City of Carmel-by-the-Sea
May 18, 2021 City Council Special Meeting
Budget Questions and Responses
Question #1 - Other Post Employment Benefits (OPEB) Synopsis

The purpose of this OPEB Synopsis is to provide an overview of the healthcare benefit the City provides to its retirees as well as a summary of the Other Post Employment Benefits (OPEB Fund) including its current and allowable uses.

Similar to other governmental entities, the City of Carmel-by-the-Sea offers benefits to its employees in an effort to attract and retain a quality workforce. Some of these benefits are utilized once an employee retires. First, the City provides a defined pension plan through the California Public Employees' Retirement System (CalPERS) for all full-time employees as part of their total compensation package. Second, the City offers access to lifetime healthcare to eligible employees (and their dependents) after retirement. According to the Government Accounting Standards Board (GASB), Other Post Employment Benefits (OPEB) are benefits, *other than pension*, that governments provide to their retired employees, which may include healthcare, life insurance, disability and other services.

City employees are eligible to retire and to receive City-paid healthcare benefits based upon age and years of service. Specifically, an employee is eligible to retire at age 50 (or age 52 for Miscellaneous PEPRA employees) and with 5 years of service. The City is considered to be a single-employer defined benefit healthcare plan. A defined benefit plan specifies the benefits that employees will receive after employment, as compared to a defined contribution plan that states the amount that is required to be contributed to an active employee's account each year.

Retirees and their surviving spouses are eligible to enroll within the same medical plans as the City's active employees. The City does not provide dental or vision benefits to its retirees. However, once a retiree becomes eligible for Medicare, the retiree must join a Medicare HMO or a Medicare Supplement plan, with Medicare becoming the primary payer.

The City contributes toward the cost of medical plans for its current active employees, as well as toward the cost of medical plans for its retirees. Retiree medical benefits are provided through the California Public Employees' Retirement System Healthcare program (PEMHCA). Contributions toward retiree health benefits are determined under the "equal contribution method" under PEMHCA, whereby the contribution is 100% of the City's statutory minimum contribution for active employees.

Currently, there are 41 retirees that receive healthcare benefits. In calendar year 2021, the minimum contribution is $143 per enrolled retiree per month. The minimum contribution changes on January 1 of each year with the average increase being $3 per enrolled retiree per month. The payment is made to CalPERS by the 10th of each month, along with the payment for active employees.

Annual retiree healthcare costs are included within the City's adopted operating budget. The Fiscal Year 2021-2022 Recommended Budget includes $79,980 within the General Fund line item account entitled "Retiree Health Share" located within the Citywide (Non-Department) function (page 29 of FY 21-22 Recommended Budget book). This amount is $7,500, or 10%, more than the Fiscal Year 2020-2021 Adopted Budget due to an increase in the contribution amount and additional retiree enrollment. This expense is funded by general purpose revenues.

In order to provide transparency on the resources needed to meet a governmental entity's OPEB commitments, GASB has issued various statements over the years on this subject. This guidance includes a requirement that governments report their financial obligation for these benefits as a liability within their annual financial statements. Thus, the City's financial statement includes both the annual cost of retiree healthcare contributions as well as a calculator on its long-term OPEB obligations. Similar to pension liability, the OPEB liability is calculated based upon certain actuarial assumptions as explained within more detail on pages 79-82 of the City's Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020. The City's OPEB liability as of June 30, 2020 is calculated at $4.6 million.

However, unlike the City's pension liability in which an annual unfunded accrued liability (UAL) payment is made to CalPERS, there are no annual payments required to be made toward the OPEB liability. Nor is there any statutory requirement to fund OPEB liability. Moreover, the question on whether OPEB should be represented as a liability within a government's financial statement has been subject to debate. On one hand, some governments contend that they have the ability to stop providing these benefits; the benefits may not be legally binding or contractual obligations; and/or the benefits or an employee's eligibility to receive the benefits are subject to change. Conversely, from GASB's perspective, if a commitment to provide OPEB was in place as of the date of the financial statement, then a government has an OPEB obligation that constitutes a liability in terms of financial reporting.

In 2007 the City Council established the OPEB Reserve Fund to provide a reserve for post employment benefit liability exposure. It was funded with an initial $1 million and has since grown to approximately $1.4 million, due to accumulated interest since the fund was first established.[1] The annual cost of retiree healthcare is an eligible use of the OPEB Fund. However, there has not been an activity within this Fund since its inception.

Similar to the current discussions by Council regarding pension, there may have been a desire by prior Council to establish an OPEB Trust. In 2007, CalPERS launched the California Employers' Retiree Benefit Trust (CERBT) to pre-fund OPEB. Currently there are approximately 580 public employers participating in the CERBT program. Since then, some governmental entities have established trusts to fund pension liabilities or have expanded the scope of existing OPEB trusts to fund both OPEB and pension liabilities.

In accordance with Council direction provided on March 2, 2021, the Fiscal Year 2021-2022 Recommended Budget includes $1 million for pension mitigation strategies. This funding is included within the General Fund Operating Budget within the line item account "PERS Unfunded Accrued Liability Payment" (labeled as "Pension Mitigation Options" within the budget book display) housed within the Citywide (Non-Department) function (page 29 of FY 21-22 Recommended Budget book). However, the $1 million for pension mitigation may be transferred into either the existing OPEB Reserve Fund or into a newly created pension liability reserve fund.

Council has the option to expand the use of the OPEB Reserve Fund to include pension liabilities by adopting a resolution that modifies the name and purpose of the OPEB Reserve Fund. Alternatively, Council may adopt a resolution that creates a new and separate pension liability fund (PERS Reserve Fund) and decide to use all, some or none of the current OPEB Fund balance toward the PERS Reserve Fund. Under this scenario, the City would then have two internal funds; one to be used for OPEB liabilities and the second to be used for pension liabilities. As there are no requirement payments to be made toward the unfunded OPEB liability, Council may use the current OPEB funds to pay annual retiree healthcare costs, to

[1] The OPEB Reserve Fund also includes $416,000 specifically set-aside to address liabilities associated with the payment of employee sick leave upon termination, and accumulated employee sick leave and vacation upon retirement. This is known as the Benefit Liability Fund, which was created in 1994. There is no minimum reserve requirement for the Benefit Liability Fund.

establish an OPEB Trust, or to hold the funds internally to be used in the future, as is the current practice. These options are not mutually exclusive. If the existing OPEB Reserve is modified to include pension liabilities, then the existing funding, in addition to the proposed $1 million in new funding, may be used in total, or in part, to establish a Section 115 trust, to make additional payments to CalPERS to buy down the unfunded accrued liability payment; or to hold internally for future use to address these liabilities. Again, these options are not mutually exclusive.