



## **CITY OF SAN RAMON**

### **OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDING POLICY**

#### **Introduction**

The purpose of this Funding Policy is to outline the overall funding goals for the City of San Ramon (City) OPEB Trust (OPEB Trust), and the approach that the City will take to achieve those goals.

#### **Background**

The City of San Ramon has provided retiree health benefits to its employees for many years, based on a years of service vesting schedule. As a cost reduction strategy, this benefit was eliminated for employees hired on or after July 1, 2014. Although eliminated for new employees, this benefit remains in effect for majority of the City employees and must be addressed during the annual budget process.

To address the long-term costs of this expense, the City created a trust to begin pre-funding this benefit. In the past, the City's budgetary strategy has been to pay all explicit retiree expenses incurred in the current year on a pay-as-you-go basis and make additional contributions to the Trust fund to fully fund benefits accrued by eligible employees. This policy statement discusses the City's funding strategy moving forward.

#### **Goals and Objectives**

The City's OPEB funding objective is to accumulate sufficient assets to fully fund the retiree healthcare benefits that the City's retired employees receive throughout retirement. In meeting this objective, the City will strive to meet the following funding goals:

- A. The City will strive to maintain assets in the OPEB Trust equal to 100% of the Actuarial Liability for OPEB through regular contributions to the OPEB Trust.
- B. The City will strive to make regular contributions to the OPEB Trust to achieve this goal.
- C. The funds in the OPEB Trust will be used to pay the City's OPEB payments each year.
- D. The City will strive to contribute its Actuarially Determined Contribution (ADC) into the OPEB Trust each year.

Nothing in this funding policy shall constitute an obligation upon the City, nor an implied contract. The City Council may revoke or amend this policy in the best interests of the City.

This policy does not change the City's obligation or intent to fully pay annual medical costs for retirees as defined in the City's Personnel Rules and Regulations, Compensation Policy and respective Memorandum of Understandings.

### **Definitions**

The funding of retirement programs, such as pensions or retiree health plans, is a complex process that utilizes many specialized terms. In this section, we will define the most important ones that are used in this policy statement.

- **Actuarial Liability** – The portion of the cost of future OPEB benefits attributable to work done by current and prior City employees prior to the date of the Actuarial Valuation.
- **Actuarial Valuation** – The City will engage a qualified OPEB actuary to perform an actuarial valuation at least once every two years. The actuarial valuation will calculate the ADC based on current OPEB plan information and a series of demographic assumptions (such as retirement age and life expectancy) and economic assumptions (such as medical inflation and return on investment) adopted by the actuary and approved by the City. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.
- **Actuarially Determined Contribution (ADC)** – The contribution calculated by the actuary as sufficient, assuming future experience matches the assumptions used in the Actuarial Valuation, to bring the plan to 100% funding by end of the Amortization Period, currently set at five years.
- **Additional Discretionary Payments** – When the OPEB plan is less than 100% funded and the ADC is insufficient to bring the plan's funding to 100% in that year, the City Council may, at its own discretion, make an additional contribution from year-end budget surplus, to the extent, such budget surplus appears.
- **Amortization Payments** – When the Actuarial Liability is greater than the assets in the Trust, the City will make up the difference through a level series of annual payments over a five-year period, which are referred to as Amortization Payments.
- **Explicit Benefit Payments** – These are the premium payments made by the City in the current year for eligible former employees.
- **Normal Cost** – The portion of the cost of future OPEB benefits attributable to work done by employees in the current year. The Normal Cost will be calculated using the entry age normal cost method using appropriate economic and demographic assumptions approved by the City.

- **Pay-As-You-Go** – The funding approach where the City pays for the Explicit Benefit Payments from the current year’s budget.
- **Unfunded Actuarial Liability (UAL)** – The difference between the Actuarial Liability and the assets that are in the OPEB Trust. If the assets are greater than the Actuarial Liability at the time of the Actuarial Valuation that is sometimes referred to as a Surplus.

### **Policy**

Funding the OPEB Trust will be comprised of three components. The City’s OPEB Contribution will be the sum of these three amounts.

1. **Normal Cost** – The City will make a contribution each year equal to the Normal Cost, as calculated in the Actuarial Valuation.
2. **Amortization Payment for Unfunded Actuarial Liability** – The City will make an additional contribution to the Trust each year toward the Unfunded Actuarial Liability. For Fiscal Year 2020-2021, this additional amount shall be equal to 1% of salary in Fiscal Year 2020-2021. This additional contribution will increase in subsequent fiscal years by 1% of salary until the contribution reaches the Amortization Payment calculated in the Actuarial Valuation. If the OPEB plan is more than 100% funded, this amount will be a credit toward the payment to the Trust.
3. **Additional Discretionary Payment** – When the OPEB plan is less than 100% funded, the City Council may, at its own discretion, make an additional contribution from year-end budget surplus, to the extent, such budget surplus appears. The dollar amount of available one-time funds will be presented to Council with a recommendation for contribution to the Trust after analyzing other City funding goals. This recommendation will be based on the dollars available, other competing priorities and Council input.

### **Policy Review**

Funding the OPEB requires long-term planning. The City will review this policy at a minimum every five years, to determine if changes to this policy are necessary to ensure adequate resources are being accumulated to fund OPEB benefits. The review may occur more frequently if material changes to the plan, the assets in the Trust, or the City’s finances occur.

