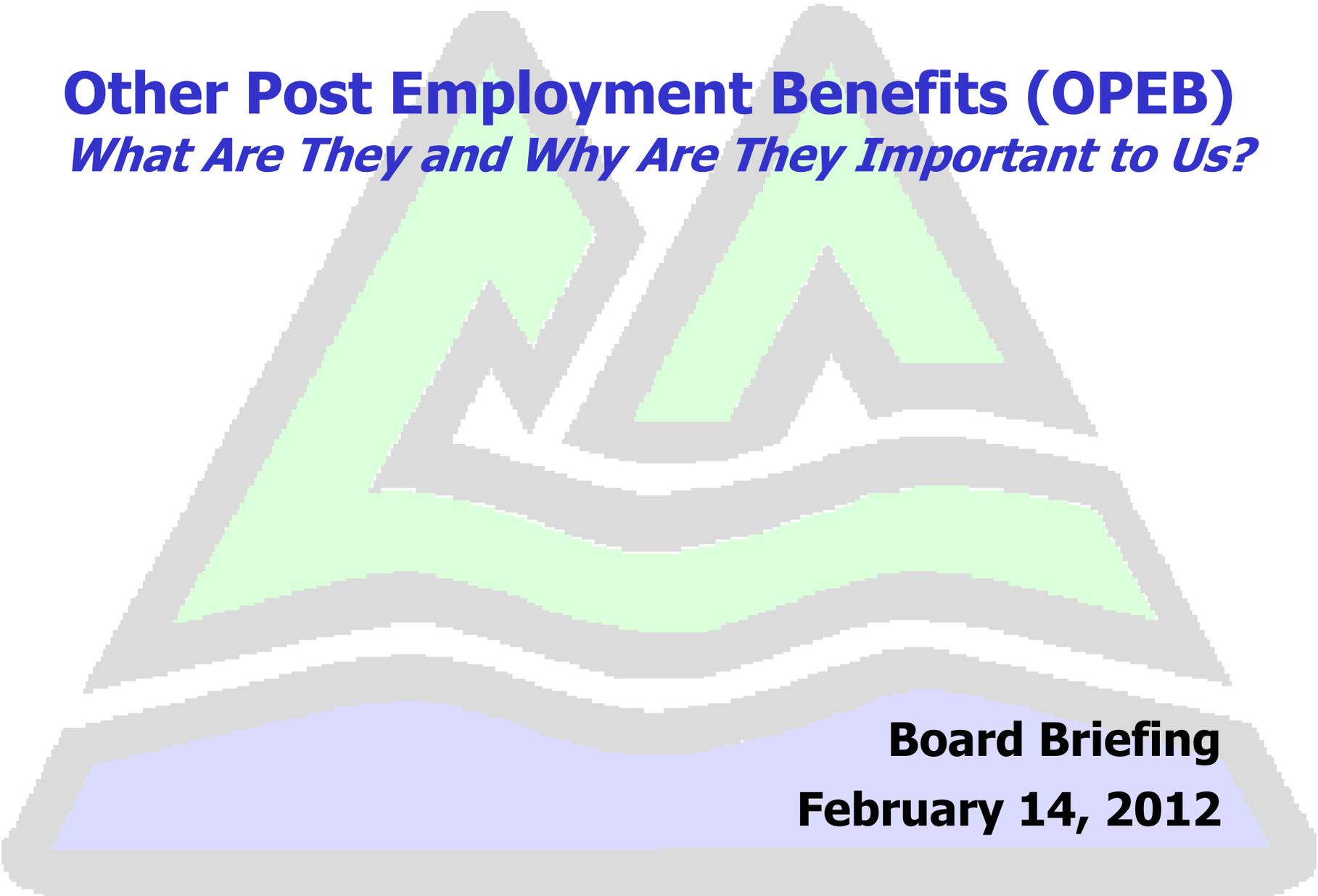


Other Post Employment Benefits (OPEB)

What Are They and Why Are They Important to Us?



**Board Briefing
February 14, 2012**

What I Want To Cover

- OPEB Overview
 - What Are OPEBs?
 - Accounting Treatment (GASB 45)
 - Current County Policy
- GASB 45 Requirements
- Relevance For Multnomah County
 - Long Term Financial Impact
 - Funding Options
 - Next Steps
- What Should We Do?
 - OPEB Mitigation Strategies
 - Additional GASB Pronouncements



Background

- Budget Note Requested a Briefing on OPEB and the Financial Policy on Funding the Liability

- OPEB = Other Post Employment Benefits
 - Medical/Dental/Vision
 - Life Insurance
 - Disability
 - But Not PERS

- Government Accounting Standards Board (GASB) Issued Statement # 45 in July, 2004



GASB 45 Requirements

- Statement Was Developed Due to Concern Over the Collapse of Large Private Pension and Retirement Health Plans
- GASB Found That Public Sector Plans Were Also Vulnerable
 - Awareness of the Cost of Long Term Liabilities
 - Clear Direction on How to Implement Standard, No Guidance on What to Do About Funding
- Specific Disclosure Requirements
 - What Are Benefits, Who Gets Them, How Many Covered?
 - Determine Actuarial Liability (Every 2 Years)
 - Report on the ARC and Identify Contributions Toward the Liability
 - Funding NOT Required Under GASB 45
- Multnomah County Implemented GASB 45 in FY 2006



What This Means To Multnomah County

- All County Labor Contracts Provide For Retiree Healthcare
 - County Pays 50% of Monthly Medical Insurance Premiums
 - Most Retirees Eligible From Age 58 to 65 (or Medicare Eligible)
 - 5 Years Continuous County Service Prior to Retirement

- First Actuarial Study Performed in 2005
 - Unfunded Actuarial Accrued Liability (UAAL) - \$110 Million
 - # of Retirees Receiving Benefits - 528

- Funding Options
 - Do Nothing
 - Pay As You Go
 - Dedicated Reserves
 - Establish an Irrevocable Trust



Policy Development

- Liability Will Continue to Grow
 - Medical Cost Inflation a Major Budget Driver
 - More Employees Becoming Eligible
 - “Do Nothing” Not a Realistic Funding Option

- Establish a Baseline
 - Changes to Existing Benefits Need to be Negotiated
 - Initial Goal Was to Evaluate Funding Alternatives

- Policy Statement
 - County Will Fund 20% of UAAL by FY 2013
 - Currently @ About 15% as of June 30, 2011
 - Rating Agencies Encourage Development of Policy



Multnomah County OPEB Profile

Actuarial Study Results

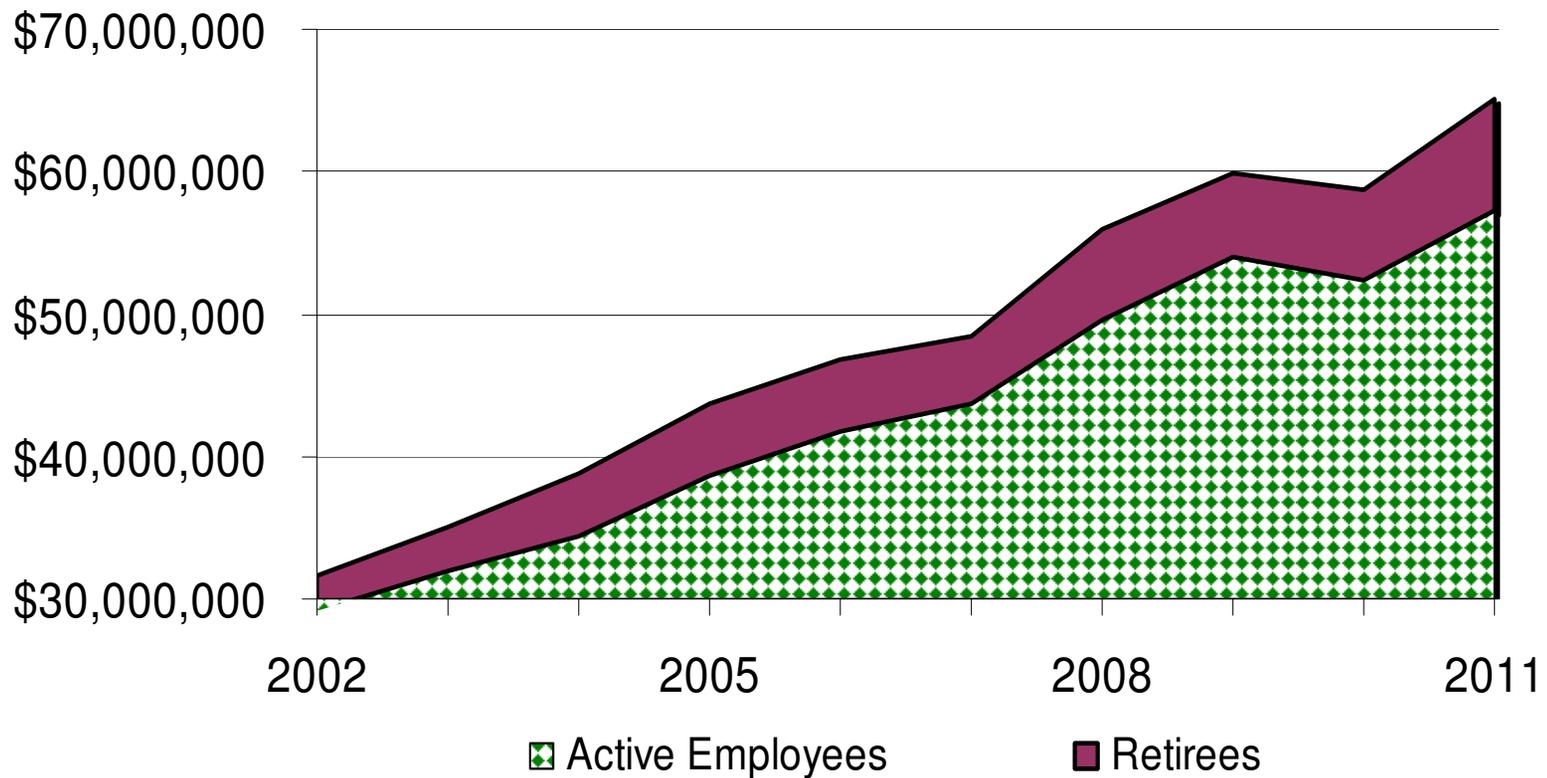
Reports Prepared by Mercer

	UAAL	% of Payroll	ARC	# of Retirees
FY 2005	\$109,895,000	48%	\$13,412,000	528
FY 2007	\$122,905,000	52%	\$15,696,000	598
FY 2009	\$122,605,000	47%	\$11,664,000	585
FY 2011	\$154,498,000	57%	\$14,193,000	654



Healthcare Cost Trend

Multnomah County Ten Years of Healthcare Costs



Current OPEB Funding

- Combination of Pay As You Go and Dedicated Reserves

- Current Year Costs Supported by Payroll Surcharge and Retiree Contributions
 - Departments Pay 2% of Payroll (Approximately \$5.4 Million)
 - Rate Was Originally Set @ .5% of Payroll
 - Surcharge Provides for Slight Contribution to Reserve

- Two Parts to UAAL Calculation
 - Direct Subsidy – County Pays 50% of Premiums
 - Implicit Rate Subsidy
 - ALL Jurisdictions Will Have an Implicit Rate Subsidy



Managing The Liability

- First Decision – Fund to What Level?
 - Benefits Contractually Defined
 - Impact of Federal and State Healthcare Reform
 - Actuarial Assumptions

- Why Did We Recommend 20%?
 - Had Mechanism For Pay As You Go Already in Place
 - Realistic Goal – Minimal Budgetary Pressure
 - Review Best Practices Around OPEB Mitigation

- Policy Impacts and Level of Reserves
 - Our OPEB Liability is Manageable
 - Each Funding Option Has Pro's and Con's



Funding Options

- Pay As You Go
 - Direct Subsidy Will Grow Faster Than Payroll
 - ARC Represents About 5% of Current Payroll
 - Ability to Respond to Changing Economic Conditions

- Dedicated Reserves
 - Fund w/ Bond Proceeds
 - Requires Budgetary Discipline
 - What Level Do We Ultimately Want to Achieve?
 - Pooled Interest Earnings

- Establish Irrevocable Trust
 - Funds Belong to Trust
 - Longer Term Investments/Higher Discount Rate
 - Legal Complexity and Administrative Costs



Next Steps

- Understand Demographics and How They Impact OPEB
 - OPSRP Retirement Age
 - Model Alternative Actuarial Assumptions

- Review Best Practices
 - Plan Design Changes
 - Eligibility Requirements
 - Cost Sharing Methodologies

- Report Back to Board
 - New Actuary, Opportunity to Revisit Assumptions
 - Recommend a Funding Plan
 - Prepare for Contract Negotiations



OPEB Mitigation – What Have Others Done?

- Plan Design Changes
 - More Emphasis on Preventive Measures
 - Understand Experience/Target Chronic Issues
 - Incorporate a Wellness Program

- Eligibility Requirements
 - Make Subsidy Dependent Upon Years of Service
 - Subsidized Coverage for Retiree Only

- Cost Sharing Methodologies
 - Reduce Subsidy Level
 - VEBA Style Trust



GASB Strikes Again!

- **New Statements on PERS and OPEB**
 - More Fully Account For and Disclose Pension and OPEB Liability
 - Both Will Impact Multnomah County
 - Likely a Few Years to Implementation

- **Some Important Considerations**
 - Few Government Agencies Have Fully Funded Pensions
 - Even Fewer Have Funded Their OPEB Liability
 - Rating Agencies Will Need to Adjust Their Scales

- **PERS System Reforms Are Working**
 - GASB Statements Targeted Toward Chronically Underfunded State and Local Governments



Summary

- Provided Information on OPEB and Understanding of Current County Policy
- Described Impact on County Finances
 - Primarily an Accounting Methodology
 - Multnomah County Has Managed Liability Well
- Reviewed Funding Options and Potential OPEB Mitigation Strategies
 - Auditor's Recommendation
- Briefly Touched on Potential New GASB Statements

