TO: BOARD OF SUPERVISORS

FROM: John Cullen, County Administrator

DATE: June 24, 2008

SUBJECT: OPEB – 2008 Other Post Employment Benefit Valuation

Contra Costa County

D3

SPECIFIC REQUEST(S) OR RECOMMENDATION(S) & BACKGROUND AND JUSTIFICATION

**RECOMMENDATIONS**:

CONSIDER accepting 2008 report (Attachment A) from Buck Consultants, LLC, concerning the County's liability for retiree health care and other post employment benefits (other than pensions), consistent with the requirements of Governmental Accounting Standards Board Statement No. 45 (GASB 45).

**FISCAL IMPACT:**

This Board Action presents a calculation of liability and has no specific fiscal impact on its own. The County's ability to reduce the liability will have significant future impact on the County's overall fiscal stability and ability to deliver services.

**BACKGROUND:**

On February 28, 2006, the Board of Supervisors authorized the County Administrator to execute a contract with Buck Consultants, LLC (Buck) to provide actuarial and consulting services related to compliance with the requirements of GASB 45. The purpose of GASB 45 is, through planning and awareness, to properly account for costs for retiree health benefits.

Buck developed an analysis of the County's liability for retiree health care and other post employment benefits (OPEB) consistent with the requirements of GASB 45 and presented their report to the County. This initial actuary report valued the County's unfunded liability for retiree medical insurance costs at $2.6 billion based upon a cash discount rate. This outstanding liability, if fully amortized over the following 30 years, would have necessitated an Annual Required Contribution (ARC) of $216 million. At that point in time, $216 million would have been six times the amount that the County was paying toward retiree health care premiums on a "pay-as-you-go" basis.

Since that time, County staff hired a benefit design consultant and began working on a plan to address the County's Other Post Employment Benefits unfunded liability for retiree medical insurance costs. The County has taken significant actions to address GASB 45. These steps are detailed in an April 15, 2008 report to the Board of Supervisors (Attachment B).

CONTINUED ON ATTACHMENT: X YES SIGNATURE: L Driscoll

✓ RECOMMENDATION OF COUNTY ADMINISTRATOR ____ RECOMMENDATION OF BOARD COMMITTEE

✓ APPROVE ____ OTHER

SIGNATURE(S): L Driscoll

ACTION OF BOARD ON 6/24/2008 APPROVE AS RECOMMENDED X OTHER X

Please see attached and addendum –

VOTE OF SUPERVISORS

X UNANIMOUS (ABSENT None)

AYES: ____ NOES: ____

ABSENT: ____ ABSTAIN: ____

I HEREBY CERTIFY THAT THIS IS A TRUE AND CORRECT COPY OF AN ACTION TAKEN AND ENTERED ON THE MINUTES OF THE BOARD OF SUPERVISORS ON THE DATE SHOWN.

ATTESTED June 24 2008

JOHN CULLEN, CLERK OF THE BOARD OF SUPERVISORS AND COUNTY ADMINISTRATOR

CONTACT: Lisa Driscoll (335-1023)

CC: All County Departments

BY Lena O'Neal, DEPUTY

The 2008 actuarial report (Attachment A) presents the results of Buck's actuarial analysis of the current liability for Contra Costa County's post employment health care benefits. The GASB 45 liability was developed as of January 1, 2008 using 2008 census and cost data and current plan provisions. As was discussed in the April 15 report, the change in adopted pension plan valuation assumptions has led to lower liabilities than was expected. Additionally, effective May 6, 2008 the County contribution for non-represented retirees will remain at the 2009 level for future years.

The 2008 valuation reports results for Contra Costa County for FY 2007-08 and FY 2008-09. The results for FY 2007-08 will be used in the County's Comprehensive Annual Financial Report (CAFR) for fiscal year ending June 30, 2008. Because the County did not pre-fund any of the liability in FY 2007-08, the cash discount rate of 4.5% will be used in this year's CAFR. The results (presented in Table 2 of Attachment A) are:

| | PAYGO |
|---|---|
| Total Accumulated Postemployment Benefit Obligation | $2,367,274,000 |
| Assets | 0 |
| Unfunded Actuarial Accrued Liability | **$2,367,274,000** |
| Annual Required Contribution Normal Cost | 116,102,000 |
| 30 Year Amortization of Unfunded Actuarial Accrued Liability | 78,909,000 |
| Annual Required Contribution | **$195,011,000** |

For the 2008-09 fiscal year, the County has adopted a partial pre-funding plan, in addition to the pay-as-you-go cost, of $20 million to a dedicated, irrevocable trust. This dedicated partial pre-funding allows for the use of a 6.32% discount rate for FY 2008-09. The result calculated as of January 1, 2008 for purposes of comparison produces the following result (presented in Table 4 of Attachment A):

| | PAYGO |
|---|---|
| Total Accumulated Postemployment Benefit Obligation | $1,736,915,000 |
| Assets | 0 |
| Unfunded Actuarial Accrued Liability | **$1,736,915,000** |
| Annual Required Contribution Normal Cost | 71,741,000 |
| 30 Year Amortization of Unfunded Actuarial Accrued Liability | 57,897,000 |
| Annual Required Contribution | **$129,638,000** |

This data must be 'rolled forward' for FY 2008-09 CAFR reporting. This means that the data must be updated from January 1, 2008 to project the increased liability between that date and the CAFR report date (June 30, 2009). Rolling the data forward to FY 2008-09 produces the following result (presented in Table 6 of Attachment A):

| | PAYGO |
|---|---|
| Total Accumulated Postemployment Benefit Obligation | $1,879,242,000 |
| Assets | 0 |
| Unfunded Actuarial Accrued Liability | **$1,879,242,000** |
| Annual Required Contribution Normal Cost | 76,274,000 |
| 30 Year Amortization of Unfunded Actuarial Accrued Liability | 62,641,000 |
| Annual Required Contribution | **$138,915,000** |

Please note that any actions taken by the Board of Supervisors since the publication of this report, including any actions which may be taken today, are not included in these figures. Depending upon future actions of the Board of Supervisors and pending union negotiations, the Board may wish to order an updated actuarial calculation of the liability for the June 30, 2009 CAFR.

Detailed information on the Board's actions, including all of the County's OPEB reports, is available on the County's web-site at www.cccouny.us.

ATTACHMENT A

buckconsultants
an ACS company

June 16, 2008

Ms. Lisa Driscoll
County Finance Director
Contra Costa County Administrator's Office
651 Pine Street, 10th Floor
Martinez, CA 94553

**RE: Governmental Accounting Standards Board (GASB) Statement #45 Valuation Results for Contra Costa County for FY 2007-2008 and FY 2008-09**

Dear Lisa:

This letter presents the results of Buck Consultants' (Buck's) actuarial analysis of the current liability for Contra Costa County's (CCC) postemployment health benefits, including medical, prescription drug, and dental benefits. Using 2008 census and cost data and current plan provisions, the GASB 45 liability was developed as of January 1, 2008. This valuation updates the preliminary retiree medical valuation completed in 2006. As additional guidance was issued by GASB over time it was found that already adopted pension plan valuation assumptions should be used when possible. The change in assumptions has led to lower liabilities than a two year rolled forward of the prior result would indicate.

The amount that CCC currently contributes toward medical benefits for non-CalPERS covered retired employees is a percentage of the 2008 plan rate varying from 59% for Health Net PPO to 98% for the CCHP – A plan. Employees who retire and are eligible for and immediately begin receiving a pension benefit through the Contra Costa County Employees' Retirement Association receive the full County contribution as presented for all plans in Appendix A. Retirees over age 65 also receive a contribution offset equal to the Medicare Part B premium of $96.40 per month for 2008 as an additional County contribution. The County contribution for CalPERS administered plans is a flat rate depending on the number of dependents covered under the plan.

1615 Murray Canyon Road, Suite 602 • San Diego, CA 92108-4320
619.297.4930 • 619.297.5220 (fax)

Effective May 6, 2008 the County contribution for non-represented retirees will remain at the 2009 level for future years. This plan change is reflected in all results reported herein.

This analysis includes all actives and retirees of County entities included in the County's CAFR and utilizing CCC health benefits. All results rely on census and health plan data provided by the County. A listing of 8,563 active employees with an average age of 45.6 years and average service of 9.8 years was used for this study. A separate file containing 5,813 retirees and survivors was provided for this study as well.

Table 1 summarizes the Accumulated Postemployment Benefit Obligation (APBO) as of January 1, 2008 as estimated for all participants under the current contribution schedule. The APBO is defined as the actuarial present value of benefits attributed to employee service rendered to a particular date.

The table also shows the normal cost (NC), which is the amount of benefit to be earned by the active employees for service in calendar year 2008. Discount rates of 4.5% and 7.75% are provided for comparison purposes. The 4.5% discount rate relates to the current pay-as-you-go (PAYGO) funding method while at the other extreme, 7.75% would reflect a fully funded postretirement medical plan.

Table 1
CCC Postemployment Health Benefits Plan
APBO and Normal Cost as of January 1, 2008

| | APBO @ 4.5% (PAYGO) | APBO @ 7.75% (Fully Funded) | NC @ 4.5% (PAYGO) | NC @ 7.75% (Fully Funded) |
|---|---|---|---|---|
| Active Employees | $1,390,880,000 | $736,910,000 | $116,102,000 | $50,534,000 |
| Retirees | 976,394,000 | 663,542,000 | 0 | 0 |
| Total | $2,367,274,000 | $1,400,452,000 | $116,102,000 | $50,534,000 |

Government Accounting Standards Board (GASB) Statement Number 45 provides disclosure requirements for Other Postemployment Benefit (OPEB) plans effective as early as plan years beginning after December 15, 2006. GASB Statement 45 requires the calculation of an Annual Required Contribution (ARC) consisting of the Normal Cost and a not greater than 30 year amortization of the Unfunded Actuarial Accrued Liability (UAAL). There is no requirement for CCC to actually fund the

ARC. The UAAL is the Accumulated Postretirement Benefit Obligation (APBO) less any assets held for the plan.

Most government postretirement medical plans are currently funded on a pay-as-you-go basis with no dedicated assets or funding scheme. For fiscal years beginning after December 15, 2006 the GASB statement requires that these plan liabilities be recognized on an accounting basis if not through an actual pre-funding arrangement.

Table 2 shows the ARC for the fiscal year that begins July 1, 2007 under the current health benefit plan under both discount rate assumptions.

Table 2
CCC Postemployment Health Benefits Plan
Annual Required Contribution for Fiscal Year 2007-2008

| | 4.5% Discount Rate (PAYGO) | 7.75% Discount Rate (Fully Funded) |
|---|---|---|
| Total APBO | $2,367,274,000 | $1,400,452,000 |
| Assets | 0 | 0 |
| UAAL | $2,367,274,000 | $1,400,452,000 |
| Annual Required Contribution | | |
| Normal Cost | $116,102,000 | $50,534,000 |
| 30 Year Amortization of UAAL | 78,909,000 | 46,682,000 |
| ARC | $195,011,000 | $97,216,000 |

The amounts above include the liability associated with the subsidization of retiree premiums by active employees. This occurs because the under age 65 retiree medical costs are much higher than active employee costs but the retiree rates are the same as the active rates due to the pooling of the costs in the underwriting process. Approximately $345,774,000 of the liability is caused by this rate subsidy, or 14.6% of the total liability under the 4.5% discount rate assumption.

Table 3 shows the distribution for individual entities that we were asked to allocate for the CAFR presentation. Table 3 provides information using the PAYGO funding approach only which corresponds to fiscal year 2007-2008 reporting.

Table 3
CCC Postemployment Health Benefits Plan
By Reporting Entity
APBO, NC, and ARC at a **4.5%** discount rate for Fiscal Year 2007-2008

| Entity | APBO | Normal Cost | ARC |
|---|---|---|---|
| Safety Non-Fire | $291,472,000 | $14,231,000 | $23,947,000 |
| CCC Fire | 178,462,000 | 5,283,000 | 11,232,000 |
| East County Fire | 10,544,000 | 923,000 | 1,274,000 |
| Hospital | 484,858,000 | 28,435,000 | 44,597,000 |
| CCHP | 20,277,000 | 1,523,000 | 2,199,000 |
| Airport | 4,535,000 | 137,000 | 288,000 |
| First Five | 251,000 | 23,000 | 31,000 |
| CCC Retirement System | 8,883,000 | 345,000 | 641,000 |
| All Other CCC | 1,367,992,000 | 65,202,000 | 110,802,000 |
| Total | $2,367,274,000 | $116,102,000 | $195,011,000 |

For the 2008-2009 fiscal year, the County plans to partially pre-fund the plan to a dedicated, irrevocable trust. The initial contribution will be $20 million in addition to the pay-as-you-go cost. GASB 45 allows for a higher discount rate based on the level of partial pre-funding. The interpolated discount rate based on the $20 million pre-funding level is 6.32% for the 2008-2009 fiscal year.

Table 4 on the next page demonstrates this result calculated as of January 1, 2008 for the purpose of comparing both the plan change and partial pre-funding combined results to the current fiscal 2007-2008 year pay-as-you-go result on the same basis.

Table 4
CCC Postemployment Health Benefits Plan
Partial Pre-funding Result as of January 1, 2008

| | 6.32% Discount Rate (Partial Funding) |
|---|---|
| Total APBO | $1,736,915,000 |
| Assets | 0 |
| UAAL | $1,736,915,000 |
| | |
| Annual Required Contribution | |
| Normal Cost | $71,741,000 |
| 30 Year Amortization of UAAL | 57,897,000 |
| ARC | $129,638,000 |

Table 5 provides the rolled forward result of the January 2008 valuation result at both the 6.32% partial pre-funding discount rate as well as the full 7.75% pre-funding discount rate. This is an important component used in determining the 2008-2009 fiscal year results shown later in Table 6.

Table 5
CCC Postemployment Health Benefits Plan
APBO and Normal Cost Rolled Forward One Year

| | APBO @ 6.32% (Partial Funding) | APBO @ 7.75% (Fully Funded) | NC @ 6.32% (Partial Funding) | NC @ 7.75% (Fully Funded) |
|---|---|---|---|---|
| Active Employees | $1,093,050,000 | $844,555,000 | $76,274,000 | $54,450,000 |
| Retirees | 786,192,000 | 674,916,000 | 0 | 0 |
| Total | $1,879,242,000 | $1,519,471,000 | $76,274,000 | $54,450,000 |

Table 6 develops the 2008-2009 fiscal year annual required contribution based on the Table 5 rolled forward result based on the January 1, 2008 valuation result. Note that the planned $20 million contribution is not included as a beginning of year assets but does provide for the higher 6.32% discount rate leading to a lower ARC than the 2007-2008 result at a 4.5% pay-as-you-go discount rate.

Table 6
CCC Postemployment Health Benefits Plan
Annual Required Contribution for Fiscal Year 2008-2009

| | 6.32% Discount Rate (Partial Funding) | 7.75% Discount Rate (Fully Funded) |
|---|---|---|
| Total APBO | $1,879,242,000 | $1,519,474,000 |
| Assets | 0 | 0 |
| UAAL | $1,879,242,000 | $1,519,471,000 |
| Annual Required Contribution | | |
| Normal Cost | $76,274,000 | $54,450,000 |
| 30 Year Amortization of UAAL | 62,641,000 | 50,649,000 |
| ARC | $138,915,000 | $105,099,000 |

The final table for this report, Table 7, presents the CAFR result by reporting entity for the 2008-2009 fiscal year based on the partial pre-funding discount rate of 6.32%.

Table 7
CCC Postemployment Health Benefits Plan
By Reporting Entity
APBO, NC, and ARC at a **6.32%** discount rate for Fiscal Year 2008-2009

| Entity | APBO | Normal Cost | ARC |
|---|---|---|---|
| Safety Non-Fire | $222,019,000 | $8,839,000 | $16,240,000 |
| CCC Fire | 141,624,000 | 3,286,000 | 8,007,000 |
| East County Fire | 7,752,000 | 585,000 | 843,000 |
| Hospital | 385,644,000 | 18,730,000 | 31,585,000 |
| CCHP | 17,209,000 | 1,039,000 | 1,613,000 |
| Airport | 3,587,000 | 89,000 | 209,000 |
| First Five | 211,000 | 16,000 | 23,000 |
| CCC Retirement System | 6,712,000 | 223,000 | 447,000 |
| All Other CCC | 1,094,484,000 | 43,467,000 | 79,948,000 |
| Total | $1,879,242,000 | $76,274,000 | $138,915,000 |

Appendix A provides the assumptions used for the actuarial analysis. This list includes items such as expected turnover rates, retirement rates, future trend rates, and mortality rates. The rates that we used are consistent with those used by CalPERS in its actuarial valuations. Appendix B provides a glossary of commonly used terms for postretirement medical valuations.

All results in the main body of this results letter reflect the use of the Entry Age Normal (EAN) actuarial cost method. This is a change from the Projected Unit Credit (PUC) actuarial cost method used for the preliminary valuation in 2006. This update allows for participation in the CalPERS Trust (CERBT) and also matches the cost method used by CCCERA for the pension valuation. The change to EAN did result in a slightly lower liability compared to the PUC result. Either cost method is allowable under GASB 45 reporting guidelines.

Appendix C provides a 5 year projected example of accounting under GASB 45 based on continued partial pre-funding of the ARC at the $20 million level beginning in fiscal year 2008-2009. Actual accounting results will vary based on the level of pre-funding contributions made, earnings from the trust, and any future change in discount rates for future valuations. The current assumption is that annual actuarial valuations will be conducted although GASB 45 does allow for biennial valuations.

Please contact us at (619) 725-1769 should you have any questions.

Sincerely,

Michael W. Schionning, FSA, MAAA
Principal & Consulting Actuary

James A. Summers, FSA, MAAA
Director & Consulting Actuary

cc: Jacqueline Farren, Buck Consultants

APPENDIX A

## Valuation Assumptions

**Mortality Rates**—RP-2000 Combined Healthy Mortality Tables set back two years.

**Withdrawal Rates**—Representative values are shown below

| Year | **General** Withdrawals per 1,000 Lives for employees with less than 5 years of Service | **Safety** Withdrawals per 1,000 Lives for employees with less than 5 years of Service |
|---|---|---|
| 1 | 140.00 | 110.00 |
| 2 | 90.00 | 70.00 |
| 3 | 80.00 | 50.00 |
| 4 | 60.00 | 40.00 |
| 5 | 50.00 | 30.00 |
| | **General** Withdrawals per 1,000 Lives for employees with more than 5 years of Service | **Safety** Withdrawals per 1,000 Lives for employees with more than 5 years of Service |
| **Age** | | |
| 30 | 50.00 | 30.00 |
| 35 | 49.20 | 22.00 |
| 40 | 42.30 | 16.10 |
| 45 | 35.40 | 10.50 |
| 50 | 16.80 | 0.00 |
| 55 | 3.70 | 0.00 |
| 60 | 0.00 | 0.00 |

**New Entrants**—None Assumed.

**Dependent Assumptions**—For active employees, 80% of males and 55% of females are assumed married at retirement. Female spouses are assumed to be three (3) years younger than their husbands.

**Discount Rates**—4.5%, 6.32%, and 7.75%.

**Participation Assumption**—98% active participation assumed upon retirement.

**Medical Demographic Information**—8,563 active employees and 5,813 retirees as of January 1, 2008.

**Retirement Rates**

| Probability of Eligible Retirements During the Year | | |
|---|---|---|
| Age | General | Safety |
| 50 | 3.0% | 25.0% |
| 51 | 3.0% | 20.0% |
| 52 | 3.0% | 20.0% |
| 53 | 3.0% | 20.0% |
| 54 | 5.0% | 25.0% |
| 55 | 10.0% | 30.0% |
| 56 | 10.0% | 30.0% |
| 57 | 10.0% | 40.0% |
| 58 | 10.0% | 40.0% |
| 59 | 10.0% | 40.0% |
| 60 | 15.0% | 100.0% |
| 61 | 20.0% | 100.0% |
| 62 | 25.0% | 100.0% |
| 63 | 25.0% | 100.0% |
| 64 | 30.0% | 100.0% |
| 65 | 35.0% | 100.0% |
| 66 | 35.0% | 100.0% |
| 67 | 35.0% | 100.0% |
| 68 | 35.0% | 100.0% |
| 69 | 35.0% | 100.0% |

Probability of retiring at age 70 equals 100% for both General and Safety.

**Health Care Cost and Expense Trend**—Annual trend rates are shown below.

| Medical Trend Rates by Calendar Year | |
|---|---|
| CY08 | 10% |
| CY09 | 9% |
| CY10 | 8% |
| CY11 | 7% |
| CY12 | 6% |
| CY13+ | 5% |

## Contra Costa County 2008 Rates and Contributions

| | | Current contribution | Rate |
|---|---|---|---|
| **Early Retirees** (under 65) | | | |
| **Kaiser** | EE | 80% | $499.70 |
| | EF | 80% | $1,164.29 |
| **Health Net HMO** | EE | 80% | $598.09 |
| | EF | 80% | $1,467.14 |
| **Health Net PPO** | EE | 59% | $832.24 |
| | EF | 59% | $1,977.04 |
| **CCHP - A** | | | |
| | EE | 98% | $516.42 |
| | EF | 98% | $1,230.38 |
| **CCHP - B** | EE | 90% | $569.72 |
| | EF | 90% | $1,353.74 |

## Contra Costa County 2008 Rates and Contributions (continued)

| **Retirees** (over 65) | | **Current contribution** | **Rate** |
|---|---|---|---|
| **Kaiser Cost** | EE | 80% + $96.40 | $551.88 |
| **Retiree** | EF | 80% + $192.80 | $1,268.65 |
| **Kaiser Senior** | EE | 80% + $96.40 | $226.97 |
| **Advantage** | EF | 80% + $192.80 | $618.83 |
| **Health Net Cost** | EE | 80% + $96.40 | $404.42 |
| **Retiree** | EF | 80% + $192.80 | $808.86 |
| **Health Net** | EE | 80% + $96.40 | $296.40 |
| **Seniority Plus** | EF | 80% + $192.80 | $592.80 |
| **Health Net Flex** | EE | 59% + $96.40 | $642.48 |
| **Net PPO** | EF | 59% + $192.80 | $1,284.97 |
| **CCHP - A** | EE | 98% + $96.40 | $420.02 |
| **Retiree** | EF | 98% + $192.80 | $1037.58 |
| **CCHP - B** | EE | 90% + $96.40 | $473.32 |
| **Retiree** | EF | 90% + $192.80 | $1,160.94 |

## CalPERS Participating Retirees:

For those retirees participating in CalPERS, the County pays the lesser of the actual rate or the following amounts:

| | | |
|---|---|---|
| Single | - | $409.48 |
| Employee +1 Dependent | - | $818.97 |
| Employee + Family | - | $1,064.65 |

APPENDIX B

## Glossary of Terminology

Accumulated Postemployment Benefit Obligation (APBO) - The actuarial present value of benefits attributed to employee service rendered to a particular date.

Active Plan Participant - Any active employee who has rendered service during the credited service period and is expected to receive benefits, including benefits to or for any beneficiaries and covered dependents, under the postretirement benefit plan.

Actuarial Present Value - The value, as of a specified date, of a future benefit cost or a series of benefit costs, with each amount adjusted to reflect (a) the time value of money (through discounts for interest and (b) the probability of payment (for example, by means of decrements for events such as death, disability, withdrawal or retirement) between the specified date and the expected date of payment.

Amortization - Systematic reduction of the principal portion (only) of an asset or liability.

Annual Required Contribution – Consists of the normal cost and a portion of the total unfunded actuarial accrued liability (UAAL). The normal cost and UAAL are derived from the actuarial present value of benefits, the actuarial cost method and the plan assets.

Attribution Period - The period of an employee's service to which the expected postretirement benefit obligation for that employee is assigned.

Discount Rate - The interest rate used in developing present values to reflect the time value of money.

Health Care Cost Trend Rate - An assumption about the annual rate(s) of change in the cost of health care benefits currently provided by the postretirement benefit plan, due to factors other than changes in the composition of the plan population by age and dependency status, for each year from the measurement date until the end of the period in which benefits are expected to be paid. The Health Care Cost Trend Rate implicitly considers estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of plan participants. Differing types of service, such as hospital care and dental care, may have different trends.

Normal Cost - The portion of the Postemployment Benefit Obligation attributed to employee service during a period.

Substantive Plan - The terms of a postretirement benefit plan as understood by an employer that provides postretirement benefits and the employees who render services in exchange for those benefits. The substantive plan is the basis for the accounting for that exchange transaction. In some situations an employer's cost-sharing policy, as evidenced by past practice or by communication of intended changes to a plan's cost-sharing provisions, or a past practice of regular increases in certain monetary benefits may indicate that the substantive plan differs from the extant written plan.

Contra Costa County
Example of Accounting for GASB 45
Cost Impact of the Initial 5 Year Period
($ in Thousands)

| Fiscal Year Ending | Final ARC | Interest on Net OPEB Obligation | ARC Adjustment | Amortization Factor | OPEB Cost | County Contribution | Change in Net OPEB Obligation | Net OPEB Obligation Balance |
|---|---|---|---|---|---|---|---|---|
| 2008 | $195,011 | $0 | $0 | 14.1470 | $195,011 | $38,556 | $156,455 | $156,455 |
| 2009 | $149,974 | $9,888 | $11,059 | 14.1470 | $148,803 | $64,288 | $84,515 | $240,970 |
| 2010 | $165,057 | $15,229 | $17,033 | 14.1470 | $163,253 | $69,953 | $93,300 | $334,270 |
| 2011 | $181,291 | $21,126 | $23,628 | 14.1470 | $178,789 | $75,939 | $102,850 | $437,120 |
| 2012 | $198,764 | $27,626 | $30,898 | 14.1470 | $195,492 | $82,201 | $113,291 | $550,411 |

Table Notes:

The 2007-2008 fiscal year ARC is based on the 4.5% pay-as-you-go discount rate.

The 2008-2009 and all future ARCs are based on a 6.32% discount rate and $20 million in partial pre-funding annual trust contributions over the pay-as-you-go cost.

The amortization factor for the Net OPEB obligation is based on 30 years at 6.32%.

Contributions to the trust are assumed to accrue interest at 7.75% annually.

TO: BOARD OF SUPERVISORS

FROM: John Cullen, County Administrator

DATE: April 15, 2008

SUBJECT: OPEB – Recommended Subsidy Changes and 2008 Actuarial Update

**ATTACHMENT B**

**County**

SPECIFIC REQUEST(S) OR RECOMMENDATION(S) & BACKGROUND AND JUSTIFICATION

**RECOMMENDATIONS:**

1. ACCEPT report from the County Administrator regarding recommendations on health care changes for unrepresented employees and appointed and elected officials and for persons who retired from positions that were unrepresented, appointed, or elected;
2. DECLARE intent to make health care changes as recommended for unrepresented employees and appointed and elected officials and for persons who retired from positions that were unrepresented, appointed, or elected;
3. DIRECT the County Administrator to work with County Counsel to prepare documents to implement the health care changes and return to the Board on May 6, 2008 for formal action on the health care changes;
4. ACCEPT update on draft information on 2008 Other Post-Employment Benefits (OPEB) Actuarial Valuation.

**FISCAL IMPACT:**

The result of the recommendations herein, if implemented, will have significant future impact on the County's overall fiscal stability and ability to deliver services.

**BACKGROUND:**

In March 2007, the County's Finance Committee received the County's actuarial report based upon 2006 data as required by the Governmental Accounting Standards Board (GASB) statements 43 and 45. The purpose of GASB 45 is, through planning and awareness, to properly account for costs for retiree health benefits. The original actuary report valued the County's unfunded liability for retiree medical insurance costs at $2.6 billion based upon a cash discount rate. This outstanding liability, if fully amortized over the following 30 years, would necessitate an Annual Required Contribution (ARC) of $216 million. At that point in time, $216 million would have been six times the amount that the County was paying toward retiree health care premiums on a "pay-as-you-go" basis. In addition, the report showed that, absent timely intervention; the dollar amount of the ARC for retiree medical would triple over the next ten years; resulting in a very real threat to the sustainability of the entire program itself and to vital County services that compete for the same funding.

CONTINUED ON ATTACHMENT: X YES SIGNATURE:

____RECOMMENDATION OF COUNTY ADMINISTRATOR ____RECOMMENDATION OF BOARD COMMITTEE

____APPROVE ____OTHER

SIGNATURE(S):

ACTION OF BOARD ON 4/15/2008 APPROVE AS RECOMMENDED X OTHER X

Please see attached addendum —

VOTE OF SUPERVISORS

X UNANIMOUS (ABSENT None)
AYES: ____ NOES: ____
ABSENT: ____ ABSTAIN: ____

I HEREBY CERTIFY THAT THIS IS A TRUE AND CORRECT COPY OF AN ACTION TAKEN AND ENTERED ON THE MINUTES OF THE BOARD OF SUPERVISORS ON THE DATE SHOWN.

ATTESTED April 15, 2008
JOHN CULLEN, CLERK OF THE BOARD OF SUPERVISORS AND COUNTY ADMINISTRATOR

BY Jere O'Neal, DEPUTY

CONTACT: Lisa Driscoll (335-1023)

CC: All County Departments

***History***

At the Board of Supervisor's request, County staff hired a benefit design consultant and began working on a plan to address the County's Other Post Employment Benefits unfunded liability for retiree medical insurance costs. Since March 2007, the County has taken significant actions to address GASB 45:

- Specific Goals and Objectives ☑
  The Board of Supervisors has set four specific goals: 1) to fully comply with GASB Statement 45; 2) to adopt and follow an OPEB financing plan, which balances our requirement to provide public services with our desire to provide competitive health care benefits for our employees both now and when they retire; 3) to minimize collateral detrimental impact to the provision of indigent health care in our County; and 4) pursue and support Federal and State legislation.

- Economic Census Assumptions and Rationales ☑
  Prior to ordering the first formal OPEB liability valuation, the OPEB task force met with actuaries from Buck Consultants and developed economic census assumptions and rationales for the actuarial valuation.

- Funding Strategy ☑
  While the County has paid for health care costs on a Pay-As-You-Go ("Pay-Go") basis for over forty years, the Board has publicly acknowledged the need to begin to partially pre-fund the benefit. Due to the size of the liability it is almost impossible for the County to fully pre-fund the liability; rather partial pre-funding will be phased in over thirty years. It is the Board's intent to fully pre-fund OPEB benefits over time.

- Funding Levels ☑
  The Board established an initial pre-funding target for the County of 100% of its retirees, which currently translates to 40% of the total OPEB liability. This means that during the next 30 years, we will need to incorporate updated demographics and cost information into our financing plan in order to fully fund our OPEB benefits. In establishing this target level, a variety of things were considered: 1) specific funding guidelines for financial long-term obligations; 2) the Government-wide balance sheet impact of various funding levels; 3) the liability impact of various funding levels; 4) the volatility of the assumptions/risk of funding; and 5) the ability to fund/affordability (for more information see the June 26, 2007 report to the Board).

- Pre-funding resources ☑
  As an initial step towards funding the County's OPEB liability, the Board of Supervisors adopted the allocation of resources (and the future investment income earned) totaling $588 million (plus interest) reserved by the end of fiscal year 2022/23, and $100 million added annually thereafter.

- Employee Communication Forums and Information Sessions ☑
  The County Administrator scheduled OPEB informational sessions throughout the County for our employees. The purpose of the presentations was to provide information regarding OPEB, to answer employees' questions, and to seek employees input and suggestions on solutions.

- Establishment of a Trust Fund ☑
  The Board approved an irrevocable trust (Internal Revenue Code Section 115) for OPEB funding for Contra Costa County (1/15/08). The purpose of establishing the Trust is to comply with GASB to establish a mechanism for 1) saving OPEB funds, 2) earning interest, and 3) discounting our liability.

- Selection of a Benefit Design Consultant ☑
  County selected and contracted with a Benefit Design consultant – Buck Consultants to help in identifying cost control options.

Detailed information on the Board's actions, including all of the County's OPEB reports is available on the County's web-site at www.cccouny.us.

***County Administrator's Recommendations***

The County has ordered its 2008 actuarial evaluation update and has worked with the actuary in pursuit of the most up-to-date and accurate assumptions possible. One of these assumptions involves the changes to health care benefits that are recommended for unrepresented employees and for persons who retired from positions that were unrepresented. In order to include these assumptions in this valuation, we are asking for the Board of Supervisor to declare its intent to make the following changes to health care benefits:

A. For current unrepresented employees, and appointed and elected officials, and for persons who retired from positions that were unrepresented, appointed, or elected

1. Do not allow dual coverage in two County health plans for an employee or retiree or a dependent of an employee or dependent of a retiree after December 31, 2008. This means that an individual employee or retiree can only be covered under a single county health plan. The individual can be covered as either the primary or a dependent. This applies only in the case of persons who have spouses or partners who are either county employees or who retired from the county;
2. For individuals who become 65 on or after January 1, 2009, require enrollment in Medicare Parts A & B; and
3. Beginning January 1, 2010, set the County health care premium subsidy at the 2009 dollar level.

B. Establish a New Tier of health care coverage for unrepresented employees and officials hired, appointed or elected after December 31, 2008

1. Provide access to health benefits while employed;
2. Do not allow dual coverage in two county health plans for an employee or retiree or a dependent of an employee or dependent of a retiree;
3. Establish separate rate pools for active and retired employees. This action would separate the premium rates for retirees and actives to establish a more accurate cost of coverage for active and retired employees. Over time, as these new hires became a greater percentage of the work force, this action would eliminate the implied subsidy of retirees' health care rates which must be recognized by the GASB rules and reduce future OPEB liability; and
4. Provide that upon retirement: 1) the County would make no contribution towards health care premiums; and 2) eligible retirees would have access to County health plans until age 65, when they are eligible for Medicare.

C. Establish a Benefit Design Task Force charged with design recommendations for a new Health Benefit Program

1. Members of the Task Force would include: a) designated members of unrepresented employee and retiree groups; b) County subject matter experts; c) benefit design, actuary, and tax consultants;
2. Set specific achievement goals/parameters to recommend options for sound health care benefits within the County's budgetary limits;
3. Set specific target dates for completion of any plan redesign recommendations before 2010; and
4. Pursue portability of health care coverage and savings mechanisms for unrepresented County employees and retirees.

These recommendations will begin the process of reducing our OPEB liability, reducing overall health care cost growth, and reducing health care cost growth for the County. The recommendations have no immediate impact, in order to allow the County and individuals time to plan for the future. The County's goal is to reduce the overall cost growth of benefits prior to 2010 through Benefit Plan design changes that counteract medical cost growth in order to preserve a balance between providing sound health care coverage for our employees and retirees and maintaining vital county programs and services.

***2008 Draft Actuarial Analysis/Assumptions***

As was mentioned, the County has ordered the 2008 valuation which will be based on certain specific assumptions. The assumptions for both the 2006 valuation and the 2008 draft valuation are included as Attachments A and B respectively. For 2006, we used assumptions common for government sponsored postretirement medical plans, most of which were based on CalPERS pension plan assumptions for governmental agencies. For 2008, we used the latest available assumptions from the Segal pension valuation based on their experience study of Contra Costa County. These assumptions were adopted by CCCERA for our pension valuations. The only non-pension assumption used is the rate for retiree health participation. Originally, we used a 100% participation assumption; however, for 2008 we used a 98% assumption, based upon the behavior of our retiring County employees.

Of the assumption changes between the two valuations, the one with the single most significant impact was experienced based withdrawal rates. This assumption, by itself, had a 2% impact on the total liability. Although it did not have a significant impact on the liability, another change in the two assumptions is in our Actuarial Funding Method, which is used in order to allocate the benefit accrued by active employees as of the valuation date and the benefit to be accrued in the next year for accounting purposes. Per the Board of Supervisors direction, we moved to the CalPERS trust required method of Entry Age Normal.

As a reminder, the 2006 valuation projected a $2.6 billion total liability/accumulated postretirement benefit obligation (APBO), and a $216 million annually required contribution (ARC) based upon a 4.5% discount rate.

| | PAYGO |
|---|---|
| Total APBO | $2,571,650,000 |
| Assets | 0 |
| Unfunded Actuarial Accrued Liability | **$2,571,650,000** |
| Annual Required Contribution | |
| Normal Cost | 130,604,000 |
| 30 Year Amortization of UAAL | 85,721,000 |
| ARC | **$216,325,000** |

Assuming no changes in benefits and no pre-funding in FY 2008/09, the 2008 draft valuation projects a $2.6 billion total liability, and a $211 million annually required contribution based upon a 4.5% discount rate.

| | PAYGO |
|---|---|
| Total APBO | $2,554,226,000 |
| Assets | $0 |
| Unfunded Actuarial Accrued Liability | **$2,554,226,000** |
| Annual Required Contribution | |
| Normal Cost | $126,232,000 |
| 30 Year Amortization of UAAL | $85,141,000 |
| ARC | **$211,373,000** |

The 2008 draft liability is less than the 2006 result. Some of the reasons are that we updated CCCERA pension valuation (experience based) assumptions as required by CalPERS (where applicable); we had better overall medical and dental plan trend and renewals over the two years than originally assumed; we had less new retirements than originally assumed, which delayed the onset of benefits (this is called a demographic gain compared to valuation assumption); and we had overall cleaner and more complete data than was available in 2006.

***Impact of Recommendations on Liability***

Assuming the Board of Supervisors adopts a FY 2008/09 partial pre-funding of $20 million to the trust in addition to the pay-go cost, a 6.32% discount rate could be used, in which case the 2008 draft valuation projects a $1.9 billion total liability, and a $140 million annually required contribution.

| | Partial Pre-Funding |
|---|---|
| Total APBO | $1,866,742,000 |
| Assets | $0 |
| Unfunded Actuarial Accrued Liability | **$1,866,742,000** |
| Annual Required Contribution | |
| Normal Cost | $77,936,000 |
| 30 Year Amortization of UAAL | $62,225,000 |
| ARC | **$140,161,000** |

Assuming the Board of Supervisors adopts the County Administrator's recommendations regarding proposed changes as to unrepresented employees and appointed and elected officials and persons who retired from positions that were unrepresented, appointed, or elected AND the FY 2008/09 recommended budget which includes $20 million in partial pre-funding, the 2008 draft valuation projects a $1.7 billion total liability, and a $130 million annually required contribution.

| | Partial Pre-Funding |
|---|---|
| Total APBO | $1,736,915,000 |
| Assets | 0 |
| Unfunded Actuarial Accrued Liability | **$1,736,915,000** |
| Annual Required Contribution | |
| Normal Cost | 71,741,000 |
| 30 Year Amortization of UAAL | 57,897,000 |
| ARC | **$129,638,000** |

***Summary of OPEB Liability Changes***

If adopted, the recommended changes represent an $835 million or **32% reduction** to total liability and an $87 million or **40% reduction** in the annually required contribution. At the Board's adopted **40% funding target**, these changes reduce the County's $139 million 'gap' to approximately $54 million. Continued negotiation towards Countywide health care cost containment strategies and the redirection of designated future resources are key to resolving the OPEB dilemma. As is obvious from the information presented, the Board of Supervisors continues to make progress towards a solution for one of the biggest fiscal challenges the County is likely to face.

***Status of California Employer's Retiree Benefit Trust Program (CERBT)***

Pursuant to Board of Supervisors direction in January, County staff directed the 2008 valuation to use the actuarial cost method required by CERBT, and has continued to track the progress of the trust. Three members of the County's OPEB Trust have attended an informational seminar on the CERBT and are in communication with CERBT staff. The status of the CERBT fund is:

- 45 agencies have sent in participation agreements;
- Over $260 million has been committed;
- Many more agencies are expected to join by June 30 and assets will be substantially higher by June 30, 2008;
- Participation in the CERBT has surpassed expectations of CERBT staff; and
- It is now believed that the total fees (including administrative, trust management and investment costs) will be in the range of 20 to 50 basis points.

Given this information, we have asked CERBT administrative staff to meet with our staff to address legal and administrative issues/questions. Dependent upon the outcome of this meeting, staff may revisit with the Board of Supervisors the decision on which trust or trusts to use. We will keep the Board informed as more information is received.

***Next Steps***

1. April 15 - Declare Intent to make the recommended changes to health care benefits for unrepresented employees and appointed and elected officials and for persons who retired from positions that were unrepresented, appointed or elected;
2. April 22 - Adopt FY 08/09 budget that reflects recommended health care benefit changes and budget reductions;
3. May 6 - Adopt changes to health care benefits for unrepresented employees and appointed and elected officials and for persons who retired from positions that were unrepresented, appointed or elected;
4. May 6- Establish Benefit Design Task Force;
5. Report back to the Board regarding recommendations on the CERBT (trust);
6. Continue employee and retiree information sessions;
7. Continue meeting & conferring as labor contracts expire; and
8. Continue community education and outreach on our efforts to achieve our goals.

# 2006
# Valuation Assumptions

**Mortality Rates**—1993 CalPERS Service Retirement for males and females

**Withdrawal Rates**—Representative values are shown below

| Year | Withdrawals per 1,000 Lives for Males with less than 5 years of Service | Withdrawals per 1,000 Lives for Females with less than 5 years of Service |
|---|---|---|
| 1 | 70.18 | 85.32 |
| 2 | 143.5 | 174.73 |
| 3 | 99.87 | 136.66 |
| 4 | 87.69 | 113.72 |
| 5 | 72.44 | 99.83 |
| | **Withdrawals per 1,000 Lives for Males with more than 5 years of Service** | **Withdrawals per 1,000 Lives for Females with more than 5 years of Service** |
| **Age** | | |
| 30 | 16.33 | 25.67 |
| 35 | 14.67 | 22.64 |
| 40 | 13.18 | 19.97 |
| 45 | 11.84 | 17.62 |
| 50 | 10.64 | 15.54 |
| 55 | 9.56 | 13.71 |
| 60 | 8.59 | 12.09 |

**New Entrants**—None Assumed.

**Dependent Assumptions**—For active employees, 85% are assumed married at retirement. Female spouses are assumed to be three (3) years younger than their husbands.

**Discount Rates**—4.5% and 7.9%.

**Participation Assumption**—100% active participation assumed upon retirement.

**Medical Demographic Information**—8,428 active employees, 4,856 retirees and 360 surviving spouses as of 01/01/2006. Because we currently do not know the source of the survivors, we allocated all of their liability to the general Contra Costa County grouping.

**Retirement Rates**

| Probability of Eligible Retirements During the Year | | |
|---|---|---|
| Age | Males | Females |
| 50 | 2.654% | 3.684% |
| 55 | 4.813% | 5.390% |
| 56 | 3.957% | 4.576% |
| 57 | 4.788% | 4.213% |
| 58 | 5.500% | 6.735% |
| 59 | 6.811% | 6.523% |
| 60 | 12.807% | 9.825% |
| 61 | 12.426% | 8.696% |
| 62 | 23.818% | 18.980% |
| 63 | 21.037% | 17.706% |
| 64 | 14.311% | 12.882% |
| 65 | 24.399% | 23.837% |
| 66 | 13.820% | 14.190% |
| 67 | 11.208% | 14.001% |
| 68 | 11.736% | 10.330% |
| 69 | 9.036% | 12.344% |

Probability of retiring at age 70 equals 100% for both male and female.

**Health Care Cost and Expense Trend**—Annual trend rates are shown below.

| Medical Trend Rates by Calendar Year | |
|---|---|
| CY06 | 12% |
| CY07 | 11% |
| CY08 | 10% |
| CY09 | 9% |
| CY10 | 8% |
| CY11 | 7% |
| CY12 | 6% |
| CY13+ | 5% |

## Contra Costa County 2006 Rates and Contributions

| | | Current contributions | Rate |
|---|---|---|---|
| **Early Retirees** (under 65) | | | |
| **Kaiser** | EE | 80% | $451.87 |
| | EF | 80% | $1,052.62 |
| **Health Net HMO** | EE | 80% | $537.65 |
| | EF | 80% | $1,318.87 |
| **Health Net PPO** | EE | 61% | $656.75 |
| | EF | 61% | $1,560.16 |
| **CCHP - A** | | | |
| | EE | 98% | $425.25 |
| | EF | 98% | $1,013.17 |
| **CCHP - B** | EE | 90% | $469.14 |
| | EF | 90% | $1,114.74 |

| Retirees (over 65) | | Current contributions | Rate |
|---|---|---|---|
| **Kaiser Cost** | EE | 80% + $88.50 | $509.28 |
| **Retiree** | EF | 80% + $177.00 | $1,167.64 |
| **Kaiser Senior** | EE | 80% + $88.50 | $256.43 |
| **Advantage** | EF | 80% + $177.00 | $661.94 |
| **Health Net Cost** | EE | 80% + $88.50 | $366.66 |
| **Retiree** | EF | 80% + $177.00 | $733.32 |
| **Health Net** | EE | 80% + $88.50 | $296.40 |
| **Seniority Plus** | EF | 80% + $177.00 | $592.80 |
| **Health Net Flex** | EE | 61% | $507.01 |
| **Net PPO** | EF | 61% | $1,014.03 |
| **CCHP - A** | EE | 98% + $88.50 | $347.05 |
| **Retiree** | EF | 98% + $177.00 | $856.77 |
| **CCHP - B** | EE | 90% + $88.50 | $390.94 |
| **Retiree** | EF | 90% + $177.00 | $958.34 |

**CalPERS Participating Retirees:**

For those retirees participating in CalPERS, the County pays the lesser of the actual rate or the following amounts:

| | | |
|---|---|---|
| Single | - | $338.76 |
| Employee +1 Dependent | - | $677.62 |
| Employee + Family | - | $880.78 |

# 2008 DRAFT
# Valuation Assumptions

**Mortality Rates**—RP-2000 Combined Healthy Mortality Tables set back two years.

**Withdrawal Rates**—Representative values are shown below

| Year | **General** Withdrawals per 1,000 Lives for employees with less than 5 years of Service | **Safety** Withdrawals per 1,000 Lives for employees with less than 5 years of Service |
|---|---|---|
| 1 | 140.00 | 110.00 |
| 2 | 90.00 | 70.00 |
| 3 | 80.00 | 50.00 |
| 4 | 60.00 | 40.00 |
| 5 | 50.00 | 30.00 |
| | **General** Withdrawals per 1,000 Lives for employees with more than 5 years of Service | **Safety** Withdrawals per 1,000 Lives for employees with more than 5 years of Service |
| **Age** | | |
| 30 | 50.00 | 30.00 |
| 35 | 49.20 | 22.00 |
| 40 | 42.30 | 16.10 |
| 45 | 35.40 | 10.50 |
| 50 | 16.80 | 0.00 |
| 55 | 3.70 | 0.00 |
| 60 | 0.00 | 0.00 |

**New Entrants**—None Assumed.

**Dependent Assumptions**—For active employees, 80% of males and 55% of females are assumed married at retirement. Female spouses are assumed to be three (3) years younger than their husbands.

**Discount Rates**—4.5% and 7.8%.

**Participation Assumption**—98% active participation assumed upon retirement.

**Medical Demographic Information**—8,563 active employees and 5,813 retirees as of January 1, 2008.

**Retirement Rates**

| Probability of Eligible Retirements During the Year | | |
|---|---|---|
| Age | General | Safety |
| 50 | 3.0% | 25.0% |
| 51 | 3.0% | 20.0% |
| 52 | 3.0% | 20.0% |
| 53 | 3.0% | 20.0% |
| 54 | 5.0% | 25.0% |
| 55 | 10.0% | 30.0% |
| 56 | 10.0% | 30.0% |
| 57 | 10.0% | 40.0% |
| 58 | 10.0% | 40.0% |
| 59 | 10.0% | 40.0% |
| 60 | 15.0% | 100.0% |
| 61 | 20.0% | 100.0% |
| 62 | 25.0% | 100.0% |
| 63 | 25.0% | 100.0% |
| 64 | 30.0% | 100.0% |
| 65 | 35.0% | 100.0% |
| 66 | 35.0% | 100.0% |
| 67 | 35.0% | 100.0% |
| 68 | 35.0% | 100.0% |
| 69 | 35.0% | 100.0% |

Probability of retiring at age 70 equals 100% for both General and Safety.

**Health Care Cost and Expense Trend**—Annual trend rates are shown below.

| Medical Trend Rates by Calendar Year | |
|---|---|
| CY08 | 10% |
| CY09 | 9% |
| CY10 | 8% |
| CY11 | 7% |
| CY12 | 6% |
| CY13+ | 5% |

## Contra Costa County 2008 Rates and Contributions

| | | Current contribution | Rate |
|---|---|---|---|
| **Early Retirees** (under 65) | | | |
| **Kaiser** | EE | 80% | $499.70 |
| | EF | 80% | $1,164.29 |
| **Health Net HMO** | EE | 80% | $598.09 |
| | EF | 80% | $1,467.14 |
| **Health Net PPO** | EE | 59% | $832.24 |
| | EF | 59% | $1,977.04 |
| **CCHP - A** | | | |
| | EE | 98% | $516.42 |
| | EF | 98% | $1,230.38 |
| **CCHP - B** | EE | 90% | $569.72 |
| | EF | 90% | $1,353.74 |

| | | Current contribution | Rate |
|---|---|---|---|
| **Retirees** (over 65) | | | |
| **Kaiser Cost** | EE | 80% + $96.40 | $551.88 |
| **Retiree** | EF | 80% + $192.80 | $1,268.65 |
| **Kaiser Senior** | EE | 80% + $96.40 | $226.97 |
| **Advantage** | EF | 80% + $192.80 | $618.83 |
| **Health Net Cost** | EE | 80% + $96.40 | $404.42 |
| **Retiree** | EF | 80% + $192.80 | $808.86 |
| **Health Net** | EE | 80% + $96.40 | $296.40 |
| **Seniority Plus** | EF | 80% + $192.80 | $592.80 |
| **Health Net Flex** | EE | 59% + $96.40 | $642.48 |
| **Net PPO** | EF | 59% + $192.80 | $1,284.97 |
| **CCHP - A** | EE | 98% + $96.40 | $420.02 |
| **Retiree** | EF | 98% + $192.80 | $1037.58 |
| **CCHP - B** | EE | 90% + $96.40 | $473.32 |
| **Retiree** | EF | 90% + $192.80 | $1,160.94 |

**CalPERS Participating Retirees:**

For those retirees participating in CalPERS, the County pays the lesser of the actual rate or the following amounts:

| | | |
|---|---|---|
| Single | - | $409.48 |
| Employee +1 Dependent | - | $818.97 |
| Employee + Family | - | $1,064.65 |

ADDENDUM TO D.3
June 24, 2008

On this day the Board of Supervisors considered accepting 2008 report from Buck Consultants, LLC, concerning the County's liability for retiree health care and other post employment benefits (other than pensions), consistent with the requirements of Governmental Accounting Standards Board Statement No. 45.

County Administrator, John Cullen introduced this item noting the Board of Supervisors had authorized the County Administrator to execute a contract with Buck Consultants, LLC (Buck) to provide actuarial and consulting services related to compliance with the requirements of GASB 45.

Supervisor Gioia asked if there is an actuarial process to establish the discount rate based on the $20m pre-funding level of 6.32 percent for the 2008-09 fiscal year, and how much additional prefunding would be needed to get the discount rate higher to lower the liability.

Finance Director, Lisa Driscoll said the 6.32 percent is based on the $20m and the full funding of the Annual Required Contribution (ARC) would be 7.75 percent discount rate.

Supervisor Gioia asked what the discount rate would be for $30 m, and how that could affect the liability.

Jim, Buck Consultants explained the $105 m shown on **buck** Consultants Report, Table 6, page 6 would be the Annual Required Contribution (ARC) and the 6.32 percent is a simple interpolation. He went on to say bottom pay zero of the ARC is 4.5 percent; pay $105 m is 7.75 percent and explained the interpolation is 60 percent of the way from 4.5 percent to 7.75 percent and that is how the 6.32 percent is arrived at.

Supervisor Piepho asked if there were other jurisdictions similar to the County that had the highest unfounded liability.

*Jim*, noted the biggest disadvantage is paying a percentage of the premium. He explained evaluation assumptions are made for premiums to go up and other counties set a flat dollar allowance.

Supervisor Uilkema noted if the County is able to reduce the liability the full Board of Supervisors should be notified that such a change has occurred.

Ms. Driscoll pointed out should a major change occur the actuarial evaluations would be redone.

Supervisor Bonilla noted the County does not wish to wait for two years to order an updated actuarial calculation of liability, but would like to request a new data next year.

Referring to Appendix A of the **buck** Consultant's report, under Health Care Cost and Expense Trend – *Medical Trend Rates by Calendar Year* Supervisor Gioia asked how these rates are different from the numbers in the last actuarial report.

Jim, from **buck** Consultants noted in 2006 their firm assumed short-term trend..*(can't hear from tape)need to listen to audi ..(not up as of 6/25/08 11:11 am*

Supervisor Gioia asked what the actual rate of growth is in health care cost.

Jim, **buck** Consultants responded about 10 percent.

Chair Glover asked for public opinion and the following person spoke:

- Roland Katz, Business Agent, Local 1 informed the Board the County is taking more steps than other agencies. He said today's report showed the numbers have gone down with very little action taken. He informed the Board the county changed its assumptions to what PERS used for the Contra Costa County Retirement system. He concluded by saying the County went from $2.6 billion to $1.4 billion. He said the Union and the County have a mutual interest in this and asked the Board to work together with the Union.

Supervisor Gioia responded to Mr. Katz and said the major action was to set aside $20m and that is why the County went through the pain in the budget hearings. He said today there is a drop of over $7 m in the liability.

Referring to the first page of the **buck** Consultant's letter, second paragraph "*The amount that CCC currently contributes towards medical benefits for non-Calipers covered retired employees is a percentage of the 2008 plan rate varying from 59% for Health Net PPO to 98 % for the CCHP-A plan"* Supervisor Bonilla asked for a complete analysis on the impact of 98% CCHP Plan for costs and how it would impact the County with this liability. She also requested an analysis on impacts for changes made on the actual hospital. She requested a representative from Calipers appear before the Board of Supervisors and talk about the health benefit to retirees.

Mr. Cullen said the Board received a report talking about CalPERS option from the Retiree Support group and noted an analysis is being done and a plan to have a meeting with the author to share with them his findings to see if there are disagreements and changes that should be made. He said the County Administrator's office is consulting with a CalPERS person to make sure the assumptions in that report and the County's report are right. He concluded by saying an analysis would go before the Board soon.

Supervisor Bonilla said at some point this issue should be resolved and requested factual numbers on a written page.
Supervisor Piepho asked Mr. Katz to participate on this matter so the Board and the Union could jointly learn how sometimes little changes make big adjustments.

Chair Glover said the idea behind the Task Force was to engage employee groups to be helpful in the solution and concurred with Supervisor Piepho's request to Local 1 that no one should be excluded from the discussions. He said there is a difference between meeting and conferring and coming up with ideas.

By an unanimous vote with all Supervisors present the Board amended the recommendation to read:

ACCEPTED the 2008 report from **buck** Consultants; and

REQUESTED County Administrator's staff to notify the Board of possible financial changes that would encompass a possible action.