

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

657



FROM: Human Resources Department

SUBMITTAL DATE:
May 27, 2005

SUBJECT: Post-Employment Health Benefits Valuation Based on Government Accounting Standards Board Statement #45

RECOMMENDED MOTION: That the Board of Supervisors receive and file the attached valuation of County liabilities related to provision of health benefits to County retirees, as recommended by Government Accounting Standards Board Statement #45, and direct the Pension Advisory Review Committee to review and recommend funding and reporting options prior to Fiscal year 2007-08.

Departmental Concurrence

BACKGROUND: The County currently provides its retirees with a partial contribution toward their health benefits in an amount ranging from \$25 to \$128 per month, depending on bargaining unit. This amount is charged to the department in which the retiree last worked, and is funded on a "pay-as-you-go" basis. The Government Accounting Standards Board (GASB) issued Statement #45 in June of 2004, which addresses accounting and financial reporting of post-employment health benefits provided by government employers. Effective July 1, 2007 (Fiscal Year 2007-08), the County will be required to report its liabilities and funding practices regarding these benefits on its annual financial statements. However, to allow for appropriate financial planning, the Human Resources Department requested our benefits consultant to prepare the first valuation of our post-employment health benefit liabilities as of January 1, 2005 (Attached).

Ronald W. Komers

Ronald W. Komers
Asst. County Executive Officer/Human Resources Dir.

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|-----------------------|-------------------------------|-----|-------------------------|-----|
| FINANCIAL DATA | Current F.Y. Total Cost: | N/A | In Current Year Budget: | N/A |
| | Current F.Y. Net County Cost: | N/A | Budget Adjustment: | N/A |
| | Annual Net County Cost: | N/A | For Fiscal Year: | N/A |

| | | |
|-------------------------|----------------------------------|--------------------------|
| SOURCE OF FUNDS: | Positions To Be Deleted Per A-30 | <input type="checkbox"/> |
| | Requires 4/5 Vote | <input type="checkbox"/> |

C.E.O. RECOMMENDATION: **APPROVE**

County Executive Office Signature *Ronald W. Komers*

- Consent
- Policy
- Consent
- Policy

Dep't Recomm.:
Per Exec. Ofc.:

Prev. Agn. Ref.: _____ District: _____ Agenda Number: _____

**ATTACHMENTS FILED
WITH THE CLERK OF THE BOARD**

3.22

Background (continued):

Retiree health benefits represent a significant liability for most government agencies, and have generally been funded on a pay-as-you-go basis. At this time, GASB requires only that the liability be reported on the County's financial statements. However, it is expected that these benefits will be required to be funded over employees' future working lifetimes in the near future, and accumulated liabilities will also be required to be amortized over a reasonable period. In addition, benefits to be valued include both the employer's contribution promised to retirees and the implied subsidy for blending retiree rates with active employee rates. The County currently subsidizes only early retirees' rates (i.e., until retirees reach age 65). Based on the combination of plans and contribution levels that the County offers, the Present Value of future benefits for current employees and retirees, assuming a 3% interest rate is estimated to be \$389,907,000. The annual Normal Cost, the portion of cost due to the current year of service (and each future year, when costs are spread over employees' total service to the County), is \$17,670,000. The Accrued Actuarial Liability, which represents the portion of the Present Value that is attributable to past service, is \$204,014,000. The accrued actuarial liability for past service (\$204,014,000) is generally amortized over a 30-year period, which would result in a total annual required contribution (normal cost plus amortization amount) of \$24,569,000.

The Government Accounting Standards Board has also ruled that no implied subsidy will be applied for retirees under the CalPERS health plans. To determine whether the County should consider rejoining the CalPERS plans to reduce its post-retirement health plan liabilities, the actuary also calculated the resulting liabilities if all County employees were participating in CalPERS. Using the same 3% interest assumption, but recognizing the increasing contributions legislated in the Public Employees' Retirement Law (PERL), the present value of future benefits would be \$543,973,000 (39.5% higher), while the annual normal cost would be \$23,781,000 (34.6% higher). The accrued actuarial liability would be \$289,088,000; the total annual required contribution (normal cost plus 30-year amortization) would be \$33,561,000 (36.6% higher). It is clear from this analysis that the County's post-retirement health plan liabilities would be significantly higher had we remained in the CalPERS health plans for all employees, due to the scheduled increases to retiree health contributions which have been mandated by PEHMCA.

The Human Resources Department has shared this report with the Pension Advisory Review Committee (PARC) and the Auditor-Controller. While this report identifies a significant liability for the County, our approach of limiting retiree health benefit contributions to flat dollar amounts has resulted in much lower liabilities than other counties and cities are experiencing. For example, the County of Orange has reported an unfunded liability in excess of \$1.3 billion for its post-employment health coverage, based on a 6% assumed interest rate. Funding these liabilities is not required at this time, but through careful planning now these benefits can be systematically funded in future budgets, rather than the current budgeting by departments for current expenditures only. The Pension Advisory Review Committee, which currently reviews and recommends the financial reporting and management of CalPERS pension liabilities, will recommend any budgetary and financial reporting actions prior to the 2007-08 Fiscal Year.