



# **Other Post-Employment Benefits Irrevocable Trust**

May 15, 2018

# What are Other Post-Employment Benefits (OPEB)

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Benefits offered by local government agencies to employees that are unrelated to pension benefits

Benefits principally involve:

- Health Care
- Life Insurance
- Disability
- Legal and other services

The cost of benefits is an ongoing liability for existing and future employees

- Funded from operating revenues
- Increase in expense results in unfunded liability reported in audit

# Importance of Addressing OPEB

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Reported audit (balance sheet) liability represents an estimated actuarial value based on the following factors:

- How many people work for the municipality
- How many have retired and the benefits promised
- Age of workers
- Mortality
- Retirement date
- Length of benefits
- District health plans costs

Management of general fund revenues

Forecasting of cash flows

# Governmental Accounting Standard Board (GASB)

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**GASB:** Independent, private-sector, nonprofit, and nonpartisan organization that works to create and improve the rules that states and local governments follow when accounting for their finances and reporting them to the public.

GASB approved new accounting standards for OPEB plans in June 2015 which are similar to the GASB 67 & 68 standards that cover pension benefits

## **GASB 67 & 68**

- Require liability for pension obligations, Net Pension Liability (NPL) recognized on the balance of plan and participating employers
- Pension expense (OE) recognized on income statement

Developed new disclosure reporting standards for accuracy of nature and size of long term financial obligations of OPEB – measure, recognize report expenses, expenditures, liabilities

## **GASB 43**

- Covers plan or trust administrators

## **GASB 45**

- Addresses accounting and reporting requirements

# GASB 74 & 75

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New OPEB standards are aligned with the pension standards issued in June 2015  
GASB 74 & 75 make OPEB accounting and financial reporting consistent with pension standards in Statements 67 & 68

Objective is to establish consistent set of standards for all postemployment benefits providing transparent reporting on liabilities and useful information about the liabilities and costs of the benefits

**GASB 74** – Financial Reporting for Postemployment Benefit Plans and Asset Reporting

**GASB 75** – Accounting and Financial Reporting by Employers for Post-Employment Benefits

- Unfunded OPEB liabilities will be recognized on the government agency's financial statements
- 20 year Municipal Bond rate is discount rate for unfunded benefit payments
- Long term rate of return on plan investments used to discount benefits projected to be paid by plan assets
- Generally, increases reported liabilities of Districts with no pre-funding of OPEB Benefits
- Effective June 2018

# Challenges of OPEB Liability

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## Rising Medical Costs

- Actuarial determination growth rate
- Adjusted every two years

## Interest Rates

## Cash Flow valuation

- Current cost, cost trends, the number of people receiving benefits and the timing of those benefits is designed to generate a set of future cash flows required to pay for retiree health benefits.

## Liability of lifetime benefits of Pre-2013 employees

- Longer Life Expectancy

# Options for OPEB

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## Pay-as-you-go approach

- May not keep up with liability increases

## Revocable Trust

- Funds contributed to an account outside of the General Fund
- Funds can be changed or terminated at any time
- No accounting offset to the balance sheet liability

## Irrevocable Trust

- Funds contributed to qualified trust
- Broad range of investment
- Sole purpose to fund retiree benefits
- Direct offset to OPEB liability on balance sheet
- Credit Rating and Accreditation positive

## Investment Options

- CalPERS, CCLC/PARS, Keenan, Independent Investment Advisors

# OPEB Funding Plan To Date



The District reviews its existing liability for retiree benefits and conducts an actuarial valuation every two years

The District provides Other Post-Employment Benefits (OPEB) in accordance with employment contracts to certain employees who retire on or after attaining age 55 with 10 years of continuous service (for PERS participants) or on or after age 50 with 30 years of service or age 65 with 5 years of service (for STRS participants)

- Retirement benefits were capped in January 2013
- To date, District budgets on a pay-go basis as determined in the 2015 actuarial study
- Approximately \$5 million in funds have been set aside to date

	
<u>Actuarial Accrued Liability (AAL)</u>	\$125,360,697
<u>Unfunded Actuarial Accrued Liability ( UAAL)</u>	\$83,449,153
<u>Annual Required Contribution (ARC)</u>	\$10,923,853

- 2019 Actuarial Report will have Net OPEB Liability

# Next Steps To Establish GASB 74/75 Trust



## Board of Trustees

- Adopt Resolution establishing a Retirement Board of the Chabot-Las Positas CCD Public Retirement System and approve By-Laws therefor
- Appoint members to Retirement Board (typically 7 members, no more than 3 Board members, minority of Board of District and minority of Retirement Board, usually 2 District staff members and 2 others)
- Adopt Resolution approving a Trust Agreement establishing a Section 115 Trust
  - \*Assets of Trust must revert back to District upon dissolution
  - \*District retains control of Trust via the appointment of members of Retirement Board
- Authorizes submission of letter ruling request to IRS seeking tax-exempt status of Trust
  - \*IRS approval generally takes 6 months and is expected to cost the District about \$50,000—about \$30,000 to the IRS in fees and about \$20,000 of legal expenses associated with documentation

## Retirement Board

- Formed pursuant Article 16, Section 17 of California Constitution
- Has sole and exclusive responsibility for investment of assets in the Trust
- The reason to create a Retirement Board is to be able to invest monies in the Trust in stocks, equities and other investments authorized by the Constitution and Government Code Section 53622 (prudent person standard of investment)
- Selection of Program for Trust and Third Party Administrators via RFP
  - Registered Investment Advisor
  - Discretionary Trustee
  - Custodian

## Substantive Plan

## Policies and Procedures