

RESPONSE TO GRAND JURY REPORT FORM

Report Title: *Marin's Retirement Health Care Benefits: The Money Isn't There*

Report Date: May 22, 2013

Public Release Date: June 3, 2013

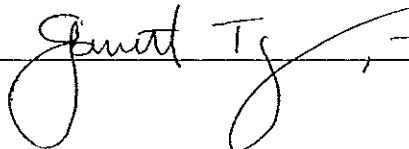
Response by: Town of Fairfax

FINDINGS

- I (we) agree with the findings numbered: \_\_\_\_\_
- I (we) disagree wholly or partially with the findings numbered: F1- F10  
(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.)

RECOMMENDATIONS

- Recommendations numbered R1, R5 have been implemented.  
(Attach a summary describing the implemented actions.)
- Recommendations numbered R3, R6 have not yet been implemented, but will be implemented in the future.  
(Attach a timeframe for the implementation.)
- Recommendations numbered \_\_\_\_\_ require further analysis.  
(Attach an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.)
- Recommendations numbered R2, R4 will not be implemented because they are not warranted or are not reasonable.  
(Attach an explanation.)

Date: 7/25/13 Signed: , TOWN MANAGER  
Number of pages attached 5

## Town of Fairfax

### Response to the Grand Jury

On May 22, 2013, the 2012/2013 Marin County Civil Grand Jury issued a report "Marin's Retirement Health Care Benefits: The Money Isn't There". Each of the 11 Marin City and Town Councils has been asked to respond to "All findings F1 through F10 and all recommendations, R1 through R6".

#### Findings:

- F1. We find that many of Marin's local governments and special districts are failing to pre-fund future costs for retired employees by making investments to cover promised benefits for active employees. This jeopardizes the certainty that retiree health care benefits to current employees will be paid.

Response: The Town has addressed its responsibility for funding retiree health care benefits by prefunding future obligations through the PERS-run California Employers' Retiree Benefit Trust Fund (CERTB).

- F2. The Failure of the majority of entities studied in this investigation to begin an investment program to provide a portion of the needed funds to pay for retiree health care benefits leads to generation shifting of the payment responsibility. Thus it appears to be, at least unethical, and even a breach of fiduciary responsibility.

Response: We agree that it is financially responsible to fund health care liabilities through an investment program. The Town joined the CERTB program in 2010 and is making regular contributions to fund its future obligation.

- F3. The extreme 30-year amortization period used by most entities minimizes the annual cost of funding the liability gap and further defers to future generations the compensation owed to present employees who provide services to present taxpayers and customers. Shorter amortization periods should be required for reasons of equity and to ensure that the promised benefits will be provided.

Response: The Town is using a 30-year amortization as shown in our actuarial analysis of retiree health benefits. The Town's ability and willingness to prefund its future liability is based on its financial position each fiscal year.

- F4. By capping retiree health care benefits, the City of San Rafael has reasonable certainty as to what those costs are. Other entities studied here that promise to pay for future retiree health care with uncertain and likely rapidly increasing costs are accepting an unknown and potentially very costly risk.

Response: In recent employee negotiations, the Town discussed its desire to alter the retiree health care plan to cap benefits to the Medicare rate once that age had been reached. The response was made that such trade-offs have a cost - so while the Town may save future costs, there is a current cost which would be added which may or may not result in savings. We were successful in reducing the benefits for future hires.

- F5. Because a few Marin County cities and other entities studied provide very limited benefits yet still appear able to meet community service needs, and because providing such benefits are increasingly rare in the private sector, such benefits appear to be unnecessary for attracting and retaining employees. Accordingly, for active and newly hired employees, the benefits should be trimmed and costs should be shared between employees and their employer.

Response: The Town strongly disagrees. The backbone of our local government is its employees. Individually and collectively they are very highly valued members of our community. To the extent the Town is financially able to provide good wages, health benefits, and a retirement commensurate with their years of service, we will do so. The Town, mindful of the need to balance its budget within the boundaries of the generous tax dollars we receive, is structuring its new contracts to include shared costs as we continue to navigate through tough economic times. But the Town rejects the suggestion that it should conform to the short-sighted and reflexive practice of slashing employee benefits in the manner that is all too common in the private sector.

- F6. Marin entities using "Pay-Go" funding are paying only the current year health care benefits of those already retired. This ignores the reasonably known rising costs to cover future retirees who are already headed for retirement. Some actuarial valuation reports the Grand Jury studied provide those future "Pay-Go" estimates year-by-year, so they should be readily available from the actuary's valuations. Estimates of those annual costs for each of the next 10 years should be provided to the public so that those who will incur the costs can know those costs.

Response: The Town pays current qualifying retirees (AKA: "Go-Pay") and also makes contributions towards its future retiree health care obligation.

- F7. Employers studied for this report should include an age-60, or even later, date for retiree health care benefits to commence in future negotiations with employees and their representatives.

Response: The mean age of retirees in Fairfax is 63.2. The mean age of POA retirees is 59.3. It may not be a significant issue for the Town or result in significant savings to negotiate a higher retirement age. As previously noted, there is a cost in negotiating reduced benefits, both in the attractiveness of the plan and the cost required to gain concessions.

- F8. The results of retiree health care cost analyses are summarized if at all only in obscure notes to annual financial statements. The public is entitled to more readily accessible explanation of these costs because the public will bear those costs.

Response: The annual financial statement (the audit report) is available to all interested persons by request and on the Town website. It has an advantage that under GASB 45 there are required disclosures which make comparability of the data possible with other entities. We will include an exhibit discussing retiree health care projections in the annual budget document.

- F9. There is a wide range of retiree health care benefits offered among the entities studied in this investigation. No clear explanation for the range from minimal to extremely generous is readily available. Those entities that are promising relatively generous benefits should provide clear justifications to their citizens and customers.

Response: The Town has sought to provide employees a fair and competitive benefit in line with what was being provided by other agencies within the public sector and with regard to its budget constraints.

- F10. Most of the entities the Grand Jury investigated are using fairly reasonable discount rates of 4% - 5% per year to bring back to today in actuarial valuations the future annual costs of retiree health care benefits. However, some are using higher and higher questionable rate assumptions that are not justified by the investments (if any) that they have made to grow and fund the future benefits. The result is to understate total funding needed today and in future years, to pay for those future benefits.

Response: The Town believes its actuarial study fairly shows its required contributions consistent with the return on investments.

#### Recommendations:

The Grand Jury recommends that each Marin County local government, special district and school district:

- R1. Begin setting aside in separate investment accounts, if it is not already doing so, each year's funds for amortizing its retiree health care benefits' UAAL, in addition to its "Pay-Go" funding of those benefits for present retirees.

Response: The Town began participating in a separate investment fund, CERTB, in 2010 meeting its obligation to prefund future obligations as well as paying current liabilities.

- R2. Begin a program to lower the amortization period for funding its retiree health care benefits UAAL from as much as 30 years presently, to approach (within 10 years), the commonly used 17-year amortization for retiree pension funding.

Response: The Town believes the current amortization period is appropriate to provide funding for liabilities within the constraints of its budget, and may choose to fund additional amounts as future opportunities arise.

- R3. Negotiate caps on the amounts it commits to pay existing and new employees for retiree health care benefits.

Response: The Town continues to negotiate changes to the program which reflect the increasing cost of health care and the need to provide fair benefits. Recent negotiations have focused in a separate lower tier for new employees. In addition the Town has capped its contribution to the Kaiser employee-only rate, which is not the most expensive health plan.

- R4. Negotiate a higher retirement age than the currently applicable age for the commencement of retiree health care benefits.

Response: It may not be a significant issue for the Town or result in significant savings to negotiate a higher retirement age since the mean age of retirees is higher than 60.

- R5. Require active employees to make a contribution towards the cost of their retiree health care benefit.

Response: Employees who retire before 20-25 years do make payments towards their health insurance because the Town pays only a percentage of the total cost.

- R6. Place a link on its website to provide the latest actuarial valuation of its AAL, its UAAL, its consequent percent funded, its discount rate (annual percentage) used to determine these values, and a projection of outlays ("Pay-Go") for retiree health care benefits for each of the current and subsequent 10 years.

Response: The Town will put actuarial information and projections of costs based on the actuarial reports into the budget which will be available on the Towns webpage.



# TOWN OF FAIRFAX

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July 25, 2013

Rich Treadgold, Foreperson  
Marin County Grand Jury  
3501 Civic Center Drive, Room 275  
San Rafael, CA 94903

Re: Response to Grand Jury Report: *Marin Retirement Care Benefits*

Dear Mr. Treadgold:

Enclosed please find a copy of the Fairfax Town Council's response to the Grand Jury Report: *Marin's Retirement Care Benefits*, approved by a unanimous vote at the Fairfax Town Council Meeting of July 24, 2013.

Please do not hesitate to contact me should you have any questions.

Sincerely,

Michele Gardner  
Town Clerk

enclosure