

RESPONSE TO GRAND JURY REPORT FORM

Reporting District: Dixie Elementary School District

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

Report Date: May 22, 2013

Public Release Date: June 3, 2013

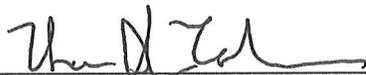
FINDINGS:

- I (we) agree with the findings numbered: 1,4,5,6,8,9,10
- I (we) disagree with the findings numbered: 2,3,7

RECOMMENDATIONS:

- Recommendations numbered 1, 3,5 have been implemented
(Attach a summary describing the implemented sections.)
- Recommendations numbered n/a have not yet been implemented, but will be implemented in the future.
(Attach a timeframe for the implementation.)
- Recommendations numbered 2,4,6 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.)
- Recommendation numbered n/a will not be implemented because it is not warranted or is not reasonable.
(Attach an explanation)

Date: 8/28/13

Signed: 

Number of pages attached 4



DIXIE SCHOOL DISTRICT

August 29, 2013

The Honorable Judge James Ritchie
Marin County Superior Court
P.O. Box 4988
San Rafael, CA 94913-4988

Dear Judge Ritchie,

Pursuant to your request of June 20, 2013, following are the Dixie School District's responses to Findings 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, and the Recommendation described in the Grand Jury's final report entitled "Marin's Retirement Health Care Benefits: The Money Isn't There".

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.
- Response: With the implementation of GASB 45, the Dixie School District chose not to establish an official irrevocable trust for the OPEB liability. However, the district does maintain a special retiree benefits fund (Fund 68) specifically to set money aside for current and future retiree benefit cost. The Dixie School Board previously had recognized the need to set money aside for retiree benefits and established the fund several years prior to GASB 45. Currently the fund has accumulated a balance of \$170,000. In addition, there are sound fiscal reasons that a public school district not set-up an irrevocable trust. These would include:*
- *Cash-flow concerns. As a Basic aid district, there is need for a cash reserve to manage the lag in time between the distribution of local property taxes and operating costs.*
 - *The need to maintain flexibility during the period of uncertainty surrounding the implementation of the Affordable Care Act and its impact on health benefits, associated costs, and employer responsibilities.*

Dixie School District has a maximum cap on the retiree benefits. For Certificated employees who are at least 55 years of age and retire with five years of service and for Classified staff (non-teaching staff) who are at least 55 years of age and retire with 10 years of service, the District contributes a maximum of \$425 per month for five years. After five years the District will contribute \$7.40 month. Funding for a maximum of five years is a relatively short time. Historically, we might have 10-15 retirees receiving the full \$425 month in a given year and about half will drop off within the next three to four years. District has averaged about 1-3 retirees per year. Given this the total number of retirees has remained relatively stable and with a fixed cap the projected costs have also remained stable.

- 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.
- Response: Cash Flow issues coupled with the ability of the district to 'fund' the OPEB liability with ending fund balance are necessary considerations in a full exercise of fiduciary responsibility. As noted earlier, with the cap on the amount of benefit and short duration, the district is projecting a stable retiree benefit cost so there is no generational shifting of the payment responsibility.*

- 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 amortization period allows the district to gradually phase in the cost of the liability that has been incurred prior to the adoption of GASB-45 and conforms to current accounting guidance for governmental entities.
- 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: Dixie School District has a maximum cap on the retiree benefits. For eligible employees retiring on or after July 1, 2007, the District contributes a maximum of \$425 per month for five years. After the initial five years, retirees participating in the medical plan receive \$7.40 per month. The Grand Jury Report points to Dixie School District benefits in positive way and indicates that the benefits offered are on the lower end of the spectrum
- 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.
Response: As noted earlier, the Grand Jury Reports that Dixie School District's retiree benefits are on lower of the spectrum. With a lower cap of \$425 month, most retirees already share in the cost of benefits.
- 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 provided 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 those costs can know those costs.
Response: Under the Pay-Go funding, retiree costs have remained very stable. This is due to the fixed cap, short benefit duration and a stable number of retirees.
- 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: Dixie School District has a maximum cap on the retiree benefits. For eligible employees retiring on or after July 1, 2007, the District contributes a maximum of \$425 per month for five years. After the initial five years, retirees participating in the medical plan receive \$7.40 per month. Given the District has a short duration for benefits and fixed cap, negotiating a higher retirement age would have a minimal, if any impact on OPEB costs.
- 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.
*Response: The district's annual audited financial statements provide full disclosure of the district's OPEB including the key assumptions used in the actuarial study. The audited financial statements are discussed at a public board meeting and are public documents.
We are required to get a new actuarial study every two years which is presented and accepted at a public board meeting.*

- 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: As noted earlier, the Grand Jury Reports that Dixie School District's retiree benefits are on lower of the spectrum.

- 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 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.

Response: The most recent actuarial report used a discount rate of 5%, which is in the acceptable or reasonable range.

RECOMMENDATIONS

- 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 District has already set aside funds in a special retiree benefit fund. Current balance is \$170,000. Prior to GASB 45, the District had already recognized the need and set-up a retiree benefits fund.

- 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.

Response: The amortization period allows the district to gradually phase in the cost of the liability that had been incurred prior to the adoption of GASB-45 and conforms to current accounting guidance for governmental entities.

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

Response: The District already has low fixed cap and short duration for benefits. Dixie School District's benefits were noted in the Grand Jury Report as being in the lower end of the spectrum.

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

Response: Given the District has a short duration for benefits and fixed cap, negotiating a higher retirement age would have minimal, if any impact on OPEB costs.

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

Response: The District currently has hard cap for health insurance for active employees. Employees with dependents or that work less than full time already have to make contributions toward the cost of medical insurance. With a cap in place, retirees currently have to contribute towards the cost of medical above the cap amount.

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- 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 year
- Response: Copies of the actuarial report are available on-line as part of the agenda item and discussed in detail when presented to the board for approval. In addition, OPEB costs are part of the annual audited financial report presented to the board.*

Thank you for an insightful report. Please feel free to contact me for further information.

Sincerely,



Thomas J. Lohwasser, Ed.D.
Superintendent

Attach: Response Form

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



DIXIE SCHOOL DISTRICT

August 29, 2013

The Honorable Judge James Ritchie
Marin County Superior Court
P.O. Box 4988
San Rafael, CA 94913-4988

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

Dear Judge Ritchie and Mr. Treadgold,

On behalf of Dixie Elementary School District and our Board of Trustees, it is my pleasure to provide to you the District's responses to the findings outlined in the Marin County Civil Grand Jury Reports *Planning For Schools Emergencies (June 20, 2013)* and *Marin's Retirement Health Care Benefits: The Money Isn't There (June 3, 2013)*.

Please see the attached report forms and the District's summary responses to the Grand Jury's findings and recommendations, which were approved by the Dixie District Board of Trustees at the regularly-scheduled meeting on August 27, 2013.

Please feel free to contact me for further information.

Sincerely,

Thomas J. Lohwasser, Ed.D.
Superintendent

Attachments:
Report Form/2
Response Letter/2