

Fund 603 OPEB Trust Fund

<i>FY 2008 Adopted Budget Plan</i>	
<i>Fund 603, OPEB Trust Fund</i>	
Total Expenditures:	\$0
Revenue:	
General Fund Support	\$0
Bond Revenue	\$0
Other Revenue	\$0
Total Revenue	\$0

► Summary of Program

Fund 603, OPEB Trust Fund, funds the cost of other post-employment benefits (OPEBs) including health care, life insurance, and other non-pension benefits offered to retirees.

Beginning in FY 2008 the County's financial statements are required to implement Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits. This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits, such as the County's retiree health benefit subsidy. Historically, the County's subsidy was funded on a pay-as-you-go basis. GASB 45 requires that the County accrue the cost of the retiree health subsidy and other post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the County. This funding methodology mirrors the funding approach used for pension benefits.

The County has established Fund 603, OPEB Trust Fund, which allows the County to capture long-term investment returns, make progress towards reducing the unfunded liability, and pre-fund the cost of post-employment health care and other non-pension benefits. The initial actuarial valuation calculated the County's actuarial accrued liability (excluding the Schools portion) at approximately \$191 million. This liability will be recalculated at the next valuation and will include adjustments due to benefit enhancements, medical trend experience, and normal growth assumptions. This liability includes the portion attributed to the retiree health benefit subsidy, as mentioned above, as well as the liability associated with an "implicit" subsidy provided to retirees. As premiums for the County's self-insured health plans are set using the blended experience of active employees and retirees, retiree premiums are lower than if they were set solely using the experience of the retiree group. GASB 45 requires that the County calculate and include the liability for this implicit subsidy.

► Funding Availability and Future Considerations

It is anticipated that, beginning in FY 2009, the benefit and administrative costs of the County's retiree health benefit subsidy which are currently paid out of Fund 500, Retiree Health Benefits, will be paid out of Fund 603. As a result, the reimbursement that the County currently receives in Fund 500 from the Centers for Medicare and Medicaid Services (CMS) as a result of the implementation of Medicare Part D will also be shown in this fund. For more information on the retiree health benefit subsidy, please refer to the Fund 500, Retiree Health Benefits, LOB.

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Costs related to this fund will increase over time as the retiree population grows. In addition, if benefit enhancements for retirees are improved, either through a strengthening of the retiree health benefits subsidy or an increase in the implicit subsidy, the GASB liability and the annual required contribution to this fund will increase. As a result, future increases in County premiums must be set keeping in mind the potential impact on the GASB liability; if retiree claims increase and premiums are not increased accordingly, the liability associated with the implicit subsidy could grow significantly. In addition, the County's long-term response to the implementation of Medicare Part D could impact the GASB liability as well. For more information on Medicare Part D, please refer to the Fund 500, Retiree Health Benefits, LOB and the Fund 506, Health Benefits Trust Fund, LOB.

► Status of Program

As part of the *FY 2005 Carryover Review*, a reserve was established in Fund 506, Health Benefits Trust Fund, to begin to address the unfunded liability, and an amount of \$10.0 million was set aside in this reserve from excess revenues received from employer contributions. In FY 2007, the County allocated an additional \$8.2 million as a transfer from the General Fund for this reserve as part of the FY 2007 Adopted Budget Plan, as well as an additional \$21.8 million as part of the *FY 2006 Carryover Review*. The FY 2008 Adopted Budget Plan maintains the \$8.2 million General Fund transfer to the reserve in Fund 506, Health Benefits Trust Fund, bringing the balance to \$48.2 million.

In order to capture long-term investment returns and make progress towards reducing the unfunded GASB liability, the County transferred the reserve to the new trust fund at the *FY 2007 Carryover Review*. This \$48.2 million in initial funding will reduce the unfunded liability and, consequently, reduce the annual required contribution to Fund 603. The annual required contribution will be calculated at each valuation and may change as a result of fluctuations in assets and liabilities. In addition to the annual General Fund transfer, any balances identified in Fund 506 at future quarterly reviews as a result of excess revenues received from employer contributions will also be considered for possible transfer to Fund 603 to assist in addressing the County's unfunded OPEB liability.

► Mandate Information

There is no federal or state mandate for this LOB.