

Agenda Item (VIII-D-2)

Meeting	4/21/2015 - Regular
Agenda Item	Committee - Resources (VIII-D-2)
Subject	Other Post-Employment Benefits (OPEB) Obligation Funding Plan
College/District	District
Funding	All Resources
Recommended Action	It is recommended that the Board of Trustees approve the Other Post- Employment Benefits Obligation Funding Plan as presented.

Background Narrative:

Recommend approving the Other Post-Employment Benefits Obligation Funding Plan as presented in the attachment.

Prepared By: Aaron Brown, Vice Chancellor, Business and Financial Services

Attachments:

[04212015_OPEB Obligation Funding Plan](#)

Other Post-Employment Benefits Obligation Funding Plan

The March 2014 visit by the visiting team for the Accrediting Commission for Community and Junior Colleges (ACCJC) resulted in a District recommendation to implement a plan to fund contributions to the District's other post-employment benefits obligation.

Governmental Accounting Standards Board (GASB) Statement 45 is an accounting and financial reporting provision requiring governmental employers to measure and report the liabilities associated with other (than pension) post-employment benefits (OPEB), both funded and unfunded. Reported OPEBs may include medical, pharmacy, dental, vision, life, long-term disability and long-term care benefits. There are two considerations when determining this liability. The annual required contribution (ARC) consisting of the normal cost plus an amortization component and the long term liability which is the cumulative difference between the amounts expensed and the amounts contributed to a plan. It should be noted that GASB 45 does not require funding of the OPEB obligation.

The District's medical plan, a single-employer defined benefit healthcare plan, is administered by the District. The plan provides a paid medical insurance benefit to eligible retired academic, classified, confidential, and management employees and one dependent until age 65 (BP/AP 7380). Eligibility is available to all retirees who have a minimum of 10 years of service with the District and who have reached the age of 55.

On July 1, 2014, an actuarial valuation was performed to determine the District's liability for its post-employment benefits. The net OPEB obligations for each of the fiscal years 2010 through 2014, ending June 30, are as follows:

Year	Annual OPEB Cost	Actual Contributions	Percentage Contributed	Net OPEB Obligation
2010	\$1,462,715	\$ 766,350	52%	\$1,653,090
2011	\$2,262,462	\$ 577,224	26%	\$3,338,328
2012	\$2,242,316	\$1,199,115	53%	\$4,381,529
2013	\$2,872,832	\$1,209,729	42%	\$6,044,632
2014	\$2,960,168	\$1,159,902	39%	\$7,844,898

All audits of the institution have been unqualified. The District plans for and, to date, has used a "pay-as-you-go" methodology to allocate appropriate resources for the payment of liabilities and future obligations, including other post-employment benefits (OPEB), compensated absences, and other employee related obligations as disclosed in all annual audits. However, the District has not funded the future cost of the Annual Required Contribution (ARC). The District's annual required contribution is \$3,041,672, and the annual OPEB cost is \$2,960,168 based on the July 1, 2014 actuarial valuation.

In addressing the Commission's District recommendation, the District considered a number of options to address the OPEB liability. These included the formation of an irrevocable trust, the establishment of a restricted fund, the issuance of OPEB bonds, and the initiation of a self-assessment. Since the inception of GASB 45, the District has not funded the future cost of the ARC. Annual "pay-as-you-go" costs of the ARC approximate \$1.2 million. The most recent actuarial valuation puts the annual funding of the future cost of the ARC at approximately \$1.2 million. Therefore, to completely fund the GASB 45 liability, additional annual contributions of between \$.80 million and \$1.0 million (the remaining portion would presumably be from investment earnings) would be necessary. A funding plan proposal has been developed to respond to the accreditation recommendation.

This proposal, discussed with the District Budget Advisory Council (DBAC) on January 23, 2015 and again on February 27, 2015, was also vetted through each of the college's shared governance processes and has been reviewed by both the District Strategic Planning Committee (January 30, 2015 and March 13, 2015) and the Chancellor's cabinet (March 30, 2015).

The plan consists of the following:

1. Effective July 1, 2015, establish an irrevocable trust to pay current retiree health costs and to accumulate funds for future costs to offset the OPEB liability;
2. Develop a rate to apply to every dollar of payroll, in all Resources that have payroll, to cover the annual current cost ("pay-as-you-go") plus a minimum of \$250,000 annually to begin providing for future retiree health costs, including application of the rate to grant and categorical programs in accordance with OMB Circular A-21 and the State Chancellor's Accounting Advisory – GASB 45 Accounting for Other Post-Employment Benefits;
3. Investment earnings over time will contribute to the reduction of the outstanding OPEB liability, so the total amount of funds set-aside by the District and accumulated to pay for future retiree health costs will be limited to a maximum of 50% of the outstanding OPEB liability;
4. At least annually, transfer all funds provided by the retiree healthcare rate to the irrevocable trust;
5. Pay all retiree healthcare costs out of the irrevocable trust.