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: Marin Municipal Water District, Board of Directors

FINDINGS

• I (we) agree with the findings numbered: F1, F2, F3, F4, F6, F7, F8, F9, F10

• I (we) disagree wholly or partially with the findings numbered: F5

(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefore.)

RECOMMENDATIONS

• Recommendations numbered R1, R2 and R3 have been implemented.
(Attach a summary describing the implemented actions.)

• Recommendations numbered R4 and R6 have not yet been implemented, but will be implemented in the future.
(Attach a timeframe for the implementation.)

• Recommendations numbered R5 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 _____ will not be implemented because they are not warranted or are not reasonable.
(Attach an explanation.)

Date: August 6, 2013

Signed: _____
Krishna Kumar, General Manager

Number of pages attached: 4

2012/13 Marin County Civil Grand Jury
Marin's Retirement Health Care Benefits: The Money Isn't There
Report Date – May 22, 2013
Public Release Date – June 3, 2013

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 promised to current employees will be paid.

District Response: Agree. MMWD has been following a policy of prefunding future health care costs for retired employees since 2009, as required by Government Accounting Standards Board Statement No. 45 (GASB 45). Per the Grand Jury report, MMWD is the 4th highest funded agency out of the 40 agencies listed.

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 the least unethical, and even a breach of fiduciary responsibility.

District Response: Agree. GASB 45 required the reporting and funding of an annual required contribution (ARC) for funding current and future costs of the MMWD's retiree health care plan, based on an actuarial valuation. For the five fiscal years since 2008/09, MMWD has made the annual required contribution (ARC) per each year's applicable actuarial valuation.

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.

District Response: Agree. MMWD's initial actuarial valuation dated 6/30/07, used a 30 year period for the amortization of the Unfunded Actuarial Accrued Liability (UAAL). In each subsequent actuarial valuation, the period used for amortizing the UAAL has decreased. In the most recent actuarial valuation dated 6/30/12, 21 years is used for amortizing the UAAL.

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.

District Response: Agree. By fully funding the annual required contribution, MMWD plans to offset cost increases by prefunding future liabilities and utilizing interest earnings on such prefunding.

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 is 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 the employees and their employer.

District Response: Partially agree. Comparable benefits are required to attract talented and qualified individuals particularly in a specialized industry like a water utility. Additionally, retiree health benefit costs are shared between the employee and employer. The cost for medical coverage is based on the median premium cost of offered plans. Retirees opting for more expensive plans pay toward such plans. Retiree dental benefits are capped at a fixed dollar amount per participant.

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 heading 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.

District Response: Agree.

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.

District Response: Agree. MWWD is subject to the changes in Public Employees Pension Reform Act (PEPRA) which added a second pension tier for new employees hired on or after 1/1/13. For these employees, retiree health care benefits are available at 62 years of age. For the remaining employees, MMWD will consider the suggestion from the grand jury during future negations.

F8. The results of retiree health care actuarial 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.

District Response: Agree. MMWD meets all required disclosures per Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) statements in financial statement reporting.

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.

District Response: Agree.

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 highly 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 the total funding needed today and in future years, to pay for those future benefits.

District Response: Agree. The discount rate that MMWD is currently using is 7.25% justified by an average annualized yield on MMWD trust funds 13.28%. MMWD will continue to monitor this closely and will consider any required changes to the discount rate it currently uses.

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.

District Response: Agree. Since 2009, MMWD has been setting aside in a separate investment account with CalPERS, each year's funds for amortizing its health care benefits unfunded actuarial accrued liability (UAAL), in addition to its "Pay-Go" funding of those benefits for present retirees.

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 period for retiree pension funding.

District Response: Agree. In the initial actuarial valuation dated 6/30/07, the period MMWD used for amortizing the UAAL was 30 years. The periods used for amortizing the UAAL have subsequently decreased to 21 years as reflected in the most recent actuarial valuation dated 6/30/12. MMWD will continue its efforts to reduce the amortization period even lower in the next actuarial valuation to be completed by December 31, 2013.

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

District Response: Agree. MMWD pays only for employee plus 1 coverage (rather than full family) of the mid-price plan. The employee/retiree pays any additional cost.

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

District Response: Agree. MWWD is subject to the changes in Public Employees Pension Reform Act (PEPRA) which added a second pension tier for new employees hired on or after 1/1/13. Under PEPRA, the normal retirement age for new employees hired on or after 1/1/13 is 62 years of age. For the remaining employees, MMWD will consider the suggestion from the grand jury during future negotiations in Spring 2016.

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

District Response: Agree. MMWD will consider the suggestion from the grand jury during future negotiations in Spring 2016.

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.

District Response: Agree. Grand Jury's recommendation will be implemented by December 31, 2013.

MARIN MUNICIPAL
WATER DISTRICT

220 Nellen Avenue Corte Madera CA 94925-1169
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August 14, 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's Retirement Health Care Benefits: The Money Isn't There

Dear Mr. Treadgold,

Enclosed is the District's response to the Grand Jury Report: Marin's Retirement Health Care Benefits: The Money Isn't There; approved by the Board of Directors' on August 6, 2013. Please let me know if I can be of further assistance.

Sincerely yours,

Krishna Kumar
General Manager