,005	\$855,510	\$25,711,228
Ross School	\$2,085,000	\$3,086,992	1,001,992	\$338,061	\$8,748,369
Ross Valley	\$1,838,000	\$1,561,792	(276,208)	\$98,513	\$29,323,920
San Rafael Elem	\$5,462,058	\$6,200,000	737,942	\$880,377	\$62,306,271
San Rafael HS	\$4,943,154	\$5,400,000	456,846	\$726,362	\$37,919,147
Shoreline Unified	\$1,798,111	\$2,013,470	215,359	\$286,133	\$14,823,677
Tamalpais Union HS	\$3,892,000	\$3,053,537	(838,463)	\$505,711	\$92,371,238

**School Districts: FY 2016 ARC as Percentage of Total Revenue**

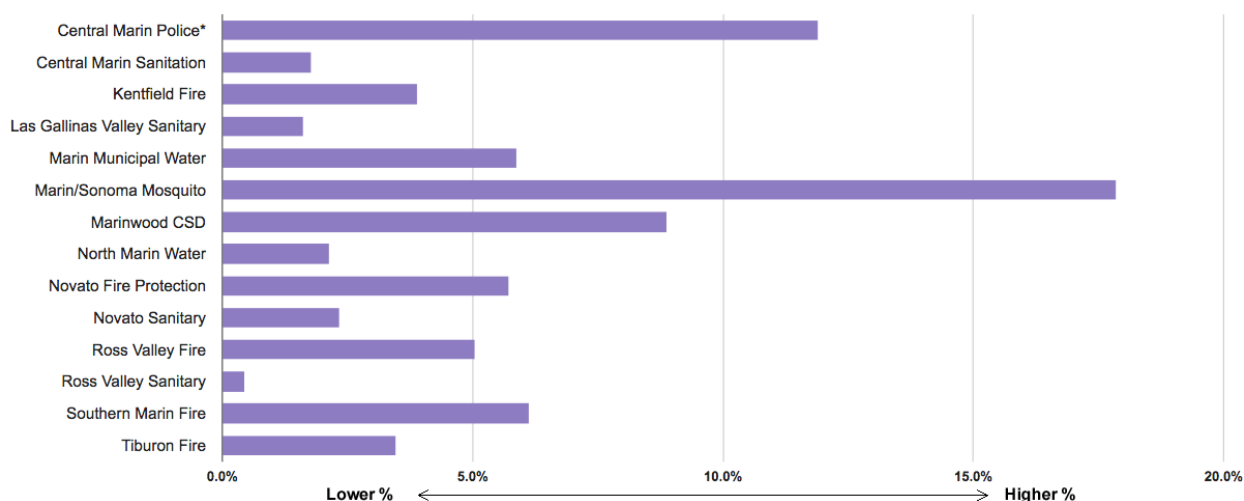


## APPENDIX F: Special Districts' ARC as a Percentage of Total Revenue

The amount of an agency's annual required contribution (ARC) can be compared to its total revenue. A higher percentage may signal future budgetary challenges if not properly managed.

Special District	UAAL FY 2012	UAAL FY 2016	UAAL Change	ARC FY 2016	Total Revenue FY 2016
Central Marin Police*	\$7,493,551	\$15,155,425	7,661,874	\$1,321,032	\$11,087,891
Central Marin Sanitation	\$2,872,049	\$2,496,424	(375,625)	\$301,327	\$16,952,527
Kentfield Fire	\$2,004,784	\$2,146,412	141,628	\$195,606	\$5,014,333
Las Gallinas Valley Sanitary	\$1,985,486	\$2,094,980	109,494	\$211,861	\$12,976,695
Marin Municipal Water	\$34,264,000	\$33,104,000	(1,160,000)	\$3,683,000	\$62,502,430
Marin/Sonoma Mosquito	\$12,030,407	\$15,038,000	3,007,593	\$1,542,000	\$8,638,747
Marinwood CSD	\$4,422,797	\$6,477,757	2,054,960	\$518,769	\$5,837,007
North Marin Water	\$3,470,834	\$4,085,375	614,541	\$384,385	\$17,912,719
Novato Fire Protection	\$16,751,185	\$13,567,350	(3,183,835)	\$1,596,595	\$27,838,320
Novato Sanitary	\$6,112,283	\$6,313,211	200,928	\$452,506	\$19,299,289
Ross Valley Fire	\$4,917,120	\$5,121,615	204,495	\$485,075	\$9,598,396
Ross Valley Sanitary	\$302,766	\$693,717	390,951	\$109,118	\$23,623,985
Southern Marin Fire	\$5,285,282	\$7,089,540	1,804,258	\$916,153	\$14,911,632
Tiburon Fire	\$2,269,028	\$2,182,181	(86,847)	\$249,592	\$7,184,792

Special Districts: FY 2016 ARC as Percentage of Total Revenue



## APPENDIX G: GASB 45 vs. GASB 75 Overview

GASB 45 <sup>55,56</sup>	GASB 75 <sup>57,58,59,60</sup>	Effect
Actuarial valuations required every 2 or 3 years (based on number of OPEB plan members), with optional alternative measurement method if fewer than 100 plan members.	Actuarial valuation required every 2 years for all OPEB plans, with optional alternative measurement method if fewer than 100 plan members.	More current picture of actuarial liability.
No single discount rate is required when an employer contributes less than ARC but has <i>some</i> plan assets.	Requires single discount rate that reflects (1) a long-term rate on plan assets to the extent they are projected to always be sufficient to cover projected payments, and (2) a municipal bond ( <i>lower</i> ) rate for the years when plan assets are not projected to cover projected payments. The projection must be based in part on whether the employer has a policy and practice to make its benefit payments.	Improves consistency, comparability and transparency of OPEB liability reporting.  Long-term liability is more accurately stated.
Only "net OPEB obligation" required on face of balance sheet. Unfunded liability (UAAL) reported in plan notes in CAFR (Comprehensive Annual Financial Report) or Audit.	Net OPEB Liability (NOL) reported on the face of the balance sheet. NOL equals actuarial accrued liability (TOL) minus market value of plan assets (FNP). NOL same as UAAL with some technical differences.	Financial reporting of OPEB liabilities parallels GASB 68 for pension reporting.
Provides for limited disclosures in financial statement notes and required supplementary information schedules.	Provides for more extensive disclosures in financial statement notes and schedules. The note disclosures include (1) an explanation of how and why the NOL changed from year to year, (2) a description of contribution requirements and how they are determined, (3) a statement of assumptions and other inputs used to measure, (4) detailed information about the discount rate used, and (5) NOL calculations with 1% increases and decreases in medical trend rate and discount rate.	Improves transparency of OPEB liability reporting.
Six acceptable actuarial cost methods	Must use a single actuarial cost method ( <i>entry age actuarial cost method</i> ).	Improves consistency, comparability, and transparency of OPEB liability reporting
Permits a choice between open or closed amortization periods.	Must use a defined closed period amortization for expenses.	Improves consistency, comparability, and transparency of OPEB liability reporting

<sup>55</sup> "[Summary of Statement No. 45: Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.](#)" *Governmental Accounting Standards Board*. June 2004

<sup>56</sup> "[Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits.](#)" *Governmental Accounting Standards Board*. 2005.

<sup>57</sup> "[Summary of Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.](#)" *Governmental Accounting Standards Board*. June 2015.

<sup>58</sup> "[Overview of GASB Statements 73, 74, and 75.](#)" *Milliman*. March 2016

<sup>59</sup> "[Brief Summary of New OPEB Accounting Standards: GASB 74 and 75.](#)" *Bartel Associates*. July 2015.

<sup>60</sup> "[GASB Approves New OPEB Employer Accounting Standard \(No. 75\).](#)" *Bartel Associates*. July 2015.

## APPENDIX H: Example Financial Literacy Classes and Presentations

### County Financial Reporting and Budgeting for Nonfinancial Professionals

Understand and interpret county financial reports

This course provides the tools for decision-makers, elected officials, senior managers – other than accountants and auditors – who want to have an overview understanding of government financial reporting. Participants discuss budgets, financial statements and the audit, and at the 30,000' level what each of those is saying (or not saying!). Participants should bring questions about terms or concepts they have encountered as part of their interaction with county and government financial reporting. The discussion reviews terms and definitions used with government financial reporting and strategies on how to read financial statements and auditor reports to identify critical information and understand what it means ... in plain English!

From: [California State Association of Counties](#)

### Financial Management: Debt and Investment of Public Funds

Make informed decisions about the use of public resources

Elected and appointed officials make critical decisions on the issuance and administration of debt, and the investment of public funds, but may have little experience or depth of knowledge on this complicated subject. This class provides a foundation on understanding debt, debt capacity, options, and county policy on debt. It examines the fiduciary responsibilities of elected and appointed officials and then explores investment of public funds. An overview of prudent investment policy, portfolio strategy and the role of the investment advisors are also explored.



#### Retiree Health Benefits The Funding Issue

- Unlike pensions, health benefits have not been pre-funded for a long period of time
  - ▶ Most plan sponsors nationwide have not pre-funded health benefits either
  - ▶ Currently very little investment income to help pay benefits
- Costs rise as more members retire, and health inflation outpaces general inflation
- Pre-funding contribution rates have been calculated since 1999 – but pre-funding started only recently



#### Circumstances That Would Increase Projected Costs

- Medicare funding reductions or cost shifting
- Unexpected new benefit recipients (from health benefit cutbacks of other employers)
- Medical inflation worse than assumed; the actual future contributions will depend on future per capita health cost increases (health inflation)<sup>\*</sup>
- Lower than expected investment returns; bigger impact as plan assets grow
- This is not a complete list

\* Per capita costs are projected to increase 9% the first year, graded down to 3.5% in the tenth and later years.

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From: "[Michigan State Employees: Retiree Health Actuarial Valuation](#)." Gabriel Roeder Smith & Company. 30 Sep. 2015