



OFFICE OF BUSINESS SERVICES

To: Dr. Keith Curry, Interim Chief Executive Officer

From: Felipe R Lopez, Chief Business Officer

Date: March 1, 2013

Subject: Other Postemployment Benefits (OPEB) Plan

Background

Other Post-Employment Benefits (OPEB) are benefits that an employee will begin to receive at the start of retirement. This does not include pension benefits paid to the retired employee. Other post-employment benefits that a retiree can be compensated for are life insurance premiums, healthcare premiums, and deferred-compensation arrangements.

In July 2004, Governmental Accounting Standards Board (GASB) issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This Statement requires local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the entity-wide financial statements of net assets and activities. This Statement established standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local government employers.

The District contributes on a pay-as-you-go basis for postemployment health care benefits, with additional prefunded contributions determined through mutual agreements between the District and the collective bargaining units. In accordance with GASB Statement No. 45, the District must report the net OPEB obligation/asset in the entity wide financial statements and report the District's unfunded Actuarial Accrued Liability (AAL) as part of the Required Supplementary Information (RSI). The District has complied with GASB Statement No. 45 requirements.

Plan Description

The Compton Community College Plan (the Plan) is a single-employer defined benefit healthcare plan administered by Compton Community College District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 73 retirees and beneficiaries currently receiving benefits and 231 active plan members.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined

annually through agreements between the District and the bargaining units which are calculated by actuary every two years. For fiscal year 2009-2010, the District contributed \$326,421, \$523,436 for fiscal year 2010-2011, and \$706,901 for fiscal year 2011-2012 for retirees, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. As of June 30, 2012, the District's ARC is \$1,513,980, the District's annual OPEB cost for the year is \$1,531,757 and the District's net OPEB obligation totaled \$3,939,311.

Funding Status and Plan

The District's unfunded Actuarial Accrued Liability (AAL) is \$15,723,057 as of June 30, 2012. Currently in the District's 2012-2013 budget the District has budgeted to set aside \$200,000 to provide for future OPEB expenses. The additional funds create a reserve for future expense, but do not reduce the OPEB obligation because the funds does not qualify as an Irrevocable Trust as stipulated in GASB Statement No.45.

The District has lack a long-term financing plan that will lower its net OPEB liability. Therefore the District has begun to review Irrevocable Trusts in order to develop a long-term financing plan. The District has scheduled presentations from PARS, Keenan & Associates, and the Community College League of California to review irrevocable trust programs. The District anticipates by May 2013 a selection will be made to an agency to provide trust services. As part of the 2012-2013 budget, the District will contribute \$200,000 into the trust account which will reduce the District's net OPEB obligation. For the 2013-2014 year and beyond the District anticipates making annual contributions of \$250,000 into the trust. For each fiscal year as part of the Budget and Planning process, the CEO will make a recommendation to Special Trustee whether to increase or decrease the contribution amount into the OPEB trust for each fiscal year as deemed necessary.

The District recognizes that in order to adequately fund the District's unfunded Actuarial Accrued Liability (AAL) of \$15,723,057, the District's total annual contributions must equal \$1.5 million as noted in the District's Actuarial Study. Though \$250,000 may seem inadequate at this time it is important that the District begin the process of long-term planning in order to ensure financial stability. The District's financial strategy is to maintain the minimum prudent reserve level, match ongoing expenditures with ongoing revenue, and address funding for retiree health benefits costs.

Conclusion

The District's establishment of an Irrevocable Trust Program is vital to the District long-term financial planning and financial stability of the District. The Chief Business Officer is responsible for reviewing, revising, and implementing this plan in order to achieve long-term fiscal stability.

Compton Community College District
 Schedule of Other Postemployment Benefits (OPEB)
 District's Funding Plan

Years to Fund Plan [1]	Fiscal Year End	Annual Contribution [2]	Invested Funds [3]	Actuarial Accrued Liability (AAL)	Unfunded AAL [4]
1	2013	200,000	200,000	15,366,693	15,166,693
2	2014	250,000	477,000	15,366,693	14,889,693
3	2015	[5] 619,747	1,162,552	16,073,283 [8]	14,910,731
4	2016	[6] 750,000	2,027,305	16,073,283	14,045,978
5	2017	[7] 750,000	2,943,943	16,073,283	13,129,340
6	2018	250,000	3,385,580	16,073,283	12,687,703
7	2019	250,000	3,853,715	16,073,283	12,219,568
8	2020	250,000	4,349,937	16,073,283	11,723,346
9	2021	250,000	4,875,934	16,073,283	11,197,349
10	2022	250,000	5,433,490	16,073,283	10,639,793
11	2023	250,000	6,024,499	16,073,283	10,048,784
12	2024	250,000	6,650,969	16,073,283	9,422,314
13	2025	250,000	7,315,027	16,073,283	8,758,256
14	2026	250,000	8,018,929	16,073,283	8,054,354
15	2027	250,000	8,765,065	16,073,283	7,308,218
16	2028	250,000	9,555,968	16,073,283	6,517,315
17	2029	1,400,000	11,613,327	16,073,283	4,459,956
18	2030	1,400,000	13,794,126	16,073,283	2,279,157
19	2031	1,400,000	16,105,774	16,073,283	-
20	2032	1,400,000	18,556,120	16,073,283	-

[1] - Based on the funding schedule plan noted above and based on the average hire age for eligible employees is 37 provided from the Actuarial Study, the District would fully fund OPEB in 25 years. According to the Actuarial Study, to accrue the liability by retirement, the District would accrue the retiree liability over a period of about 20 years. The District's funding schedule would be funded ahead of the scheduled noted in the Actuarial Study. A new Actuarial Study will be completed sometime in FY2017.

[2] - Annual contribution increases to \$1.4 million in 2029 as a result of the line of credit pay-off.

[3] - Amount represents total invested funds with the objective of achieving a target net rate of return of 6% which is based on the Investment Policy adopted by the Compton CCD Investment Trust.

[4] - Amount does not consider any additional new eligible participants and is based on District's obligation of health costs up to \$12,000 for all employees who do not achieve 20 years of service and all employees hired after July 1, 2013.

[5] - District will contribute an additional \$369,747 above the budgeted \$250,000. The additional \$369,747 is a result of the cosmetology liability settlement. The District booked a \$2.452 million liability however the final liability resulted in an amount of \$2.082 million, therefore the difference of \$369,747 would be transferred to the District OPEB trust.

[6] - District will contribute an additional \$500,000 (one-time funds) above the minimum \$250,000. The additional \$500,000 from one-time funds noted in the District's 2015-16 Final Budget.

[7] - District will contribute an additional \$500,000 (one-time funds) above the minimum \$250,000. The additional \$500,000 from one-time funds noted in the District's 2016-17 Final Budget. With significant OPEB liabilities we must address in order to maintain fiscal stability and as part of our long-term planning.

[8] - District's updated Actuarial Study as of March 1, 2015 dated September 3, 2015 showed Actuarial Accrued Liability (AAL) increased slightly to \$16,073,283 from the previous Actuarial Study as of March 1, 2013 based on various factors.

Source provided by Actuarial Study of Retiree Health Liabilities as of March 1, 2015 dated September 3, 2015.