CITY OF EMERYVILLE

DATE: November 30, 2010

TO: Finance Committee

FROM: **Delores Turner, Assistant City Manager**

SUBJECT: **Annual Required Contribution to the California/Government Voluntary Employee Beneficiary Association (VEBA) Trust for Post-Employment Medical Reimbursements**

RECOMMENDATION

Staff recommends approval of the attached resolution approving an appropriation from Fund 710 to the California/Government Voluntary Employee Beneficiary Association (VEBA) Trust in the amount of $500,000 for post-employment medical reimbursements. With Finance Committee endorsement, we will forward this item to the City Council at their regularly scheduled meeting of December 7, 2010.

DISCUSSION

As part of a comprehensive benefit program, City/MESA provides post-employment health benefits to employees who retire from City/MESA. Under GASB 45, standards were created for the accounting and financial reporting of "Other Post-Employment Benefits" (OPEB). OPEB refers to the retiree benefits other than pensions and includes such things as a medical, dental, vision, life, or other benefits provided to employees upon their retirement.

Accordingly, to meet the GASB 45 standards of accounting for these liabilities, many years ago the City established a Post Employment Health Benefits Fund (Fund 710) that has accumulated a fund balance of $5,339,258 as of June 30, 2010. However, under the GASB 45 standards, to meet the standards of pre-funding the liabilities (similar to how the PERS retirement plan funding works), the funds must reside in an irrevocable trust rather than sit in a funding vehicle which allows the agency to redirect the monies for other purposes, as needed.) Therefore, the City/MESA chose to join a Voluntary Employee Beneficiary Association (VEBA Trust) in June 2006, specifically to cover the reimbursement to eligible retirees for medical plan premiums deducted from their monthly pension checks, to a negotiated, capped level. (Please note that participation in the California Government VEBA Trust was officially approved by Council on

December 20, 2005. A VEBA Trust is a tax exempt benefit plan qualifying under Section 501 (c)(9) of the Internal Revenue Code whereby funds can by set aside on a tax exempt basis for health care related expenses not covered by the City/MESA benefit programs. Eligible expenses include Long Term Care, medical premiums, co-pays and pharmacy charges.)

Utilizing the VEBA Trust and its third party administrator[1] to process monthly reimbursements has not only given retirees and the City/MESA added benefits, but also allows us to meet the GASB 45 accounting and financial reporting standards for OPEB liabilities. The benefits the retirees experience is a more efficient reimbursement/claims process that comes with having a dedicated reimbursement provider and the advantage of direct deposit of reimbursements. The City/MESA will continue to save money from reduced administrative costs – which is key during these times of reduced staffing levels – and the CalGOVEBA Trust yields are returning in excess of 3.5% before administrative fees compared to the yields the City enjoys in our pooled investment portfolios.

Funding OPEB Liabilities

The initial contribution from Fund 710 to the CalGOVEBA was made in 2006, in the amount of $500,000. In March 2008, Total Compensation Systems, Inc., (TCS) performed an actuarial study of retiree health liabilities for the City/MESA, using data provided to the City. Using standard actuarial practices and principles to determine the City's OPEB liabilities and future cost projections in accordance with GASB 45 requirements, TCS, found the actuarial present value (Actuarial Accrued Liability or AAL) of total projected benefit costs attributable to City/MESA employees' past service to be $6,520,182. In addition, to adequately fund these liabilities, TCS determined that the Annual Required Contribution (ARC)[2] to a qualified, irrevocable trust to cover the liabilities to be **$400,816.**) Following the actuarial study, the City made it's second Annual Required Contribution to the CalGOVEBA Trust, in the amount of $500,000, in May 2009.

Staff is recommending that in considering the 2010 ARC payment, that we make a $500,000 transfer to the CalGOVEBA. While this is in excess of the calculated 1st year ARC of $400,816, the higher amount allows us to maximize the returns on our OPEB assets, and further reduce our Unfunded Actuarial Accrued Liability. The City/MESA has an existing budget philosophy to identify and fund liabilities when funds are available; the funds have been set aside in Fund 710 and are available for this transfer.

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[1] As an update, the CalGOVEBA plan is administered by a new independent third party administrator, Benefits Services Corporation, located in (place.) The third party administrator handles the participant reimbursement process. Additionally, as the plan assets are invested with a guaranteed return on investment (a minimum of 3%) the administrative fees, including initial setup and recurring expenses, are paid out of the investment earnings of the Trust. The Trust assets are managed by Metropolitan Life Insurance Company with Brentwood Assets serving as the Trust Administrator. Metropolitan Life Insurance Company is currently rated AA- by Standard & Poor's.

[2] The ARC is simply the sum of the normal cost for the year (the present value of future benefits being earned by employees) *plus* amortization of the unfunded actuarial accrued liability (UAAL) (benefits already earned by current and former employees but not yet set aside in an OPEB-qualified trust).

FINANCIAL CONSIDERATIONS

Funds are available in the Post Retirement Health Benefits fund (Fund 710). As part of the City's budget philosophy, funds are currently set aside in this fund from the operating budget to fund future retirement medical benefit obligations. In addition, utilizing the VEBA trust will result in reduced staff time associated with the monthly processing of retiree reimbursements.

While the funding is an irrevocable election, and given the increased number of retirees participating in the post employment medical plan and reduced staffing in the Administrative Services Department, this program continues to enhance the efficiencies of managing a growing retiree benefit program.