COUNCIL AGENDA REPORT

City of Anaheim
HUMAN RESOURCES DEPARTMENT

DATE: JUNE 10, 2008
FROM: HUMAN RESOURCES DEPARTMENT AND FINANCE DEPARTMENT

SUBJECT: POLICY ADOPTION TO PREFUND POST EMPLOYMENT BENEFIT OBLIGATIONS AND APPROVAL OF PARTICIPATION IN THE CALIFORNIA EMPLOYER’S RETIREE BENEFIT TRUST PROGRAM

ATTACHMENT (Y/N): YES ITEM # 42

RECOMMENDATION:

That the City Council,

1. Adopt a Resolution declaring the City of Anaheim’s official policy for fulfilling the City’s post employment benefit obligations; and,

2. Make a Motion to approve and authorize the City Manager to execute an agreement to pre-fund other post employment benefits through participation in the California Employer’s Retiree Benefit Trust Program.

DISCUSSION:

Many governmental agencies throughout the State provide certain retiree benefits as a means to attracting and retaining top quality employees. The costs of providing these other post employment benefits (OPEB) has drastically escalated for many public employers creating a substantial liability. Complicated further by new Governmental Accounting Standards that now require public agencies to determine their liability and disclose it, many agencies are struggling to determine both the amount of the liability created by other post employment benefits and the means for satisfying the obligations. In response to the magnitude of potential obligations existing within the State of California and the lack of available strategies to address these obligations, the Governor by Executive Order created the “Public Employee Post-Employment Benefits Commission” consisting of twelve members, including the Honorable Mayor of the City of Anaheim, to formulate a report making recommendations to address these issues. Such report was released in January of 2008 providing thirty-four distinct recommendations for addressing pension and other post-employment benefit obligations.
As a competitive governmental employer, the City of Anaheim similar to the other agencies has offered full time employees post employment benefits. These benefits include potential eligibility to participate in the Anaheim sponsored health plans (medical and dental) as a retiree. Further, for certain full time employees the benefits include a City contribution towards the premium costs of the Anaheim sponsored medical and/or dental plans elected by the retiree. The contribution made by the City towards the cost of the plan is determined from several factors including the participant’s hire date, age and years of employment service with the City. City contributions vary up to 95% of annual premium costs, depending on the employee’s status (single, two-party, family, Medicare participant) and employee group.

The City has been very proactive in effectively managing and limiting the exposure to an increasing liability created by post employment benefits. Specifically, the City has effectively closed the defined benefit plan whereby the City makes a contribution on behalf of the retirees towards their healthcare premiums. At the same time the City implemented a Health Savings and Reimbursement Plan for the accumulation of funds to offset retiree medical care costs. Employees with these accounts receive a fixed amount of employer contributions during their years of service. The contribution amount plus any investment earnings are then accessible to the employee upon separation to fund certain medical expenses. As a health reimbursement arrangement our employees receive tax deferred contributions made by the employer and tax-free distributions for qualifying expenditures.

Over the past 20 years the City has retained the services of a professional actuarial to determine the obligation created by Anaheim’s post-employment benefits. Based on these actuarial reports, the City has generally prefunded its OPEB obligation each year by setting aside the City’s contributions in the Employee Benefits Fund, making it one of the very few public agencies with reserves dedicated for this purpose. The most recently completed Post-Retirement Benefit Valuation Report shows a total accrued liability for the City of Anaheim of $126 million.

Keeping with Anaheim’s solid financial strength and commitment to fulfilling post employment benefit obligations, it is recommended that the City adopt a formal policy setting forth this commitment and place dedicated funds along with all future contributions into an irrevocable trust that is well invested. The attached resolution sets forth such a policy and incorporates all the applicable recommendations made by the Public Employee Post-Employment Benefits Commission, as well as, ensuring compliance with the existing Governmental Accounting Standards.

Further it is recommended that the City of Anaheim participate in the California Employer’s Retiree Benefit Trust Program (CERBT) to facilitate the pre-funding of this obligation. Initially, staff is recommending that approximately $63 million or 50% of the OPEB accrued liability be deposited into the trust and that annual contributions be made until reaching 100% funding. The goal is to achieve approximately 70% funding over the next five years.
**IMPACT ON BUDGET:**

A pre-funding policy and participation in a well invested trust will substantially reduce the amount of City contributions necessary in the upcoming future years. Contributions towards this obligation are included in the adopted budget.

Respectfully submitted,  

Concur,

Kristine Ridge  
Human Resources Director  

William G. Sweeney  
Finance Director

**Attachments:**

1. Resolution
2. Agreement and Election to Pre-Fund Other Post Employment Benefits Through CalPERS