

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: CEO-Risk Management Division

BOARD AGENDA # *B-8

Urgent

Routine

CEO Concurs with Recommendation YES NO
(Information Attached)

AGENDA DATE June 24, 2014

4/5 Vote Required YES NO

SUBJECT:

Approval to Terminate a Memorandum of Understanding Between Stanislaus County and the Stanislaus County Employees' Retirement Association (StanCERA) Related to Retirement Costs and Health Benefits

STAFF RECOMMENDATIONS:

Authorize the Chief Executive Officer to notify the Stanislaus County Employees' Retirement Association (StanCERA) of the termination of an agreement between the County and StanCERA dated June 27, 2006 related to retirement costs and health benefits.

FISCAL IMPACT:

The County entered a Memorandum of Understanding (MOU) with StanCERA in 2006 which provided a commitment from StanCERA to utilize a 2% contingency reserve in the retirement system in exchange for the County memorializing the long standing practice of allowing retirees to participate in County health insurance programs. Prior to reaching this agreement, StanCERA was utilizing a 3% contingency reserve.

(Continued on Page 2)

BOARD ACTION AS FOLLOWS:

No. 2014-325

On motion of Supervisor Chiesa Seconded by Supervisor Withrow
and approved by the following vote,

Ayes: Supervisors: O'Brien, Chiesa, Withrow, Monteith, and Chairman De Martini

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1) Approved as recommended

2) Denied

3) Approved as amended

4) Other:

MOTION:

Christine Ferraro

ATTEST: CHRISTINE FERRARO TALLMAN, Clerk

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FISCAL IMPACT: (Continued)

Reducing the contingency reserve from 3% to 2% resulted in a shift of assets from the non-valuation contingency reserve to the valuation reserve, thereby reducing the County's unfunded liability and lowering the County's contribution rates. As a result of the lower contribution rates, more funding was available to support the financial obligations of the County and other member agencies. At the time of reaching the original agreement, the County projected the change in contingency reserves would reduce the County's retirement costs \$839,000 in Fiscal Year 2006-2007. Since reaching this agreement, contingency reserves have been reduced to an amount lower than 2% for several years, including maintaining a 1% contingency reserve in establishing retirement rates for Fiscal Years 2012-2013 and 2013-2014.

The existing MOU with StanCERA also memorialized the County's long standing practice of allowing retirees to purchase health insurance through Stanislaus County until reaching age 65 and becoming eligible for Medicare. Retirees are provided access to purchase medical insurance at the same rates as charged for active County employees, which has the effect of reducing the cost of health insurance for retirees compared to the rates they may otherwise pay if not included in the same risk pool as active employees. The County does not pay any portion of the monthly insurance premiums for retirees as the County is required to do for active County employees, however the effect of including retirees in the risk pool increases the overall average cost of care in the County's medical self-insurance program and therefore increases the costs charged for the active employee population. The impact of retirees on the County's medical self-insurance program in calendar year 2013 was approximately \$3.4 million.

This agenda item does not change the practice of pooling retiree health insurance premiums with active employees, and therefore there is no fiscal impact associated with the recommendation to notify StanCERA of the termination of the agreement entered into between the County and StanCERA in 2006. StanCERA has already taken action to reduce the contingency reserve beyond the original agreement to 1%, and the County's practice of pooling retiree health insurance rates with active employee rates is not dependent upon the agreement with StanCERA. This practice was in place prior to the 2006 agreement and would be subject to collective bargaining with labor groups representing active employees prior to any changes to the current pooling arrangement.

DISCUSSION:

On June 13, 2006, the Stanislaus County Board of Supervisors approved the MOU on Employer Costs Reduction and the Health Insurance Pooling of Retirees between the County and StanCERA. A copy of this agreement is attached to this agenda item.

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Contained within the MOU, StanCERA agreed to reduce its planned 3% contingency reserve to 2% in response to the County's request to help mitigate ongoing retirement rate increases. Additionally, StanCERA agreed to maintain a Contingency Reserve of 2% of assets effective June 30, 2006 moving forward. As a result, there was an initial 1% reduction in StanCERA's reserve designation, which equated to an overall savings to the County of approximately \$839,000. The County further agreed that it would not make any additional requests to StanCERA's Board of Retirement to lower StanCERA's Contingency Reserve below 2%.

Since reaching this agreement, the County and StanCERA mutually agreed to reduce the contingency reserve below 2% in Fiscal Years 2007-2008 and 2008-2009, and more recently StanCERA voluntarily reduced the contingency reserve to 1% for Fiscal Years 2012-2013 and 2013-2014 in response to significant changes in the funding position of the retirement system. StanCERA's Board of Retirement took action on June 13, 2012 to update the Excess Earnings Policy which included a recommendation to reaffirm StanCERA's intent to maintain a non-valuation contingency reserve of 1%. The following is a summary of contingency reserves utilized by StanCERA since entering the original agreement:

2006	2%
2007	2%
2008	0%
2009	0%
2010	2%
2011	2%
2012	1%
2013	1%

In exchange for StanCERA's agreement to maintain a 2% contingency reserve, the County agreed to memorialize the long standing practice of including StanCERA retirees (under age 65) within its active employee health insurance pool in order to maintain retiree health insurance premiums at a lower level than if the retirees were rated outside the pool. The inclusion of early retirees within the active employee health insurance pool has resulted in an overall increase to the County health insurance rates in the amount of approximately \$3.4 million for calendar year 2013. The County does not directly fund the monthly insurance premiums for retiree participants.

The MOU includes a provision that if either StanCERA or the County is found not to be in compliance with the MOU, the MOU becomes null and void and neither party is held to any MOU language. Further, the County and StanCERA agreed that there would be no damages that would result from either party's non-compliance, and any non-compliance cannot be adjudicated for either performance compliance or monetary award by either party. A review of StanCERA's past contingency reserves indicates

Approval to Terminate a Memorandum of Understanding Between Stanislaus County and the Stanislaus County Employees' Retirement Association (StanCERA) Related to Retirement Costs and Health Benefit

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that both parties have not complied with provisions in the MOU related to the 2% contingency reserve. As such, it is the County's position that the original 2006 agreement has been voided and is therefore no longer in place as provided in the original MOU.

This recommendation to notify StanCERA of the termination of the original 2006 MOU is brought forward in response to language in the MOU regarding the term of the agreement. The MOU states the following:

“The parties desire to enter into this MOU for a period of five years (through June 30, 2011). After this five-year period, the MOU will continue annually unless terminated by the parties.”

While the terms of the contract have been considered null and void since 2008, County staff is recommending the Board of Supervisors approve a formal notice to StanCERA terminating the agreement to ensure all parties are aware of the County's position. The County also recognizes that StanCERA has adopted a policy to maintain a 1% contingency reserve going forward and therefore it is no longer necessary for the parties to maintain an agreement regarding contingency reserves.

The recommended action included in this agenda item does not change the current practice of pooling retiree medical insurance premiums for active and retired employees. Any changes to this long standing practice would be required to be negotiated with employee labor organizations representing active County employees.

POLICY ISSUE:

Termination of the 2006 MOU between the County and StanCERA supports the Board's priority of Efficient Delivery of Public Services.

STAFFING IMPACTS:

There are no recommended changes to staffing associated with this agenda item. Staff from the Chief Executive Office Risk Management Division continues to administer medical insurance programs for active and retired employees.

CONTACT PERSON:

Jody Hayes, Deputy Executive Officer. Telephone: (209) 525-6333.

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: Chief Executive Office

BOARD AGENDA # *B-4

Urgent

Routine

CEO Concurs with Recommendation YES NO
(Information Attached)

AGENDA DATE June 13, 2006

4/5 Vote Required YES NO

SUBJECT:

Approval for the Chairman of the Board of Supervisors to Sign a Memorandum of Understanding (MOU) on Behalf of the County with the Stanislaus County Employees' Retirement Association Concerning Retirement Costs and Retiree Health Benefits

STAFF RECOMMENDATIONS:

1. Approve the Memorandum of Understanding on Employer Costs Reduction and the Health Insurance Pooling of Retirees between Stanislaus County and the Stanislaus County Employees' Retirement Association (StanCERA).
2. Authorize the Chairman of the Board of Supervisors to sign the agreement.

FISCAL IMPACT:

StanCERA has agreed to transfer 1% of its June 30, 2005 assets including interest or \$12,722,467 from the Contingency Reserve to the Employer Advance Reserve on or before June 30, 2006. From June 30, 2006 and forward StanCERA agrees to maintain a Contingency Reserve of 2% of assets for a period of five years. This 1% reduction in StanCERA's reserve designation will result in an overall savings to the County of approximately \$839,486 in the 2006-2007 Fiscal Year. This would result in an approximate \$495,194 savings to the General Fund in Fiscal Year 2006-2007. (Continued on Page 2)

BOARD ACTION AS FOLLOWS:

No. 2006-439

On motion of Supervisor Mayfield, Seconded by Supervisor Grover

and approved by the following vote,

Ayes: Supervisors: O'Brien, Mayfield, Grover, DeMartini, and Chairman Simon

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1) Approved as recommended

2) Denied

3) Approved as amended

4) Other:

MOTION:

Christine Ferraro

ATTEST: CHRISTINE FERRARO TALLMAN, Clerk

File No.

Approval for the Chairman of the Board of Supervisors to Sign a Memorandum of Understanding (MOU) on Behalf of the County with the Stanislaus County Employees' Retirement Association Concerning Retirement Costs and Retiree Health Benefits

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Fiscal Impact (Continued)

As part of the agreement the County agrees to maintain all StanCERA retired members within its health insurance pool that includes the largest number of active employees in order to maintain retiree health insurance premiums at a level that is lower than if retirees were rated outside of the pool. This inclusion of retirees does increase the County's overall health insurance rates although the exact amount has not been determined. In addition, under Governmental Accounting Standards Board (GASB) 45 there is liability for "Other Post Employment Benefits" (OPEB) that includes health insurance. Even though the County does not fund any portion of retiree health plans, the fact that the County includes retirees in the existing rates, creates an "implicit" subsidy under the rulings associated with GASB 45. While the employer at the present time does not have to fund this liability it may be noted as a potential liability by rating agencies at the time of a financing. No actuarial study has been completed to determine the County's potential obligation.

Discussion

The County and the Stanislaus County Employees' Retirement Association have reached a tentative agreement concerning reducing employer costs and the County's inclusion of retirees in the pooled rates with active members to keep retiree health insurance premiums at a lower rate than if retirees were rated on their own. This agenda item seeks Board approval to enter into this agreement and authorize the Chairman of the Board to sign the "Memorandum of Understanding on Employer Cost Reduction and the Health Insurance Pooling of Retirees between Stanislaus County and the Stanislaus County Employees' Retirement Association".

County and StanCERA representatives have developed this agreement to mutually meet the needs of both agencies. StanCERA has agreed to transfer 1% of its June 30, 2005 assets or \$11,762,636, from the 3% Contingency Reserve and accrued interest of \$959,831 for a total amount of \$12,722,467 from the Contingency Reserve to the Employer Advance Reserve on or before June 30, 2006. From June 30, 2006 and forward, StanCERA agrees to maintain a contingency reserve of 2% of assets. This action by StanCERA will lower the annual required employer retirement contribution and is anticipated to save the County in all Funds approximately \$839,486.

In consideration of the one-time transfer and the subsequent lowering of StanCERA's Contingency Reserve to 2% of assets, the County agrees to maintain all StanCERA retired members within its health insurance pool. This

Approval for the Chairman of the Board of Supervisors to Sign a Memorandum of Understanding (MOU) on Behalf of the County with the Stanislaus County Employees' Retirement Association Concerning Retirement Costs and Retiree Health Benefits

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would include the largest number of active County employees in an effort to maintain retiree health insurance premiums at a level that is lower than if the retirees were rated for insurance purposes outside of the County's pool of insured employees. By this agreement the County acknowledges that if future actuarial recommendations cause the employer and/or employee rates to increase that the County would not change the inclusion of retirees in the pooling rates.

Continuing to include retirees in the County's health insurance pooling rate does present potential liability for the County under GASB 45. This new ruling is intended to quantify the cost of benefits when the services are provided, quantify the accrued liability for the promised benefits and assess the demands on the employer's cash flow by identifying the potential liability. Under GASB 45 funding is not required for the actual liability. The County does not currently fund, nor does it intend to fund the cost of retiree health insurance benefits. However, under GASB 45 the fact that retirees are included in our pooled rate, there is an implied subsidy because the County's rate is higher with retirees included and as a result the County has provided an "implicit" benefit to retirees. While the actual amount of the liability is unknown at this time, nor does it need to be funded, the liability may be considered by rating agencies in the future when financings are contemplated.

In conclusion, if either StanCERA or the County are found not in compliance with the MOU, the MOU becomes null and void and there are no damages as a result from either party's non-compliance.

Policy Issue

In considering the recommendation to enter into the agreement with StanCERA the Board may consider whether this agreement will achieve the stated priorities of effective partnerships and efficient delivery of public services.

Staffing Impact

There are no recommended changes to staffing impacts associated with this agenda item.

Memorandum of Understanding on Employer Costs Reduction and the Health Insurance Pooling of Retirees between Stanislaus County and the Stanislaus County Employees' Retirement Association

Stanislaus County ("the County") and the Stanislaus County Employees' Retirement Association ("StanCERA") enter into this Memorandum of Understanding ("MOU") on the 27 th day of June, 2006.

WHEREAS, the County desires to lower its employer cost of retirement benefits through the transfer of 1% of the assets of StanCERA from StanCERA's Contingency Reserve to StanCERA's Employer Advance Reserve; and

WHEREAS, StanCERA desires to have StanCERA retired members pooled with active employees of the County to keep retiree health insurance premiums lower than are otherwise possible without such pooling; and

THEREFORE, the County and StanCERA enter into this MOU based on the following terms and conditions:

StanCERA agrees to take 1% of its June 30, 2005 assets as reported in its Comprehensive Annual Financial Report ("CAFR"), or \$11,762,636, from the 3% Contingency Reserve (account 310009) with accrued interest thereon, or \$959,831 and transfer that amount of \$12,722,467 from the Contingency Reserve to the Employer Advance Reserve (account 307002) on or before June 30, 2006. From June 30, 2006 and forward, StanCERA agrees to maintain a Contingency Reserve of 2% of assets. County acknowledges that this action has the effect of lowering the annual required employer retirement contributions. As proof that StanCERA is maintaining a 2% Contingency Reserve a copy of StanCERA's CAFR page showing the total dollar value of all reserves and the dollar value of the Contingency Reserve will be transmitted each year to the County's Chief Executive Officer following adoption of such CAFR by StanCERA'S Board of Retirement.

In consideration of the above one-time transfer and subsequent lowering of StanCERA's Contingency Reserve to 2% of assets, County agrees to maintain all StanCERA retired members within its health insurance pool that includes the largest number of County employees in an effort to maintain retiree health insurance premiums at a level that is lower than if the retirees were rated for insurance purposes outside of the County's pool of insured employees. The term "health insurance" in this MOU means all medical insurances that are offered to retirees.

The County further agrees that it will make no additional requests to StanCERA's Board of Retirement to lower StanCERA's Contingency Reserve below 2%.

The County also acknowledges that if future actuarial recommendations cause the employer and/or employee contributions to increase, these increases would have occurred

Memorandum of Understanding on Employer Costs Reduction and the Health Insurance Pooling of Retirees between Stanislaus County and the Stanislaus County Employees' Retirement Association

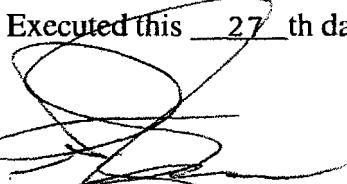
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absent this MOU and the County will take no action that would in any way hinder the retirees from being pooled with the employees for health insurance premium determinations.

If either StanCERA or the County is found not to be in compliance with this MOU, the above parts of this MOU become null and void and neither party is held to any of the above language. Both StanCERA and the County agree that there are no damages that will result from either party's non-compliance, and therefore, any non-compliance cannot be adjudicated for either performance compliance or monetary award by either party.

The parties desire to enter into this MOU for a period of five years (through June 30, 2011). After this five-year period, the MOU will continue annually unless terminated by the parties.

Executed this 27 th day of June, 2006.

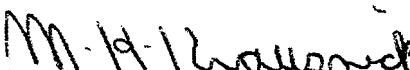

Ray Simon, Board of Supervisors Chair
Stanislaus County


Darin Gharat, Board of Retirement Chair
StanCERA

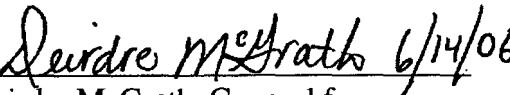

Rick Robinson, Chief Executive Officer
Stanislaus County


Tom Watson, Retirement Administrator
StanCERA

Approved as to form:


Michael H. Krausnick, County Counsel
Stanislaus County

Approved as to form:


Deirdre McGrath, Counsel for
StanCERA