



# Moraga-Orinda Fire District

**TO:** Board of Directors

**FROM:** Gloriann Sasser, Administrative Services Director

**DATE:** October 18, 2017

**SUBJECT:** **Item 8.1 Additional Information** – Approval of GASB 75 OPEB Valuation Report as of June 30, 2017 and OPEB Funding Policy

## **BACKGROUND**

The District provides retiree health insurance benefits to employees. Government Accounting Standards Board Statement No. 75 requires the District to complete an actuarial valuation of the other post-employment benefits (OPEB) plan. As a result, the District contracted with GovInvest to complete an actuarial report calculating the long-term cost associated with the District's OPEB plan.

A draft report was presented to the Board on September 27, 2017. The board directed staff to have the report updated to use a 6.25% discount rate. The completed report is Attachment A.

## **OPEB VALUATION ASSUMPTIONS**

- Amortization period – 20 years closed period
- General inflation – 2.5% annually
- Assumed rate of payroll growth – 3%
- Healthcare trend rates – 7% trending down to 3.94%
- Rate of return on assets in accordance with GASB 75 – 6.25%
- Actuarially determined contribution discount rate – 6.25%
- Annually prefund recommended contribution

## **OPEB VALUATION RESULTS**

In 2015 the District established an OPEB trust account. The purpose of the trust account is to accumulate funds for payment of future retiree health insurance obligations. The District made the annual required contribution in FY2014/15, FY2015/16, FY2016/17 and FY2017/18 (budgeted.) The balance in the OPEB trust account as of June 30, 2017 is \$473K.

The OPEB valuation measures the net OPEB liability. The net OPEB liability is the total OPEB liability less the OPEB plan fiduciary net position. In other words, the net OPEB liability is the present value of benefits earned to date for both active employees and retirees that are not covered by current plan assets.

The prior actuarial valuation as of June 30, 2016 measured the net OPEB liability at \$15.3M. As of June 30, 2017, the net OPEB liability is \$15.2M, a decrease of \$0.1M or 1% (page 3).

## **ACCELERATE REDUCTION OF THE NET OPEB LIABILITY**

One of the initiatives of the Strategic Plan is to analyze the unfunded liabilities and determine the level of threat that unfunded liabilities pose to the District and its ability to provide sustained service delivery. The District could accelerate the reduction of the OPEB unfunded liability by shortening the amortization period. The current amortization period is 20 years. Shortening the amortization period has been calculated and would increase the ADC as follows (page 11):

- 20 years - \$374K contribution to OPEB trust (FY2017/18 budget \$280K)
- 15 years - \$252K additional contribution to OPEB trust (total contribution \$626K)
- 10 years - \$761K additional contribution to OPEB trust (total contribution \$1.135M)
- 5 years - \$2.3M additional contribution to OPEB trust (total contribution \$2.675M)

## **UPDATE LONG RANGE FINANCIAL PLAN**

The Board directed staff to update the Long Range Financial Plan to reflect the new OPEB contribution amounts. Two versions of the plan have been prepared:

Version A (Attachment B) – OPEB contribution and pension rate stabilization contribution of \$374K each. These amounts are based on 6.25% discount rate and 20-year amortization period. The results of the projections show a General Fund surplus throughout the plan years.

Version B (Attachment C) – OPEB contribution and pension rate stabilization contribution of \$626K each. These amounts are based on 6.25% discount rate and 15-year amortization period. The results of the projections show a General Fund deficit of (\$159K) in FY2017/18 and a General Fund surplus throughout the remaining plan years.

## **ATTACHMENTS**

Attachment A – GASB 75 OPEB Valuation Report as of June 30, 2017

Attachment B – Long Range Financial Plan Version A

Attachment C – Long Range Financial Plan Version B