

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: Novato Fire Protection District Board of Directors

FINDINGS

- I (we) agree with the findings numbered: F1, F2, F3, F4, F6
- I (we) disagree wholly or partially with the findings numbered: F5, F7, F8, F9, F10

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

RECOMMENDATIONS

- Recommendations numbered R1, R3, R4, R5 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.)

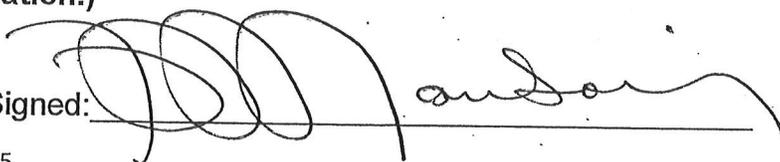
- Recommendations numbered R2, R6 require further analysis.

(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.)

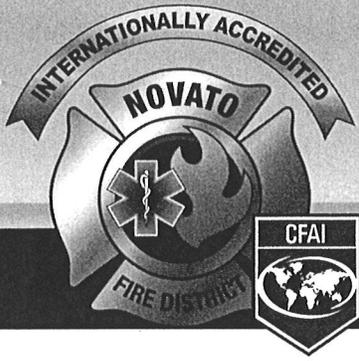
- Recommendations numbered _____ will not be implemented because they are not warranted or are not reasonable.

(Attach an explanation.)

Date: 8/14/13

Signed: 

Number of pages attached 55



NOVATO FIRE DISTRICT

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August 20, 2013

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

Re: Responses to Grand Jury Report: *Marin's Retirement Health Care Benefits: The Money Isn't There*

Dear Mr. Treadgold,

This letter shall serve as the formal responses of the Novato Fire Protection District's Board of Directors to the findings and recommendations as directed by the 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 Novato Fire Protection District (NFPD) agrees that the failure to pre-fund retiree health care may jeopardize the certainty that those funds will be available to future retirees. Funds should be set aside to provide for the perpetual payment of retiree health benefits for active and retired members.

The NFPD is currently pre-funding retiree health benefits with CalPERS. The District has approximately \$2 million dollars in the trust as of March 31, 2013, the last available statement as of the date of this response. (Exhibit A).

The contributions are determined based upon the actuarial valuation report as of June 30, 2011 provided by the NFPD's actuary (Exhibit B). CalPERS requires contributing agencies to obtain actuarial valuations bi-annually. We will receive our next valuation by June 30, 2013.

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 NFPD agrees that the pre-funding of retiree health care benefits is a responsible step towards alleviating the burden on future generations. CalPERS has provided the Fire District with three financial strategies to pre-fund retiree health care. Each strategy has a varying level of investment risk.

The Novato Fire District has successfully implemented the most assertive of the three strategies in order to respond to the need to pre-fund retiree health care. (Exhibit C).

The District's strategy in pre-funding retiree health care demonstrates an ethical and fiscally responsible approach to the concerns related to funding of health care benefits for active and retired employees.

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 NFPD believes that the amortization period selected should more closely match the remaining service years of active members rather than 30. A significant and immediate alteration of the amortization period would result in a detrimental impact to our operating budget and would compromise our ability to deliver effective levels of customer service to the communities that we serve. Any change in the amortization period should be phased in over several years to minimize this impact and to provide a measured approach.

The NFPD will investigate the efficacy of implementing a change in our amortization period during our next actuarial.

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 NFPD agrees that the capping of retiree health care benefits is an effective tool for managing rapidly increasing costs of retiree health care.

Effective July 1, 2010, in its Memorandum of Understanding with the Novato Professional Firefighters Association, the NFPD created a tier for newly hired members that effectively cap retiree health care benefits for member hired after 2010. (Exhibit D – NPFA MOU).

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 NFPD believes that perspective new hires do compare benefit packages when they are comparing competing job offers. The Fire District has not experienced a correlation between ongoing benefit package changes and employee retention.

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 NFPD is currently paying the “Pay-Go” funding requirement identified in our actuarial as well as the suggested pre-funding requirement.

The NFPD agrees that the identification of annual costs for the future ten year period provides a valuable tool for pre planning future retiree health care funding liabilities. The NFPD will consider obtaining this projection as part of its next actuarial report.

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 most recent hired Fire District members are incorporated in a 2.7% @ age 57 retirement plan with retiree health care becoming effective at time of retirement. The retiree health care available under this Tier represents a significant reduction as compared to previous Tiers.

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 Fire District's Comprehensive Annual Financial Report (CAFR) (Exhibit E) contains detailed information related to the actuarial cost analysis of retiree health care. The CAFR is available on the District's website for view and retrieval by the public.

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 Fire District agrees that the definition of "minimal" and "generous" is subjective. While we support the public's desire to understand the basis for the benefits being offered, employee benefits are the result of collective bargaining agreements with represented labor groups.

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.

CalPERS has provided the Fire District with three financial strategies to pre-fund retiree health care with varying levels of investment risk. The Fire District has chosen to implement the most assertive of the three strategies in order to respond to the need to pre-fund retiree health care. (Exhibit C). The selection of the strategy in place was based upon stated investment earnings as opposed to projected earnings. Based upon the latest report, dated May 31, 2013, year to date investment returns resulted in gains of 14.82% with a three year return of 12.25%. The NFPD will consider an alternative risk profile following the next actuarial review and will determine whether the estimated returns are considered achievable or not.

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 recommendation has been implemented. The Fire District has been pre-funding retiree health care costs since July 2010 through investment accounts with CalPers.

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 recommendation requires further analysis. The Fire District will be obtaining an updated actuarial valuation as of June 30, 2013 and will be considering the option to lower the amortization period to more closely align with actual years of service with the goal of having employees retiree health care fully funded at the time of retirement.

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

The recommendation has been implemented. Effective July 1, 2010, in its Memorandum of Understanding with the Novato Professional Firefighters Association, has created a tier for newly hired members that effectively cap retiree health care benefits. (Exhibit D – NPFA MOU).

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

The recommendation has been implemented. The Fire District has addressed this issue through the creation of new Tiers with its represented bargaining units. The Fire District disagrees with the need to elevate the retirement age and believes that doing so will present risk management concerns related to age and the ability to effectively perform the duties of the position of Firefighter.

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

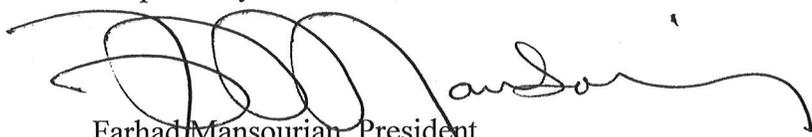
The recommendation has been implemented. Members currently contribute a percentage towards their retiree health care benefits.

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 Actuarial Report can be found on the NFPD’s website at
<http://novatofire.org/Modules/ShowDocument.aspx?documentid=1449>

The NFPD agrees that the identification of annual costs for the future ten year period provides a valuable tool for pre planning future retiree health care funding liabilities. The NFPD will consider obtaining this projection as part of its next actuarial report.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Farhad Mansourian', with a long, sweeping underline that extends to the right.

Farhad Mansourian, President
Board of Directors

Cc: Fire Chief Mark Heine