



Formation of a Retirement Health Savings Arrangement

October 6, 2022



WHAT IS OPEB?

Other Post Employment Benefits (OPEB) – Other Post Employment Benefits (OPEB) refer to the retiree medical premium reimbursement paid by the District directly to retirees. The benefit is negotiated with the employee bargaining unit and memorialized in an MOU. The OPEB reimbursement methodology as negotiated and agreed over time is shown in the table below:

Benefit	Hire Date	Retire Date	Subject to Vesting	Plan
Tier 1	Prior to 7/1/11	Prior to 7/1/12	5 yrs w/ CalPERS or a Reciprocal Agency	Highest HMO Family
Tier 2	Prior to 7/1/11	After 7/1/12	5 yrs w/ CalPERS or a Reciprocal Agency	Kaiser Family
Tier 3	7/1/11 to 12/31/12	N/A	District Vesting Schedule	Kaiser Family
Tier 4	After 1/1/13	N/A	District Vesting Schedule	Kaiser Employee +1

DEFINITIONS

Date	Action
California Employers' Retiree Benefit Trust (CERBT)	CERBT is a Section 115 trust fund dedicated to prefunding OPEB expenses for California public agencies. The CERBT is used by the District to prefund future retiree benefits such as health premiums and life insurance. The fund helps finance future costs in large part from investment earnings provided by CalPERS.
Public Employee's Medial and Hospital Care Act (PEMCHA)	The program and regulations governing the CalPERS Health Program. PEMCHA requires an employer to pay the same amount toward health insurance premiums for its retirees as it does for its active employees. A catch-up provision is allowed at the time that the Employer elects to participate in CalPERS for benefits and becomes subject to the PEMCHA regulations
Retiree Health Reimbursement Arrangement (RHRA)	RHRAs allow retired employees to use funds allocated to their account to pay for health expenses during retirement, such as health insurance premiums with tax free dollars.
Health Vesting Schedule	A schedule adopted by the District that provides for health benefits based on years of service with the District and CalPERS or a reciprocal agency.

THE HISTORY: SPMUD & OPEB

Date	Action
09/04/1986	Res 86-10 Switching from a County Health Plan to CalPERS and adopting PEMCHA, establishing a full premium contribution for active employees and a catch up of 5% annually for retirees until such time as equal benefits are provided to active employees and retirees.
04/03/2008	Res 08-02 Electing to Prefund OPEB through CalPERS, initial contribution to California Employers' Retiree Benefit Trust (CERBT). <i>(initial contribution of \$2.45M made on 4/25/08)</i>
07/01/2011	Res 11-01- Establishing a Health Benefit Vesting Requirement for future Retirees under the Public Employee's Medial and Hospital Care Act (PEMCHA).
06/07/2012	Res 12-13 MOU with Employee Association which includes implementation of a Retiree Medical Vesting schedule.
07/05/2012	Res 12-14 Electing to be subject to PEMCHA and Fixing the Employer's Contribution for active employees and retirees to the Minimum Employer's Contribution per GC 22892(a). <i>(currently \$149 per month)</i>
07/05/2012	Res 12-15 Rescinding the CalPERS Medical Vesting requirement for future Retirees under PEMCHA, establishing that employees hired after July 1, 2011 will not be subject to vesting under Res 11-01.

THE HISTORY: SPMUD & OPEB

Date	Action
08/02/2012	Res 12-17 Fixing the Employer's Contribution under PEMCHA to the Minimum Employer Contribution pursuant to GC 22892 (a), rescinding Res 12-14.
08/30/2012 08/31/2012	Emails to & from American Fidelity Assurance regarding the need for 1099 for reimbursements, and the need to form a Retiree Health Reimbursement Account.
09/05/2012	Emails to & from District Accountant/Auditor stating the need to send out 1099msc or create an RHRA. Questions whether the CERBT was an RHRA.
09/03/2015	Res 15-23 Adoption of Policy Handbook, specifically Policy 2575 – Funding of Other Post Retirement Benefits (restatement of Res 08-02).
07/01/2021	Letter to Retirees notifying them of CPA's finding regarding 1099 requirement.

OPEB VALUATION REPORT SUMMARY

OPEB Valuation Report Summary

OPEB Actuarial Valuation Report by MacLeod Watts, Inc.	
Valuation Date	6/30/2019
Measurement Date	-
Total OPEB Liability (TOL)	\$6,318,763
Valuation Assets	\$4,958,199
Net OPEB Liability (NOL)	\$1,360,564
Funded Status	78%
Actuarially Determined Contribution (ADC)	\$376,479
CERBT Asset Allocation Strategy	Strategy 2
Discount Rate	6.40%

CERBT ACCOUNT SUMMARY

SECTION 115 TRUST

The California Employees Retiree Benefit Trust (CERBT) is a Section 115 trust allowed by the Internal Revenue Code.

Section 115 trusts are tools that can allow States, Municipalities and Special Districts to set aside extra resources for pension funds and Other Post-Employment Benefit plans at reduced investment risk.

Section 115 trusts can be used to help smooth volatility from year-to-year fluctuations in annual required contributions (ARCs)

Section 115 Trusts are not, in and of themselves, Retiree Health Reimbursement Accounts, Retiree Healthcare Savings Accounts, or Retirement Medical Savings Account. These types of plans require additional formal documentation.

Section 115 Trusts can be used to fund an established Retirement Health Reimbursement Arrangement.

FUNDING RATIOS

- If the funded ratio of a pension or OPEB fund (the assets relative to the liabilities) is below 60 percent, the pension fund is deemed underfunded.
- If employer contributions to the pension fund comprise over 10% of governmental revenues, the pension fund is deemed underfunded. In each case, plan sponsors with underfunded pension funds are required to file additional reports under GASB 75.
- According to the CalPERS CERBT (Sec 115 trust) analysis, the District is currently 78% funded. The District initially deposited into CERBT approx. \$2.45 million in 2008.
- There have been no withdrawals from the CERBT. The Districts ARC to the Trust and all payments made to District retirees have been sourced from the District's General Fund; all investment returns have been returned to the CERBT. As of Mar 31, 2022, the CERBT balance was about \$6.3 Million.
- Prior to the current market volatility, the District's OPEB obligation was almost 100% funded and the District would have begun making the retiree payments out of the CERBT annual investment returns.

PENSION & PAYROLL STUDY



A pension and payroll audit that included a review and analysis of the medical insurance benefits it provides to active employees and retirees.



During the review and analysis, the District was advised by its special legal counsel that the District's retirees have, for some time, been having specified amounts of their retiree medical insurance premiums reimbursed by the District through what appears to be a retiree health reimbursement arrangement (RHRA) with the District acting as the plan administrator.



Although the building blocks for an RHRA were established and can be found in a variety of District MOUs and other communications, the overall arrangement lacks the technical requirements and follow-through of an integrated plan document to facilitate administration and ensure compliance with IRS rules.

The District has further been advised that the immediate adoption of an appropriate RHRA plan document with a third-party plan administrator to assist the District with RHRA documentation, recordkeeping, claims processing, and compliance is recommended.

Retirees will continue to receive their reimbursements in the manner they are accustomed to. It is anticipated that the change in process should be seamless for retirees.

The District currently utilizes American Fidelity Assurance to assist it with the documentation, claims processing, and compliance of its cafeteria plan for active employees.

American Fidelity can assist the District with the immediate documentation and implementation of an RHRA for the District's eligible retirees at a competitive pricing model.

PLAN ADMINISTRATION

RECOMMENDATION

Staff recommends that the Board of Directors approve the immediate adoption of Resolution 22-39 Authorizing the Adoption of a Formalized Retiree Health Reimbursement Arrangement (RHRA) Plan Document to help fulfill the District's benefits obligations to its retirees.



Special Legal Counsel, Jeff Chang of the law firm, BBK, is available to further address this issue and respond to any Board inquiries.