



Orange County Fire Authority Retiree Medical Plan

Background

Effective August 1, 1993, the County of Orange began a Retiree Medical Plan to provide a monthly grant to retirees to assist with the cost of medical insurance. The Retiree Medical Grant was funded from two sources: (1) excess reserves from the Orange County Retirement System (OCERS), and (2) a 1% payroll contribution from active County employees that also began on August 1, 1993. Simultaneous to implementing this Plan, the County provided a 1% pay increase to all employees to offset the 1% payroll deduction.

County employees who retired immediately after this plan began were eligible to begin drawing Retiree Medical benefits, yet they had not been contributing the 1% contribution for a sufficient period of time to pay for the cost of the benefits they would draw in their retirement years. As a result, the County's Retiree Medical Plan was drastically under-funded from inception.

Following the OCFA's separation from the County as an independent Joint Powers Authority, the Orange County Fire Authority Board of Directors adopted the OCFA Retiree Medical Plan to be effective January 1, 1997. The OCFA Retiree Medical Plan was a successor plan to the County's Plan. As a result, the OCFA inherited the under-funded Retiree Medical Plan from the County.

OCFA's Retiree Medical Plan

- The OCFA Retiree Medical Plan is a Defined Benefit Plan that provides a monthly grant to retirees to assist with the cost of medical insurance. The amount of the grant is determined by a formula based on years of service.
- The grant is a negotiated benefit included in the various MOUs and the Personnel & Salary Resolution.
- Prior to implementing a new funding solution, the Authority had paid retiree medical liabilities on a pay-as-you-go basis.

New Accounting Requirements Revealed Insufficient Funding

The Governmental Accounting Standards Board (GASB) has issued two documents, Statements 43 and Statement 45, setting out new reporting rules for post retirement health benefits that will require local government agencies to report these benefits as a liability in their financial statements similar to the way pension obligations are reported.

In preparation for these new accounting requirements, OCFA obtained an actuarial study to determine the amount of the Retiree Medical Plan's unfunded liability under the new GASB provisions. The results were as follows:

- If no changes were made to the funding structure, the unfunded liability was \$66 million (\$8.8 million attributable to past retirees, and \$57.2 million attributable to active employees).
- If Retiree Medical trust funds were transferred to a third-party trustee and earned an increased interest rate (such as OCERS at a rate of 7.75%), the unfunded liability could be reduced to \$27.8 million (\$3.6 million attributable to past retirees, and \$24.2 million attributable to active employees).
- If Retiree Medical trust funds were invested at this higher yield, and employee contributions were increased, the unfunded liability could be eliminated completely.

OCFA's Solution to the \$66M Unfunded Liability

The OCFA did not wish to terminate the Retiree Medical Plan, yet it needed to resolve the funding deficiency to prevent the liability from growing larger. In collaboration with our active employees, the Authority was able to achieve long-term solvency of the Retiree Medical Plan. The five elements of the solution are as follows:

1. *Pursued Legislation*

The OCFA pursued legislation and sent a letter to the Governor urging him to sign AB 2863 (Karnette) providing local agencies the means to establish their own trust for the payment of post retirement health benefits. AB 2863 provides OCFA and others the authority and protections to contract with county retirement systems to act as investment manager and/or administrator.

2. *Increased Investment Return*

The OCFA conducted extensive research on several investment options for its retiree medical funds including PARS (Public Agency Retirement Services), ICMA Retirement Corp, OCERS, and Nationwide Retirement Solutions. In the end, OCFA decided to enter into an agreement with OCERS which allows them to act as a third party administrator and investment manager and preserves the flexibility and rights of OCFA to adjust benefit levels in the future. By establishing a Medical Investment Trust with OCERS with a 7.75% assumed rate of return, the unfunded liability was reduced from \$66 million to \$27.8 million.

3. *Increased Employee Contributions*

Employee contributions increased from 1% of salary to 4% on an ongoing basis. This action fully funded Retiree Medical benefits for all 1,016 current active employees.

4. *One-Time Cash Contribution –OCPFA and OCFA*

There was a one-time cash contribution to the Retiree Medical Trust Fund of \$8 million (\$1 million from the Orange County Professional Firefighters Association and \$7 million from the OCFA). This contribution, combined with the existing Trust Fund balance, fully funded Retiree Medical benefits for all 234 retired employees.

5. *Closed the Defined Benefit Plan*

The OCFA closed the Defined Benefit Plan to include employees hired up to December 31, 2006 and established a new Defined Contribution Plan for all employees hired on or after 1/1/07 (i.e., a second tiered Retiree Medical program).

- The defined contribution program is a Retiree Health Savings Plan through ICMA.
- Requirements for this program include 4% salary contributions on an ongoing basis.
- Contributions will be deposited in individual accounts for these employees' future retiree medical expenses.