



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager



Date: May 24, 2016
Board Meeting Date: June 21, 2016
Special Notice / Hearing: None
Vote Required: 4/5ths

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: Appropriation Transfer Request for an Increase in the FY 2015-16 Annual Required Contribution for Other Post-Employment Benefits

RECOMMENDATION:

Adopt a resolution authorizing an Appropriation Transfer Request transferring \$3,850,000 from ERAF Reserves to Other Financing Uses within the Non-Departmental Services budget unit (8000B) for the purpose of fully funding the FY 2015-16 Annual Required Contribution for Other Post-Employment Benefits (OPEB).

BACKGROUND:

In May 2008, after a formal Request for Proposals (RFP) process, the Board of Supervisors approved an agreement with the California Public Employees Retirement System (CalPERS) to establish an irrevocable trust to meet the County's funding requirements for ongoing retiree health benefits, otherwise known as Other Post-Employment Benefits (OPEB). At that time, the County made a contribution in the amount of \$145.4 million to the CalPERS trust to pre-fund OPEB. Each year, the County contributes 100% of its Annual Required Contribution (ARC) to the trust. The ARC is the annual amount the County would have to pay to fund retiree health liabilities over time. The County requests disbursements from the CalPERS trust to pay the County's monthly retiree health insurance costs.

In June 2011, the County conducted another formal Request for Proposals process for these investment services and again selected CalPERS to continue to provide OPEB investment services due to lower service fees and more flexible investment options.

DISCUSSION:

The County contracts with Milliman, Inc. to conduct valuations of the OPEB to include in the County's annual financial statements. These valuations are also used to determine the amount of the ARC. The recent valuation from Milliman revealed that the amount

appropriated for FY 2015-16, which was based on the prior year ARC, was understated by approximately \$3.85 million. The main reason that the ARC was understated was that in FY 2014-15, the CalPERS investment pool sustained losses of 0.3% and fell short of the earnings assumptions rate by 7.1%. Milliman is required to amortize these losses into the revised ARC. In addition, based on the latest experience study, there have been recent changes to certain assumptions, including age of entry, retirement age and increased medical costs. Finally, based on updated claim costs and premiums, CalPERS changed the Plan's earnings assumptions rate from 6.81% to 6.73%. All of these issues have contributed to the increased ARC, requiring an Appropriation Transfer Request from Non-Departmental Reserves to cover the additional cost.

FISCAL IMPACT:

The ATR from Non-Departmental Reserves in the amount of \$3.85 million will provide sufficient funding to make the ARC payment of \$21,977,000. The County is required to remit these funds to CalPERS on or before June 30, 2016.