



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: CEO/Auditor-Controller
Department No.: 061
For Agenda Of: October 7, 2008
Placement: Administrative
Estimated Tme: 0
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Michael F. Brown, County Executive Officer
Director(s) Robert W. Geis, Auditor-Controller
Contact Info: Sue Paul, Assistant CEO/HR Director (568-2817)
Robert Geis, Auditor-Controller (568-2101)

SUBJECT: Adoption of Retiree Medical (OPEB) Rate for FY 08-09

County Counsel Concurrence

As to form: Yes

Other Concurrence: Select_Other

As to form: No

Auditor-Controller Concurrence

As to form:

Recommended Actions: That the Board of Supervisors:

Adopt an employer contribution rate of 3% of covered retirement payroll to be implemented October 1, 2008 in order to fund the County of Santa Barbara 401 (h) Retiree Medical (OPEB) plan.

Summary Text:

The County of Santa Barbara and the Santa Barbara County Retirement System have adopted regulations and agreements to implement a County of Santa Barbara 401(h) Retiree Medical (OPEB) plan. The County of Santa Barbara and other Plan Sponsors are now required to make contributions to this plan. These rates are separate and apart from employer and employee retirement contribution rates for basic pension benefits set by your Board September 23, 2008.

At this time we are setting an estimated rate of 3% of covered retirement payroll. We will be requesting the County Actuary to update our Government Accounting Standards Board (GASB) 45 actuarial liability regarding this benefit. At the same time we will ask for a formal rate study by the actuary to determine rate options for consideration. Section 4.02 of the regulations require that the County Board of Supervisors shall establish a funding policy for the County contributions. The options to study include pay-as-you go funding, partial funding and full funding. Issues like amortization of the Unfunded Actuarial Accrued Liability (UAAL) related to this benefit will be presented over 15, 20 and 30 year periods. The assumed interest assumption rates will also be under consideration.

It is our goal to recommend a funding rate that fully pays the annual cost of the total liability each fiscal year. However, the initial 3% contribution rate will provide enough funding for the retirement system to begin payments on October 1, 2008 on a estimated pay-go basis and by year-end have enough funds on hand to pay the full benefit due on July 1, 2008. Based on the actuarial evaluations we may return to your Board to adjust this rate before the end of the fiscal cycle.

Background:

For more background information on these issues the Board of Supervisors on September 16, 2008 Adopted a 401 (h) plan for the purpose of funding a Retiree Medical Program for Eligible Retired County Participants. On September 23, 2008 the Board of Supervisors adopted employer and employee contribution rates based on revised Retirement System actuarial evaluations that took into consideration a transfer of assets to the basic pension benefit from certain “retiree health reserves”. This resulted in a 2.52 % credit to a prior set of recommended rates by the retirement actuary.

Fiscal and Facilities Impacts: There are significant fiscal and budgetary impacts to fund the retiree medical program. The covered retirement payroll is approximately \$265,000,000 and a 3% contribution rate will require initial funding at an annual rate of \$7,950,000 and \$6,625,000 for this fiscal year. The Actuarial Accrued Liability at June 30, 2008 is estimated at approximately \$100,000,000 with an amortization period of 15 years and an interest assumption rate of 8.16%. To fully fund the benefit on this set of assumptions would require a contribution rate of approximately 4.0% or \$10,600,000 on an annual basis.

The amount required to make these payments at the 3% level were included in the County adopted budget for FY 08-09.

Authored by:

Bob Geis

cc:

Sue Paul, CEO/HR

Dennis Marshal, County Counsel