

# **Chabot-Las Positas Community College District Actuarial Study of Retiree Health Benefits April 2009**

The Government Accounting Standards Board (GASB) requires all public agencies to report their costs and obligations for Other Post Employment Benefits (called “OPEBs”) on their financial statements. For Chabot-Las Positas Community College District, OPEB consists primarily of health care benefits. Under GASB 45, an actuarial valuation must be completed every two years to quantify the district’s obligation.

Each affected public agency will have to address how best to manage this liability for the future.

## **Definitions:**

- OPEB refers to “other post-employment benefits”, meaning other than pension benefits
- GASB 45 requires districts to account for OPEB liabilities
- Actuarial Valuation estimates district unfunded liability
- Annual Required Contribution (ARC) determines how much a district should set aside
- Normal Cost is the dollar value of the “earned” portion of retiree health benefits by current employees
- Unfunded Actuarial Accrued Liability (benefits already earned by current and former employees but not yet provided for) amortized over 30 years
- ARC is the sum of the Normal Costs and the Unfunded Actuarial Accrued Liability
- Pay-As-You-Go is funding only the current year expense. No additional amount is set aside

## **District Numbers**

- Actuarial Valuation: \$118 million (at 5% discount rate)
- Annual Required Contribution: \$10.5 million
- Normal Cost: \$5.3 million
- Unfunded Actuarial  
Accrued Liability \$5.2 million
- Pay-As-You-Go \$4.3 million for 2009-10

## **This actuarial study is intended to serve the following purposes:**

To provide information to enable Chabot Las Positas CCD to manage the costs and liabilities associated with its retiree health benefits.

To provide information to enable Chabot Las Positas CCD to communicate the financial implications of retiree health benefits to internal financial staff, the Board, employee groups and other affected parties.

To provide information needed to comply with Governmental Accounting Standards Board Accounting Standard 12 (GASB 12) and with the forthcoming GASB accounting standards 43 and 45 related to "other post employment benefits"(OPEB's).

### Background

We are not alone.....

The 72 California Community College districts were surveyed regarding their OPEB "retiree benefits liabilities"

- 71 of the 72 districts have OPEB liabilities
- 15 of the 72 have not completed an actuarial study
- The total dollar amount for the community colleges is estimated at \$3.6 billion
- Lowest is \$640K (West Hills), highest is \$623 million (Los Angeles)

We are not alone

This issue of ever-increasing liabilities for OPEB is now in the forefront of many state leaders.

- Governor's Commission – The Governor issued an executive order in December 2006 creating a commission to address the issue of unfunded liabilities, mainly retiree health benefits.
  - Estimate for all California Public Agencies (\$200 billion)
  - (To put things into perspective, the entire budget for the State of California for FY 2007-08 is \$131 billion)

SB1729

This bill grants the CalPERS Board of Administration authority to allow public entities, as specified to contract with CalPERS system in order to pre-fund retiree health care benefits and other post-employment benefits

This bill would allow an employer to voluntarily participate in the pre-funding of health care coverage and OPEBs

CalPERS determines the contribution rate for that employer.

The Bill was recently vetoed

SB 840 – Proposed a single-payer health insurance bill for California. The bill was vetoed

## Funding Solutions for OPEB Liabilities

### Asset Sales

#### Pros and Cons

Pros - Proceeds can be used to fund liability, with certain restrictions  
- No debt incurred

Cons - District has no surplus asset to sell

## Funding Solutions for OPEB Liabilities

### OPEB Obligation Bonds

#### Why OPEB and Why Now

- Pros
- Solution in context of District's macro-financial picture
  - Manage the liability, the District will have equal annual payments
  - When invested, can earn higher interest, which, in and of itself can reduce the liability
  - Long term solution to a long term problem
  - Imposes budget discipline
  - Spreads the pain – Does not over burden future employees and decision makers
- Cons
- Investment earnings may fall below expectations

