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: Kentfield Fire Protection District

FINDINGS

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

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

RECOMMENDATIONS

- Recommendations numbered 1, 2, 4, 6 have been implemented.

  (Attach a summary describing the implemented actions.)

- Recommendations numbered _____ have not yet been implemented, but will be implemented in the future.

  (Attach a timeframe for the implementation.)

- Recommendations numbered 3, 5 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: 8/16/2013 Signed: _____

Number of pages attached 4

KENTFIELD FIRE DISTRICT'S RESPONSE TO THE MARIN COUNTY CIVIL GRAND JURY'S REPORT MARIN'S RETIREMENT HEALTH CARE BENEFITS: THE MONEY ISN'T THERE

GRAND JURY FINDINGS

Finding 1: 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.

> KFD Response Finding 1: The Kentfield Fire District recognizes and agrees with the advantage of pre-funding costs of future health care benefits and has made a significant investment with regards to funding the promised benefits. As this District has addressed this issue independent of other Marin cities, schools, and districts, we can neither wholly agree or disagree with this Grand Jury finding that implies other local government agencies may or may not be able to provided any promised benefit in the future.

Finding 2: 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.

> KFD Response Finding 2: This District has invested annually into a Trust account with CalPERS. According to the District's 2011 valuation performed by Bickmore Risk, the unfunded actuarial accrued liability is approximately $1.9 million. This is offset by approximately $800k currently held in Trust. Therefore, the District believes that it is upholding its fiduciary responsibility to its constituents.

Finding 3: 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.

> KFD Response Finding 3: The District agrees with the Grand Jury finding relative to the 30 year amortization of retirement health care costs. It is reasonable for the Grand Jury to suggest that a shorter amortization period be investigated by this District. To that end, the District has requested that the actuarial study analyzing the District's liability effective 06/30/2013 to include both 20 year and 25 year amortization periods be investigated.

Finding 4: 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 and unknown and potentially very costly risk.

> KFD Response Finding 4: The District agrees that future retiree health care costs are uncertain. The Board will continue to review annually health care costs of both active and retired members in partnership with Association representatives.

Finding 5: 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.

> KFD Response Finding 5: District has had, and will continue to have, discussions with our partners in the Association regarding the level of health care benefits provided. The District recognizes the staff's high retention rate correlates in part with the benefits provided and disagrees with the Grand Jury's broadly worded finding. Issues may be of concern to other jurisdictions in the area of benefits cost/sharing however, health care benefits for Kentfield Fire District active and new hires are continually under review. In addition, the Association membership has chosen not to seek salary adjustments for a number of years and for the last five years the District has made contributions to its OPEB liability.

Finding 6: 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 studies 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.

> KFD Response Finding 6: The District disagrees with the Grand Jury assertion that ten year health care projections be completed. The District believes that an accurate ten year projection is wrought with difficulties and possible errors. Components of the National Affordable Care Act further complicate long-range projections. It is the District's policy to review health care costs through the annual budget process. With regard to the Grand Jury's finding relative to agencies using the solely "Pay-Go" methodology, the District agrees and has since 2009 paid the required monthly costs as bill through CalPERS for retirees in addition to currently having in excess of $800k invested into a Trust investment account with CalPERS.

Finding 7: 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.

> KFD Response Finding 7: The District disagrees with this finding as Safety employees (i.e., District firefighters) are eligible for regular service retirement at age 55, age 57 for PEMCA retirees and transition to MediCal at age 65.

Finding 8: 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.

KFD Response Finding 8: The District agrees with the Grand Jury relative to the fact that retiree health care actuarial cost analysis is only obscurely noted in the annual financial statements. To ensure transparency the District has posted specific financial statement and pertinent actuarial data relative to OPEB obligations on our website, www.kentfieldfire.org.

Finding 9: There is 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.

> KFD Response Finding 9: The District neither agrees nor disagrees with this broadly worded finding. The Kentfield Fire District does not know how or why other agencies in the study came to agreement with regard to offering their employee benefit package. We agree that all public agencies should be able to explain and justify, as well as fund, whatever benefits are provided their employees.

Finding 10: 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 the 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.

> KFD Response Finding 10: The District agrees with this finding relative to the discount rate applied by various actuaries in various actuarial studies; we agree that assigning too low of a discount rate could unreasonably increase the Annual Required Contribution to the investment Trust, conversely too high a rate could result in unreasonable earnings projections, consequently underfunding the fund. The Kentfield Fire District's discount rate is determined by the investment strategy component relative to the Trust asset allocation.

GRAND JURY RECOMMENDATIONS

Recommendation 1: 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.

> KFD Response Recommendation 1: This recommendation has been implemented.
> The Kentfield Fire District entered into the CalPERS/CERBT Trust in F/Y 2009-2010 with the intention of prefunding retiree health care cost long term. The District has continued to contribute the full annual ARC to the Trust as well as submitting monthly "Pay-Go" health insurance obligations to CalPERS-PEMHCA.

Recommendation 2: 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.

> KFD Response Recommendation 2: This recommendation has been implemented.
> The District will request the 2013 actuarial report to present both 25 year and 20 year amortization projections. The average employment career for District personnel is approximately 25 years of service.

Recommendation 3: Negotiate caps on the amounts it commits to pay existing and new employees for retiree health care benefits.

> KFD Response Recommendation 3: This recommendation requires further analysis.
> The District Board and Association leadership will meet and confer on the issues of existing and future employee health care benefits paid upon retirement. These benefits are imbedded in the

existing labor agreement and will be discussed when contract discussion begin in January 2014. Options to be discussed as a result of this Report include the potential of implementing a Health Saving Account for employees and options relative to extending the current vesting period.

Recommendation 4: Negotiate a higher retirement age than the currently applicable age for the commencement of retiree health care benefits.

KFD Response Recommendation 4: This recommendation has been implemented. The District has recently enacted this recommendation for new Safety employees. New employee retirement age is now 57 years, as opposed to 55 years. This effectively reduces from 10 years to 8 years the age from retirement to MediCare enrollment, reducing the funding liability for the District. Additionally, several years ago the District increased the normal retirement age from age 50 to age 55. Both of these actions of increasing normal retirement age had a positive effect on both CalPERS and OPEB (costs to the District) liability.

Recommendation 5: Require active employees to make a contribution towards the cost of their retiree health care benefit.

KFD Response Recommendation 5: This recommendation requires further analysis. The District Board and Association leadership will meet and confer relative to addressing a retiree health care cost sharing formula. This benefit is imbedded in the existing labor agreement and will be discussed when contract discussion begin in January 2014. Issues to be discussed as a result of this Report include the potential of implementing a Health Saving Account for employees and/or other cost sharing options for existing employees.

Recommendation 6: 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.

KFD Response Recommendation 6: This recommendation has been implemented. The District has posted both financial statement and pertinent actuarial data relative to specific OPEB obligations on our website, www.kentfieldfire.org.