

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: ROSS VALLEY SCHOOL DISTRICT

FINDINGS

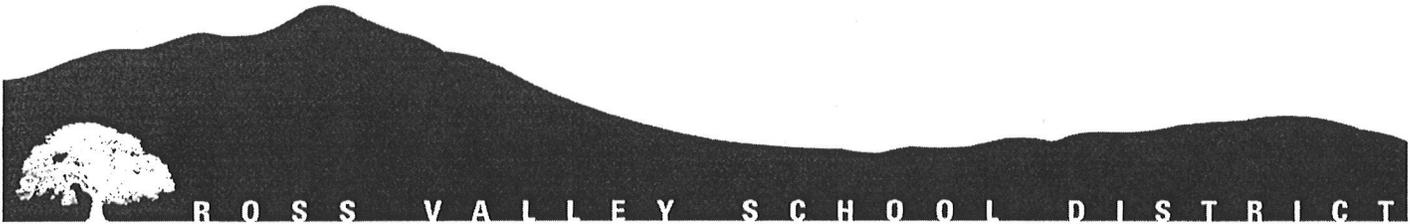
- I (we) agree with the findings numbered: F4, F5, F6, F8, F9, F10
- I (we) disagree wholly or partially with the findings numbered: F1, F2, F3, F7  
**(Attach a statement specifying any portions of the findings that are disputed; include an explanation of the reasons therefor.)**

RECOMMENDATIONS

- Recommendations numbered R3 have been implemented.  
**(Attach a summary describing the implemented actions.)**
- Recommendations numbered 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 R1, R2, R4, R5 will not be implemented because they are not warranted or are not reasonable.  
**(Attach an explanation.)**

Date: 8/20/13 Signed:  \_\_\_\_\_  
Jim Cerreta, Business Manager, RVSD

Number of pages attached 4



110 Shaw Drive San Anselmo California 94960 Tel 415.454.2162 Fax: 415.454.6840 [www.rossvalleyschools.org](http://www.rossvalleyschools.org)  
Superintendent: Eileen Rohan Board of Trustees: Annelise Bauer - Anne Capron - Chris Carlucci - Hadley Dettmer - Heidi Kritscher Weller

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August 20, 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 Sirs:

This letter is Ross Valley School Districts response to the Marin County Civil Grand Jury's report titled "Marin's Retirement Health Care Benefits: The Money Isn't There", as requested by the Grand Jury.

#### GRAND JURY 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.*

The rising cost of retiree health care has been a significant concern for the Ross Valley School District, particularly as health care costs continued to increase while education funding levels from the State of California were reduced. The Board of Education recognized that much needed to be done to maintain the district's fiscal solvency. Providing financing for the unfunded benefits would have forced significant budget reductions and severely impacted cash flow, thus it was decided the District would reduce their cost in future years.

To that end, in the 2009-10 year the Board of Trustees negotiated an adjustment in eligibility criteria for retiree health care programs with the District's bargaining units. The District is enrolled in Cal PERS Health Plans, a statewide insurance program. Cal PERS programs provide a lifetime benefit for any retiree who is vested in the retiree benefits program. This vesting requirement is subject to local bargaining, and an agreement was reached in the 2009-10 year to establish vesting for Ross Valley School District retirees at 40 years of service.

The impact of this change was to significantly reduce the number of retirees eligible for the Cal PERS benefit over time, as very few retirees provide 40 years of service to the District. In fact, only one retiree has met this vesting requirement since the agreement took effect July 1, 2010.

Further, agreements with bargaining units include a cap on the District contribution to premiums of the medical program and only for those retirees who retired prior to July 1, 2010 or meet the new vesting requirement. The amount of the District contribution is mandated by Cal PERS at \$1,380.00 per year, which is the cap.

The District's most recent actuarial study of its post-employment benefits program was prepared as of June 30, 2010, the last day before the vesting requirement changed to 40 years. In that report, the actuary estimated the Districts' Unfunded Actuarial Accrued Liability (UAAL) at \$1.8 million. The District actuary is updating this study and we expect the UAAL will reflect the change in vesting.

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 District's most recent actuarial study of OPEB projects a stable and ultimately declining pay as you go cost, thus 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 had 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.*

Agreements with District bargaining units include a cap on the District contribution to premiums of the medical program, and only for those retirees who retired before July 1, 2010 or meet the new vesting requirement. The amount of the District contribution is mandated by Cal PERS at \$1,380.00 per year, which is the cap.

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.*

Benefits are subject to negotiations with the district's bargaining units and as such cannot be unilaterally changed. As noted above, a 40-year vesting period has been established for retiree eligibility of the districts contribution, which will significantly reduce the liability over time.

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.*

The District's actuarial study provides year-by-year pay-as-you-go estimates, which peak in the year 2022 and begin to decline thereafter. The 2022 peak of \$99,000 is \$18,000 higher than the cost in 2011 per the study, so these costs are projected to remain fairly stable.

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 District's contracts with its bargaining units provide that employees must have 40 years of service with the District at the time of retirement to qualify for the District's contribution to the premium. This standard makes the age of retirement somewhat moot, as very few employees retire with 40 years of service with the District.

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 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 and the periodic actuarial studies are discussed and accepted at a public board meeting. We also post our audit reports and will begin to post our actuarial study on the District web-site.

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 District's contribution to retiree health benefit premiums is relatively minimal. The contribution is limited to the Cal PERS required contribution of \$1,380 per year and only for those who retire with 40 years of service credit.

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.*

The District's actuary utilized a 3.5% discount rate to prepare our study and was based on then-current interest rates in place during 2011, the timeframe the study was prepared.

#### GRAND JURY 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.*

The District is not setting aside amounts in separate investment accounts as the OPEB liability will decrease over time as the 40-year vesting requirement for program eligibility has its intended effect.

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 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.*

The District's contribution to retiree health benefit premiums is relatively minimal. The contribution is limited to the Cal PERS required contribution of \$1,380 per year and only for those who retire with 40 years of service credit.

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

The Districts contracts with its bargaining units provide that employees must have 40 years of service with the District at the time of retirement to qualify for the District's contribution to the premium. This standard makes the age of retirement somewhat moot, as very few employees retire with 40 years of service with the District.

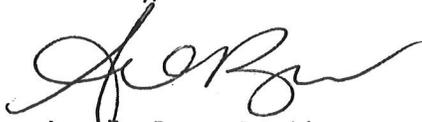
R5. *Require active employees to make a contribution towards the cost of their retiree health care benefit.* District employees must fund all of the cost of their retiree benefits above the minimal contribution by the District of \$1,380 per year. In many instances, retirees are funding 90% or more of the cost. There would be little benefit in requiring active employees fund the cost of retiree benefits in advance as they will be responsible for most of the premium, and that assumes they will have 40 years of District service when they retire.

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.*

The District will post its actuarial study on its website.

If you have any questions please contact our Superintendent, Eileen Rohan, at 415-454-2162 or our Business Manager Jim Cerreta at 415-451-4075.

Sincerely,



Annelise Bauer, President  
Ross Valley School District Board of Trustees

# Ross Valley School District

Meeting: Board of Trustees Regular Meeting Closed Session 6:36-  
7:05pm Open Session 7:09-9:26pm : XI. BUSINESS/FINANCE

Created : August 21, 2013 at 02:08 PM

## d. Discussion/Action: District's Response to the Marin County Civil Grand Jury Report: Marin's Retirement Health Care Benefits-The Money Isn't There (D) (V)

August 20, 2013

Status: Approved by Exec. Asst.

Discussion Item

**Motion Made By :** Hadley Dettmer.

**Motion Seconded By :** Anne Capron.

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### Quick Summary / Abstract

- Formal Action/Vote: Voting is Allowed
- Presenter: Jim Cerreta, Business Manager
- Facilitator: Annelise Bauer, Board President
- Allotted Time: 30 Minutes

### Recommendation

Review and approve response to the Grand Jury report titled "Marin's Retirement Health Care Benefits: The Money Isn't There".

### Background Information

The Marin County Civil Grand Jury filed a report on the cost of retirement health care benefits of public agencies in Marin County. The Grand Jury asked each public agency to respond to each finding and recommendation in the report. Staff prepared a draft response, which is attached, and seeks Board of Trustees approval.

### Data/Discussion/Analysis

The Marin County Civil Grand Jury prepared a report regarding the cost of retirement health care benefits offered by all public agencies in Marin County. The report presented 10 findings and six recommendations, and asked all agencies to respond to each. Staff prepared the attached response for the Ross Valley School District and recommends approval as presented.

The Grand Jury report focuses on the cost of these benefits, the lack of funding allocated to pay for them, and the lack of public disclosure regarding the unfunded cost. The Ross Valley School District took a significant step in 2010 to increase eligibility requirements and limit the number of retirees who will qualify for a district contribution to these benefits.

This action will reduce the cost of retiree benefits over time, thus the District is well positioned to lower its unfunded liability currently estimated by the District's actuary at \$1.8 million. An updated actuary study is being prepared for the District and should be available in the next month; staff expects the unfunded liability in the updated study to be

reduced from current levels. Staff will present the updated study to the Board of Trustees and will post it on the Districts website for review by any interested party.

## Goals

DG 2012-13 GOAL VI

## Name and Contact Number

- Jim Cerreta, Business Manager
- Tel. 415.451.4075

## Associated File Attachments



Grand Jury Report - OPEB (Files)



Response to Grand Jury Report - OPEB (Files)

## Minutes

### Discussion/Formal Action

- Motion: To approve the District's response to the Marin County Civil Grand Jury Report - Marin's Retirement Health Care Benefits: The Money Isn't There - as presented with no changes.

### Public Comment

- There was no public comment from members of the audience on this item.

## Votes

Motion Made By : Hadley Dettmer.

Motion Seconded By : Anne Capron.

Annelise Bauer - **Yes**

Heidi Kritscher Weller - **Not Present**

Anne Capron - **Yes**

Chris Carlucci - **Yes**

Hadley Dettmer - **Yes**