




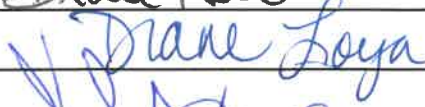





Joint Benefits Committee Meeting

Monday January 7, 2019

2:30pm

Name	Representing	Signature
Tracie Green	RSCCD	
Peter Hardash	RSCCD	
Kristen Guzman	FARSCCD	
Narges Rabii-Rakin	FARSCCD	
Morrie Barembaum	FARSCCD	
Colleen Mangali	CSEA 888	
Matthew Phutisatayakul	CSEA 888	
Sheryl Martin	CSEA 579	
Sean Small	CSEA 579	
Diane Hill	Staff	
Diane Loya	Staff	
Don Maus	Staff	
Adam O'Connor	Staff	
Nancy Tanner	Staff	

Discussion and Questions

OPEB Retiree Health Benefits

Establishment of an Irrevocable Trust

- Timeline:
 - Discussion with Joint Benefits Committee January 7, 2019
 - Board of Trustees Presentation January 14, 2019
 - Discussion with FRC January 23, 2019
 - Discussion with Orange County Treasurer January, 2019
 - RFP Process for an OPEB Trust Provider Jan – April, 2019
 - Legal Review/Board Approval May, 2019
 - Establish Irrevocable Trust and Transfer Funds June, 2019

Board Fiscal/Audit Committee Recommendation

- Irrevocable Trust – invest \$40 million
- Retiree Health Benefits Fund – maintain balance in separate fund
- Future ARC contributions options:
 - Remaining balance of ARC after premiums paid deposited to Irrevocable?
 - Remaining balance of ARC after premiums paid split between Irrevocable trust and Retiree Health Benefits Fund?
 - Remaining balance of ARC after premiums paid deposited to Retiree Health Benefits Fund

OPeB Retiree Health Benefits

- Available Resources:
 - Retiree Health Benefits Fund #63 Approximately \$60,000,000
- Other Needs to Consider:
 - Ability/flexibility to borrow from these funds for projects?
 - Ability to borrow from these funds for cash flow?
 - Ability to use funds for financial crisis?

Irrevocable Trust

Benefits of an Irrevocable Trust

- Increase earnings if have Irrevocable Trust (up to 7%)
- Counts as Plan Assets and reduces the OPEB liability
- **Employees can feel comfortable and secure that funds are “locked away” for their future retiree health benefits**
- **Reduce costs and strain to General Fund**
- Potential credit rating increase
- Accreditation Standard and fiscal health assessment affirmation

Drawbacks of an Irrevocable Trust

- Less Board flexibility as it cannot be tapped for other needs
- Once deposited to trust it cannot be removed
- Need to set careful rules for investment options as we don't want to bet on stock market volatility (investment risk assessment)

Irrevocable Trust

- In order to manage increasing liability one mechanism to assist on the interest earnings calculations is to use an Irrevocable Trust
 - Higher interest earnings due to expanded ability for investments for a legal trust
 - Not constrained by Government Code 53600 et al
- Plan Assets (irrevocable trust) vs Health Benefits Fund (revocable by Board action)
- Legally establish an independent Irrevocable Trust Plan
- Interestingly, GASB doesn't require districts to fund the calculated unfunded liability – just requires acknowledgement of liability on financials and a plan to fund
- However:
 1. Prudent to plan and fund identified obligations of district
 2. Accreditation Standard III D-12 requirements
 3. Bond Financing/credit ratings requirements
 4. Increasing cost pressure on district's annual budget

OPEB Retiree Health Benefits

- New GASB 75 valuation presented by Actuary to Board of Trustees on July 16th
 - GASB 43/45 prior pronouncements
- OPEB Liability now ~\$167.3 Million
 - Was \$82.1 million in 2014 and \$129.6 million in 2016
- Growing Unfunded Liability estimates are now more volatile under GASB 75
- RSCCD has contributed full Annual Required Contribution (ARC) since 2012
 - Prior Budget Assumptions ARC contribution policy was 1% of total salaries plus \$500,000
 - Not sufficient to keep up with rising ARC calculations and annual premium increases
 - At times used one time funds to increase contributions to ARC
- 2016 ARC - \$12 million
 - \$8 million goes to pay annual health care premiums for retirees (pay-as-you-go)
 - \$4 million contribution to Retiree Health Benefits Fund
- Contributions left over after annual premiums paid deposited into Retiree Health Benefits Fund
 - Current cash fund balance approximately \$60 million
- A major influencer of unfunded liability calculation is interest earnings on deposited funds
 - "Discount Factor"
- Had been earning approximately 1% interest in the County Treasury
 - Actuary using 3.5% since current funds are not considered Irrevocable Trust Plan Assets
 - If idle funds earned higher interest earnings, would lower ARC obligation

OPEB Retiree Health Benefits

- RSCCD provides full time employees with two forms of Retiree Health Benefits at retirement
 - Lifetime Health Benefits – F/T employees hired prior to 1986/87 after 15 years of service
 - Up to age 70 Health Benefits – F/T employees hired after 1986/87 after 15 years of service
- RSCCD pays annual retiree health premiums out of general fund
 - Approximately \$8 million per year for 2018/19
- Contractual Obligation to pay per CBA's
- Increasing annual cost of premiums for retiree health benefits
- Creates a huge unfunded liability to district's year to year budget as limited funding is set aside for this future obligation
 - None currently in an Irrevocable Trust
- Annual health premiums increase an average of 5% per year
- Future annual premium costs?
 - Larger and larger financial burden on General Fund

Agenda

- **Background Material**
- **Information Regarding Irrevocable Trust**
- **Recommendation**

RSCCD Joint Benefits Committee

- Other Post Employment Benefits (OPEB)
- Health Insurance Unfunded Liability

January 7, 2019