TO: BOARD OF SUPERVISORS

FROM: John Cullen, County Administrator

DATE: April 15, 2008

SUBJECT: OPEB – Recommended Subsidy Changes and 2008 Actuarial Update

Contra Costa 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_____APPROVE AS RECOMMENDED _____ OTHER _____

VOTE OF SUPERVISORS

_____ UNANIMOUS (ABSENT_____)
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 _____
JOHN CULLEN, CLERK OF THE BOARD OF SUPERVISORS AND COUNTY ADMINISTRATOR

CONTACT: Lisa Driscoll (335-1023)

CC: All County Departments

BY _____, DEPUTY

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

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