RESPONSE TO GRAND JURY REPORT FORM

Report Title: “Marin’s Retirement Health Care Benefits: The Money Isn’t There”

Report Date: June 3, 2013

Response by: Marin County Board of Supervisors

FINDINGS

- We agree with the findings numbered: **F9.**
- We disagree wholly or ***partially*** with the findings numbered: **F3, F5, F7 & F8.**

RECOMMENDATIONS

- Recommendations number **R2 and R4** will not be implemented because it is not warranted.
- Recommendations number **R5** requires further analysis.
- Recommendation number **R3 and R6** has been partially implemented.

Date: August 6, 2013 Signed: ______________________________

Number of pages attached: 4

Marin County Board of Supervisors
Response to Findings and Recommendations from Grand Jury Report
"Marin's Retirement Health Care Benefits: The Money Isn't There"

FINDINGS

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.

Response: Partially Disagree. We agree that a 30-year amortization spreads costs over a longer period of time than a shorter period; however, we do not agree that shorter periods should be required. Currently, there are no requirements that agencies set aside funds beyond current liabilities. As a result, most agencies are funding these liabilities on a pay-as-you-go basis. The County is doing more than what is required by setting aside approximately $12.5 million per year to contribute to a retiree health trust to fully fund our unfunded liability over the next 30 years.

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: Partially Disagree. Although we agree that salary and current health benefits are more important factors than retiree health, we don't agree that retiree health benefits have no impact on our recruitment efforts. We have already substantially reduced our retiree health benefits for all employees hired after 2008. We have found that the level of retiree health benefits is a factor that potential employees consider when selecting an employer. This is especially true for more tenured employees that come from other agencies that have more generous retiree health benefits.

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: Disagree. We are not considering this option because we have already substantially reduced our liabilities by offering lower benefits levels for new employees prorated over 20 years beginning in 2008.

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: Partially Disagree. The County has been very open and forthcoming about disclosing its level of unfunded health liabilities. In fact, we have posted this information on our website at:

http://www.marincounty.org/depts/df/debt-and-pension.

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: Agree.

RECOMMENDATIONS

The 2012-2013 Marin County Civil Grand Jury recommends that the County:

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: This recommendation will not be implemented. While most agencies statewide and nationwide continue with the status quo of “pay-go” only for retiree health benefits, this past year the County began contributing to a retiree health trust with the California Employers' Retiree Benefit Trust within CalPERS. We are contributing at a rate that fully funds our unfunded liability over a 30-year period. Last year, we contributed $26 million to the retiree health trust and anticipate contributing approximately $12.5 million in FY 2013-14.

While a lower amortization would retire unfunded liabilities more quickly, it would come at the cost of reduced services to the public with otherwise limited funds. The County will continue its efforts to address its unfunded liabilities, but will do so in the context of its overall goals and funding challenges, which could include additional one-time contributions as funds may be available to pay down additional unfunded liabilities.

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

Response: This recommendation has been partially implemented. The County implemented caps on benefits for all new employees hired since 2008. Future negotiations regarding retiree health benefits will be in the context of the County’s broader goals, the budget, and in partnership with our labor groups.

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

Response: This recommendation will not be implemented. In 2008, the County has implemented a lower level capped benefit program that is prorated over 20 years.

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

Response: This recommendation requires further analysis and needs to be considered within the context of the County’s overall labor negotiations. Most of our employees are under contract until July 2015.

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.

Response: This recommendation has been partially implemented and this information is posted on our website at:

http://www.marincounty.org/depts/df/~/media/Files/Departments/DF/Final_County_of_Marin_7_1_2011_OPEB_Valuation_Report.pdf.