



CITY OF BELVEDERE

FINANCE SUB-COMMITTEE: Taskforce on Pensions & OPEBs

AGENDA

May 27, 2021
Via Zoom
1:00 p.m.

Join Zoom Meeting

<https://us02web.zoom.us/j/4136417003?pwd=TXB1T1pERy8rcG5Hbkjd1Y2NFVBUT09>

Meeting ID: 413 641 7003

Passcode: Belvedere

Dial by your location

833 548 0282 US Toll-free

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Meeting ID: 413 641 7003

Passcode: 310801

1. Approve minutes from March 16, 2021 meeting.
2. Briefings/Discussion of the City's OPEB position and potential strategies for managing OPEB liabilities.
3. Adjourn.

Attachments:

1. Taskforce Two update to Finance Committee (DRAFT).
2. Notes on OPEB Plan and Potential Alternatives.

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Date posted: May 25, 2021.

Taskforce on Pensions & OPEB Final Report to Belvedere Finance Committee

Date: April X, 2021

Background

This is the second and final update from the Taskforce on Pensions & OPEBs (“taskforce”) to the City’s Finance Committee. The first update recommended a package of measures to reduce the City’s pension risk. This update concentrates on the City’s OPEB risk associated with its retiree medical benefits program. In total, the taskforce met nine times between January and April 2021 and its work is now complete.

Recognition of OPEB Liability

The taskforce began its OPEB work by considering whether the City could recognize a lower, or zero net OPEB liability on balance sheet, instead of the \$1.31 million currently recognized (June 30, 2019 valuation) because the City has no legal obligation to sustain its retiree medical benefits plan. Retiree medical benefits are not mentioned in the City’s MOU with the Belvedere Peace Officers’ Association, nor in the staff handbook for Miscellaneous staff, suggesting the City has no legal obligation to offer them in future years. The City does have a written agreement with former City Manager, Ed San Diego, to offer enhanced retiree medical benefits in perpetuity, but otherwise the City is only required to offer these benefits as a condition of its contract with CalPERS’ Health Plan. Thus, if it exited CalPERS’ Health, it could, in theory, extinguish its retiree obligation and simply offer medical benefits to active employees. The taskforce consulted with the City’s auditors and outside actuaries on the appropriate application of GASB-75, given the circumstances of the City’s plan. It was advised that whilst a written plan document is usually the best evidence of benefit terms, GASB also considers the “substantive plan” i.e., the plan provided or likely to be provided based on past evidence, for the purposes of determining future cost. Thus, unless a specific decision has been made to discontinue retiree medical benefits, the benefit terms in force as of the measurement date must be used to calculate the present value of the deferred benefit and the net OPEB liability must be recognized in full on balance sheet. The taskforce accepted this guidance.

OPEB Risk

Next, the taskforce sought to understand the financial risk associated with the City’s OPEBs. It observed that the City’s current net OPEB liability is low, both compared to the City’s unfunded pension obligations and the net OPEB liability faced by neighboring municipalities. The City already offers the minimum retiree medical benefit allowed under CalPERS’ Health Plan (PEMHCA minimum, equal to \$143 per month in 2021) to all retirees except the two members of the City Manager class, who receive an enhanced benefit. Moreover, whilst recognizing the sharp growth in the net OPEB liability over the past decade, rising from \$374,000 to \$1.31 million, the taskforce observed the limited scope for unwieldy growth going forward, given the shuttering of the enhanced City Manager benefit for future retirees, the already-low discount rate used to present value the liability (3.5% for the June 30, 2019 valuation), the full application of new accounting rules, and the fact that the plan is unfunded, eliminating any investment risk. Demographic factors and medical cost inflation will be the main drivers of changes in the City’s net OPEB liability in the medium term. Application of a lower discount rate for the June 30, 2021 valuation (based on lower corporate bond yields) will likely lead to a higher reported net OPEB liability, at least in the short term.

The taskforce noted the limited burden retiree medical costs place on the City’s overall budget. The cost of subsidizing retiree premiums is projected to increase from \$39,000 to \$54,000 over the next decade. Whilst this is a steep increase in percentage terms, the overall annual spend is modest in comparison to the \$360,000 the City pays in health care premiums for active employees (2020-21) and is unlikely to reach a point where it threatens to crowd out other spending or weaken the City’s credit standing.

Section 115 Trust Pros and Cons

The taskforce moved on to discuss the merits of establishing a Section 115 trust to fund the City's OPEB liability, moving the City away from its current pay-go approach. It acknowledged that funding a trust would allow application of a higher blended discount rate to value the City's OPEB liability, per GASB rules, thus reducing the reported net OPEB liability by more than the value of the assets assigned to the trust. However, members did not see this as a compelling reason to fund a trust. Members also expressed reservations about setting aside funds to cover the "implied subsidy" element of the OPEB liability, roughly \$300,000 as of June 30, 2019, which does not constitute a future cash outlay. Members discussed the downside of irrevocably committing monies to an OPEB trust, given the arguably revocable nature of most of the City's retiree medical benefits, but learned that the funds could be withdrawn from the 115 trust and used for other purposes if, and when, the liability is extinguished. Ultimately, the taskforce agreed that the City should prioritize paying down its unfunded pension liabilities, given the larger scale of the pension problem and the limited scope of free funds within the budget to address all issues. It suggests the Finance Committee revisit the case for funding an OPEB trust as part of the City's standing pension review process. The next review will take place in not more than five years' time.

Shopping for Health Insurance

The taskforce next considered the possibility of moving the City's medical insurance program outside of CalPERS' Health. Under the terms of CalPERS' Health Plan, retirees must be offered access to the same plans at the same rates as active employees and receive a cash subsidy of at least the PEMHCA minimum (\$143 per month) towards their premiums. Thus, the only way for the City to restructure its retiree offering is to exit CalPERS' Health Plan first. The taskforce discussed the likely challenges of moving the City's plan given the high average age of its active workforce (50 years) and expressed concerns about negatively impacting the finances of existing retirees and those approaching retirement by altering their medical benefit terms. It also acknowledged the administrative ease of staying in CalPERS' Health since the retiree premium, less the PEMHCA minimum, is simply deducted from retiree pension checks, requiring no oversight from the City. Working with the City's insurance broker, Keenan, staff worked up various options.

TO BE CONTINUED....

City Manager Class Restructuring

TO BE CONTINUED

Summary

**SPECIAL MEETING
FINANCE SUB-COMMITTEE
Taskforce on Pensions and OPEBs
Tuesday, March 16, 2021
9:00 AM
on Zoom remote platform**

MINUTES

COMMITTEE PRESENT: Steve Block, Bob McCaskill, David Walker, Sally Wilkinson

COMMITTEE ABSENT: N/A

OTHERS PRESENT: City Manager – Craig Middleton,
Admin. Services Manager – Amber Johnson

CALL TO ORDER OF SPECIAL MEETING

The meeting was called to order at 9:00 a.m.

SCHEDULED ITEMS

1. The Committee discussed the background and relevant issues around the City's pension and OPEB liabilities. After discussion, a recommendation to the finance committee was developed regarding pension liabilities. The recommendation was approved by unanimous vote of the taskforce.

ADJOURN

The meeting was adjourned at 10:00 a.m.

THE FOREGOING MINUTES were approved at a regular meeting of the Finance Sub Committee on May 27, 2021 by the following vote:

AYES: —
NOES: —
ABSENT: —
ABSTAIN: —

APPROVED _____
Sally Wilkinson, Chair

ATTEST _____
Amber Johnson, Admin. Services Manager

Three types of participants:

- Active employees
- Early retirees (aged 50-64)
- Medicare retirees (aged 65+)

The City pays (per negotiated MOU for represented employees):

- 100% of active employee premiums up to the PERS Choice rates
- PEHMCA minimum (currently \$143/mo. – increases annually) for early & Medicare retirees
 - o Retiree coverage and PEHMCA minimum is dictated by contract with CalPERS
 - o Retirees pay their portion of premium directly from their CalPERS pension

Goals:

- Reduce OPEB unfunded liability by:
 - o Reducing the cost of retiree benefits currently offered
 - o Discontinuing retiree benefits prospectively
 - o (Must leave CalPERS contract to achieve any flexibility – active employee benefits would also be affected)
- Effect changes with minimal impact to current participants:
 - o Keep plan benefits same/similar to current plans
 - o Keep plan premiums same/similar to current rates
 - Early retirees currently have a significant monetary benefit from participation in our pool
 - o Ensure any significant changes are understood by all participants

Options for leaving CalPERS:

Type:	Other Group Coverage:		Direct/Marketplace
	County of Marin	REMIF	
Active	- Plans, benefits and premiums are comparable	- Only Anthem plans (most currently have Kaiser) - Premiums are comparable	- Higher premiums for less robust benefits - Insurers required to match current premiums for 1 year after leaving CalPERS.
Early	- Unsure if County will take our early retirees*	- Same Anthem offerings - Premiums 32% higher	
Medicare	- Lower premiums and same plan benefits currently offered		

* Awaiting information from County HR department

Best option:

- County plan for actives
- County plan for early retirees (if accepted by County)
- Individual plan for Medicare retirees (if plan benefits prove to be comparable)

Considerations:

- Health insurance for active employees is negotiated in the represented employees (Police) MOU – any changes to active coverage would need to be negotiated
- The City would assume responsibility for collecting premiums from early retirees
- A Health Reimbursement Arrangement (HRA) would be recommended to maintain PEHMCA minimum contribution to retirees
- Keenan would assist Medicare retirees with shift to individual plans

Please see the following pages for various tables with information about the City's plan demographics, and comparisons to alternative coverage.

Current plan data:

Average age of participants			
Plan type	Member	Dependent	All
Active	50	32	39
Early Retiree	61	62	61
Medicare	76	74	75
Total	58	38	47

Number of participants			
Plan type	Member	Dependent	Total
Active*	16	32	48
Early Retiree	6	3	9
Medicare	8	3	11
Total	30	38	68

* Plus 3 employees receiving stipend; 1 employee not covered = **20** active employees

Breakdown by Provider				
Provider	Active	Early	Medicare	Total
Kaiser	11	6	2	19
PERS Care			1	1
PERS Choice	2		4	6
PORAC	2			2
United			1	1
Western	1			1
Total	16	6	8	30

Rate and Benefit Comparisons:

2021 Rates

Actives & Early Retirees

Monthly (\$) - Family coverage

CalPERS

<u>CalPERS</u>		<u>County</u>	
Kaiser	2,115	Kaiser - Plan L (HMO)	2,161
PORAC (PPO)	2,199	Kaiser - Plan S (HMO)	1,952
PERS Choice (PPO)	2,433	Teamsters Anthem (PPO)	2,322
Western Health (HMO)	1,968	Western Health (HMO)	1,973

2021 Coverages

Actives & Early Retirees

	CalPERS			
	Kaiser	PORAC	Pers Choice	Western Health
Out of Pocket Max	\$1500/\$3000	\$2000/\$4000	\$3000/\$6000	\$1500/\$3000
Deductible	none	\$300/\$900	500/1000	none
Office Visits	\$0/\$15	\$10/\$35	\$20	\$0/\$15
Outpatient	\$15	20%	\$20	\$15
Hospitalization	\$0	20%	20%	\$0
ER/Ambulance	\$50	20%	20%	\$50
Rx	\$5-\$40	20%	\$5-\$100	\$5-\$100
Durable Medical Equip	\$0	20%	20%	\$0
Mental Health/Substance Abuse	\$0	20%	20%	\$0

	County			
	Kaiser L	Kaiser S	Teamsters	Western Health
Out of Pocket Max	\$1500/\$3000	\$1500/\$3000	\$2,000	\$1500/\$3000
Deductible	none	none	\$250/\$500	none
Office Visits	\$0/\$5	\$0/\$25	\$20	\$0/\$15
Outpatient	\$0/\$5	\$0/\$25	80%	\$0/\$15
Hospitalization	\$0	\$0	80%	\$0
ER/Ambulance	\$50	\$50	80%	\$15/\$75
Rx	\$5	\$10/\$25	\$10/\$20	\$5-\$50
Durable Medical Equip	20%	20%	?	0/20%
Mental Health/Substance Abuse	\$0-\$5	\$0-\$25	?	0-\$15

2021 Rates

Medicare

Monthly (\$) - Employee +1 coverage

<u>CalPERS</u>		<u>Individual + Rx Coverage</u>	<u>Age 65-69</u>	<u>Age 75-79</u>
Kaiser	649	Kaiser	Not quoted	
PERS Care*	763	Anthem	465	663
PERS Choice**	700	Blue Shield	460	712
United Healthcare	623	UHC	423	665

* City Manager 1 - ages 75 & 79

** City Manager 2 - ages 66 & 69

2021 Coverages

Medicare

	CalPERS				Individual Plan F*
	Kaiser	PERS Care	Pers Choice	United Healthcare	
Out of Pocket Max	\$1500/\$3000	\$3,000	none	\$1,500	
Deductible	none	none	none	none	none
Office Visits	\$10	\$0	\$0	\$10	\$0
Outpatient	\$10	\$0	\$0	\$10	\$0
Hospitalization	\$0	\$0	\$0	\$0	\$0
ER/Ambulance	\$0	\$0	\$0	\$50	\$0
Rx	\$5-\$40	\$5-\$100	\$5-\$100	\$5-\$100	up to 33% for specialty
Durable Medical Equip	\$0	\$0	\$0	\$0	\$0
Mental Health/Substance Abuse	\$0	\$0	\$0	\$0	\$0

*Only available for individuals who were age 65 before January 2020 (= all our Medicare retirees)