

# SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
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**Agenda Number:**  
**Prepared on:** 8/31/05  
**Department Name:** Auditor Controller  
**Department No.:** 061  
**Agenda Date:** 9/13/05  
**Placement:** Administrative  
**Estimate Time:**  
**Continued Item:** NO  
**If Yes, date from:**

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**TO:** Board of Supervisors

**FROM:** Robert W. Geis, CPA, CPFO  
Auditor-Controller

**STAFF CONTACT:** Betsy M. Schaffer, CPA  
Chief Deputy Controller

**SUBJECT:** Retiree Health Insurance Benefit Plan

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## **Recommendation(s):**

That the Board of Supervisors

1. Set a hearing on September 27, 2005 to consider adopting a resolution to convert the existing Retiree Health Insurance Program to a Retired Health Insurance Benefit Plan under Internal Revenue Code Section 401(h);
2. Receive a report from the Auditor-Controller on Retiree Health Benefits and refer the report to the County Executive Office for review and recommended action.

## **Alignment with Board Strategic Plan:**

The recommendation(s) are primarily aligned with actions required by law or by routine business necessity.

## **EXECUTIVE SUMMARY:**

The recommendation to adopt the resolution comes from the Retirement Administrator's concern that the administrative setup of the current health benefit program may not be in compliance with section 401(h) of the Internal Revenue Code. By adopting the resolution, the benefit plan will be in compliance. Once in compliance, the tax-free status of the benefit to retirees will be formalized. As of June 30, 2004, the Retirement Fund has \$92 million in reserves to pay for a subsidy to retirees for health care benefits. This reserve balance equals the estimated liability for these benefits for all active and retired employees as of 6/30/04.

The subsidy benefit received by retirees is a fixed \$15 per month per year of service if the retiree participates in a County-sponsored health program, or a fixed \$4 per month per year of service if they choose to receive a cash in-lieu option. Included in the 401(h) resolution is language that will provide for transfers of \$11.4 million per year for 8 years. The transfers are all within the Retirement Fund and will have a zero net impact on the Retirement Fund during these 8 years. The intent of the transfers is to reduce the \$92 million in the current out-of-compliance health reserves to a new 401(h) reserve.

The Board of Retirement (BOR) has discretion over the creation or enhancement of health benefits when “excess earnings” are available in the retirement fund. The BOR’s authority to grant these benefits with the use of excess earnings comes from the County Employees’ Retirement Law of 1937 (CERL). Excess earnings are described in the CERL as the amount of investment earnings above interest paid to reserves, less 1% of the total assets of the retirement fund.

The concept of excess earnings is not related to the overall Retirement Fund’s actuarially accrued liability (AAL) in comparison to its assets. An overall fund comparison would also include contributions and benefit payments, in addition to investment earnings, to determine the value of any over or unfunded liability (UAAL) that exists.

A more detailed description of the terms and concepts surrounding retirement health benefit financing will be included in the Auditor-Controller’s report to be presented on September 27, 2005. The report discusses excess earnings, describes current reserves, provides more detail on the 401(h) transfers, and attempts to provide the connection between health care benefits and the unfunded actuarial accrued liability of the Retirement Fund. The report also makes recommendations on actions that the Board of Supervisors and the Board of Retirement should consider in order to contain the future cost of these benefits.

**Fiscal and Facilities Impacts:**

There should be no financial impact during the first eight years as the system already has reserves sufficient to cover all retirees and active members. Continuing the benefit for employees hired after the adoption of the 401(h) resolution may create a new unfunded liability in the retirement fund. Additionally, any future benefits granted by the Board of Retirement funded by excess earnings may also generate unfunded liabilities. However, the fixed benefit rate and the recommendations provided in the attached report will allow the County to contain these benefit costs in a reasonable manner.

**Special Instructions:**

Clerk of the Board to hold a Department Agenda item open for the 9/27/2005 Board of Supervisor’s Meeting (30 minutes in the morning).

**Attachments:**

None

**Concurrences:**

Santa Barbara County Employees’ Retirement System  
Chief Executive Office - Human Resources  
Treasurer-Tax Collector