



Item No. 11 Town of Atherton

CITY COUNCIL STAFF REPORT – REGULAR AGENDA

**TO: HONORABLE MAYOR AND CITY COUNCIL
GEORGE RODERICKS, CITY MANAGER**

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: NOVEMBER 16, 2022

**SUBJECT: RECOMMENDATION FROM THE TOWN'S AUDIT AND
FINANCE COMMITTEE TO BEGIN PAYING THE RETIREE
OPEB HEALTH BENEFITS FROM THE TOWN'S PARS TRUST
ACCOUNT**

RECOMMENDATION

Approve recommendation from the Town's Audit and Finance committee to begin paying the retiree OPEB health benefits from the Town's PARS Trust account.

BACKGROUND

The Town provides defined pension benefits through the CalPERS pension system and offers Other Post-Employment Benefits (OPEB) separately. OPEB are benefits that employees receive for retiree medical health costs once they retire from the Town. OPEB benefits are separate from pension benefits. Several years ago, the Town took steps to eliminate paid retiree health care and made significant strides in reducing the Town's OPEB liability through contributions to an OPEB health trust administered by PARS.

Staff worked with Precision Actuarial Inc/GovInvest and its OPEB actuary to obtain a recent refresh of the Actuarial Valuation of the Town's OPEB liability. The last OPEB actuarial valuation refresh was performed by previous actuary Nicolay Consulting for June 30, 2020. The Actuarial Report is required to meet the Town's financial accounting requirements under GASB 75 (Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions). The Actuarial Valuation Report provides an assessment of the Town's financial obligations to provide future retiree health benefits as of fiscal year ending June 30, 2022. The Valuation considers healthcare cost assumptions, economic and demographic assumptions. Some of these assumptions included revised mortality rates, healthcare cost trends, actual demographic experiences, and aging retiree health cost claims.

One of the Town's core strategies is financial stability. The Town's financial stability rests with the Town's guiding value of fiscal stewardship. It is a core value that is used to address priorities

such as long-term liabilities, capital project needs, and maintaining healthy reserves. The City Council has set policy-level goals and Goal Area A is Maintain Fiscal Responsibility. This goal includes maintaining a balanced budget with adequate reserves; and address long-term liabilities.

OPEB is a long-term liability that consists of anticipated retiree healthcare costs for active and retired employees. The Town eliminated retiree healthcare for new hires and reduced long-term retiree healthcare expectations via a vesting schedule. For any employee hired after July 1, 2013, the Town now only contributes the monthly minimum required under PEMHCA (the Public Employees' Medical and Hospital Care Act). This is the minimum required employer contribution amount prescribed by Government Code Section 22892. The employer contribution for PEMHCA is adjusted by the CalPERS Board to reflect any changes in the medical care component of the Consumer Price Index-Urban (CPI-U). The Town contributes the minimum of \$149 per month effective January 1, 2022, and \$151 effective for 2023. This is a monthly cost per enrolled employee.

From FY 2012/13 to FY 2015/16, the City Council made contributions to the OPEB PARS Trust totaling \$5 million. City Council policy was to initiate a baseline contribution of up to \$5 million to the Trust to reduce its total OPEB liability. As of June 30, 2021 the PARS Trust fiduciary position grew to \$8.86 million. Efforts to fund the Town PARS Trust for OPEB liabilities were as follows:

Contributions to PARS Trust-for OPEB	
Prior Town Contribution to PARS Trust FY 12/13	\$1,299,316
Contribution Towards PARS Trust FY 13/14	\$2,000,000
ERAF Contribution FY 14/15 to PARS Trust	\$1,020,000
ERAF Contribution FY 15/16 to PARS Trust	\$680,684
Total Baseline Contribution	\$5,000,000
Actuarial Determined Contributions toward OPEB Obligations	\$642,851
Total Contributions to PARS Trust	\$5,642,851

FINDINGS | ANALYSIS

The Audit & Finance Committee reviews the OPEB actuary reports each year. At its September 13, 2022 Finance Committee meeting, the Committee reviewed and discussed the Town of Atherton Actuarial Valuation Report of Post-Employment Health Care program. Chief OPEB Actuary, Evi Laksana of Govinvest presented to the Committee the OPEB Valuation results based on Town plan provisions, updates to employee census data of current and retired employees, with new assumptions reflective of health care costs. The new OPEB valuation resulted in new Actuarial Accrued Liability for Town OPEB. Below is the breakdown of the OPEB liability allocated to past and current service as of June 30, 2022 compared to prior year.

Actuarial Accrued OPEB Liability	6/30/2022	6/30/2021
Active	\$940,466	\$2,121,927
Retiree	\$6,795,812	\$6,877,755

PARS Trust Payment Allocation To Retiree OPEB Expense

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Total OPEB Liability	\$7,736,578	\$8,999,682
Fiduciary Net Position	(\$7,829,922)	(\$8,866,492)
Net OPEB Liability	(\$93,344)	\$133,190

The Net OPEB Liability decreased from \$133,000 in 2021 to a Net OPEB income of (\$93,344) in 2022. The OPEB valuation report summarized the decrease in the OPEB Liability due to several factors that included, less favorable actual performance compared to expected, more favorable actual demographic experience assumptions, and lower healthcare costs increase than expected thus producing a liability decrease. Additional factors include assumption changes outlined in Section 7 of the Actuarial Report and actuarial methodology changes that produced a slight net liability decrease.

As of June 30, 2022, illustrated above, the Fiduciary Net Position of the Trust is \$7,829,922. This includes Trust deposits of \$5,642,851 (\$5 million baseline contribution and \$642,851 for Actuarial Determined Contributions to fund normal costs of the liability) and earnings of \$2,187,071. The Fiduciary Net Position of \$7,829,922 is available to offset our OPEB Liabilities of \$7,736,578. In essence, the PARS Trust is over funded.

As the Town made headway in setting aside contributions to funding long-term OPEB liabilities, the Town OPEB benefits have been budgeted as operating expenditures from the Town's General Fund. Within the Town FY 2022/23 budget, retiree health "pay as you go" is \$566,334. With the recent OPEB valuation review, the Town has the opportunity to review the funded status of the Trust and set a target for funding all or portions of the OPEB benefits through the trust account rather than out of the Town's operational budget. As mentioned above, the Town has taken steps to reduce OPEB benefits in the long-term. It is anticipated that the OPEB liability will continue to be reduced over time as the Town's employee complement evolves. 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. Of the Town's 40 active employees, only 13 are eligible to participate in those benefits and only, if and/or when the retire from the Town. The employee must retire from CalPERS and the Town concurrently in order to remain eligible. If one of these individuals opts to leave employment with the Town prior to retirement, they are no longer eligible for the benefit and the funds remain in the Town's Trust.

At its November 8, 2022 Finance Committee meeting, the Committee reviewed and discussed the funded status of the OPEB Trust. The PARS Trust is an irrevocable trust that can only be used for OPEB retiree health benefits. Discussions included directing a portion of PARS Trust funds, a percentage target, or the use of the funds for the entire yearly OPEB benefits amount.

The Committee recommendation to the City Council is to accept the 2022 Actuarial Valuation of OPEB Report and to begin funding 100% of the yearly OPEB benefits expense from the PARS Trust account. The Committee recommended that the Council review the distributions at the Mid-Year Budget, redirect an allocation for the remainder of the current fiscal year via a Budget Amendment, and then incorporate the payment entirely from the Trust during the next budget

cycle. The shifted amount would be for retirees only. Active employee costs would remain an operational expense.

Payment of the retiree health from the PARS Trust reduces the General Funds Operations Expense by approximately \$550K to \$600K per year. The Town is required to conduct an OPEB Actuarial every two years. The Committee recommends that the Town assess the budgeted distributions after each Actuarial Report. At the current value of \$7.8 million, assuming the retiree allocations remain relatively static, the Trust can pay approximately 14 years worth of full OPEB benefits.

Attached for review is Atherton 2022 Actuarial Valuation of OPEB, presentation, and a memo the Committee reviewed for its consideration for discussion on Atherton OPEB liabilities.

FISCAL IMPACT

None.

GOAL ALIGNMENT

This Report and its contents are in alignment with the following Council Policy Goals:

- Goal Area A – Maintain Fiscal Responsibility
- Goal Area F – Be Forward-Thinking, Well-Managed, and Well-Planned

POLICY FOCUS

OPEB Liabilities are long term retiree health liabilities that are earned by eligible Town employees. Fiscal Stability is one of the core values of the Town of Atherton. One of the objectives of financial stability is to ensure the paying down of the Town's Long-term liabilities. The Town maintains an irrevocable trust for the addressing of OPEB benefits and over the years has contributed to funding the liabilities. This is an opportunity to reduce the Town operational expenditures for OPEB benefits and can result in significant long-term operational savings for the General Fund.

PUBLIC NOTICE

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents as well as stakeholders –to include, but be not limited to, media outlets, school districts, Menlo Park Fire Protection District, service providers (water, power, and sewer), and regional elected officials.

COMMISSION/COMMITTEE FEEDBACK/REFERRAL

Audit/Finance Committee (meets every other month)

ATTACHMENTS

1. Town of Atherton 2022 Actuarial Valuation of OPEB – Postemployment Healthcare Program
2. Presentation -June 30, 2022 OPEB Valuation Review
3. Memo Re: Atherton OPEB Liabilities Funding recommendation to City Council