



# **Funding Plan: GASB 74/75 Other Post-Employment Benefits (OPEB) Funding**

**Scope: Yuba Community College District**

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## I. PURPOSE

The purpose of this Statement of Benefits Funding Plan (“Plan”) is to establish a methodology for funding benefits obligations accruing under the Yuba Community College District (“District”) Other Post-Employment Benefit (“OPEB”) Plan (the “Plan”). The Plan is intended to reflect a reasonable, conservative approach with each generation of ratepayers financing, to the greatest extent possible, the cost of OPEB benefits being accrued. This Policy recognizes that there will be investment marketplace volatility and that actual economic and demographic experience will differ from assumed experience. Further, it is the intent that these procedures comply with all applicable laws, rules and regulations (collectively “Laws”). If these procedures conflicts with any such Law, the applicable Law shall prevail.

In order to assure that the District’s OPEB program is financially sustainable, the program should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefitting employees. The District’s OPEB Funding Plan documents the method the District will use to determine its actuarially determined contributions (ADC) to fund the long-term cost of OPEB benefits to District employees and retirees. The plan also:

- Demonstrates prudent financial management practices;
- Promotes long-term and strategic thinking;
- Provides guidance in making annual budget decisions;
- Reassures bond rating agencies; and
- Demonstrates to employees and the public how OPEB will be funded to ensure adequate funding for negotiated benefits.

Board Finance Committee’s annual budget planning guidelines also state:

- Annual budget planning to retire OPEB debt liability and invest in OPEB trust
- Salary obligations for health and retirement benefits
- Plan and budget for other Long-term debt assumptions

## 2. BACKGROUND

The District provides OPEB benefits to active employees hired before specific dates based on negotiated labor agreements and the unrepresented resolution. The District’s OPEB benefits consist of a cash contribution benefit for retiree medical and dental benefits and subsidized premiums resulting from blending retirees and active employees in the same risk pool.

The District’s OPEB cash benefit is determined based upon District hire date, employment category, and years of District service.

As of June 30, 2020, the District has an estimated \$54 million in unfunded OPEB liabilities. While the OPEB benefits were historically funded on a pay-as-you-go (pay-go) basis, paying only the actual cost of the benefit for retirees in the current fiscal year, governmental financial accounting standards require the District to account for the benefit as if it were actuarially funded. If the District does not replace the current pay-as-you-go plan with combined minimal contributions to the District’s relatively new OPEB trust fund, the District’s pay-as-you-go obligation will continue to grow, consuming resources that would otherwise pay for vital

programs and services.

Consistent with best practices, the Governing Board authorized the establishment of an irrevocable OPEB trust with CalPERS CERBT which was completed in December of 2017. To date, \$3M in contributions have been made to the trust in March 2020. The balance in the Irrevocable Trust is \$3.34M as of June 30, 2020. Due to the uncertainty of the new Student Center Funding Formula (SCFF), the Board elected to set aside the \$3 million in the District's Fund 69-Retiree Health Benefit Plan in anticipation of contributing to the trust starting in FY 2019-20. The total balance in Fund 69 is \$3.34M as of June 30, 2020. This plan demonstrates how these resources may be placed in the trust over the next several years to address the OPEB liability.

### 3. Plan

#### 3.1 OPEB Actuarially Determined Contribution (ADC)

The District will engage an OPEB actuary to determine the District's ADC based on biennial actuarial valuation reports. The ADC will include the normal costs<sup>1</sup> for current service and amortization of any unfunded liabilities. The normal cost will be calculated using the entry age normal cost method using appropriate economic and non-economic assumptions approved by the District.

The District will review the biennial actuarial valuations to validate the completeness and accuracy of the employee census data and the reasonableness of the actuarial assumptions. Actuarial valuations involve estimates and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

#### 3.2 Funding the ADC

This plan establishes guidelines for setting the employer contribution rates.

##### Actuarial Valuations:

The plan's actuary shall conduct an actuarial valuation biennially, based on actual Plan data, to determine funding progress as well as employer contributions for the following fiscal years.

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<sup>1</sup> Normal Cost – the current year cost of the program to provide the benefit for current employees in the future.

### Contribution Rate:

Coordination of the Plan's Funding and Investment Policies will attempt to minimize the volatility of the employer's contribution.

In order to cover current cost of employment, the following funding strategies are to be implemented effective FY 2021-22:

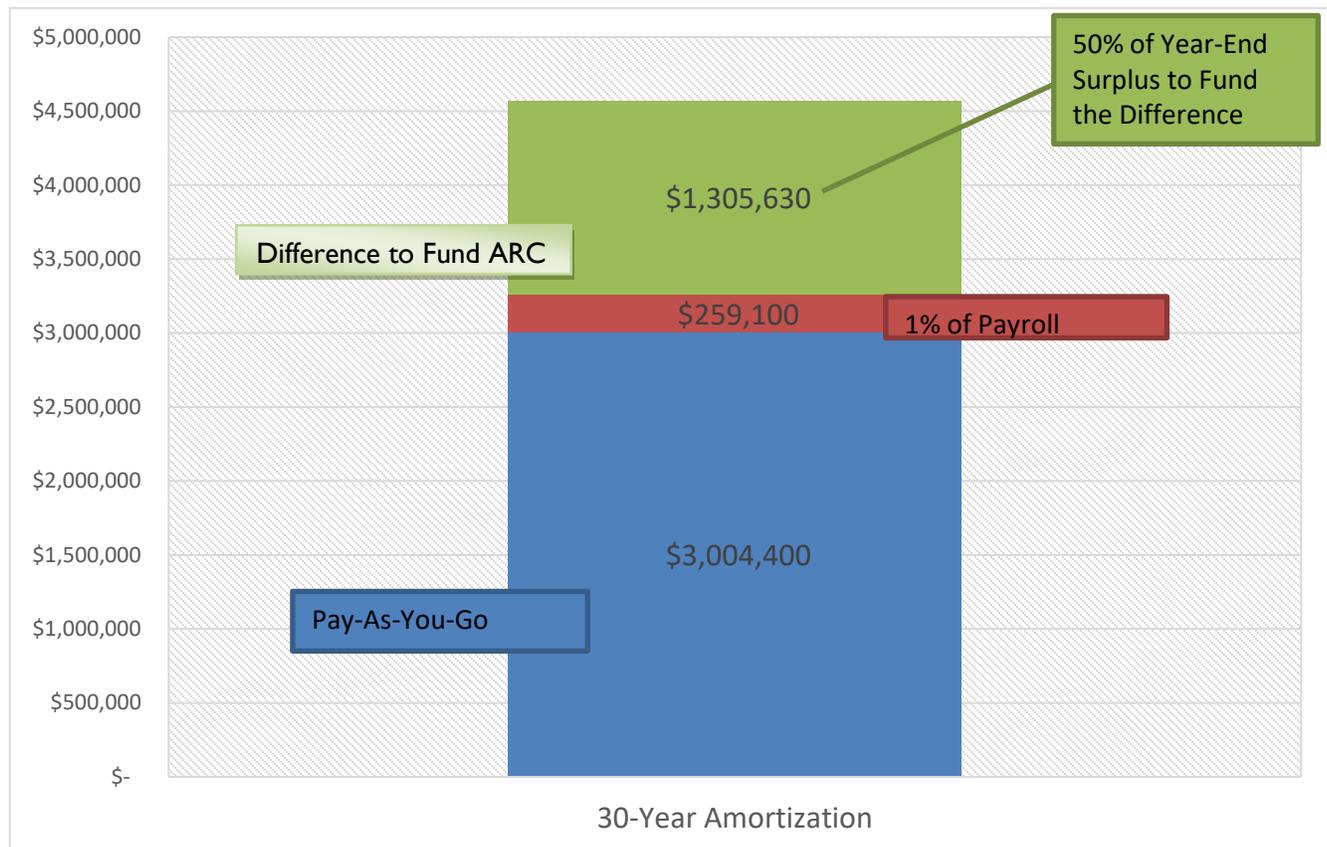
- The District fund pay-as-you-go for retirees on an annual basis.
- Although, the full cost for active employees to cover retirement health benefits is 12% of respective payroll over a 20-year period, the District will charge 1% of total payroll for Fund 11 and Fund 12 to cover a portion of the normal cost for active employees. For Fund 12, the percentage of payroll will only be charged for those employees eligible for retiree health benefits due to restrictions on allowable costs for Restricted Fund.
- Set aside the funded contributions from payroll into the Irrevocable Trust Fund annually.
- Educate the district-wide community on the total cost of employment including OPEB.

Additionally, at the conclusion of each fiscal year, the Board's Finance Committee will review and consider the following funding strategies:

- The District will place half of any year-end surplus in excess of the District's Minimum Reserve Policy into the OPEB Trust.
- The District will strive to pay down the unfunded liability annually.
- For the purposes of the calculation, investment return assumptions will be evaluated by an independent pension investment advisor on a regular basis (at a minimum of every two years), and should reflect the nature of the investments held in the Plan, and the historical and projected return rates anticipated for the investments.

## Other Post-Employment Benefits (OPEB) Funding

Below is a draft modeling demonstrating funding of ADC in comparison to pay-as-you-go and 1% of payroll. The difference to fund ADC illustrates the amount of funding that Board's Finance Committee will review and consider funding out of 50% year-end surplus:



### 3.3 Transparency and Reporting

Funding of the District's OPEB should be transparent to all parties including District employees, retirees, and recognized employee organizations. In order to achieve this transparency, the following information shall be available:

- Copies of the annual actuarial valuations for the District's OPEB plan shall be made available to the Board of Trustees.
- The District's Comprehensive Annual Financial Report shall be published on its website. This report includes information on the District's OPEB plan, contributions to the OPEB Trust, and the funded status of the plan.
- The District's annual operating budget shall include appropriations for contributions to the OPEB Trust and pay-go costs.

### 3.4 Review of Funding Plan

Funding OPEB requires a long-term plan. The District will review this plan at a minimum biennially, coincident with preparation of the actuarial valuations, to determine if changes to this plan are necessary to ensure adequate resources are being accumulated to fund OPEB benefits.