

Date: 11-8-22

From: Bob Polito

To: Finance Committee

Re: Atherton OPEB Liabilities

At the September 2022 meeting of the Finance Committee, the Town's consultant, Precision Actuarial Inc/GovInvest, provided a "refresh" on the Town's liabilities for Other Post-Employment Benefits, i.e., retiree medical benefits. GovInvest determined that the Town's Total Accrued Liability for past and present employees for lifetime medical benefits earned thru June 30, 2022 amounts to \$7,736,578. Below I will provide some brief background on the Town's OPEB obligations, steps that have been taken to deal with them, and what I believe our next steps should be on this front.

As of July 1, 2011 an actuarial evaluation showed the Town's **Unfunded OPEB Liability** to be \$7,599,493. The Town had, up to that time, paid medical benefits from the General Fund as they were incurred, making no effort to define or fund past accrued obligations. The size of the problem and earlier changes to Governmental Accounting Standards came to the Council's attention and various remedies were discussed. This led to the creation of a Section 115 Irrevocable Trust Account with Public Agency Retirement Services (PARS) so that the Town could begin funding for these long-term liabilities.

In FY 2012-13 the Town made its first contribution to the Trust using available ERAF funds in the amount of \$1,299,316. Additional contributions were made to the Trust when funds became available, with a total of \$5,000,000 being deposited into the Trust by the end of the FY 2015-16.

In addition to the above, each fiscal year an Actuarial Valuation was conducted to determine what amount of funding is required to fund the additional benefits earned in that year. That amount is referred to as the Actuarial Determined Contribution (ADC) and each year, the Town has made at least a partial payment of the ADC into the Trust. These additional payments have totaled \$642,851. As of June 30, 2022, the Trust has seen deposits of \$5,642,851 and earnings of \$2,187,071. This has created a Fiduciary Net Position of \$7,829,922 available to offset our OPEB Liabilities of \$7,736,578.

Despite the substantial funding provided to and available within the PARS Trust itself, the Town has never used any of the Trust principal to pay benefits. Instead, all retiree benefits have been paid from the Town's General Fund and expensed in the year paid. This provided a "double dipping" effect, building an asset to offset a liability, while at the same time reducing the liability by expensing the day to day associated costs.

The net result of all the above is that FY 2022/23 began with an OPEB Trust Fund that is more than fully funded!

There is further good news when we examine our OPEB liabilities more closely. The total is comprised of two components: an "Explicit" and an "Implicit" liability. The Explicit amount is what the Town can actually expect to pay CalPERS for the medical benefits that the Town is contractually obligated to provide to retirees. The Implicit amount is a calculated additional cost the Town would incur **IF** the Town no longer participated in the CalPERS Group Plan, but instead had to purchase and provide the insurance on the open market. The calculation of this Implicit liability became a requirement with changes made to the Governmental Accounting Standards a few years ago. However, the chance of the Implicit liability ever occurring is essentially zero as it is extremely unlikely that CalPERS will stop offering Group Rated Health Insurance Plans to its members. In short, funding the Implicit amount is **absolutely unnecessary**.

If the Town's Total OPEB Liability is reduced by the Implicit portion (\$1,064,907), the remaining Explicit is \$6,671,671. When that "real" number is matched against the assets in the Trust, **the Town is now overfunded by \$1,158,251!**

Furthermore, it is anticipated that our OPEB liability will continue to be reduced over time. Currently, the Town has 41 former employees and 20 dependents receiving OPEB benefits. These retirees are entitled to those benefits for life based on a retiree health benefit plan in effect at the time of their initial employment. That liability makes up nearly 90% of the Town's total liability. On the other hand, of the Town's 40 active employees, only 13 can qualify for full family medical benefits if and when they retire from the Town. This is due to benefit package changes made in 2013, which transferred most of the cost for retiree medical back to the employee. And, of those that are eligible for full retiree medical, some may never receive those benefits as they may ultimately leave employment with the Town prior to retirement from CalPERS. Some have already done so and the funds that the Town accumulated in the Trust for those anticipated but unrealized benefits remains with the Town. **So, the increase in OPEB liabilities incurred for each future fiscal year will continue to decline.**

In light of the above, I strongly urge the Committee to consider a recommendation to the Council that the Town begin paying at least a portion, if not all, of retiree OPEB benefits from the funds available in the PARS Trust rather than expensing from the General Fund as has been done up to this point. Given the Town's fully funded status, with continued annual funding of the Explicit portion of the ADC, and with the gradual but predictable reduction in future employee OPEB benefits, the PARS Trust should have adequate funds to pay ALL retiree medical benefits when they come due for the foreseeable future.

The Council may wish to begin with some amount less than 100%, but given the above facts, I don't believe that is necessary, and I would further suggest such payments commence as soon as possible. This change reduces General Fund expenses going forward and, depending on the percentage allocation, could free up roughly half a million dollars each year for use toward other Town needs.

I hope you can see fit to review this and take appropriate action at your November meeting, as I hope to have this in front of the Council at their regular meeting in November,

Thank you for your consideration.