POLICY – Funding Other Post Employment Benefits

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Dept. Responsible:	Regional Administration Finance	Effective Date:	
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I. Policy

The Council is committed to responsibly managing its Other Post-Employment Benefits (OPEB) and will ensure appropriate funding of the benefit.

The Council's funding plan shall, at a minimum, require annual funding of current retiree premium costs and reserve contributions for future costs (i.e. normal costs) of all eligible active employees until funding is adequate to cover all future explicit retiree benefits by divisional reserves. Divisional OPEB reserve account balances shall be separately maintained for: i) Regional Administration (and other staff funded by the General Fund), ii) Environmental Services, and iii) Metro Transit.

When the OPEB explicit liabilities are determined by actuarial analysis to be fully (100%) funded on a present value basis (by division), the OPEB reserve fund may then be used to pay current and future explicit OPEB liabilities. Until an "excess funding" determination is made (defined below), the use, transfer or withdrawal of OPEB reserves shall be restricted solely to funding payments of other post employment benefits within respective divisions and shall be a part of the Council's normal budget process.

II. Purpose of policy

The purpose of this policy is to establish the funding levels and methodology for the explicit OPEB liabilities of the Council.

Other Post Employment Benefits (OPEB) are employee benefits (other than pensions) that are earned by employees during employment at the Council, but are not paid by the Council until after retirement.

This policy establishes a funding plan to achieve and maintain a "fully funded" status of the Council's explicit OPEB liabilities and provides a framework for investment and disbursement of reserve fund balances.

Maintaining a funding plan for explicit benefits is prudent because of the magnitude of the expected future cost, intergenerational equity issues and the potential impact on the Council's financial strength and bond ratings.

III. Background and reasons for policy

The Council had and has agreements (although the benefit is sunset so no new employees are eligible) with some employee bargaining units to provide Council paid other post employment benefits for eligible staff and retirees and their

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eligible dependents. Council obligated costs of this benefit are termed “explicit” benefits.

In addition, state law (M.S. 471.61) requires that qualified Council retirees (and eligible dependents) be allowed to participate in insurance pools with active employees. Participating retirees receive an “implicit” benefit through lower premium costs than would generally be available if their premiums were based solely on retiree insurance costing ratings. While “implicit” benefits are considered in the valuation of the Council’s OPEB liability, it is not necessary for the Council to pre-fund implicit benefits, as participating retirees pay the full premium costs of this benefit (that is, the Council, as the employer, does not pay directly - although the entire cost of the insured pool is increased).

Governmental accounting standards require a biennial actuarial valuation of OPEB liabilities and accrual and note disclosure of liabilities for both explicit and implicit benefits in the Council’s financial statements. The standards determine only the reporting requirements while the Council determines the funding levels and funding methodology (through this policy).

IV. Implementation/Accountability

The Council’s funding approach for explicit other post employment benefits shall be based on forecasting the expected future cost of the benefit. At least once every two years, the Council shall complete an actuarial valuation of the liability related to other post employment benefits. The actuarial valuation shall be used to adjust the funding plan as necessary.

<u>OPEB Reserve Funding Levels and Methodology</u>
Initial funding: Until a division’s explicit OPEB liabilities are first fully funded (100%), each division shall, at a minimum, fund within their operating budgets the current years’ explicit retiree premium costs and contributions to the OPEB reserve fund for future benefit costs (i.e. the actuarial “normal cost”) of all eligible active employees.

The required reserve fund contributions shall be determined by actuarial analysis. For purposes of this policy, fully funded is achieved when, as determined by actuarial valuation, current reserve balances, with projected future investment earnings, are sufficient to pay all projected future explicit retiree benefits for a division.

Until fully funded, the Council shall make reasonable efforts to find additional funds to set aside for funding the benefit. All year-end surpluses and any unexpected revenues shall be reviewed to determine the feasibility of making additional contributions to the reserve fund.

Subsequent funding: Upon determination through actuarial analysis that full funding (100%) has been achieved, a division may discontinue budgeting for reserve funding. If subsequently, a division’s account again becomes less than fully funded, subsequent years’ budget proposals will propose a funding plan to return to fully funding within at least 5 years.

<u>Investment of OPEB Reserve Balances</u>
Investment strategies for OPEB reserves shall be reviewed by the Council’s Investment Review Committee and the results of actuarial valuations and funding progress shall be included in quarterly and annual/biennial reports to the Management Committee.OPEB reserve balances shall be deposited and invested as follows:

1. A revocable trust account with the Public Employees Retirement Association (PERA)—serving as trust administrator and the State Board of Investments (SBI) serving as the investing fiduciary (see Minnesota Statute 475.6175);
2. A revocable bank trust account that is administered by a trustee as described in M.S. 476.6175, subd. 3;
3. Directly retained, administered and invested by the Council in accordance with its Investment Policy; or
4. A combination of the above.

Disbursement of Reserves.
During a year when an actuarial valuation indicates that a division's explicit OPEB liabilities are fully funded, the division may discontinue reserve funding. The division shall continue with budget plans to pay explicit current retiree benefits through their operating funds. Withdrawal of funds from their OPEB reserve will be budgeted (or the budget amended) for the following year. In that subsequent year, the operating budget will reflect an operating transfer from the division's OPEB reserve for the lesser of:

i) Actuarially anticipated explicit benefits to be paid for current retirees for the budget year; or,
ii) Reserves exceeding the actuarially determined amount required to cover future retiree benefits in years subsequent to the budget year.

The withdrawal of funds for explicit retiree benefits will follow the normal budget process and will not require a Council resolution.

If a division's reserve balance has fallen below full funding per actuarial analysis, subsequent year disbursements will only be allowed to a reduced amount that provides for the account to return to full funding by the end of the year. If the account will not be fully funded at the end of the year, no disbursement will be allowed, and operating funds shall be budgeted cover the full annual cost of premiums (and if needed an amount to get to full funding within 5 years).

Distribution of OPEB reserves deposited to a trust account must comply with Minnesota Statute 471.6175, subd. 7. Except excess funding as described below, the use of reserves shall be restricted solely to funding payments of each division's explicit OPEB liabilities and related investment expenses. Uses, transfers, or withdrawals from this fund for any other purpose (including excess funding) shall require a resolution passed by the Council stating the purpose of the withdrawal.

Determination of Excess Funding:
If the Council's CFO determines that a division has remaining participants less than 3% of their current active employee pool and the account is funded at 120% of the expected actuarial liability, disbursement to the division will be allowed for non-OPEB purposes, but only to the amount that retains 120% of liability in the reserve account.

Revision/Review Tracking

Date	Revision No.	Review Only – No changes
	1	

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I. Policy

The Council is committed to responsibly managing its other post employment benefits, and will ensure appropriate funding of the benefit.

II. Purpose of policy

To establish minimal levels and methodology for funding the explicit other post employment benefit obligations of the Council.

Other Post Employment Benefits (OPEB) are employee benefits (other than pensions) that are earned by employees during employment at the Council, but are not paid by the Council until retirement.

III. Background and reasons for policy

The Council has agreements with some employee bargaining units to provide Council paid other post employment benefits for eligible staff and retirees. This is termed an explicit benefit.

Maintaining a funding plan for explicit benefits is prudent because of the magnitude of the expected future cost, intergenerational equity issues and the potential impact on the Council's future financial strength and bond ratings.

In addition, state law (M.S. 471.61) requires that all Council retirees be allowed to participate in insurance pools with active employees. Participating retirees pay the full premium cost, however, because expected medical costs for retirees are greater than for actives, retirees benefit through lower premiums than would be generally available if based solely on retiree insurance costing experience. This is termed an implicit rate subsidy (or implicit benefit). Since the full premium is paid by the retiree, the Council has no need to pre-fund future implicit benefits.

Accounting Standards require a biennial actuarial valuation of other post employment benefits and balance sheet accrual and note disclosure of liabilities for both explicit and implicit benefits. The standards determine reporting requirements only, not funding requirements. The Council establishes funding levels and methodology through this policy.

IV. Implementation/Accountability

The Council has developed and adopted a funding approach for explicit other post employment benefits based on forecasting the expected future cost of the benefit. At least once every two

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years, the Council will complete an actuarial valuation of the liability related to other post employment benefits. The actuarial valuation will be used to adjust the funding plan as necessary.

Each divisional funding plan will, at a minimum, require annual funding of the annual normal cost and annual retiree premium cost for all eligible employees by division until funding, with projected interest, is adequate to cover all future explicit retiree benefits of the divisional group.

Existing funds set-aside for this purpose and future contributions shall be accumulated, with interest thereon, in a segregated reserve fund. Funds reserved for other post employment benefits will be deposited with the Minnesota State Board of Investment. Use of these monies shall be restricted solely to funding payments of other post employment benefits. Individual account balances shall be maintained on the Council's accounting system for the three divisional groups: Regional Administration (and other staff funded by the General Fund), Environmental Services and Metro Transit. Uses, transfers or withdrawals shall be limited to uses/actions within the respective division. Uses, transfers and withdrawals from this fund for purposes other than paying retiree benefits attributable to the division, shall require a resolution passed by the Council stating the purpose of the withdrawal.

When the actuarial valuation of a division's reserve balance, with projected interest, is adequate to cover all projected future explicit retiree benefits, the division will continue to budget and pay explicit retiree benefits from their operating funds. In the following year the division will be reimbursed the lesser of:

i) actual explicit benefits paid for retirees in the preceding year
or
ii) reserves exceeding the amount required to cover future retiree benefits.

The withdrawal of funds to reimburse the divisional budgets for explicit retiree benefits paid in the previous year will follow the normal budget process and will not require a resolution.

Until the balance in a division's fund is adequate, with expected interest, to meet all projected future explicit retiree benefits, the Council will make reasonable efforts to find additional funds to set aside for funding the benefit. All year-end surpluses and any unexpected revenues will be reviewed to determine the feasibility of making additional contributions to the benefit fund.

Links:

Revision/Review Tracking

Date	Revision No.	Review Only – No changes
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