

New GASB 75 Accounting Standard and the Bargaining Process

2018 CSMFO Annual Conference

Thursday, February 22, 2018 - 2:45 to 4:00 Session

New GASB 75 Accounting Standard and the Bargaining Process

- ▶ Mary Beth Redding - Actuary, Bartel Associates
- ▶ Brad Wilkie - Management Services Director, City of Lompoc



Negotiations - GASB 75



Thursday, February 22, 2018 - 2:45 to 4:00 Session

Negotiations - GASB 75

- ▶ Background on GASB 75
- ▶ Impact
- ▶ PEMHCA Rules
- ▶ Case Study: City of Lompoc

Session Summary

Thursday, February 22, 2018 - 2:45 to 4:00 Session

New GASB 75 Accounting Standard and the Bargaining Process

- ▶ Question for this session: Will GASB 75 pressure agencies to change their OPEB benefits? To fund OPEB benefits?

GASB Statement 75 Summary

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GASB 75 - Employer Reporting

- ▶ Effective FY Beginning > 6/15/17
 - ▶ Replaces GASBS 45
 - ▶ Similar to GASBS 68
 - ▶ Everyone will recognize net OPEB liability
- ▶ Does not affect contributions (or require funding)
- ▶ Net OPEB Liability (NOL) added to balance sheet
 - ▶ Total OPEB liability minus assets (FNP)
- ▶ May be similar magnitude to NPL
 - ▶ Many OPEB plans are not pre-funding yet
 - ▶ Likely more variable than pension (NPL)

GASB 75 - Employer Reporting

- ▶ Shameless plug for new CCMA White Paper
- ▶ GASB Statement 75 Implementation, focusing on California issues

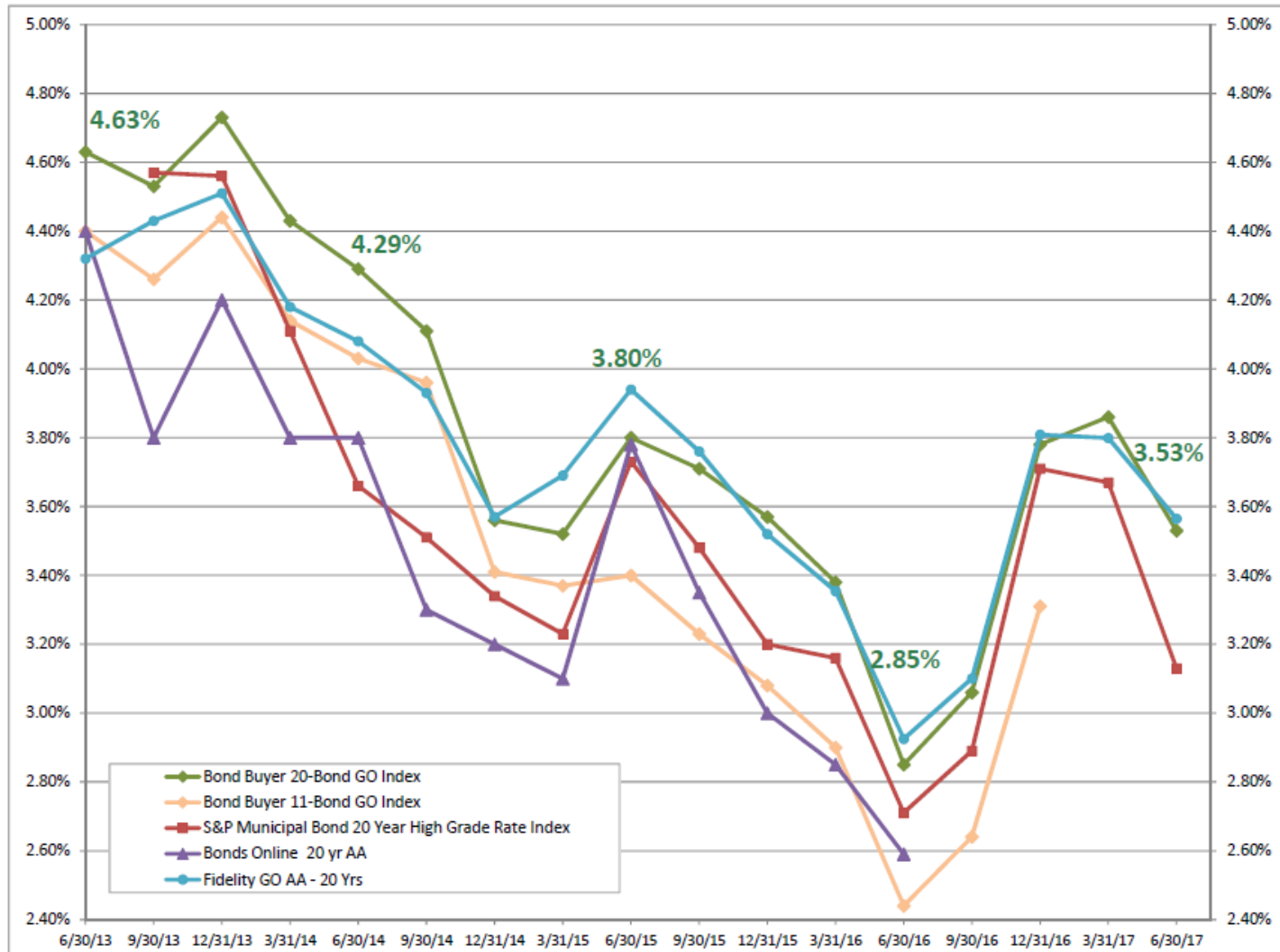
What Are OPEB Benefits?

- ▶ Post retirement:
 - ▶ Healthcare
 - ▶ Dental, vision, hearing
 - ▶ Medicare premium reimbursement
 - ▶ Life insurance, if not part of a pension plan
 - ▶ Disability, long term care, if not part of a pension plan
- ▶ Not: termination payments
 - ▶ Vacation or sick leave cash outs

Discount Rate

- ▶ Unfunded and poorly funded plans use 20 year AA municipal bond discount rate
 - ▶ GASBS 75 does not specify which bond curve to use
 - ▶ <http://www.bartel-associates.com/resources/select-gasb-67-68-discount-rate-indices>
- ▶ Expect many more OPEB plans with a crossover than for pension plans
- ▶ Municipal Bond Rate
 - ▶ Rate is volatile
 - ▶ Net OPEB liability will be volatile

Current 20 Year AA Municipal Bond Rates

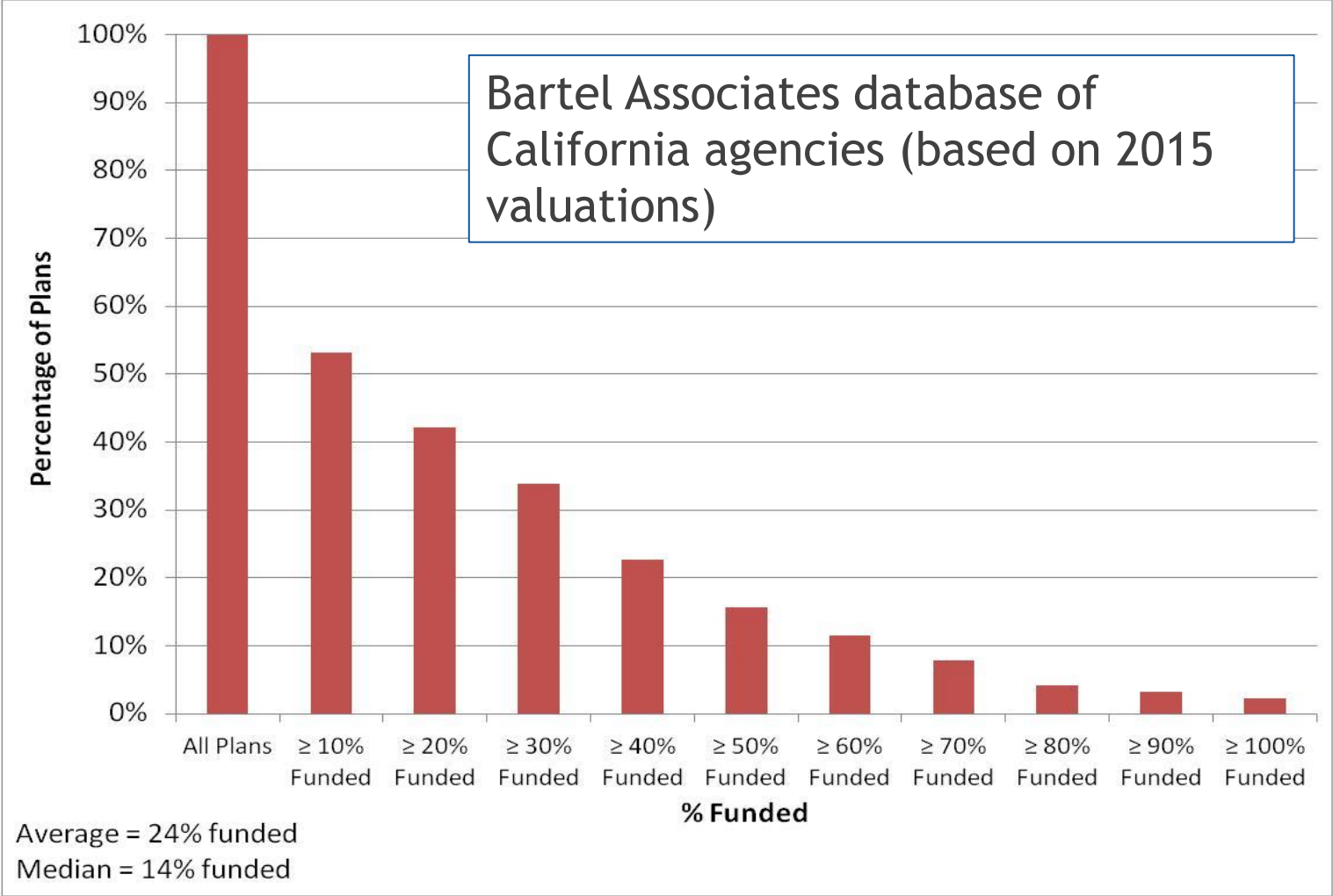


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Why Pre-fund OPEB?

- ▶ Taxpayer equity
 - ▶ Benefits should be paid for over employee's service
- ▶ More manageable cost pattern
 - ▶ Pay-as-you-go typically increases rapidly over time
 - ▶ Manages long term growth of annual contributions
- ▶ For financial reporting: higher discount rate & lower net OPEB liability
 - ▶ Demonstrates to stakeholders you are addressing OPEB
- ▶ Allowable trust investments should produce higher investment returns over time

OPEB Funded Status

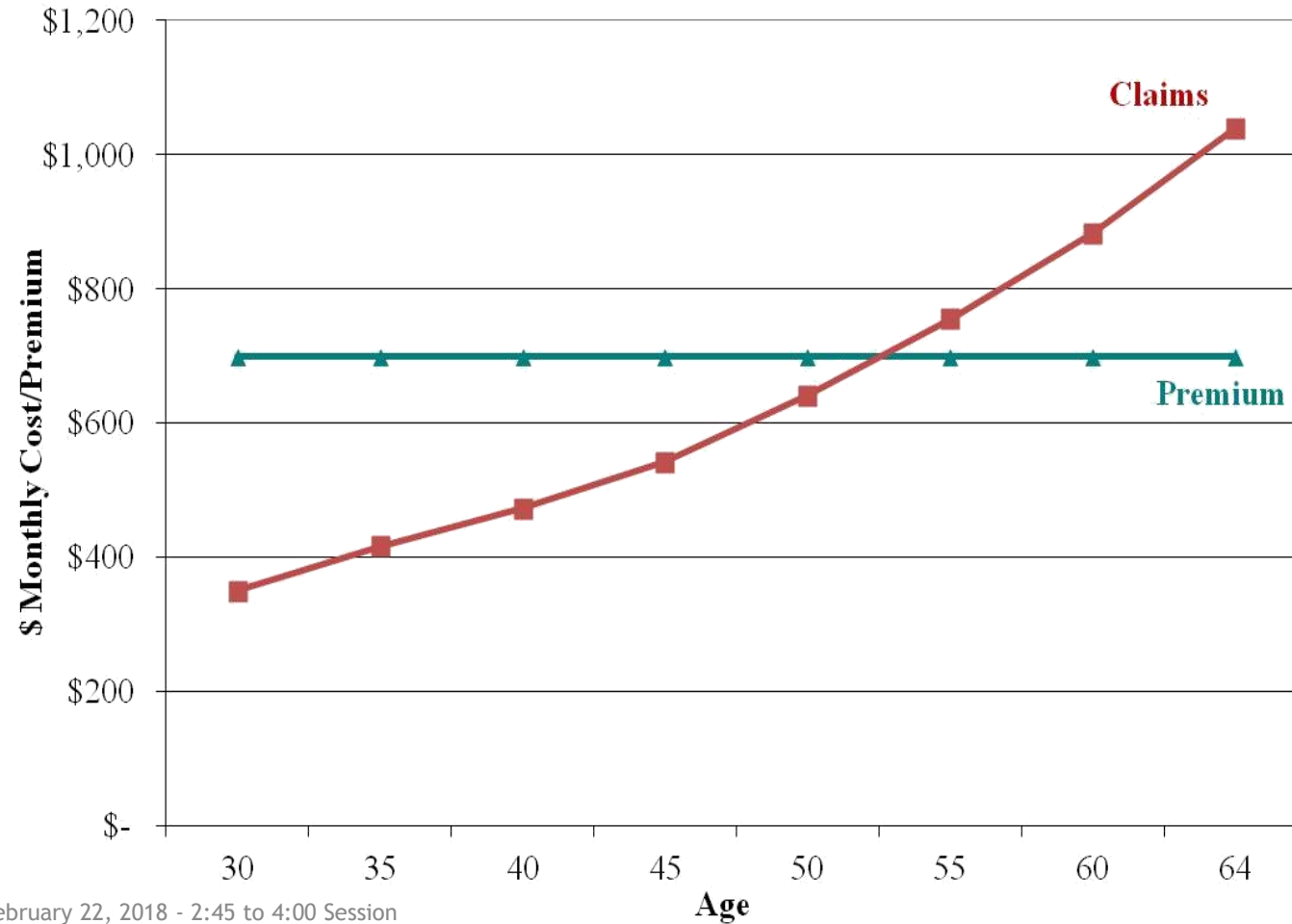


Implied Subsidy

- ▶ Represents the benefit retirees (pre-Medicare) derive from having the same premium as active employees even though medical costs are greater as you get older
 - ▶ Retiree premiums are too small
 - ▶ Active premiums are too high
 - ▶ On average it's just right
 - ▶ OPEB accounting only looks at retirees
- ▶ PEMHCA (CalPERS) plans have a blended premium for active employees and pre-Medicare retirees
 - ▶ Implied subsidy must be included in liability to account for the “subsidized” rates for retirees

Implied Subsidy

Implied Subsidy Illustration



PEMHCA (CalPERS Health Plans) Retiree Rules



PEMHCA Retiree Health Rules

- ▶ Public Employees Medical & Hospital Care Act § 22892(b)(1)
 - ▶ “The employer contribution shall be an amount *equal* for both employees and annuitants.....”
- ▶ Minimum employer contribution (“MEC”)
 - ▶ 2018 \$133
 - ▶ 2019 \$136 (Estimate)
 - ▶ 2020+ Increased by CalPERS Board (by CPI medical)
- ▶ Retire directly (within 120 days) from Agency:
 - ▶ Receive a (service or disability) retirement benefit
 - ▶ Eligible, waiving retirees can elect coverage later
- ▶ Survivor benefit:
 - ▶ Only if annuitant elects retirement plan survivor annuity

PEMHCA Retiree Health Rules

- Exceptions to “*equal*”
 - ▶ Unequal Method:
 - ▶ Pay lower amount (phase-in) to annuitants during first 20 years after adoption
 - ▶ State 100/90 Vesting Method (available to public agencies):
 - ▶ Eliminates payments for short service annuitants
 - ▶ Cafeteria Plan:
 - ▶ Pay active employees more than annuitants through a cafeteria plan

§ 22892(c) - Unequal Method (without a Cafeteria Plan)

- ▶ \$1 in first year of agency's participation in PEMCHA
- ▶ Minimum of 5% times # years of Agency's PEMHCA participation limited to \$100 maximum monthly increase
 - ▶ Example 1 (10 years of participation or 50%):

	Active	Annuitant	
▶	\$200	\$ 100	[50%x200]
 - ▶ Example 2 (10 years of participation or 50%):

	Year	Active	Annuitant	
▶	9	\$1,000	\$ 450	
▶	10	\$1,500	\$550	[50%x1,500>450+100]
 - ▶ Gets to 100% after 20 years

§ 22893 - State 100/90 Vesting

▶ <u>CalPERS Service</u>	<u>Percentage</u>
< 10	0%
10	50%
11	55%
↓	↓
≥ 20	100%

▶ Service:

- ▶ Based on all CalPERS Service
- ▶ Minimum 5 years with adopting Agency
- ▶ 100% if Disability retirement
- ▶ If 20 years with adopting Agency, then do not need to retire directly from Agency (Paid later at actual retirement)

§ 22893 - State 100/90 Vesting

► Minimum Benefit Vesting Applies to:

Coverage	Formula	2018 Cap
Single coverage:	100% of the weighted average	\$725
2-party coverage:	Amount for single plus 90% of the increase in the 2-party weighted average over the single coverage weighted average	\$1,377
Family coverage:	Amount for single plus 90% of the increase in the family weighted average over the single coverage weighted average	\$1,766

Cafeteria Plan

- ▶ Establish Cafeteria Plan for actives
 - ▶ Specify portion of credits that apply to medical:
 - ▶ Referred to as “Active Medical”
 - ▶ Can’t be less than PEMHCA minimum
- ▶ Annuitants:
 - ▶ Can not participate in Cafeteria Plan
 - ▶ “Equal” becomes amount specified as Active Medical
 - ▶ Unequal method can be used, based on Active Medical
 - ▶ Amounts > Active Medical paid outside of PEMHCA
- ▶ Consult with attorney!
 - ▶ Amounts paid outside of PEMHCA
- ▶ Not in the PERL!

§ 22892(c) - Unequal Method (with a Cafeteria Plan)

- ▶ \$1 in first year of agency's participation in PEMCHA
- ▶ Minimum of 5% times # years of Agency's PEMHCA "MEC"
 - ▶ Lompoc Example (entered PEMCHA in 1999 in unequal plan):

	Active	Annuitant
▶ 1999	\$16	\$1.00
▶ 2003	\$16	\$4.20 Statute change
▶ 2008	\$97	\$43.65 S22892(c) change
▶ 2018	\$133	\$126.35
▶ 2019	Lompoc will reach equal status - active and retirees	
- ▶ Gets to 100% of the MEC after 20 years

Options



Options

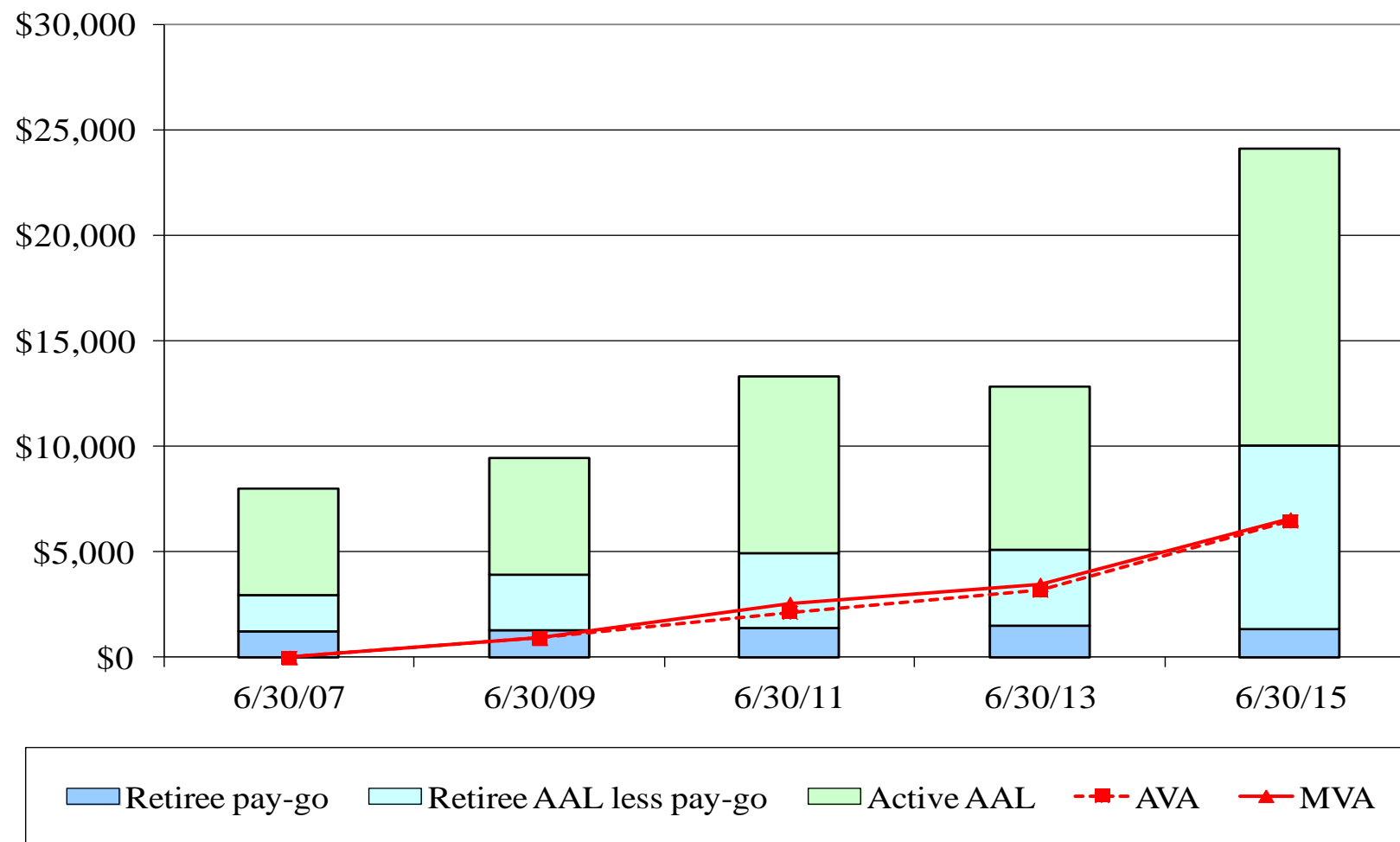
- ▶ Leave CalPERS for PEMHCA services
 - ▶ As an agency or by bargaining unit.
 - ▶ Would not have to provide MEC to retirees.
 - ▶ What to do with existing retirees receiving the benefit????
- ▶ Can blend or have unblended premiums?
- ▶ Bargain contributions (cost-sharing) by actives and/or retirees
- ▶ Health spending accounts (new tier/some existing employees?)
 - ▶ Can be portable - possibly a bigger benefit for newer actives
- ▶ Bargain lower retiree health benefits for new tiers?
 - ▶ Delayed impact unless current plan is generous
 - ▶ MEC plus additional amounts dependent on service
 - ▶ Employee only coverage
 - ▶ Longer vesting period
- ▶ Fund OPEB now, free up funds for CalPERS pension later.

OPEB Valuation Trends

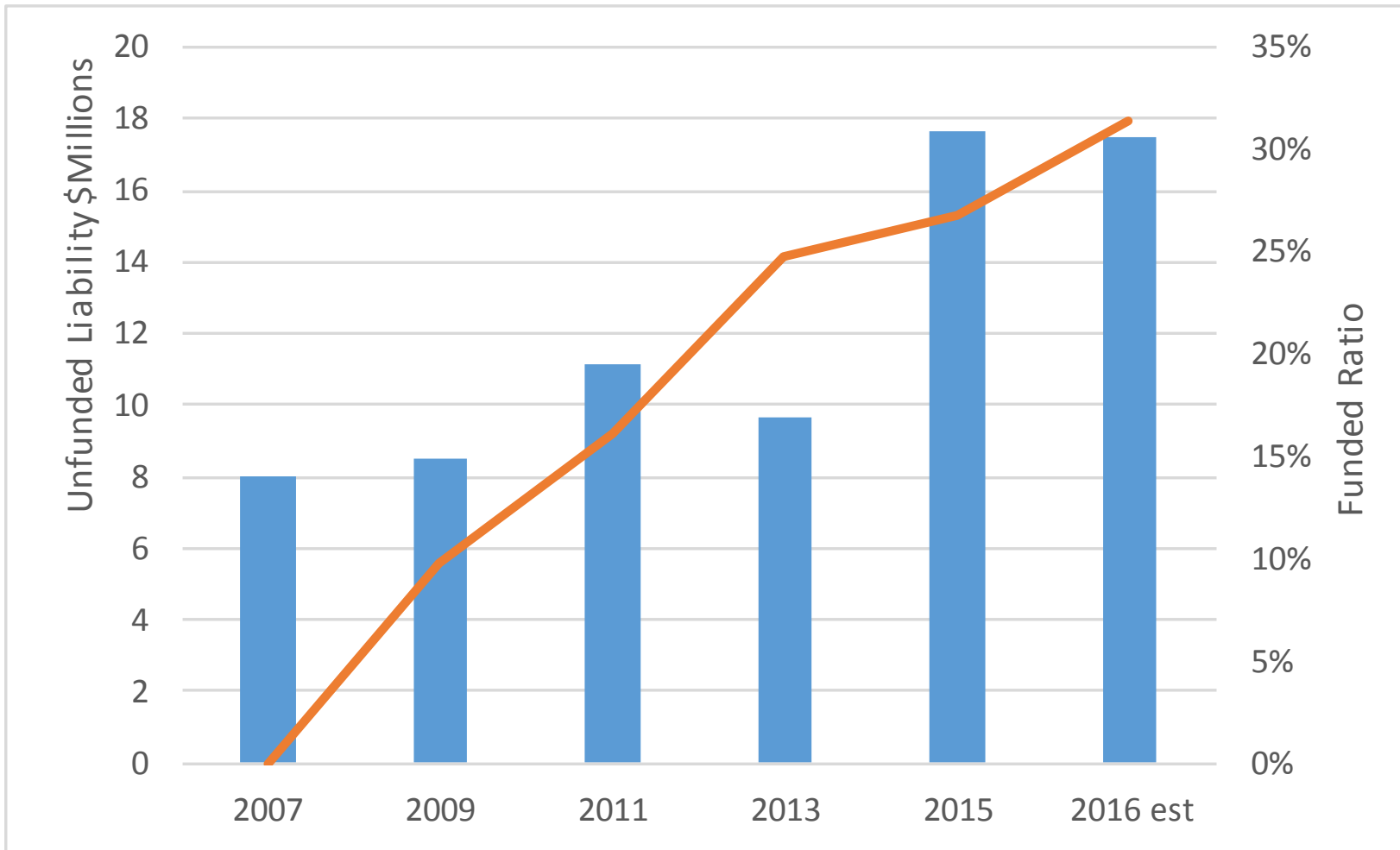


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City of LOMPOC OPEB Assets and Liabilities



City of **LOMPOC** Unfunded OPEB Liability

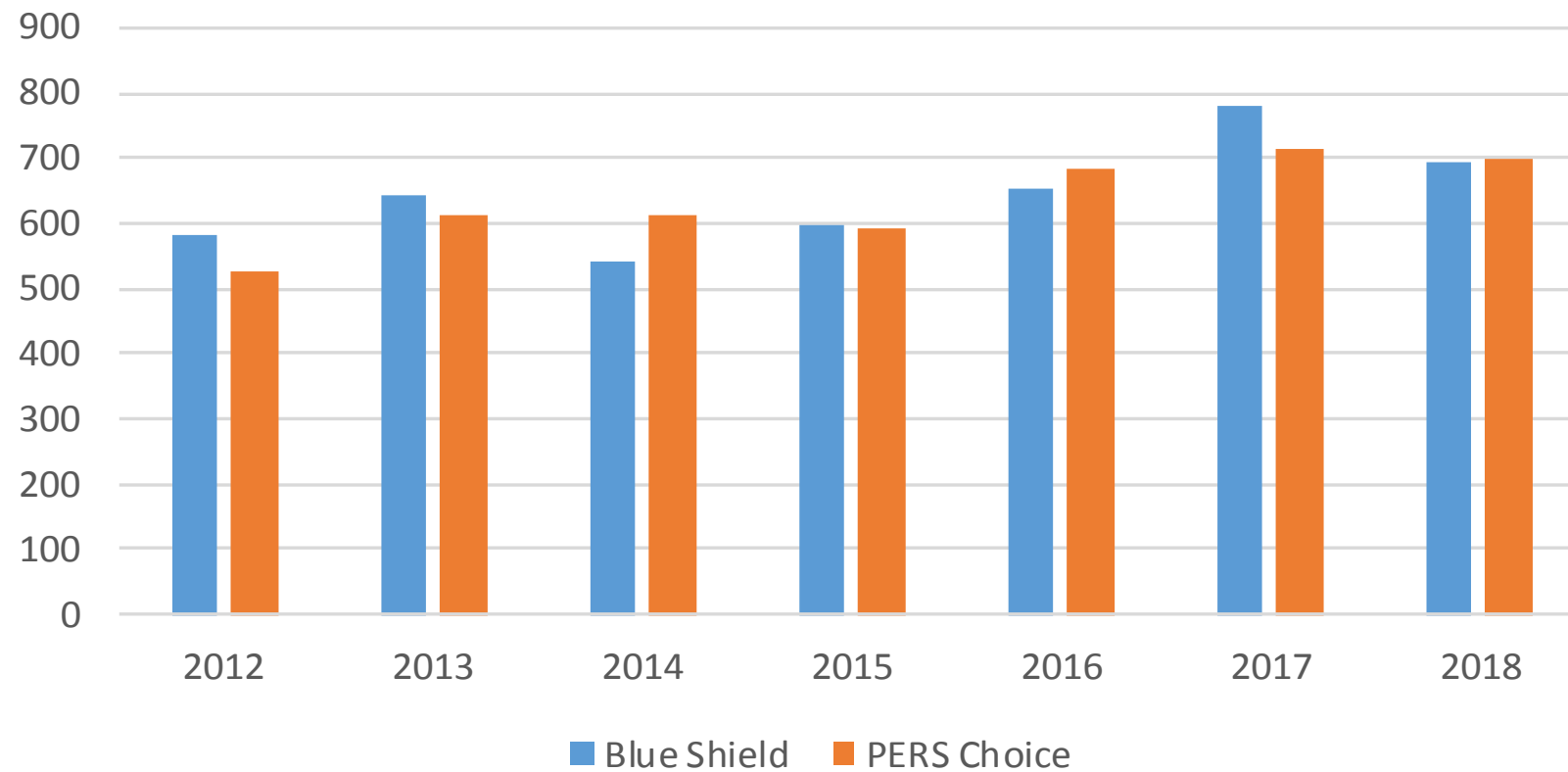


OPEB Plans

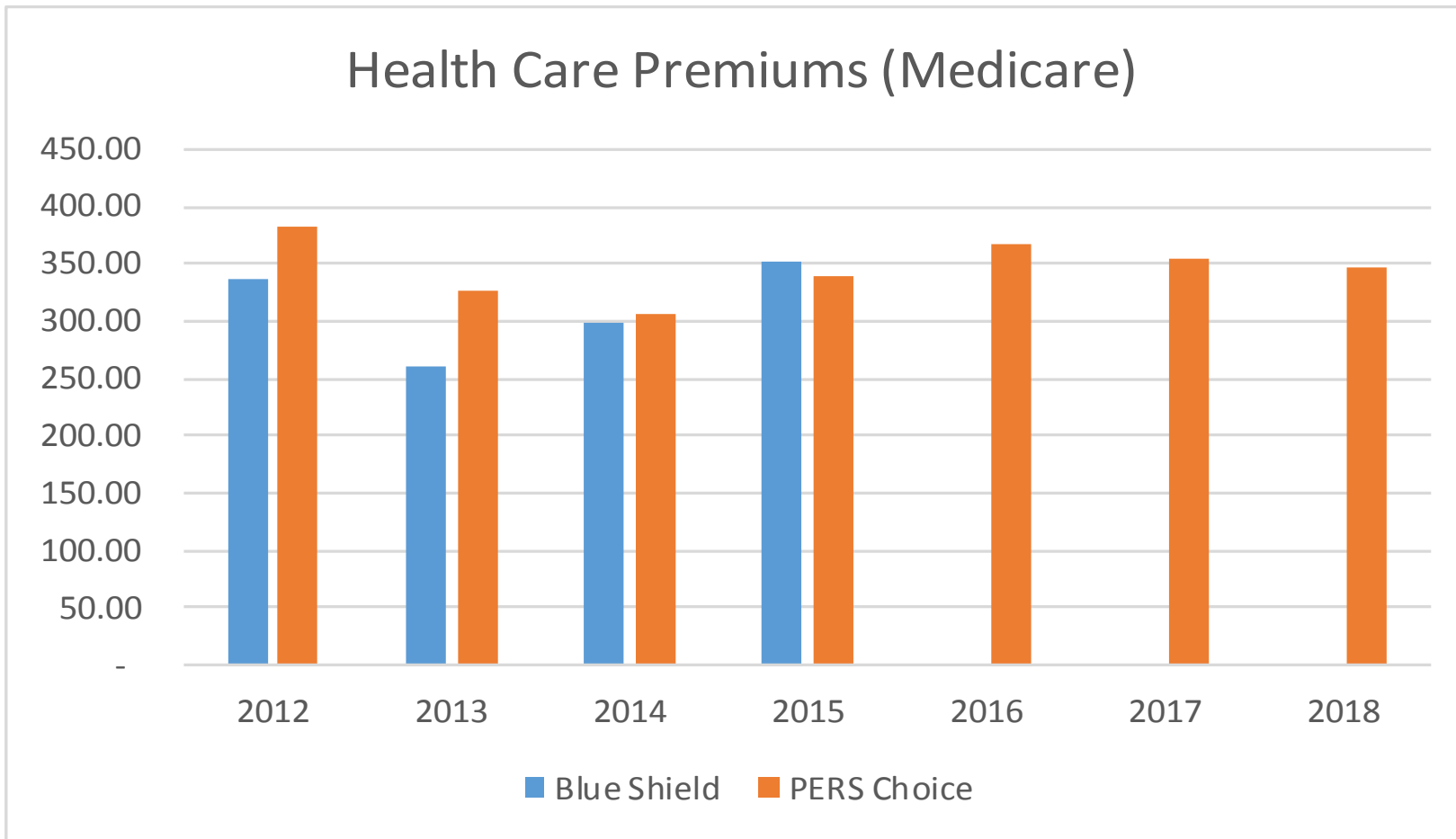
Medical Plan Participation

Plan	Actives	Retirees		
		<65	>65	Total
Anthem Traditional	0%	0%	0%	0%
Blue Shield	86%	81%	72%	76%
Blue Shield NetValue	2%	2%	0%	1%
Kaiser	0%	2%	3%	3%
PERS Choice	9%	11%	17%	14%
PERS Select	1%	0%	0%	0%
PERSCare	1%	4%	8%	6%
PORAC	1%	0%	0%	0%
Total	100%	100%	100%	100%

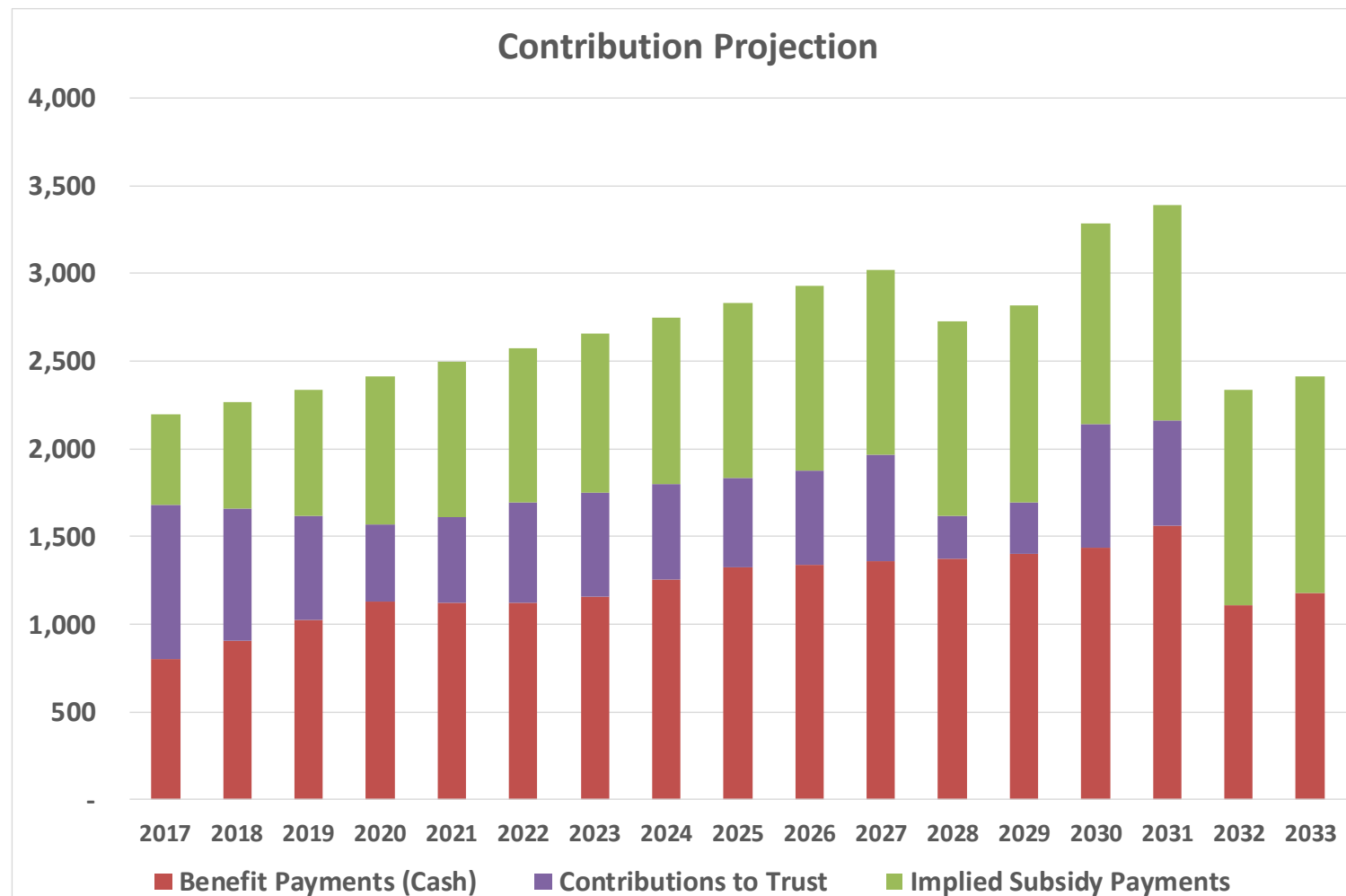
Health Care Premiums (Pre-Medicare)



City of LOMPOC Recent Premiums



Projected OPEB Contributions



Case Study



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**Vandenberg Air
Force Base**



Beaches

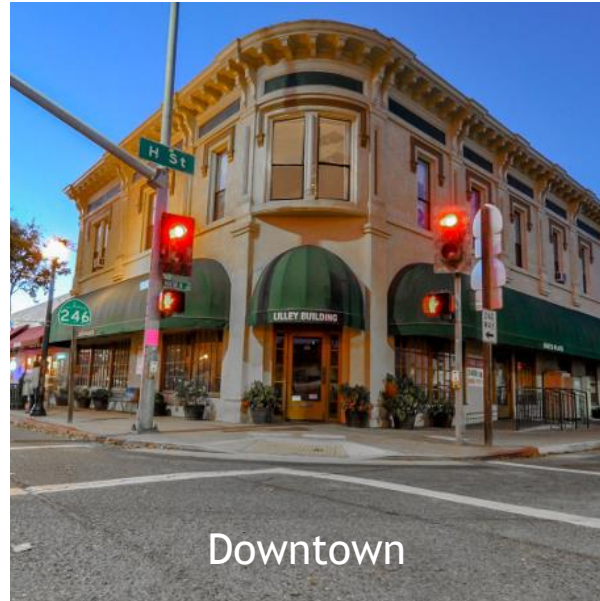


**Wine
Industries**

City of **LOMPOC**



Known as the
Flower Capital



Downtown



2007 Helen Putnam
Award Recipient -
Lompoc Aquatic Center



► About the Community

- 12 square miles
- Largest business activities: Agriculture and military
- Location
 - Central Coast
 - Santa Barbara County
 - 150 miles north of Los Angeles; 250 miles south of the Bay Area
 - 10 miles from the ocean, 10 miles from the closest Freeway
- Population - 44,000
 - 3,000 are housed at the Federal Penitentiary Complex (Club Fed)
- Average temperature - 75° in the summer and 65° in the winter

► About the City

- General Law - incorporated in 1888
- Mayor/City Manager form of government
- 384 FTE budgeted positions
- Full Service City - provides
 - Police & Fire
 - Engineering & Street Maintenance
 - Parks & Recreation
 - Library
 - PEG TV and Radio
 - Utilities
 - Electric
 - Water
 - Wastewater
 - Regional Wastewater Treatment
 - Solid Waste Collections
 - Solid Waste Landfill
- Transit
- Airport
- Consolidated Fleet Maintenance

The logo for the City of Lompoc features the words "City of" in a script font above the word "LOMPOC" in a bold, sans-serif font. The "LO" is purple, and "MPOC" is green. A yellow starburst graphic is positioned above the "M".

City of LOMPOC Retiree Health Benefit

► Eligibility

- At least 10 years with the City
- Participates in the CalPERS health program at retirement
- Retire to CalPERS from the City
- City's coverage is reduced upon employee's eligibility for Medicare
- City contribution prior to Medicare eligibility starts at 50% of premium cost with 15 years of service and increases to 75% with 25 years of service
 - At 75%, the benefit is greater than the City's contribution for actives
- City's contribution for retirees in Medicare is \$100 or the MEC, whichever is greater



City of LOMPOC Retiree Health Funding

- ▶ Prior to June 2009, the City provided benefits on a pay-as-you go basis.
- ▶ On June 16, 2009, the City authorized the creation of an account with the California Employers' Retiree Benefit Trust Fund (CERBT) of CalPERS.
- ▶ The City has made annual contributions to its CERBT each year.
- ▶ In some years the annual contribution was in addition to the out-of-pocket payments to retirees.
- ▶ Our pre-funding contributions going forward are 10% of salary.
- ▶ Prefunding contribution cost is entirely the responsibility of the City.

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CERBT activity - 2009 - 2017

Account summary as of November 30, 2017

Initial contribution (6/29/2009)	\$913,000
Additional contributions	\$7,383,534
Disbursements	(\$744,985)
CERBT expenses	(\$43,611)
Investment earnings	\$3,555,624
Total assets	\$11,063,563
Average annualized internal rate of return (6/29/2009-11/30/2017)	9.01%

Slide table provided by CalPERS CERBT group

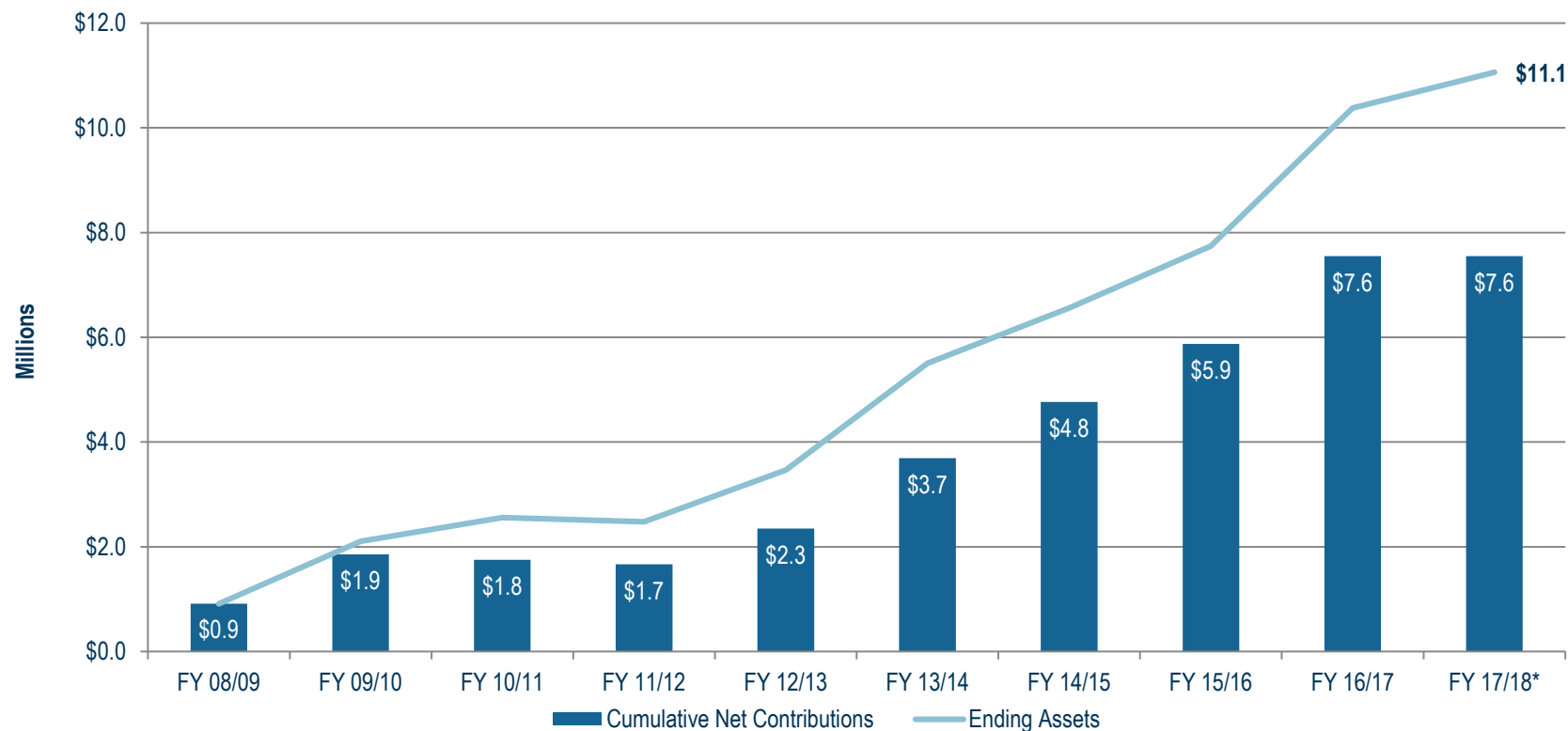
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City of **LOMPOC** CERBT activity - 2009 - 2018

FY	Contributions	Disbursements	Net Contributions
2008-09	\$913,000	(\$0)	\$913,000
2009-10	\$943,000	(\$0)	\$943,000
2010-11	\$440,000	(\$541,806)	(\$101,806)
2011-12	\$115,000	(\$203,179)	(\$88,179)
2012-13	\$680,534	(\$0)	\$680,534
2013-14	\$1,346,000	(\$0)	\$1,346,000
2014-15	\$1,073,000	(\$0)	\$1,073,000
2015-16	\$1,108,000	(\$0)	\$1,108,000
2016-17	\$1,678,000	(\$0)	\$1,678,000
2017-18	\$1,661,000	(\$0)	\$1,661,000

Slide table provided by CalPERS CERBT group

City of LOMPOC CERBT growth - 2009 - 2018



Slide table provided by CalPERS CERBT group. The 2017-18 amounts are as of November 30, 2017 (before the City's contribution of \$1,661,000).

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CERBT at 2015 & 2017

Measurement Date	AAL	Market Value of Assets	Funded Ratio
6/30/2015	\$24,098,000	\$6,558,000	27.21%
6/30/2017	\$26,630,898*	\$10,374,886	38.96%

Slide table provided by CalPERS CERBT group. The City's 2017 valuation is underway, the 6-30-2017 is a roll-forward projection by CERBT.



City of LOMPOC Retiree Benefits

- ▶ Health - joined CalPERS in 1999 in the “unequal” program
- ▶ Dental and Vision benefit
- ▶ Pensions (3% @ 50 for Safety, 2.7% @ 55 for Miscellaneous)
 - ▶ Tier 1 to 2011
 - ▶ Tier 2 from 2011 to 2013 (3% at 55 and 2% at 60) - our “Classic” plans
 - ▶ PEPR Tier since 2013
 - ▶ Employees pay the “Employee” portion under all tiers as a pre-tax deduction
- ▶ Retiree Benefit - Health, Vision, and Dental
 - ▶ No second tier
 - ▶ Researching options other than CalPERS

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City of LOMPOC Retiree Benefit Options

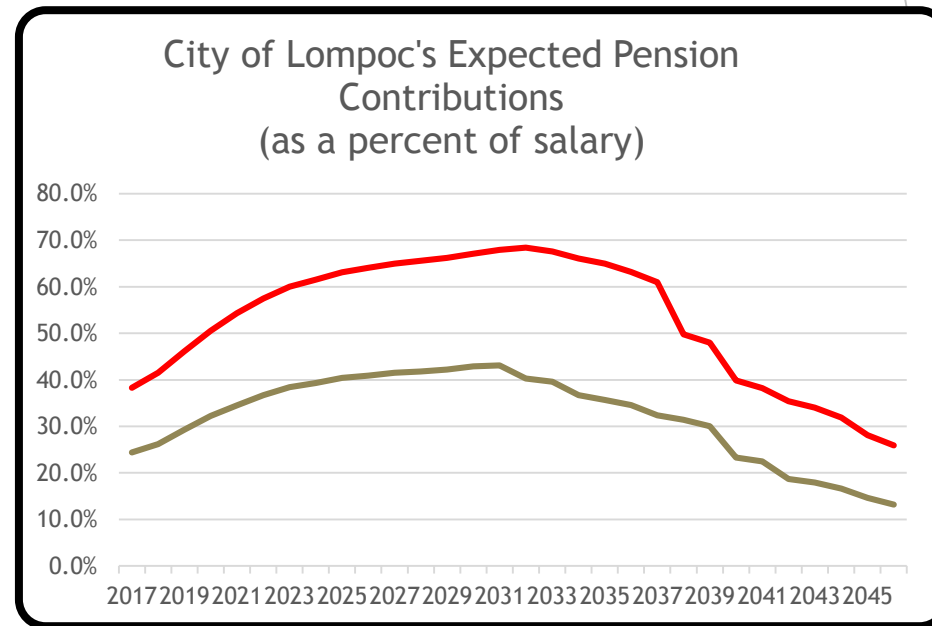
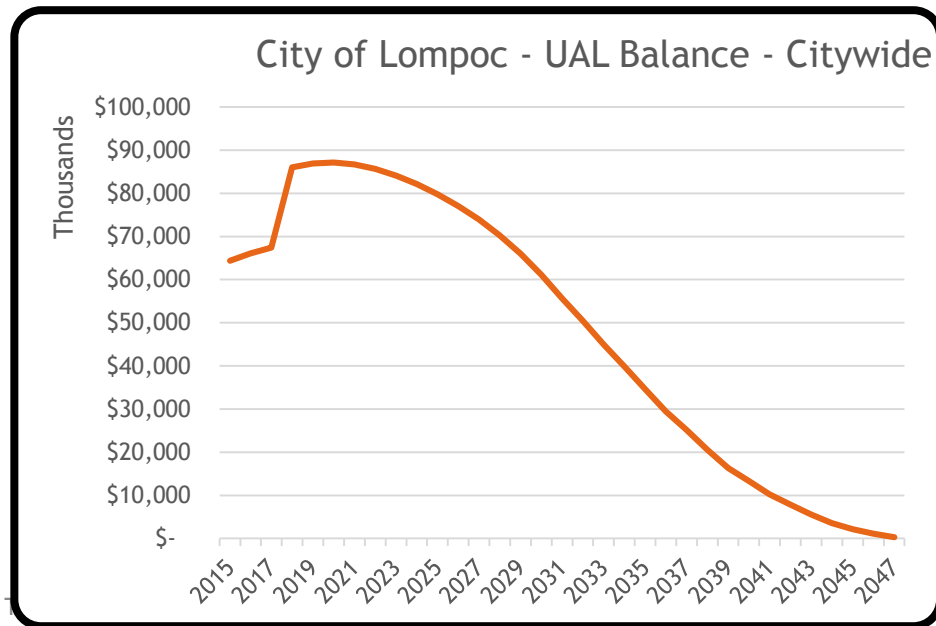
- ▶ Bargaining opportunities
 - ▶ Recent bargaining has not changed existing benefits for existing or new hires - focused on salary comparisons
 - ▶ Negotiate an employee share of the prefunding cost
 - ▶ Negotiate (or impose) additional employee shares of CalPERS pension costs as provided for under PEPRA
 - ▶ **Exit CalPERS for employee and retiree health program**
 - ▶ **Negotiate a second tier for new hires with a different benefit**
 - ▶ Pushed off any changes to at least 2019 due to the significant decreases in CalPERS plan costs for 2018

Retiree Benefit Options

- ▶ Exiting CalPERS health provides opportunities in the design of a retiree health program
 - ▶ Would [likely] only change Tier 1 retiree benefit health plans
 - ▶ CalPERS options vs new provider options
 - ▶ Portability for new employees who are not going to be with the City for their entire career
 - ▶ Researching options for Tier 1 employees not yet vested in benefit
- ▶ Second tier for current employees
 - ▶ Eligibility criteria and monetary benefit can be revised from the current tier
 - ▶ Level of benefit - CalPERS agencies - just the MEC as the retiree benefit
 - ▶ Employee only coverage

City of LOMPOC Retiree Benefit changes

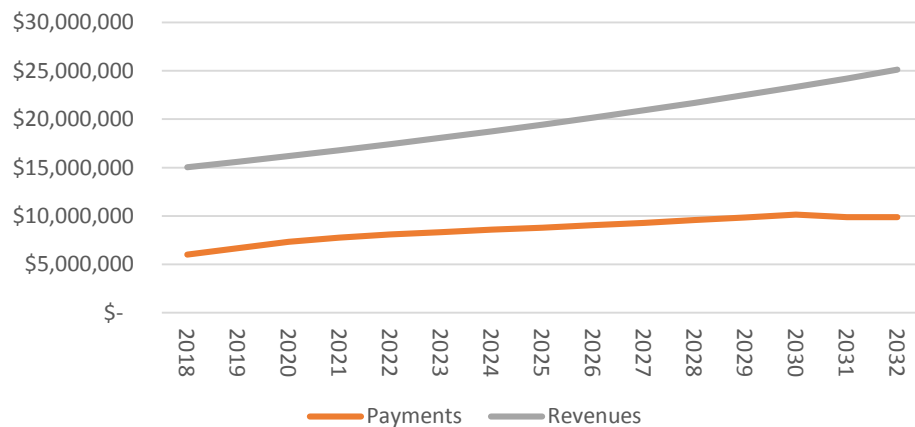
- ▶ The City's CERBT is relatively well funded
 - ▶ Account grew from \$10,375,000 at 6-30-2017 to \$13,360,000 at 1-26-2018 and \$12,717,676 on 2/7
 - ▶ But...
- ▶ The City's expected pension costs will be increasing for the foreseeable future:



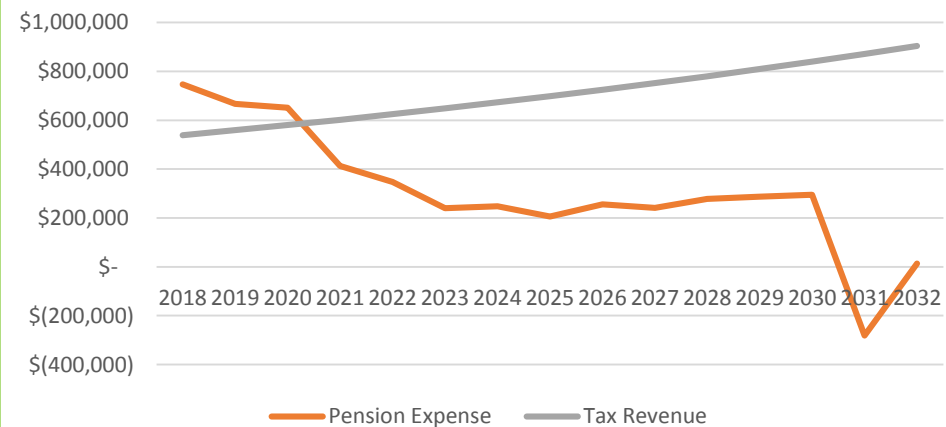
City of LOMPOC Retiree Benefit changes

- ▶ The City's General Fund relies primarily on taxes and tax revenue growth to sustain services
- ▶ The estimated growth of pension obligations will outstrip tax growth in the medium term through 2021
- ▶ In 2000, pension costs were 10% of tax revenues, will reach 46% in 2025 before moderating to 2032 when UAL payments begin to recede.

City of Lompoc
Pension Payments vs Tax Revenues



City of Lompoc
Tax Revenue growth vs Pension Cost growth

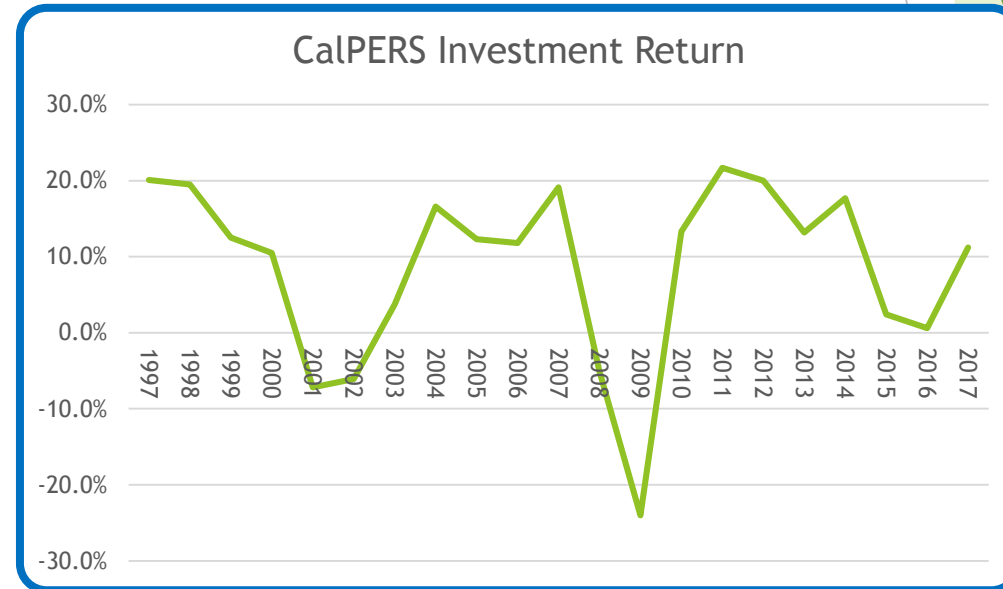


Retiree Benefit Options

- Retiree benefits other than pensions may be easier to modify than pension benefits to provide additional resources for the City's ongoing pension obligations

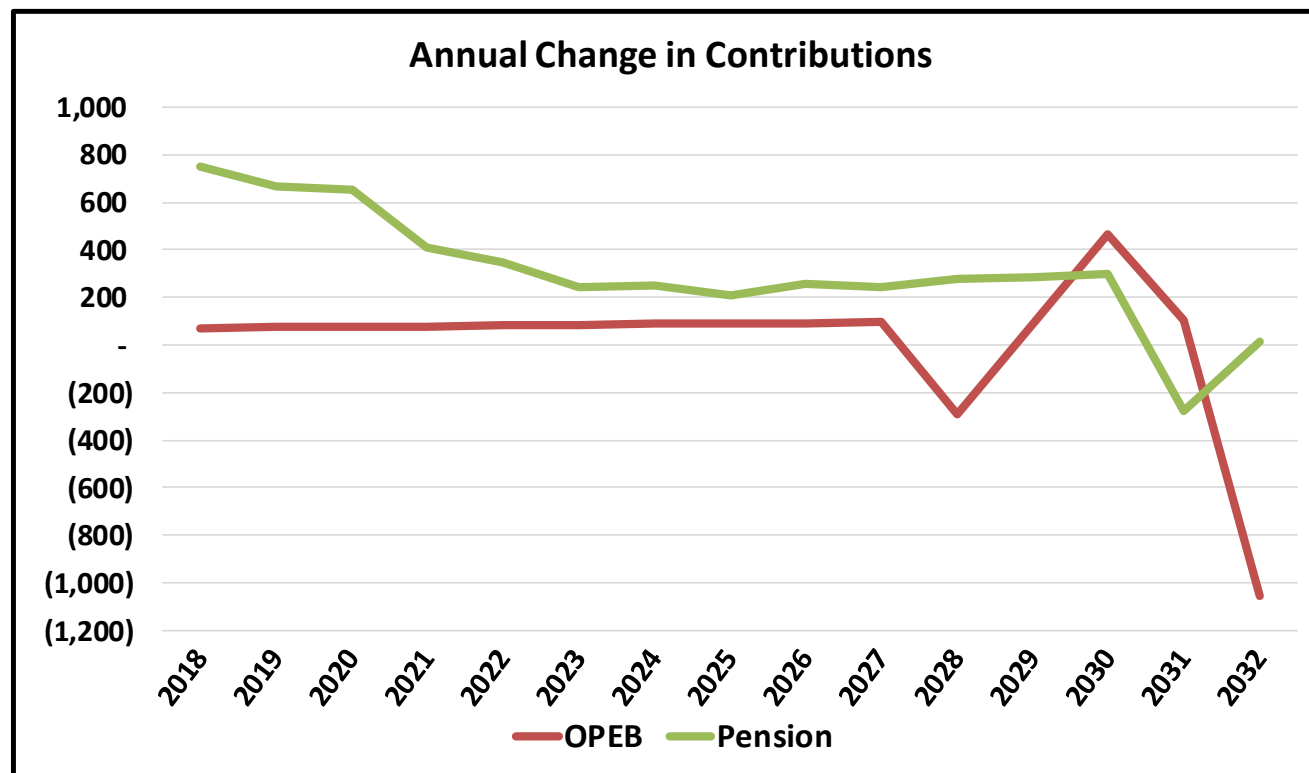
Beware: My opinion!

- ▶ GASB 68 and GASB 75 purport to add transparency to financial statements by adding the existing liabilities to the balance sheet
- ▶ Adding transparency to the balance sheet adds significant volatility to statements of operations



City of LOMPOC OPEB Funding

- ▶ OPEB increases moderate, especially compared to pension
- ▶ OPEB Volatility due to payoff of amortization bases



League of California Cities® Retirement System Sustainability Study and Findings

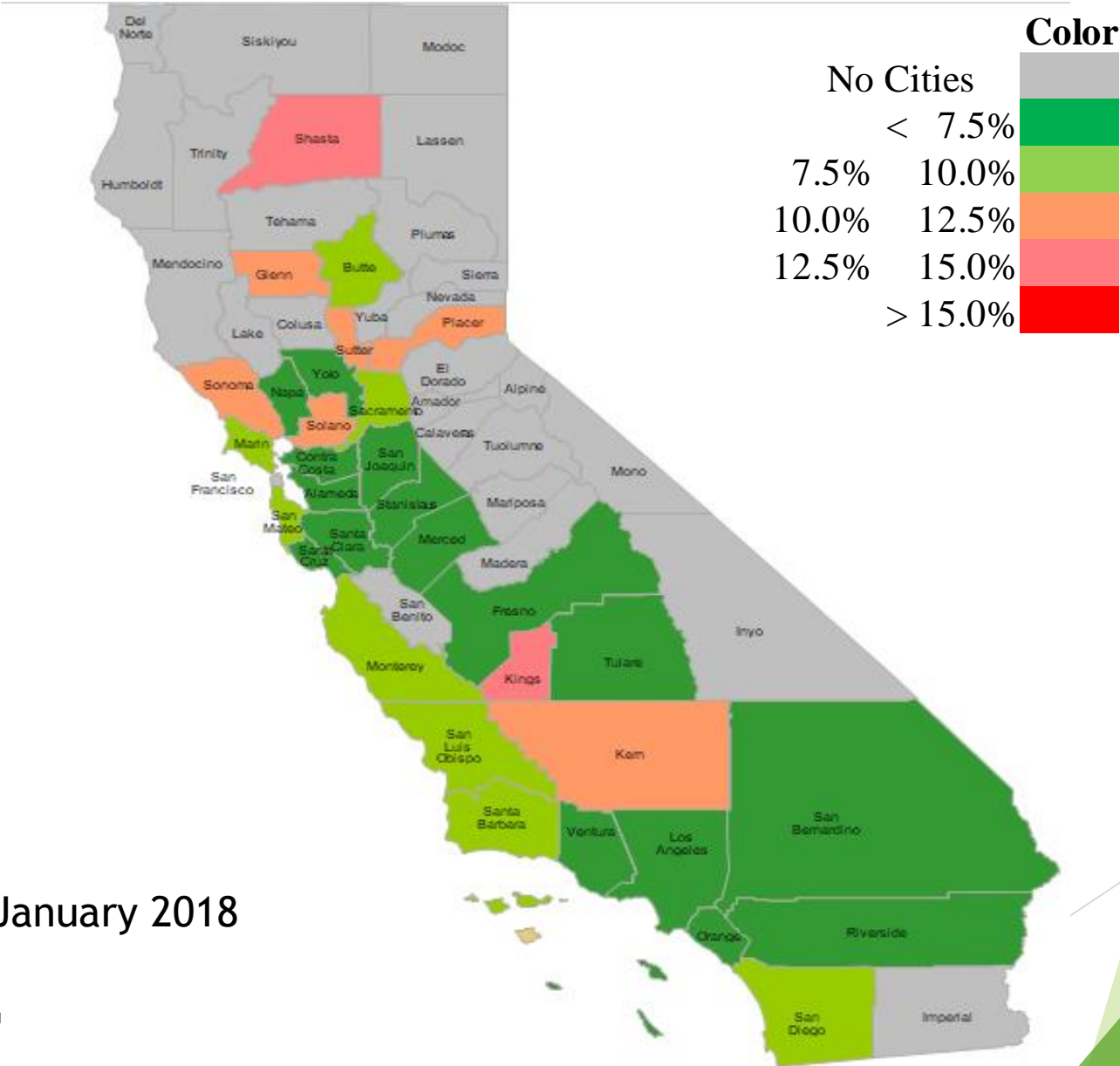
January 2018

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2006/07 Pension contribution as % of General Fund budget

League of California Cities, January 2018

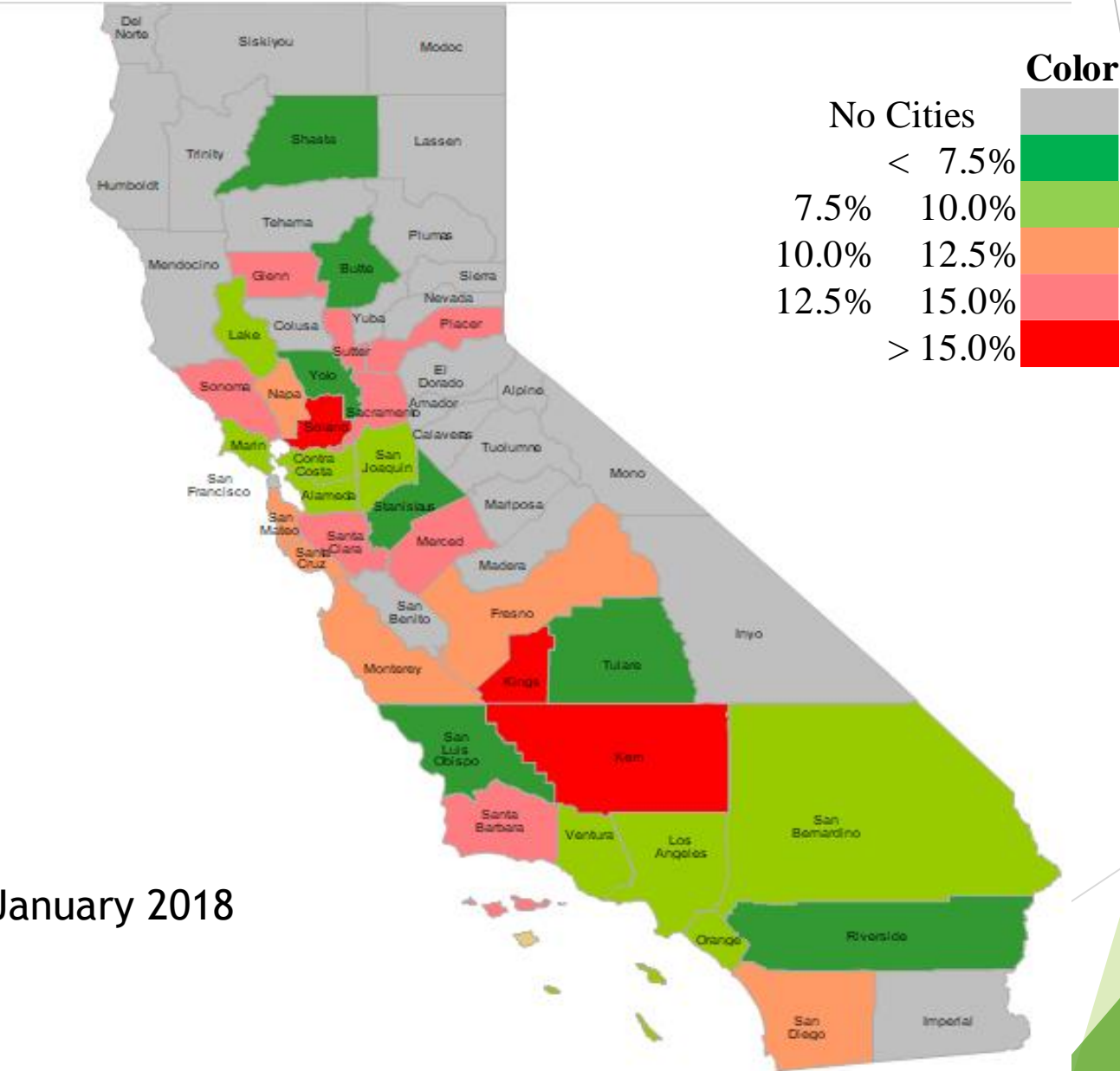
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2017/18 Pension contribution as % of General Fund budget

League of California Cities, January 2018

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League of California Cities, January 2018

Color

No Cities	Grey
< 7.5%	Dark Green
7.5% - 10.0%	Light Green
10.0% - 12.5%	Orange
12.5% - 15.0%	Pink
> 15.0%	Red

January 2018

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