

**MONTEREY PENINSULA REGIONAL PARK DISTRICT
BOARD OF DIRECTORS MEETING**

DATE: May 6, 2020
TO: Board of Directors
FROM: Kelly McCullough, Finance Manager
REVIEWED BY: Rafael Payan, General Manager
SUBJECT: Consider and Approve Other Post Employment Benefit (OPEB) Funding Policy

RECOMMENDED ACTION:

It is respectfully recommended that the Board consider and approve the attached draft OPEB Funding Policy (**ATTACHMENT 1**).

FISCAL IMPACT:

Not applicable, this is a policy document.

FUNDING SOURCE:

Not applicable, this is a policy document.

FUNDING BALANCE:

Not applicable, this is a policy document.

DISCUSSION:

Compensation packages for active workers may include pensions as well as healthcare and other similar benefits for those employees after they have completed their active service. Generically, healthcare and other benefits are described as other postemployment benefits (OPEB) to distinguish them from pensions. Employers are required to recognize the cost of pension benefits as employees earn them, and the Governmental Accounting Standards Board (GASB) extended this same requirement to OPEB effective for fiscal years beginning after June 15, 2017. While pensions have long been funded on an actuarial basis, OPEB plans have not. The change in accounting standards has focused attention on the costs of OPEB, including concerns about rising health-care costs and an aging public-sector workforce. The real issue is not the change in accounting standards for such a funding policy and OPEB, as such, but rather the underlying budgetary and funding challenge that those accounting standards highlight. Meeting this challenge requires government finance officers to ensure that both pension and OPEB are sustainable over the long term - that they are affordable to stakeholders, competitive, and sufficient to meet employee needs, and that they may be reasonably expected to remain so.

The Government Finance Office's Association (GFOA) recommends that every state and local government that offers defined benefit pensions and/or OPEB formally adopt a funding policy that provides reasonable assurance that the cost of those benefits will be funded in an equitable and sustainable manner. It is widely acknowledged that the

appropriate way to attain reasonable assurance that benefits will remain sustainable is for a government to accumulate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefitting employees.

On November 5, 2012, the Board considered and made the fiscally prudent decision to establish a third-party trust with the California Employer's Retiree Benefit Trust (CERBT), to fund future promised and contracted benefits to retirees, known as Other Post Employment Benefits (OPEB). At that same time, they made the decision to fund the Trust, using reserve funds. The initial investment was \$1,729,009. The current balance as of April 23, 2020, is \$2,414,030. The table (**Table:1**) below illustrates the cumulative effects of activity in the Trust since its inception and demonstrates, that by staff implementing and following the strategies now memorialized within the attached draft Policy (**ATTACHMENT 1**), the District is well positioned financially to cover the expenses of contracted benefits to current and retired employees.

Table:1

Account Summary as of April 23, 2020	
Initial contribution (3/15/2013)	\$1,729,009
Additional contributions	\$240,006
Disbursements	(\$224,697)
CERBT expenses	(\$14,446)
Investment earnings	\$684,157
Total assets	\$2,414,030
Money-weighted annualized net rate of return (3/15/2013-4/23/2020-7.11 Years)	4.88%
Strategy 1 time-weighted 10-year expected annualized rate of return (2018 CMAs)	5.85%
Percent Funded	89%

The District did not have a policy at the time the Trust was established, as to how the Trust would be funded going forward. Staff has continued to operate under direction that was given at the Trusts inception, that the Board desired to continue to fund the Trust, based on biennial actuarial valuations, so as to fully fund it at or near 100%.

The attached draft Policy establishes, among other things, a methodology for funding OPEB, ensuring it is sustainable over the long term, determining funding contributions and withdrawals, and selecting an Investment Strategy. Funding contributions are to be budgeted annually based on the biennial actuarial valuation to maintain a funded ratio at or near 100%, while endeavoring not to exceed full funding. When budgeted funds are not required, they may be used to fund any unfunded pension obligations.

The Policy should be reviewed at a minimum on a biennial basis, in conjunction with the actuarial valuations. The actuarial valuations are performed biennially and require direction on the desired investment strategy. The Policy requires the Finance Committee to consider the Investment Strategy at least biennially, and to make a recommendation thereafter to the full Board. The Finance Committee has made a recommendation that the District remain in Strategy 1 for the current valuation period. More detail regarding this recommendation can be found in the report in this packet under Item 7-A3.

Staff respectfully recommends the Board approve the attached draft Other Post Employment Benefit (OPEB) Funding Policy (**ATTACHMENT 1**) and Strategy 1 investment selection.

ATTACHMENTS:

1. [Draft OPEB Funding Policy](#)