AGENDA ITEM 1F
Consent Item

MEMORANDUM

DATE: **June 2, 2022**

TO: **El Dorado County Transit Authority**

FROM: **Julie Petersen, Finance Manager**

SUBJECT: **California Employer's Retiree Benefit Trust Program (CERBT) funding for Other Post-Employment Benefits (OPEB) Funding**

REQUESTED ACTION:
BY MOTION,

1. **Accept Actuarial Valuation of Other Post-Employee Benefit Program for fiscal years ending June 30, 2022, June 30, 2023, and June 30, 2024**
2. **Adopt Resolution No. 22-14 approving the pre-fund amount in the California Employer's Retiree Benefit Trust Program (CERBT)**
3. **Authorize Executive Director to execute all documents necessary for continued participation**

BACKGROUND

In July 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension.* GASB 45 mandates disclosure of Other Post-Employment Benefits (OPEB) liabilities for public employees. OPEB may include retiree benefits such as medical, dental, prescription drug, vision, and life insurance plans. GASB 45 establishes a standard for measuring and reporting the liability of retirement benefits other than pensions; however, it does not require funding the liability.

In June 2015, GASB issued Statement No. 75 replacing Statements No. 45 and 57. The basis point of GASB No. 75 expands the financial statement disclosures to ten (10) years and changed the measurement dates. Currently there are three (3) years of calculations available and will be reported by El Dorado Transit.

During Fiscal Year (FY) 2007/08 El Dorado Transit contracted with California Public Employers' Retirement System (CalPERS) to provide cost effective medical insurance for the unrepresented employee group. CalPERS contractually requires El Dorado Transit to contribute an amount towards the cost of retiree medical coverage as a condition of participating in the CalPERS medical plans. Monthly cost to the agency is currently at the lowest level possible of $111.75 per eligible retiree. This contribution is based on a formula and increases a modest amount each year.

On August 5, 2010, the Board adopted resolution 10-10 to pre-fund the OPEB future liability by placing assets in the CERBT program to allow for a manageable dollar amount to be budgeted each year for contributions to build reserves and earn interest to offset the cost of the program. A thirty (30) year amortization period is consistent with the anticipated retirement trend of current employees; twenty (20) years remain as of fiscal year-end 2020.

In March 2011, the CalPERS Board approved a change to the classes in which assets of the CERBT are invested in public market securities. The Executive Director approved the development of the actuarial valuation based on "Strategy 1" which is the class most similar to the strategy previously chosen by the Board and the class El Dorado Transit is currently participating in.

DISCUSSION

The El Dorado Transit continuing retiree health plan allows eligible retirees to enroll in the agency group medical plan through CalPERS at the time of their separation or at any subsequent open enrollment period. The plan includes only medical insurance coverage excluding other possible retiree benefits e.g., dental, vision, etc. Since plan inception in 2007, five (5) eligible participants have elected coverage; however, seven (7) retirees remain eligible and may enroll during future enrollment period(s). There are twenty-three (23) current employees who are qualified, of which six (6) may retire within the next five (5) years. These employees have the option to continue their medical coverage under this plan.

Actuarial valuations are used as a method of qualifying the changing conditions of an agency's workforce that impact the annual cost of OPEB obligations and future potential liabilities. CalPERS requires an actuarial valuation every two (2) years under the CERBT pooling program.

El Dorado Transit contracted MacLeod Watts to complete an actuarial valuation of other post-employment benefits to capture and report the current and future potential liabilities of this benefit. This report provides statistics as of July 1, 2021, for the years ending June 30, 2022, June 30, 2023, and June 30, 2024.

The El Dorado County Transit Authority Actuarial Valuation of Other Post-Employment Benefits Actuarial Valuation and GSAB 75 Report for Fiscal Year Ending June 30, 2022, represents the CERBT Trust is in a surplus position as of the June 30, 2021, valuation date.

As discussed in the Actuarial Report, El Dorado Transit is currently using the "Pay-As-You-Go" method for five (5) retirees currently enrolled. The total of those expenses for

FY 2020/21 equaled $5,713.50. This amount was paid in addition to the OPEB Pre-Funding amount.

Staff is recommending the acceptance of the Report as presented and the continued “Pay-As-You-Go” methodology, covering current retirees, for fiscal years 2022/23 and 2023/24.

The Executive Summary is presented for review with full document available upon request.

FISCAL IMPACT

The projected actuarial expense for FY 2021/22 of $22,480, FY 2022/23 of $23,473 and FY 2023/24 of $24,911 total $70,864 to capture all years. Costs for FY 2021/22 are included in the adopted budget. Costs for additional fiscal years are represented. Detailed funding information can be found on page 23 of the actuarial report.

Fiscal Year 2021/22 Mid-Year Budget		Estimate	Budgeted
4000.00	Local Transportation Fund (LTF)	$22,480	
5020.02	OPEB Pre-fund		$22,480

Fiscal Year 2022/23 Proposed Final Budget

4000.00	Local Transportation Fund (LTF)	$23,473	
5020.02	OPEB Pre-fund		$23,473

Fiscal Year 2023/24 Estimated Budget

4000.00	Local Transportation Fund (LTF)	$24,911	
5020.02	OPEB Pre-fund		$24,911

A. Executive Summary

This report presents the results of the June 30, 2021, actuarial valuation and accounting information regarding the other post-employment benefit (OPEB) program of the El Dorado County Transit Authority (the Authority). The purposes of this report are to: 1) summarize the results of the valuation; 2) develop Actuarially Determined Contribution (ADC) levels for prefunding plan benefits; 3) provide information required by the California Employers' Retiree Benefit Trust (CERBT); and 4) provide disclosure information as required by Statement No. 75 of the Governmental Accounting Standards Board (GASB 75) for the fiscal year ending June 30, 2022.

Important background information regarding the valuation process can be found in Addendum 1. We recommend users of the report read this information to familiarize themselves with the process and context of actuarial valuations, including the requirements of GASB 75. The pages following this executive summary present exhibits and other information relevant for disclosures under GASB 75.

Absent material changes to this plan, results of the June 30, 2021, valuation will be applied to prepare the Authority's GASB 75 report for the fiscal year ending June 30, 2023. If there are any significant changes in plan members, plan benefits or eligibility and/or OPEB funding policy, an earlier valuation might be required or appropriate.

OPEB Obligations of the Authority

The Authority offers continuation of medical coverage to retiring unrepresented employees. This benefit creates one or more of the following types of OPEB liabilities:

- **Explicit subsidy liabilities**: An "explicit subsidy" exists when the employer contributes directly toward the cost of retiree healthcare. In this program, the Authority contributes a portion of medical premiums for qualifying retirees. These benefits are described in Section 2.
- **Implicit subsidy liabilities**: An "implicit subsidy" exists when premiums are developed using blended active and retiree claims experience. In this situation, premiums charged for retirees may not be sufficient to cover expected medical claims[1] and the premiums charged for active employees are said to "implicitly subsidize" retirees. This OPEB program includes implicit subsidy liabilities for retiree coverage prior to coverage under Medicare.
- **Other subsidy liabilities**: Pooled plans that do not blend active and retiree premiums likely generate subsidies between employers and retirees within the pool. In the CalPERS medical program, the premium rates for Medicare-covered retirees are based only on retiree claims experience of the pool. A recent actuarial practice note indicated these subsidies should be included in plan liabilities to the extent they are paid by the employer.[2] We believe there is no other subsidy liability for Medicare retirees required to be valued for this plan.

We determine explicit subsidy liabilities using the expected direct payments promised by the plan toward retiree coverage. We determine the implicit and other subsidy liabilities as the projected difference between (a) retiree medical claim costs by age and (b) premiums charged for retiree coverage. For more information on this process Addendum 2: MacLeod Watts Age Rating Methodology.

[1] In rare situations, premiums for retiree coverage may be high enough that they subsidize active employees' claims.

[2] Exceptions exist for 1) Medicare Advantage Plans, treated as if their premiums are age-based due to the nature of the Federal subsidies paid to these plans, and 2) when employer explicit subsidies to Medicare-covered retirees are low and no part of any potential pool subsidy is expected to be paid by the employer.

Executive Summary
(Continued)

OPEB Funding Policy

The Authority's OPEB funding policy affects the calculation of liabilities by impacting the discount rate that is used to develop the plan liability and expense. "Prefunding" is the term used when an agency consistently contributes an amount based on an actuarially determined contribution (ADC) each year. GASB 75 allows prefunded plans to use a discount rate that reflects the expected earnings on trust assets. Pay-as-you-go, or "PAYGO", is the term used when an agency only contributes the required retiree benefits when due. When an agency finances retiree benefits on a pay-as-you-go basis, GASB 75 requires the use of a discount rate equal to a 20-year high grade municipal bond rate.

The Authority continues to prefund its OPEB liability, consistently contributing 100% or more of the Actuarially Determined Contributions each year. With the Authority's approval, the discount rate used for accounting purposes and to develop Actuarially Determined Contributions for plan funding is 6.19%. This rate reflects the current expectation of the long-term return on trust assets, based on information provided by CalPERS in March 2022. This rate is lower than the 6.85% return determined from prior CalPERS return projections. For more information, see Expected Return on Trust Assets on page 11.

Actuarial Assumptions

The actuarial "demographic" assumptions (i.e., rates of retirement, death, disability or other termination of employment) used in this report were chosen, for the most part, to be the same as the actuarial demographic assumptions used for the most recent valuation of the retirement plan(s) covering Authority employees. Other assumptions, such as age-related healthcare claims, healthcare trend, retiree participation rates and spouse coverage, were selected based on demonstrated plan experience and/or our best estimate of expected future experience. All these assumptions, and more, impact expected future benefits. Please note that this valuation has been prepared on a closed group basis. This means that only employees and retirees present as of the valuation date are considered. We do not consider replacement employees for those we project to leave the current population of plan participants until the valuation date following their employment.

We emphasize that this actuarial valuation provides a projection of future results based on many assumptions. Actual results are likely to vary to some extent and we will continue to monitor these assumptions in future valuations. See Section 3 for a description of assumptions used in this valuation.

Important Dates for GASB 75 in this Report

GASB 75 allows reporting liabilities as of any fiscal year end based on: (1) a *valuation date* no more than 30 months plus 1 day prior to the close of the fiscal year end; and (2) a *measurement date* up to one year prior to the close of the fiscal year. The following dates were used for this report:

Fiscal Year End	June 30, 2022
Measurement Date	June 30, 2021
Measurement Period	June 30, 2020, to June 30, 2021
Valuation Date	June 30, 2021

Executive Summary
(Concluded)

Significant Results and Differences from the Prior Valuation

No benefit changes were reported to MacLeod Watts relative to those in place at the time the June 2019 valuation was prepared. We reviewed and updated certain assumptions used to project the OPEB liability. We also collected updated census and premium data and recognized "plan experience", the differences between projected and actual results. Investment experience was also recognized, with higher than expected return on trust assets.

The Net OPEB Liability on the current measurement date is lower than that reported one year ago. Section C. presents the new valuation results and provides additional information on the impact of the new assumptions and plan experience. See *Recognition Period for Deferred Resources* on page 12 for details on how these changes are recognized.

Impact on Statement of Net Position and OPEB Expense for Fiscal Year Ending 2022

The plan's impact to Net Position will be the sum of difference between assets and liabilities as of the measurement date plus the unrecognized net outflows and inflows of resources. Different recognition periods apply to deferred resources depending on their origin. The plan's impact on Net Position on the measurement date can be summarized as follows:

Items	For Reporting At Fiscal Year Ending June 30, 2022
Total OPEB Liability	$ 484,217
Fiduciary Net Position	667,040
Net OPEB Liability (Asset)	(182,823)
Deferred (Outflows) of Resources	(71,982)
Deferred Inflows of Resources	312,846
Impact on Statement of Net Position	$ 58,041
OPEB Expense, FYE 6/30/2022	$ (3,165)

Important Notices

This report is intended to be used only to present the actuarial information relating to other postemployment benefits for the Authority's financial statements. The results of this report may not be appropriate for other purposes, where other assumptions, methodology and/or actuarial standards of practice may be required or more suitable. We note that various issues in this report may involve legal analysis of applicable law or regulations. The Authority should consult counsel on these matters; MacLeod Watts does not practice law and does not intend anything in this report to constitute legal advice. In addition, we recommend the Authority consult with their internal accounting staff or external auditor or accounting firm about the accounting treatment of OPEB liabilities.

EL DORADO COUNTY TRANSIT AUTHORITY
RESOLUTION NO. 22-14

RESOLUTION OF THE BOARD OF DIRECTORS OF THE EL DORADO COUNTY TRANSIT AUTHORITY ADOPTING PRE-FUNDING FOR OTHER POST EMPLOYMENT BENEFITS ADMINISTERED BY THE CALIFORNIA EMPLOYERS' RETIREE BENEFITS TRUST FOR PRE-FUNDED ACCOUNTS

WHEREAS, Governmental Standards Board Statement Number 45/75, dealing with Other Post-Employment Benefits (OPEB), requires that governments report the annual cost of OPEB and the unfunded actuarial accrued liabilities for past service costs; and

WHEREAS, the El Dorado County Transit Authority (El Dorado Transit) provides eligible regular unrepresented employees with medical benefits subsequent to their retirement from El Dorado Transit; and

WHEREAS, El Dorado Transit has deemed it to be in El Dorado Transit's best financial interest and the most financially prudent action to pre-fund post-employment health benefits past service liabilities and fund current year contributions; and

WHEREAS, the actuarially determined costs for fiscal year (FY) 2021/2022 to pre-fund an annual contribution of $22,480; and

WHEREAS, the actuarially determined costs for fiscal year FY 2022/2023 to pre-fund an annual contribution of $23,473; and

WHEREAS, the actuarially determined costs for FY 2023/2024 to pre-fund an annual contribution of 24,911; and

WHEREAS, the California Employers' Retiree Benefits Trust, part of the California Public Employees Retirement System, is a trust fund that allows public employers to pre-fund the future cost of retiree benefits;

NOW, THEREFORE, BE IT RESOLVED, that El Dorado Transit hereby approves and directs staff to pre-fund the FY 2021/2022 Annual Contribution of $22,480 and the FY 2022/2023 Annual Contribution of $23,473 and the FY 2023/2024 Annual Contribution of $24,911: and

PASSED AND ADOPTED BY THE GOVERNING BOARD OF THE EL DORADO COUNTY TRANSIT AUTHORITY at the regular meeting of said Board held on the 2nd day of June 2022, by the following vote:

AYES: NOES: ABSTAIN: ABSENT:

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John Hidahl, Chairperson

ATTEST:

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Megan Wilcher, Secretary to the Board