SPECIAL MEETING
FINANCE SUB-COMMITTEE
Taskforce on Pensions and OPEBs
Thursday, May 27, 2021
1:00 PM
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 1:00 p.m.

SCHEDULED ITEMS

1. The sub-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 OPEB liabilities:
    a. Defer any action on potential changes to the City's OPEB plan at this time and advise the full finance committee to re-visit the topic at its November 2022 regularly scheduled meeting.
    b. Submit a final report to the finance committee with details of the work of the sub-committee on the topic of OPEB. The report is included as an attachment to these minutes.

    The recommendation was approved by unanimous vote of the sub-committee.
2. There being no other business assigned to the sub-committee, it was agreed that there would be no further meetings of this sub-committee unless specifically directed by the full finance committee.

ADJOURN

The meeting was adjourned at 1:40 p.m.

THE FOREGOING MINUTES were approved by the sub-committee (via e-mail) on June 15, 2021 by the following vote:

AYES: Steve Block (June 15), Bob McCaskill (June 11), David Walker (June 10), Sally Wilkinson (June 10)

NOES: none
ABSENT: none
ABSTAIN: none

APPROVED Sally Wilkinson

Sally Wilkinson, Chair

ATTEST Amber Johnson

Amber Johnson, Admin. Services Manager

Taskforce on Pensions & OPEB Final Report to Belvedere Finance Committee

Date: May 27, 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 May 2021 and its work is now complete. This update is being provided in written form only as no formal action is recommended at this time.

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

$357,000 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.

Health Insurance Alternatives

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 (50.0 years as of June 30, 2019) 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. Plans offered through Covered California provided, on average, inferior benefits and/or higher premiums for active employees and early retirees than those offered through CalPERS' Health. Supplemental Medicare plans were comparable in price and quality to those offered through CalPERS' Health, albeit with lower costs in the early years and higher costs in the outer years (given the community-rated nature of CalPERS' supplemental Medicare plans).

Next, staff approached the County of Marin to see if the City could contract with the County for medical benefits through its non-CalPERS' health insurance program. Plans, rates, and benefits offered through the County are comparable, if not superior, to CalPERS' offerings. The County agreed to accept the City's active employees, but not retirees of Medicare-age. Given that Supplemental Medicare plans offered through Covered California are comparable to those offered through CalPERS' Health, the taskforce did not feel this was a dealbreaker, although acknowledged the administrative lift for staff, and the personal difficulty for aging retirees of moving plans using different payment protocols. Unfortunately, the County would not confirm whether it would accept the City's early (pre-Medicare) retirees. Given the considerably higher costs that early retirees would face acquiring comparable insurance through Covered California given their relative age, the taskforce decided it would not be advisable to move forward with the County until this issue could be resolved. Staff agreed to continue to pursue this line of enquiry. Staff also noted that the recently agreed MOU with the Belvedere Peace Officers' Association (BPOA), which runs for three years commencing July 1, 2020, prescribes for active employee medical benefits to be provided through CalPERS' Health. An amendment to the MOU would be required to move to the County's plan, and staff felt new contract negotiations were inadvisable. (Note that it is not possible to exit CalPERS' Health for Miscellaneous staff and not Safety employees.)

The taskforce therefore concluded that this question should be tabled until the fall of 2022. At that time, the option of moving to the County's plan should be reevaluated and, if deemed to be cost-effective and fair, should be folded into the next MOU with the BPOA. All things being equal, the taskforce remains supportive of exiting CalPERS' Health because of the flexibility it would provide in adjusting the City's OPEB offerings, particularly in relation to new employees.

City Manager Class

Given the decision to remain in CalPERS' Health for the time being, and the relative competitiveness of CalPERS' Supplemental Medicare plans versus those offered through Covered California, the taskforce saw no benefit of negotiating with the two members of the City Manager class to secure more competitive insurance outside of CalPERS.

Summary

- Accept accounting treatment of net OPEB liability.
- Defer establishment of OPEB trust until at least the next standing pension review.
- Continue to pursue discussions with the County of Marin about folding the City into its health plan.
- Reevaluate this option formally in fall 2022 ahead of the next BPOA contract negotiation.
- Leave City Manager class OPEBs unaltered.