

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: North Marin Water District

FINDINGS


- I (we) agree with the findings numbered: _____
- I (we) disagree wholly or partially with the findings numbered: 1-10
(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.)

RECOMMENDATIONS

- Recommendations numbered 1, 2, 3, 6 have been implemented.
(Attach a summary describing the implemented actions.)
- Recommendations numbered 5 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 4 will not be implemented because they are not warranted or are not reasonable.
(Attach an explanation.)

Date: 7/17/13

Signed: _____



Number of pages attached 5



**NORTH MARIN
WATER DISTRICT**

July 17, 2013

999 Rush Creek Place
P.O. Box 146
Novato, CA 94948

PHONE
415.897.4133

FAX
415.892.8043

EMAIL
info@nmwd.com

WEB
www.nmwd.com

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

Re: Marin's Retirement Health Care Benefits: The Money Isn't There

Dear Mr. Treadgold:

The North Marin Water District commends the Marin County Civil Grand Jury for its time and effort in compiling, reviewing and summarizing the information presented on this important subject. Actuarial science is complex and technical, yet the Civil Grand Jury report has effectively distilled this complicated information into findings and recommendations that are clear and insightful.

Following are the District's responses to the ten findings and six recommendations in the referenced report that NMWD was invited to respond to.

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.

The North Marin Water District has not reviewed the financial position of other local government agencies or special districts in Marin and has no knowledge of the benefits that have been promised or funding levels achieved. The Civil Grand Jury Report is in error as regards NMWD. Exhibit 6 of said report shows NMWD's funded percent as zero. In fact, at June 30, 2013, NMWD's cash reserve, designated by its Board of Directors to fund its retiree health benefit liability, equaled 101% of its accrued liability, as calculated in its GASB 45 actuarial valuation dated June 7, 2013. The Civil Grand Jury Report apparently erroneously considers only funds deposited into an irrevocable trust as being available to pay for promised benefits. NMWD has not deposited its designated reserve into an irrevocable trust, and believes such an investment at this time is not in the best interests of its customers.

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.

The North Marin Water District has not reviewed the financial position of other local government agencies or special districts in Marin and has no knowledge of the benefits that have been promised or funding levels achieved.

DIRECTORS: JACK BAKER • RICK FRAITES • STEPHEN PETTERLE • DENNIS RODONI • JOHN C. SCHOONOVER

OFFICERS: CHRIS DEGABRIELE, General Manager • KATIE YOUNG, Secretary • DAVID L. BENTLEY, Auditor-Controller • DREW MCINTYRE, Chief Engineer

- 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.

The North Marin Water District has no expertise in actuarial science and therefore cannot comment on whether 30 years is an appropriate amortization period to fund retiree health care obligations. NMWD has fully funded its retiree health care accrued liability, and is on a path to fully fund its actuarial liability within the next 5-10 years, depending on the rate of return earned on the reserve funds designated to amortize this liability.

- 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.

The North Marin Water District has not reviewed the financial position of other local government agencies or special districts in Marin and has no knowledge of the benefits that have been promised or funding levels achieved. NMWD has capped its retiree health care obligation for its Medicare eligible retirees.

- 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.

The North Marin Water District has not reviewed the financial position of other local government agencies or special districts in Marin and has no knowledge of the benefits that have been promised or funding levels achieved. The cost of health insurance provided to NMWD retirees is capped, and any cost in excess of the cap is paid by the retiree.

- 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.

The North Marin Water District has not reviewed the financial position of other local government agencies or special districts in Marin and has no knowledge of the benefits that have been promised or funding levels achieved. NMWD's GASB 45 actuarial valuation report does not include estimates of the annual cost of retiree health insurance for the next 10 years. It does include estimates for selected future years, primarily in 5-year increments, and is posted on the District's website.

- 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.

The North Marin Water District has not reviewed the financial position of other local government agencies or special districts in Marin and has no knowledge of the benefits that have been promised or funding levels achieved. NMWD contracts with CalPERS for both retirement and group health care benefits. The California Government Code (Public Employees' Medical and Hospital Care Act) allows CalPERS members to retire as early as age 50, and entitles CalPERS annuitants to lifetime health care insurance coverage subsidized by the agency from which the annuitant retired.

- 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.

The North Marin Water District has not reviewed the annual financial statements of other local government agencies or special districts in Marin and has no knowledge as to the obscurity of notes in their financial statements pertaining to their retiree health care actuarial cost analyses. NMWD's Comprehensive Annual Financial Report, which is posted on its website, includes over two full pages of notes pertaining to its Post Employment Benefits, presented in accordance with Generally Accepting Accounting Principles as promulgated by the Government Accounting Standards Board. In addition, NMWD's GASB 45 Actuarial Valuation is posted on its website.

- 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.

The North Marin Water District is not aware of the range of retiree health care benefits offered among the other local government agencies or special districts in Marin, nor to what extent entities promising relatively generous benefits have provided clear justifications to their citizens and customers. NMWD invites input from the public whenever its Board considers and votes on any compensation or benefit package items, and this is always done in open session at noticed publicly held meetings.

- 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.

The North Marin Water District is not aware of the discount rate used by other local government agencies or special districts in Marin in calculating their retiree health care benefit liability, nor does NMWD hold any expertise in actuarial science. Therefore, the District is not able to determine what discount rate is appropriate. NMWD's GASB 45 actuarial valuation dated June 7, 2013, used a discount rate of 4%.

- 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.

The North Marin Water District set aside \$2.55 million in August of 2003 into a designated account to fund its retiree health care benefit liability. In 2010, the District began adding \$1,500 per employee annually into the fund. Consequently, the most recent GASB 45 calculated accrued liability is now 101% funded, and the most recent GASB 45 calculated actuarial liability is now 75% funded.

- 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.

The North Marin Water District's Retiree Health Care Actuarial Liability will be fully funded within the next 5 to 10 years, depending upon the rate of return earned on the funds designated to amortize this liability.

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

The North Marin Water District's December 2012 labor agreement includes a provision increasing the retiree health care contribution rate for all existing and new employees. The District's Medicare eligible retirees pay the full amount of any health care insurance cost increases.

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

The North Marin Water District contracts with CalPERS for both retirement and group health care benefits. The California Government Code (Public Employees' Medical and Hospital Care Act) allows CalPERS members to retire as early as age 50, and entitles CalPERS annuitants to lifetime health care insurance coverage subsidized by the agency from which the annuitant retired.

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

The North Marin Water District can propose that active employees make a contribution toward the cost of their retiree health care benefit when compensation is next negotiated upon expiration of the current memorandum of understanding.

- 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)

Richard Treadgold, Foreperson
Marin County Civil Grand Jury
July 17, 2013
Page 5

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.

The North Marin Water District has posted its latest GASB 45 actuarial valuation on its website, which report includes the discount rate used to determine the liability, and includes a projection of its "pay-go" for selected future years, primarily in 5-year increments.

Sincerely,



Chris DeGabriele
General Manager

c: The Honorable Judge James Ritchie, Marin County Superior Court
Steve Kinsey, Supervisor, Marin County Board of Supervisors
Judy Arnold, Supervisor, Marin County Board of Supervisors