

Retiree Health Benefits Funding and Reporting

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Overview

College employees are compensated in a variety of ways in exchange for their services. In addition to a salary, employees may become eligible for retirement benefits (pension) and other health benefits such as medical care, dental, vision, and life coverage. However, until just this past year, the monies for retiree health benefits (also known as other post employment benefits or OPEB) have not been set aside – these costs were paid out of each year’s annual operating budget.

To ensure that funding is available in the future for these important benefits, and to comply with changes in governmental accounting requirements, the College has taken the first step towards retiree health benefits funding and reporting – the College has estimated its retiree health benefits costs, and has reported the outstanding liability in its financial report.

Beginning in this budget year (Fiscal Year 2008), the County is setting aside monies in a trust fund. The Investment Committee will construct a prudent investment program to ensure that we move toward our goal of ensuring that there will be enough funds available to pay future post retirement health benefits.

Contents

The materials contained on these web pages are primarily the results of a Multi-Agency Retiree Health Benefits (OPEB) Work Group that has been meeting over the past four years on this topic, as well as the public record on this topic in the form of Council review packets on this and related subjects.

The Work Group has worked collaboratively to update actuarial valuations, which include amounts consistent with the phase-in approach, described below, in the respective agency budgets, and to establish Retiree Health Benefits (OPEB) Trusts.

Current Budget Plan

Although the College implemented a plan in 1993 to set aside funds for retiree health benefits, such funding was discontinued in 2003 due to budget limitations. Effective July 1, 2007, new accounting regulations require that governmental employers begin to recognize the liability of retiree health benefits and consistent

with legislation adopted by the County Council, the College resumed pre-funding in FY08. The reasons for doing this are simple: due to exponential growth in expected retiree health costs, the cost of funding these benefits, which are currently paid out as the bills come due, may soon become unaffordable. Setting aside money now and investing it in a Trust Fund, is a prudent and responsible approach, and will result in significant savings over the long term.

During the Fiscal Year 2008 budget process, the County Executive recommended, and the County Council approved, a resolution calling for a five-year phase-in to the full annual pre-funding level required to fund our OPEB obligations. However, in developing the FY09 budget, and facing a \$401 million budget gap, the County Executive had to make some tough choices. While committed to addressing the unfunded Retiree Health Benefit liability, the Executive determined that we could not afford, in current fiscal circumstances, the previous five-year phase-in plan. The FY09 budget calls instead for an eight-year phase-in, or seven additional years after taking into account the funding already set aside in FY08.

Establishment of Retiree Health Benefits (OPEB) Trust

The County Council has recently adopted legislation that establishes a Retiree Health Benefits (OPEB) Trust. The FY08 budget amounts approved by the County Council have been set aside and will be deposited into the Trust, along with monies approved in FY09 and later years. The funds in the Trust will be invested, with the amount growing over time and available in the future to pay the cost of retiree health benefits. The out year or future costs are reflected in our fiscal planning documents. As the County and the College face the inevitable budget pressures in future years, our challenge will be to stick to our current funding plan.

An additional challenge comes with regards to any future promises made to retirees. Going forward, the future costs of current benefit levels are fully disclosed in our financial statements. Combined with an expectation that these benefits be funded, our challenges will be to carefully evaluate and plan for the cost impacts of any future benefit changes. The Retiree Health Benefits (OPEB)

work contained herein has provided us with the tools that will allow us to fully analyze and consider any future cost implications.