



**Contra
Costa
County**

To: Board of Supervisors
From: David Twa, County Administrator
Date: April 12, 2016

Subject: Other Post Employment Benefits 2016 Valuation Assumptions

RECOMMENDATION(S):

ADOPT recommended assumptions and methods for use in Contra Costa County Other Post Employment Benefit Plan GASB 45 Actuarial Valuation as of January 1, 2016.

FISCAL IMPACT:

This report is for informational purposes and has no specific impact; however, the result of the recommendations herein, if implemented, may have impact on the County's calculated Other Post Employment Benefit Liability.

BACKGROUND:

An Other Post Employment Benefit Plan (OPEB) Valuation Report is required per Governmental Accounting Standards Board (GASB) Statements 43 and 45 to be completed, by a County the size of Contra Costa, every two years. The report presents a calculation of liability and has no specific fiscal impact on its own.

In 2004, due to growing concern over the potential magnitude of government employer obligations for post-employment benefits, the Government Accounting Standards Board enacted Statement 45. The main reason for the Statement was to establish uniform accrual

☒ APPROVE

☐ OTHER

☒ RECOMMENDATION OF CNTY
ADMINISTRATOR

☐ RECOMMENDATION OF BOARD
COMMITTEE

Action of Board On: **04/12/2016** ☒ APPROVED AS RECOMMENDED ☐ OTHER

Clerks Notes:

VOTE OF SUPERVISORS

AYE: John Gioia, District I Supervisor
Candace Andersen, District II
Supervisor
Mary N. Piepho, District III Supervisor
Karen Mitchoff, District IV Supervisor
Federal D. Glover, District V Supervisor

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 12, 2016

David Twa, County Administrator and Clerk of the Board of
Supervisors

Contact: Lisa Driscoll, County Finance
Director (925) 335-1023

By: June McHuen, Deputy

accounting and reporting of these governmental liabilities much like under the Financial Accounting Standards Board (FASB) rules that already applied to the private sector for OPEBs (and GASB 25 and 27 statements that already applied to governmental pension liabilities). Accrual accounting was needed to report the cost of providing government services over the working lifetime of employees providing the services, rather than just the "pay-as-you-go" (paygo) cost that was not realized until after those employees retired.

BACKGROUND: (CONT'D)

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Additionally, an intended audience for these GASB 45 results was the bond markets so that they could better assess levels of government solvency in issuing debt. Although plan solvency was not the main impetus behind Statement 45, GASB 45 is considered 'funding friendly' because it adds some security for those receiving the benefits, if those benefits are actually pre-funded. Because Statement 45 requires the public sector to account for total long term OPEB costs over the active service life of benefit-earning employees, rather than reporting current year OPEB costs only for existing retirees, it is thought that shining the light on these long term liabilities would force the public sector to address, and hopefully avoid, the collapses in benefit plans that have occurred in the private sector.

Pursuant to GASB 45 requirements, Contra Costa County ordered its initial actuarial report in 2006. The 2006 report valued the County's unfunded liability for retiree medical 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 costs on a paygo basis.

The County has received four actuarial reports since that time, which describe the significant actions the County has taken to reduce its OPEB liability since 2006. Interim valuation results have also been presented to the Board of Supervisors, pursuant to California Government Code 7507, since the 2008 report. Interim reports are required prior to the adoption of changes to these benefits. The County's ability to reduce the liability has had significant impact on the County's overall fiscal stability and ability to deliver services.

The majority of the elements of the valuation report are directed by GASB, however, some are not. In 2013, the County issued an RFP and selected Milliman, Inc. to be the County's OPEB actuary. Milliman reviewed the County's actuarial cost method and assumptions, confirmed some and recommended that the County change others. Staff reviewed the methods with the actuary and the Auditor recommended that the Board adopt the changes for the 2014 valuation. The changes led to a more accurate valuation of the County's OPEB liability. The same process has been used in preparation for the 2016 valuation. Over the last few months, Milliman has again reviewed the County's actuarial cost method and assumptions, confirmed some and recommended that the County change others. The proposed changes have taken into consideration the changes that will be required, per the GASB Statement 75 for the 2018 valuation. Staff reviewed the methods with the actuary and the Auditor and recommends that the Board adopt the following two changes for the 2016 valuation. The changes will lead to a more accurate valuation of the County's OPEB liability.

Actuarial Cost Method

We recommended that the actuarial cost method used for determining the benefit obligations be changed from the Entry Age Normal cost method to the Projected Unit Credit cost method for 2014. We had excellent reasons for that change at the time. The Entry Age Normal cost method is typically used to value pension benefits related to salary. Since health benefits are not based on salary, the Projected Unit Credit cost method is commonly used for OPEB valuations, as it allocates the present value of future benefits based on an employee's expected service with the County at retirement. The Actuarial Accrued Liability (AAL) is equal to the present value of future benefits prorated by service to the valuation date over service at the expected retirement age. The Normal Cost is equal to the portion of the present value of future benefits attributed to one year of service. This equals the present value of benefits divided by the expected years of service at retirement. Note that the actuarial cost method does not change the present value of the County's expected future OPEB payments. It only defines the method by which the present value of OPEB payments are allocated to each fiscal year for accounting purposes. However, in June 2015, GASB adopted standards 74 and 75 which will govern new accounting which is first effective for fiscal year ending June 30, 2017 for the fund itself and June 30, 2018 for the County. The new standard mandates the use of the individual Entry Age Normal cost method as a level percentage of salary. While the County could keep the Projected Unit Credit method for the 2016 valuation, the County will need to switch over in the next valuation for GASB 75. Staff is recommending that we make the change now.

Coverage Election Assumptions

In valuations prior to 2014, an assumption of marital status was included; however, assumed coverage elections for spouses and dependent children were not specified. For the 2014 valuation, we recommended use of assumed coverage elections based on County experience and detailed in the attached list of assumptions. The change yielded a lower liability result than previous assumptions. For the 2016 valuation, we are recommending a change in the spouse election assumption for new Safety retirees, addition of PEPRA Tier retirement rates, and an update of the medical information trend to reflect the delay of the effective date of the high cost plan Excise Tax (Cadillac Tax) from 2018 to 2020, and the one (1) year suspension of the Health Insurer fee in 2017.

The recommended changes to methods and assumptions and those current assumptions that we are recommending not be changed are included in an attachment for reference.

CONSEQUENCE OF NEGATIVE ACTION:

There will be a delay in the required issuance of the Contra Costa County Other Post Employment Benefit Plan GASB 45 Actuarial Valuation.

ATTACHMENTS

Recommended Assumptions and Methods - OPEB Actuarial Valuation as of January 1, 2016