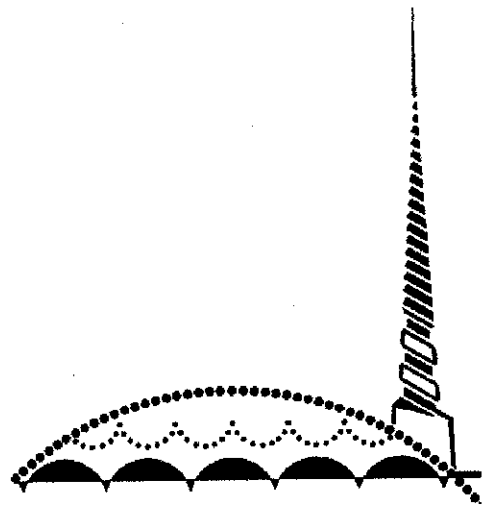
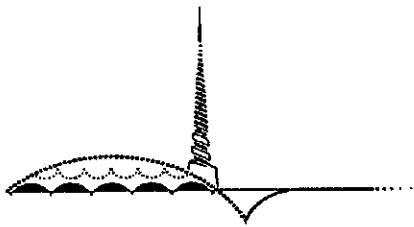

2006-2007 MARIN COUNTY GRAND JURY

**TITLE OF REPORT: RETIREE HEALTH CARE COSTS:
I THINK I'M GONNA BE SICK**

Date of Report: March 19, 2007





Marin County Grand Jury

RETIREE HEALTH CARE COSTS: I THINK I'M GONNA BE SICK

SUMMARY

Government entities will very soon be required to quantify and disclose the costs of promises made to provide health care benefits in retirement. They do not have to fund future retiree health care costs now, only account for them.

Marin County is expected to disclose a long-term health care liability of \$378 million. The county simply cannot afford to meet this obligation without raising taxes or cutting services.

The towns, cities, special districts, school districts and College of Marin are expected to report their unfunded liabilities within the next four years. They will be substantial. One of 36 special districts, for example, estimated its liability in 2005 at around \$8.6 million or \$205,000 per employee.

The new accounting standard under which this will happen is Governmental Accounting Standards Board Statement No. 45 (GASB 45). Although other retirement benefits are covered under GASB 45, retiree health care will create the largest liability. The Grand Jury focused exclusively on this retirement benefit for the county, towns, cities and special districts in Marin.

Related to the enormous retiree health care liability, there are two other significant issues that cannot be ignored. They are:

- Are retiree health care benefits vested, or are they subject to change or elimination?
- Are managers and elected officials who are eligible for retiree health care benefits in a conflict of interest position when making decisions about those benefits?

The Grand Jury recommends the county determine whether the benefits are vested or not and communicate clearly in employee or retiree literature and oral statements what it determines. The Grand Jury recommends the towns, cities, and special districts in Marin do the same. Until these government entities are certain, none of them should comment

publicly on the question of vesting because doing so may create a vested right where none exists currently.

Further, the Grand Jury strongly believes that members of the Board of Supervisors who are eligible for retiree health care benefits are in a conflict of interest position when making decisions about such benefits. Senior managers who advise the board about these benefits are also in a conflict of interest position. The Board of Supervisors should establish a task force composed of independent professionals to advise the board on managing all aspects of the retiree health care liability issue. Among the options they should consider are reducing or freezing retiree health care benefits for current employees and/or retirees and reducing or eliminating them for new hires. The task force should report back to the board before the end of 2007.

A Grand Jury survey of towns, cities and special districts on GASB 45 readiness revealed their confusion and lack of preparation. Given the threat of enormous unfunded liabilities to government entities, the Grand Jury recommends that these entities take immediate, aggressive steps to understand the requirements of GASB 45 now, and use the information in labor negotiations and in budgeting.

BACKGROUND

In 1994 the Governmental Accounting Standards Board (GASB) established standards for how government entities should disclose and record pension benefits. Similar standards were not established for retiree health care and other forms of non-pension retirement benefits. Recently, GASB expanded its standards with the issuance of GASB 45.¹ In addition to pension benefits, government entities within the next four years will need to record annual expenses for their retiree health care benefits and disclose certain information in their year-end financial statements. They must include the present and the future costs of health care benefits, as well as any prior past accrued and unpaid costs for health care benefits. See Appendix A for more information on GASB 45.

The disclosures required by GASB 45 will bring to light huge liabilities for government entities nationwide. Locally, the Grand Jury decided to examine the effect of GASB 45 on the governments of Marin County, its 11 towns and cities, and its 36 special districts.

METHODOLOGY

The Grand Jury surveyed the county of Marin, the 11 towns and cities in Marin (collectively municipalities) and the 36 special districts in Marin on retiree health care benefits.

¹ Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," 2004

The Grand Jury reviewed information in hard copy and on the internet from the Marin County Employees' Retirement Association, Marin County Retired Employees Association's newsletters, the County Budget, California Public Employees Retirement System (Cal PERS), California State Association of Counties, Employee Benefits Research Institute, law firms' and actuarial firms' newsletters, numerous newspaper articles, California HealthCare Foundation, and the GASB.

The Grand Jury interviewed senior county officials, Marin County Employees' Retirement Association officials, county benefits staff, actuaries, and representatives from Cal PERS. Grand Jurors also spoke with staff of the Center for Government Analysis.

The Grand Jury reviewed a preliminary actuarial study for the county, an actuarial study for one special district, and the May 2005 Grand Jury Report entitled "The Bloated Retirement Plans of Marin County, Its Cities and Towns (Revised)."

The Grand Jury attended employees and retirees meetings held by the county to explain GASB 45 and to discuss health care issues facing the county and some potential solutions to those issues.

DISCUSSION

Why all the fuss?

Government employees, as well as elected officials, are covered in varying degrees by health insurance, and many receive or will receive retiree health care. In the past this benefit constituted a small part of the budget of government entities. For example, in 1970 the county Board of Supervisors decided to pay \$1 out of reserves per month for each retiree's health benefits. In 2004/05 they paid \$4,667 annually per retiree.

Currently retiree health care is in the news because of what appears to be an impending crisis centered on the ability of government entities to pay their obligations or even understand the future impact of their obligations. The main factors contributing to the crisis are: the steeply rising costs of health insurance, the aging of the Baby Boomer generation, and the lengthening of life expectancy. In effect, the nation faces a perfect storm. The new accounting standard (GASB 45) is merely an advance warning on the looming threat.

A government entity's obligation for retiree health care is comprised of two pieces. One piece is the cost to buy health insurance each year for employees and retirees, or the present cost. The other is the cost to be paid in the future for those already retired and for those who have not yet retired, or the future cost. The present cost has traditionally been paid out of the entity's operating budget on what is known as a "pay as you go" basis. Until GASB 45, the future costs have largely been ignored. In other words, many government entities offer retiree health care benefits but few set money aside to pay for them.

The county is expected to report a liability of \$378 million. To put this number into perspective, it is only a little less than the county's entire 2007 annual budget of around \$400 million. It is about three times the \$132 million of bonds presently outstanding, and is more than twice the unfunded liability for pensions of \$177 million. If the county were to make an annual contribution over 30 years as allowed by GASB 45 to pay off the \$378 million liability, the amount per year would be about 9% of its current annual budget. It simply cannot afford to do this without drastic changes in its priorities, including raising taxes and/or reducing services.

Special districts also face significant if not overwhelming liabilities. For example, as of 2005, the liability for one special district in Marin with 42 active and retired employees and 59 covered dependents was around \$8.6 million or about \$205,000 per employee. The liability will be higher today.

The challenge of 2007 and beyond for government entities is to manage skillfully these newly revealed and very large liabilities while keeping in mind their need to provide services to citizens. Poorly managed, a liability will result in higher taxes. It will also impact negatively the entity's credit rating and therefore its ability to borrow money at a reasonable rate of interest.

Government entities that are financially strong will struggle and perhaps meet their obligations. But with large numbers of Baby Boomers retiring in the next five years, they may not be able to offer attractive enough compensation to new hires. Some financially weak government entities faced with staggering liabilities will realize that it is impossible to meet their obligations. Bankruptcies or a "death by a thousand cuts" in services are real possibilities.

How did this happen?

Historically, public employees have received lower wages than employees in the private sector in exchange for a more stable career and higher retirement benefits. This works only if the employer sets money aside over time to pay for the future cost of those benefits. This is what has been done since 1994 for pensions and that system is in fairly good shape. In the case of retiree health care, the governments saved money through lower cash outlays for wages and offered generous retiree health benefits. Yet they failed to set aside money to pay for the future costs of those benefits. To add to the problem, the inflation rate on health care rose steeply while the rate on wages rose slowly. Whether government officials realized it or not, they made a poor choice. The chickens are coming home to roost.

Where do we go from here?

Related to the unfunded liability issue, there are two other significant issues that need to be addressed. They are:

- Are retiree health care benefits a vested right for active or retired government workers? Can they be taken away or changed?
- Are managers and elected officials who set retirement benefits policy also eligible for retiree health care benefits? If so, is this a conflict of interest?

Government entities need to answer these questions in order to manage effectively their liabilities for retiree health care and make appropriate future decisions on benefit design and eligibility.

What is vesting?

Vesting usually means granting an individual or a group a right to something that cannot be taken away or changed. It is fact specific. Generally, to determine whether a right is vested, all the facts are considered, including written and oral statements as well as an employer's historical pattern of actions. In some cases, however, rights are vested if imposed by state law or constitution, city or county charter or similar law.

The County Employees Law of 1937, applicable to Marin County, does not appear to require vesting of health benefits. To date, the California Supreme Court has not ruled on the vesting of retiree health care benefits. It has, however, ruled that government employees have vested rights to pension benefits.

Some collective bargaining agreements clearly specify that coverage for retiree health care is vested beyond the expiration of that particular agreement. On the other hand, some government entities state in writing or orally stipulate that retiree health care benefits are not vested, or that the employer has the right to amend or discontinue benefits unilaterally.

The county has retained independent attorneys to research the answers to these vesting questions for current retirees, current employees, and future employees. It does not appear that the 11 municipalities and 36 special districts in Marin have taken similar actions. Until they are certain of their status, none of these entities should comment publicly on the question of vesting, because doing so may create a vested right where none exists currently.

What about conflicts of interest?

An individual in a position of authority who personally stands to benefit financially or otherwise from the exercise of that authority may have a conflict of interest. Traditionally, the individual discloses the conflict and takes no action to influence or

otherwise make a decision on the issue. In the private sector, outside directors make certain decisions on conflict of interest issues. This is a sound and responsible practice.

Assuming compliance with applicable laws, public officials may be permitted to make decisions on matters involving conflicts of interest. Despite these exceptions, the expectation that such officials and employees will make decisions against their own self-interest is unrealistic. Five senior county managers who advise the board on health care policy issues are in fact eligible to receive retiree health benefits. Two Marin County Supervisors who make recommendations and decisions regarding retiree health care benefits are also eligible. In brief, a county employee or elected official needs only 10 years of service to be eligible for retiree health care.

The five senior Marin County managers average 21 years of service, ranging from a high of 32 years to a low of 5 years. The five members of the Board of Supervisors average 8 years of service, ranging from a high of 24 years to a low of under one year. Five of the senior Marin County managers and two members of the Board of Supervisors are currently eligible for retiree health care at retirement. A third supervisor needs only one more year of service to be eligible for retiree health care. These managers and supervisors are in a very awkward position when making decisions about retiree health care benefits.

Unless there is an outside entity to advise the county, conflict of interest concerns will cloud virtually every action taken by those managers and Supervisors concerning retiree health care benefits. An outside entity is better able to consider more controversial actions such as freezing retiree health care benefits and eliminating those benefits for new hires without conflict of interest charges.

Results of the Grand Jury Survey on Retiree Health Care

The Grand Jury surveyed the county, 11 municipalities and 36 special districts to find out how close they were to complying with GASB 45. These entities were asked six questions:

- 1) Did the entity provide health care and did it pay for health care?
- 2) Did it need to comply with GASB 45? If so, give the implementation date.
- 3) Had it retained an actuary?
- 4) Had it received an actuarial study?
- 5) Will it establish an irrevocable trust? If so, specify the exact kind. (See Appendix A for more information on funding vehicles.)
- 6) Were the benefits vested for life?

If an actuarial study had been received, the entity was asked to provide a copy to the Grand Jury.

Generally, the Grand Jury's worst fears were confirmed. The government entities for the most part knew about GASB 45, but few of them had begun meaningful preparations to comply with it. Eight special districts and the City of Novato believe, perhaps

incorrectly, they do not have to comply with GASB 45. Of the 28 entities that say they must comply with GASB 45 within the next few years, only five have retained an actuary. Two entities have received an actuarial study and one has received a preliminary actuarial study. There is a lot of confusion as to whether benefits are vested. Eight municipalities and fourteen of the 36 special districts believe the benefits are vested.

See Appendix B for the Grand Jury Survey Results.

Preparation for GASB 45

	Offer Retiree Health Benefits	Need to Comply with GASB 45	Retained an Actuary	Received Study
County	1	1	1	0
Municipalities	11	10	2	1
Special Districts	25	17	2	1

Given the threat of enormous unfunded liabilities and keeping in mind that continuing to offer generous benefits dramatically increases those liabilities, it is essential that government entities understand the requirements of GASB 45. A thorough knowledge of those requirements will aid in restructuring and negotiating current and future retirement benefits and in a fiscally responsible budgeting process.

What is happening at the county of Marin in light of GASB 45? Are there lessons to be learned by the municipalities and special districts?

Because the county must comply with GASB 45 for its 2007/08 fiscal year, the Grand Jury reviewed the progress it is making on its compliance. As of March 2007 the situation is as follows:

- The county has obtained a preliminary actuarial study. It is studying the vesting question by researching written materials about benefits, past practices, employee communications and labor contracts. Attorneys have been hired to provide a legal opinion on the vesting issues.
- Once the vesting issue is decided, the county may establish an irrevocable trust to set aside money to pay for retiree health costs.
- The county is making extensive efforts to communicate the issues to active employees, retirees, and the Board of Supervisors.
- Because at least eight union contracts are under discussion this spring, the county is planning its negotiating strategy. The unions are not likely to be sympathetic. A union official stated in a response to the 2005 Grand Jury report

on the county's and municipalities' retirement plans that "health care is one area where the public employer should set the prime example for all employers. Retirees should have health care. The public should take care to see that they do."

- According to a study done by the Center for Government Analysis and published by the California HealthCare Foundation, Marin County in fiscal year 2003/04 spent \$5,673,201 out of a total \$406,730,877 on retiree health care. That was 1.39% of total expenditures. If nothing is done, that expenditure is projected to be \$60,975,588 in 2019/2020.
- Marin County's expenditures as a percentage of total expenditures were the fifth highest of 28 San Francisco Bay Area public sector entities. The Golden Gate Bridge District was the highest at 3.53% and the City of San Francisco the third highest at 1.87%. Comparing the five Bay Area county governments, Marin County is the highest. Additionally, Marin ranks in the top third of government entities across the state. (See Appendix C for a comparison of retiree health costs for Bay Area governmental entities.)
- With an aging workforce, and no significant growth in Marin's population, county officials believe retiree health costs are "sucking away" resources that could be used for active employees. There are about as many retirees as current active employees receiving health benefits. County officials say freezing the monetary allowance for health benefits would significantly reduce future liabilities.
- Retiree health care is valued highly by county active and retired employees, especially those without Medicare. One retiree called it "a treasure". Marin County only required employees to participate in Medicare after 1986. Some active employees hired before 1987 as well as many current retirees do not qualify for Medicare because the county did not require those employees and retirees to pay for Medicare coverage. Those individuals are particularly vulnerable to any changes in retiree health care benefits.

The municipalities and special districts can learn from the experiences of the county. There are many steps to prepare for a reasonably smooth implementation of GASB 45. If they have not already done so, they will need to retain an actuary very soon. They will need to seek professional advice about whether the retiree health care benefits are vested, and about what managers and elected officials should do if they are in a conflict of interest position.

What is likely to happen when the county, municipalities and special districts begin to report the liability for retiree health care benefits?

What happened in the private sector may be an example of what could occur in the public sector. After similar accounting rules were applied to retiree health care benefits in the

early 1990s, many private sector employers reacted very quickly to eliminate retiree health benefits for active employees and some retirees.

It is unclear how government entities will react, although it is doubtful the reaction will be as severe as in the private sector. Government entities are in a different position as GASB 45, which only affects the public sector, allows more reasonable accruals for the unfunded liability. Government entities can also set money aside in tax-free accounts.

If government entities act to freeze and/or eliminate retiree health care benefits, the debate is likely to be contentious and politically volatile. A frank discussion will only occur if public pressure stiffens the spines of elected officials to make tough decisions about benefits, taxes and services.

Can the Board of Supervisors and county managers be expected to hold the line on retiree health care benefits?

One way to help reduce retiree health care liability is to do as the private sector did and limit or eliminate retiree health care coverage for new employees. There is some appetite to do this. Nevertheless, benefits are an important part of compensation for new employees and the county may not be able to compete with the salaries offered by the private sector. The county needs to decide this issue soon. Half of the current workforce will retire within the next five years and they will have to be replaced. One factor working in the county's favor is that it may draw employees from elsewhere in the public sector and all public sector employers will be facing similar problems.

The "jury" is still out on whether the county, the municipalities and special districts can hold the line concerning retiree health care benefits, even for new employees.

FINDINGS

- F1.** Health care coverage is a valuable benefit to attract and retain employees.
- F2.** Government entities generally pay more of their compensation in the form of benefits than the private sector.
- F3.** Most government entities providing retiree health care and other non-pension retirement benefits must disclose the future and accrued cost of those benefits to the public within the next four years pursuant to GASB 45.
- F4.** Government budgets and union negotiations will be affected by the implementation of GASB 45.
- F5.** Unless legally determined otherwise, the issue of vesting for retiree health care benefits requires a fact-specific analysis.

F6. Some government entities have not done the extensive research to determine if retiree health care benefits and the manner in which they are calculated are vested or can be changed or eliminated.

F7. Public comments on vesting by government entities could result in creating a vested right when none previously existed.

F8. Unless government employers prudently manage the liability for retiree health care benefits, they will be forced to cut services, reduce benefits, and/or raise taxes to satisfy credit agencies.

F9. Financially weak government entities faced with staggering liabilities will be required to reduce benefits, raise taxes or reduce services. Failure to manage the liability could well result in bankruptcy for those government entities.

F10. The municipalities and special districts have not taken appropriate aggressive steps to understand and begin to comply with the requirements of GASB 45.

F11. Whether elected or appointed, public employees managing the retiree health care liability may also be eligible to receive the retiree health care benefits they manage. They are subject to a conflict of interest.

F12. Eight special districts and the City of Novato believe they do not have to comply with GASB 45.

F13. Eight municipalities and 14 special districts indicate retiree health care benefits are vested.

RECOMMENDATIONS

The Grand Jury recommends that:

R1. The County Board of Supervisors establish a task force composed of independent, professional citizens in Marin without government pensions and/or government retiree health care benefits to advise the board on managing all aspects of the retiree health care liability issue. Among the options the task force should consider are reducing or freezing retiree health care benefits for current employees and/or retirees and reducing or eliminating them for new hires. The task force should report back to the board before the end of 2007.

R2. The eight special districts and City of Novato provide specific reasons to the Grand Jury, based on professional advice, as to why they do not have to comply with GASB 45. This should be done by August 2007.

R3. All municipalities and special districts do extensive research on the facts and seek professional help to determine vesting issues. This should be done by the end of 2007.

R4. The county, all municipalities and the special districts offering health care benefits consult with professional advisers to state clearly in employee and public communications whether retiree health care benefits are vested and the extent to which they can be changed, modified or eliminated.

R5. Unless they are certain of the status of vesting for retiree health care benefits, no government entity should comment publicly on the question of vesting because doing so may create a vested right where none exists currently.

R6. The municipalities and special districts take immediate, aggressive steps to understand now the requirements of GASB 45 reporting and that these entities, including the county, begin using the information generated for GASB 45 in labor negotiations and in budgeting.

GLOSSARY

Actuary: a person who statistically calculates risks, premiums, life expectancies, etc.

Annual required contribution: the amount that is actuarially determined in accordance with the requirement of GASB Statement 45 so that, if non-pension retirement benefits are paid on an ongoing basis, the amount of the contribution would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized (maximum 30 years) unfunded liability.

Discount rate: the interest rate used to discount future payments back to the present date. GASB 45 requires that the discount rate for an unfunded plan reflect the estimated long-term investment yield on the government entity's assets expected to be used to finance the payment of benefits.

GASB 45: Governmental Accounting Standards Board Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

Implicit subsidy: a grant of money necessarily involved though not plainly apparent or expressed.

"Pay-as-you-go": to give due compensation for current period costs only.

Vesting: putting a person in power or control of certain property or rights to property.

REQUEST FOR RESPONSES

Pursuant to Penal Code Section 933.05, the Grand Jury requests responses as follows:

From the following governing bodies:

- Marin County Board of Supervisors F1-F11; R1; R4; R5; R6
- The City of Novato, Bolinas Community Public Utility District, Bolinas Fire Protection District, Marin City Community Service District, Marin Health Care District, Muir Beach Community Service District, Resource Conservation District, Stinson Water District, and Tamalpais Community Service District. F12; R2
- 11 municipalities and 36 special districts. F1-F11; R3; R4; R5; R6

The governing bodies indicated above should be aware that the comment or response of the governing bodies must be conducted in accordance with Penal Code section 933(c) and subject to the notice, agenda and open meeting requirements of the Brown Act.

The California Penal Code Section 933(c) states that "...the governing body of the public agency shall comment to the presiding judge on the findings and recommendations pertaining to matters under the control of the governing body." Further, the Ralph M. Brown Act requires that any action of a public entity governing board occur only at a noticed and agendized public meeting.

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The Center For Government Analysis, "An Analysis of Public Sector Health Care Costs in California," Steven B. Frates, September 2006, www.govanalyst.com

Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Grand Jury not contain the name of any person, or facts leading to the identity of any person who provides information to the Grand Jury. The California State Legislature has stated that it intends the provisions of Penal Code Section 929 prohibiting disclosure of witness identities to encourage full candor in testimony in Grand Jury investigations by protecting the privacy and confidentiality of those who participate in any Grand Jury investigation.

APPENDIX A

What is GASB?

GASB is the private, nonpartisan, nonprofit organization that works to create and improve the accounting rules federal, state and local governments follow when calculating and reporting financial information. GASB is composed of state and local government finance officers, auditors, the accounting profession, academia, and people who use financial statement information.

Why did GASB issue Statement Number 45?

GASB and various bond rating agencies are concerned that government entities are not accounting for the future benefits they have promised to their current and retired employees. This lack of disclosure results in a less than accurate picture of government entities' financial health. Given the generous benefits offered in some cases, the financial picture is much distorted. Some government entities may have difficulty meeting their obligations in the future, or will saddle future taxpayers with significant costs for today's promises.

Who is affected?

All government entities that follow GASB principles and offer retiree health care benefits are affected. Even if retirees pay 100% of the premium for their insurance, in many cases GASB 45 will require a government employer to reflect the cost. One of the reasons is that the employer may have created an implicit subsidy. For example, retiree health care normally is more expensive since retirees are older and expected to need health services more frequently than younger employees. If an employer offers retirees the opportunity for benefits at the same cost as used for active employees, it has created an implicit subsidy and will be required to have a valuation done to comply with GASB 45.

The county is required to comply with GASB 45 in fiscal year 2007/08. The smaller government entities, such as the municipalities and special districts, have either one or two more fiscal years to provide the information, depending on the size of their revenues.

What if a government entity does not comply?

The ramifications for failure to comply are unclear, but a government entity covered under GASB 45 will probably receive a qualified audited financial statement. A certified public accountant could not state that the entity is accounting properly for its liabilities. It could also affect the government entity's ability to borrow money at lower interest rates, thereby increasing the amount of money the government entity would have to pay in interest to investors who purchased the bonds.

What are the basic requirements of GASB 45?

On August 2, 2004, GASB issued Statement No. 45. The statement required government entities to account for retiree health care benefits on an accrual basis. An accrual basis looks to both the present and future costs of these benefits. Most government entities pay for retiree health benefits on a “pay-as-you-go” basis.

GASB requires the following:

- Account for retiree health care benefits in a manner similar to pensions
- Treat retiree health care benefits as compensation earned by an employee over the entire period of an employee’s active service
- Obtain or provide financial information regarding:
 - Calculations by an actuary of the normal cost for these benefits, the future normal costs and the costs associated for past service
 - The annual required contribution (ARC)² and its impact on the total cost of government services
 - Progress made (or not made) in funding the annual required contribution

Dates of Implementation for Entities Reporting:

- \$100+ Million in revenues - Fiscal Year after December 15, 2006
- \$10 Million to \$100 Million in revenues – Fiscal Year after December 15, 2007
- Under \$10 Million in revenues – Fiscal Year after December 15, 2008

The government entities need to disclose these numbers in financial statements, and can spread the liability out for a period of up to 30 years.

When should an actuary be retained?

A government entity is advised to retain an actuary now. As the actuaries begin to evaluate the entity’s promised benefits, many are finding a huge amount of debt. In light of the financial implications, a government entity flirts with danger by doing nothing before the implementation date. As time passes, an actuary may be more difficult to retain, more expensive, and have more difficulty delivering a timely study.

² Annual required contribution means the amount that is actuarially determined in accordance with the requirement of GASB Statement 45 so that, if non-pension retirement benefits are paid on an ongoing basis, the amount of the contribution would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized (maximum 30 years) unfunded liability.

Who is required to obtain an actuarial study?

An actuarial study is required if the government entity has more than 100 employees. If the entity has less than 100 employees, they can use the alternative measurement method outlined in the GASB 45. This method also requires actuarial calculations. An actuarial study is required once every two years if the entity has greater than 200 individuals eligible for the program. If less than 200 individuals, the requirement is once every three years. The requirement for an actuarial study is on an employer basis not a plan basis.

When should a government entity get its actuarial study?

The answer is sooner rather than later. An actuarial study will aid in planning, budgeting, and managing the costs of retiree health care benefits. In some cases, the information will be relevant for upcoming collective bargaining. Additionally, credit rating agencies find it important that government entities know what their retiree health care benefits liability is in order to manage that debt.

What are actuarial assumptions?

The calculations of the government entity's obligation involve various estimates of future event. These estimates are called "actuarial assumptions". These assumptions range from estimates of future life expectancies for employees and their dependents, the likelihood that employees will remain employed until retirement, and the future increases in health care costs. The most significant assumption is the discount rate: the interest rate which is used to discount future payments back to the present date. GASB 45 requires that the discount rate for an unfunded plan reflect the estimated long-term investment yield of the employer's assets.

Funding?

Government entities must choose whether and to what extent they will pre-fund retiree health; the unfunded liability for retiree health care benefits can be dramatically reduced by setting money aside and investing the funds. Cal PERS' actuaries estimate the actual cost for this liability to the employer (and taxpayer) can be reduced by 50% or more by setting aside money in an irrevocable account.

For GASB 45 purposes, an entity must make an irrevocable contribution to a trust or equivalent arrangement protected from creditors. The trust or arrangement must be dedicated solely to providing benefits to retirees and beneficiaries to reduce the entity's unfunded liability for retiree health care benefits. Therefore, an internal special reserve or similar fund is not sufficient and will still be considered "pay as you go" for GASB 45 purposes. A "pay-as-you-go" amount is similar to paying the minimum amount on credit card debt. The balance seldom gets paid off. Thus, it is reasonable to assume many government entities will establish an irrevocable trust in order to calculate a lower dollar

amount of unfunded liability and to accrue funds to pay for that unfunded liability in the future.

APPENDIX B

2006-2007 Grand Jury Survey Results

The results from the survey as of February 2007 follow:

- Marin County- The county provides retiree health care benefits and must comply with GASB 45 in fiscal year 2007/08. It has retained an actuary, but has not received the final actuarial study. It has a preliminary draft dated November 2, 2006. It has not yet decided whether it will set aside any money in an irrevocable trust or whether the benefits are vested. Its attorneys are researching the vesting issue.
- 11 municipalities- All municipalities offer some form of health coverage. Ten must comply with GASB 45. Novato's answer on its need to comply with GASB 45 is unclear. Five municipalities have to comply in fiscal year 2008/09 and six in fiscal year 2009/10. Only Mill Valley and Sausalito, which have to comply in fiscal year 2008/09, have retained an actuary. No municipality forwarded an actuarial study. Four said they would establish an irrevocable trust. Eight believe the benefits are vested. San Rafael and Mill Valley have set money aside in a revocable reserve account.
- 36 special districts- Twenty-five special districts offer retiree health care; eleven do not. Seventeen said they need to comply with GASB 45. Eight said they do not. Three will comply in fiscal year 2008/09 and fourteen in fiscal year 2009/10. Two special districts which have to comply in fiscal year 2009/10 have retained an actuary and one has received its actuarial study.³ That study was forwarded to the Grand Jury. Three indicated they had decided to create an irrevocable trust; many were undecided at this time. Fourteen believe the benefits are vested.

³ Some of the special districts are waiting to get the actuarial study from Cal PERS. In telephone conversations with Cal PERS, the officials stated Cal PERS is discussing the issue. They caution that because of the variety of plans for their 1,400 contracting employers, they were not sure they could offer actuarial services for GASB 45. Instead they sent a letter in August 2006 offering to provide data so each employer could obtain its own actuarial study. As of January 2007 about 100 public employers had requested data.

RETIREE BENEFITS SURVEY RESULTS	Benefits	GASB 45	Actuary	Actuary Report	Pending Vehicle	Vested Benefits
Almonte Sanitary	No					
Alto Sanitary	No					
Bel Marin Keys CSD	No					
Bolinas Community PUD	Yes	No	NA	NA		No
Bolinas FPD	Yes	No	No	No		No
Central Marin Sanitation	Yes	Yes	No	No		Yes
Corte Madera Sanitary	No					
Homestead	No					
Inverness PUD	Yes	Yes	Yes	No	Yes	Yes
Kentfield FPD	Yes	Yes	No	No		No
Las Gallinas Val Sanitary	Yes	Yes	No	No		Yes
Marin HCD	Yes	No	No	No	No	No
Marin City CSD	Yes	No	No	No	No	No
Marin Cty Fire	Yes					
MMWD	Yes	Yes	No	No	No	Yes
Marinwood CSD	Yes	Yes	No	No		Yes
Marin/Sonoma Vector	Yes	Yes	No	No	No	Yes
Muir Beach CSD	Yes	No				No
North Marin Water	Yes	Yes	No	No	No	Yes
Novato FPD	Yes	Yes	No	No	Yes	Yes
Novato Sanitary	Yes	Yes	Yes	Yes	No	No
Resource Conservation District	No	No	NA	NA	NA	No
Richardson Bay Sanitary	Yes	Yes	No	No	No	Yes
Ross Valley Fire Department	Yes	Yes	No	No		Yes
Ross Valley Sanitary	Yes	Yes	No	No		
San Rafael Sanitary	No					
Sausalito/ Marin City Sanitary	No					
Sleepy Hollow FPD	No					
S. Marin FPD	Yes	Yes	No	No	No	Yes
Stinson FPD	No					
Stinson Water District	Yes	No	No	No	No	No
Strawberry Park/Rec.	Yes	Yes	No	No		Yes
Tamalpais CSD	Yes	No	No	No	No	No
Tiburon FPD	Yes	Yes		No	Yes	Yes
Tiburon Sanitary	Yes	Yes	No	No		Yes
Tomales CSD	No					
Belvedere	Yes	Yes	No	No	Yes	No
Corte Madera Town	Yes	Yes	No	NA	NA	Yes
Fairfax	Yes	Yes	No	No	Yes	Yes
Larkspur	Yes	Yes	No	No	No	Yes
Mill Valley	Yes	Yes	Yes	No	Yes	Yes
Noyato	Yes		No	NA		No
Ross	Yes	Yes	No	No	Yes	No
San Anselmo	Yes	Yes	No	No	No	Yes
San Rafael	Yes	Yes	No	No		Yes
Sausalito	Yes	Yes	Yes	Yes	Yes	Yes
Tiburon	Yes	Yes	No	No	No	Yes
County of Marin	Yes	Yes	Yes	No		

APPENDIX C

The Center for Government Analysis study funded by the California HealthCare Foundation

Retiree Health Care Expenses Data Tables

1. SF Bay Area Public-Sector Entities

Public-Sector Entity	Type	2003-04 Retiree Health Benefits Expenditure	2003-04 Total Expenditure	2003-04 as a Percent of Total Expenditure*	2019-20 Retiree Health Benefit Expenditure**
Santa Cruz	City	\$98,239	\$123,886,710	0.08%	\$1,055,873
San Jose Unified School District	School	\$311,895	\$362,139,936	0.09%	\$3,352,253
Campbell	City	\$41,596	\$40,500,874	0.10%	\$447,074
Oakland Unified School District	School	\$719,101	\$532,896,610	0.13%	\$7,728,905
San Mateo Co. Transit Dist	Special	\$337,100	\$144,900,000	0.23%	\$3,623,152
Oakland	City	\$2,755,579	\$1,085,836,880	0.25%	\$29,616,975
San Mateo	County	\$2,593,000	\$930,542,000	0.28%	\$27,869,575
Berkeley	City	\$777,960	\$265,221,814	0.29%	\$8,361,517
Santa Cruz	County	\$1,108,817	\$368,432,900	0.30%	\$11,917,570
Santa Clara Valley Water District	Special	\$1,295,000	\$281,885,496	0.46%	\$13,918,665
Mount Diablo Unified School District	School	\$1,901,270	\$361,344,875	0.53%	\$20,434,858
Santa Clara	County	\$19,382,159	\$2,869,261,687	0.68%	\$208,319,526
Fremont	City	\$1,212,158	\$176,648,879	0.69%	\$13,028,279
San Mateo	City	\$841,000	\$121,151,631	0.69%	\$9,039,072
Contra Costa Water Dist.	Special	\$821,949	\$104,203,652	0.79%	\$8,834,311
Santa Clara Transit Authority	Special	\$3,493,000	\$396,610,259	0.88%	\$37,542,779
Redwood City	City	\$1,036,634	\$112,930,310	0.92%	\$11,141,747
San Francisco BART Dist.	Special	\$5,525,000	\$573,525,287	0.96%	\$59,382,723
Palo Alto	City	\$3,199,000	\$299,014,671	1.07%	\$34,382,865
Pacific Grove Unified School District	School	\$273,018	\$24,119,584	1.13%	\$2,934,395
East Bay MUD	Special	\$4,577,000	\$367,531,000	1.25%	\$49,193,615
Sunnyvale	City	\$2,754,418	\$215,853,538	1.28%	\$29,604,496
Contra Costa	County	\$25,132,363	\$1,860,163,000	1.35%	\$270,122,743
Marin	County	\$5,673,201	\$408,730,877	1.39%	\$60,975,588
Los Altos Elementary School District	School	\$993,009	\$62,096,426	1.60%	\$10,672,865
San Francisco	City	\$113,700,000	\$6,070,232,894	1.87%	\$1,222,048,078
West Contra Costa Unified School District	School	\$9,937,376	\$377,587,976	2.63%	\$106,806,959
Golden Gate Bridge Hwy Transportation Dept.	Special	\$4,630,000	\$131,059,287	3.53%	\$49,763,259

Note: Entities selected as part of a larger analysis to reflect a representative sample of California counties, cities, school districts, and special districts.

* Color ranking indicates whether an entity falls into the lowest third, middle third, or highest third level across the state.

** Estimates an aggregate 16% annual increase, which includes increases in health premiums, inflation, and the number of retirees.