Policy 19.0
Other Post-Employment Benefits (OPEB) Funding Policy

EFFECTIVE TBD

RESOLUTIONS None

RELATED POLICIES
Board Operating Guidelines
Personnel Administrative Manual

RELATED PROCEDURES None

INTRODUCTION

The East Bay Regional Park District (Park District) provides post-retirement healthcare benefits to its retirees in accordance with labor agreements and the Personnel Administrative Manual. Beginning in September 2012, the Park District has contributed to the California Employers' Retiree Benefits Trust (CERBT), an agent multiple employer plan, administered by CalPERS and managed by an appointed board not under the control of the Park District. A summary of benefits provided are described in the Annual Comprehensive Financial Report available on the Park District website: Budget, Finances, and Fees / East Bay Parks (ebparks.org).

This funding policy is separate from the accounting policy in determining the overall Net OPEB Liability. The Park District follows Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("GASB 75") for financial statement purposes. The Net OPEB Liability determined under GASB 75 will be different than the unfunded actuarially accrued liability determined for funding purposes due to different allocation time horizons that GASB 75 uses to allocate unfunded liabilities for past services.

OBJECTIVES

The purpose of this OPEB Policy is to ensure the OPEB plan is financially sustainable by accumulating adequate resources in a systematic and disciplined manner over the active service life of benefitting employees. It is anticipated that current assets plus future assets from employer contributions, employee contributions, and investment earnings should be sufficient to fund the long-term costs of benefits to Park District employees and retirees.

The OPEB Policy is intended to demonstrate prudent financial management practices, promote long-term planning, provide guidance in making annual budget decisions and demonstrate to employees and the public how the OPEB plan will be funded to ensure adequate funding for promised benefits. The OPEB policy is to comply with all applicable federal, state, and local laws, rules, and regulations.

OPEB ACTUARIAL DETERMINED CONTRIBUTION (ADC)

i) The OPEB plan's actuary will calculate the ADC for funding based upon biennial actuarial valuations.
ii) The ADC is intended to fund new OPEB liabilities as they are earned each year (the normal cost) plus an amortization of the existing Unfunded Actuarial Accrued Liability (UAAL) for past services.
iii) *Normal cost* is to be calculated using the entry age method using economic and non-economic assumptions. The Park District will review these assumptions and employee census data with the actuary. The actuarial assumptions used in the calculations may vary from actual results. Three significant assumptions for the calculations include: the discount rate for assets and liabilities, annual salary increases, and health care costs increases. To the extent these assumptions vary from the actual results, the Park District could incur additional liabilities resulting from these differences.
iv) It is the Park District's policy to fund 100% of the recommended ADC into the OPEB trust.
v) Ongoing contributions to the plan are made as a percentage of payroll. The contribution percentage is based on service costs, expected expenses paid from the trust, plus amortization of the UAAL.

FUNDED STATUS

If the Plan is less than 100% funded then the UAAL amortization policy is to establish an initial unfunded liability amortization base on the valuation date. This initial UAAL amount will be amortized over a closed period not to exceed fifteen (15) years as part of the ADC using a level dollar amortization basis. Separate amortization bases/layers (each not to exceed fifteen (15) years) will be established at each subsequent actuarial valuation.

If the actuarial funding valuation shows that the OPEB plan has a funded status above 100%, then the Park District will consult with their actuary about how this may affect the ADC calculations. Depending on the surplus magnitude and projected future OPEB costs, the Park District may:

(1) eliminate all existing amortization bases and amortize the plan's entire surplus as a level dollar amount over an open twenty-five (25) year period (a "fresh start" base); or
(2) Keep the existing amortization layers and ADC calculation methods.

In all cases, the Park District will consider whether and to what extent any surplus amortization is allowed to offset the Normal Cost and administrative expense portions of the ADC.

INVESTMENT/TRUST VEHICLE BASED ON FUNDED STATUS

To maximize earnings on the OPEB deposits, the Park District invests these funds into an irrevocable trust vehicle as managed by CERBT. Once the funds are invested into the trust, they can only be used to fund ongoing OPEB retirement obligations.

There are three investments strategies (Strategies 1, 2 and 3) offered by CERBT based on yield, risk tolerance, and time horizon. Strategy 1 has the highest long-term expected rate of return & return volatility while Strategy 3 has the lowest long-term expected rate of return & return volatility. The Park District's OPEB portfolio is currently invested in Strategy 1.

When the OPEB plan's funded status reaches 120%, the Park District will move these investments to the next lower risk strategy to reduce funded status volatility. For example, investments will be moved from Strategy 1 to Strategy 2 upon initially reaching 120% funded status.

When/if the 120% threshold is again reached, investments will be moved from Strategy 2 to Strategy 3.

Investment strategies are considered by the Chief Financial Officer (CFO) at least biennially. Notwithstanding the above, the Park District shall retain the authority and flexibility to maintain their current investment strategy if they believe it is prudent to do so.

IMPLICIT AND EXPLICIT SUBSIDY

The Park District's calculation of OPEB funding includes both the Implicit and Explicit Subsidy determination. Notwithstanding the OPEB ADC guidance above, the Park District will consider annually whether to fund both the Explicit and Implicit Subsidy. The Park District will also evaluate the actuarial value of total plan assets in comparison to actuarial present value of projected benefits for the Explicit Subsidy. If the total assets exceed the actuarial present value of projected benefits for the Explicit Subsidy, the Park District may consider reducing the Implicit portion of the ADC. This consideration of reduction would be based upon avoiding overfunding the trust assets relative to the Explicit Subsidy liability.

Transparency and Reporting

Funding of the Park District's OPEB plan should be transparent to all parties including the Board of Directors, employees, and retirees. To achieve this transparency, the following information shall be available:

i. Copies of the biennial actuarial valuations for the Park District's OPEB plan shall be made available to the Board.
ii. The Park District's Annual Comprehensive Financial Report shall be published on its website. This report includes information on the Park District's OPEB plan, contributions to the OPEB Trust, and the funded status of the plan.

Review of Funding Policy

Funding OPEB requires a long-term plan. The CFO shall direct staff and participate in the review of this policy at a minimum biennially, coincident with preparation of the actuarial valuations, to determine if changes to this policy are necessary to ensure adequate resources are being accumulated to fund OPEB benefits.

Glossary of Select Terms

Discount Rate – the interest rate used to adjust liability and obligations for the time value of money.

Entry Age Method – an actuarial cost (or funding) method that determines the plan's normal cost as a level percentage of pay over the working lifetimes of plan members.

Explicit Subsidy – OPEB explicitly provided by employer

Funded Ratio – a measure of the ratio of plan assets to the Actuarial Accrued Liability (funding target) of the Plan. Plan assets can be the Market Value of Assets or the Actuarial Value of Assets.

Implicit Subsidy – the difference between the actual and apparent cost of OPEB coverage. The actual cost for retirees is different than the average per person premium for a blended active/retiree group or a retiree group in a pooled health plan. Plans in which retirees pay the average rate (the apparent cost) may give rise to an implicit rate subsidy.

Normal Cost – the portion of the Actuarial Present Value of Benefits which is allocated to the current year by the actuarial cost method.

UAAL – the portion of the Actuarial Accrued Liability not covered by plan assets. It is calculated by subtracting the Actuarial Value of Assets from the Actuarial Accrued Liability.