



DATE: October 21, 2020

TO: Council Budget & Finance Committee Members

FROM: Director of Finance

SUBJECT: Review and Comment on the Actuarial Valuation of the City's Other Post-Employment Benefit (OPEB) Program as of June 30, 2019

RECOMMENDATION

That the Council Budget and Finance Committee reviews and comments on the Actuarial Valuation of OPEB as of June 30, 2019.

SUMMARY

The City of Hayward actively manages its benefit liabilities and completes actuarial valuations for many of its long-term benefit liabilities, including the City's Other Post-Employment Benefit (OPEB), also known as the retiree medical benefit. This report provides an update to the latest actuarial valuation of OPEB as of June 30, 2019.

BACKGROUND

The City of Hayward, like all cities and municipal agencies, manages unfunded benefit liabilities as part of its financial forecast. In 2013, staff began providing the Council Budget & Finance Committee and the City Council with an annual review of the City's benefit liabilities and funding plan for unfunded liabilities. The City's OPEB actuarial valuation is completed every two years. The last actuarial valuation of OPEB was completed in July 2018 (as of June 30, 2017), and has been included in the annual review of the City's benefit liabilities and funding. The latest actuarial valuation for OPEB was completed in July 2019 (as of June 30, 2019).

Over the last several fiscal years, the City has made meaningful additional contributions towards the City's OPEB Annual Required Contribution (ARC). While the City was unable to commit to the fully intended additional contribution in FY 2021 due to fiscal constraints related to the pandemic, the City is committed to returning to the established funding plan as soon as feasible. During the FY 2021 mid-year review, the City intends to review its financial position and make a recommendation for Council's consideration on the possibility of making additional contributions to the OPEB ARC in FY 2021. This recommendation will be based on a projected improvement on the City's financial position through the end of the current fiscal year.

DISCUSSION

The City actively manages its benefit liabilities and completes actuarial valuations for benefit liabilities. These valuations consider the economic, demographic, and historical compositions of the benefit programs and establish amounts that the City should set aside each year to fund its benefit-related financial obligations. It is critical that the City continue to manage and address its benefit liabilities to ensure long-term fiscal stability. Actuarial valuations identify the ARC, which is essentially the minimum funding amount that should be responsibly made by any organization.

This report provides an update to the City's current OPEB obligations and liabilities. The current annual required contribution (ARC) was determined as part of a recent actuarial valuation report that was completed in July 2020 (as of June 30, 2019) by MacLeod Watts, the City's OPEB Actuary. This valuation analysis considers benefits that are expected to be earned in the future as well as those already accrued and is required by the Governmental Accounting Standards Board (GASB) to be completed every two years.

The retiree medical benefit represents the second largest benefit liability and is the most significantly underfunded of the City's benefit liabilities. Table 1 below provides a summary of City's actuarial valuation of OPEB in 2017 compared to its current 2019 actuarial valuation report.

TABLE 1: ACTUARIAL VALUATION COMPARISON

OPEB (RETIREE MEDICAL) ACTUARIAL VALUATION <i>(in millions)</i>							
6/30/2017				6/30/2019			
Accrued Liability	Value of Assets	Unfunded Accrued Liability	Funded Ratio	Accrued Liability	Value of Assets	Unfunded Accrued Liability	Funded Ratio
\$ 69.09	\$ 4.15	\$ 64.90	6.0%	\$ 77.80	\$ 8.30	\$ 69.50	10.7%

While this benefit liability is the most underfunded, the City's funding ratio has increased by almost 5 percent from the 2017 actuarial valuation compared to the most recent 2019 actuarial valuation. This is primarily attributed to the established funding plan and commitment by Council to make meaningful additional contributions towards fully funding the City's ARC.

The City's OPEB unfunded actuarial accrued liability is amortized as a level percentage of projected payroll using a closed thirty-year amortization period that has twenty years remaining as of the latest valuation date. Pursuant to the valuation, if the City fully funded the ARC, the City would pay for current costs and fund the future liability by the end of the amortization period. Since FY 2017, the City had a phased-in approach to fully funding the ARC by FY 2022. The phase-in allowed the City to budget and make additional voluntary contributions toward the City's ARC. Unfortunately, in FY 2021, the City had to significantly reduce its intended additional contribution due to the fiscal impacts related to the pandemic. While the City did not budget for the fully intended additional contribution, the City is committed to reviewing its financial position during the FY 2021 mid-year process. Should the

City's projected fiscal position improve, staff will present Council with a recommendation to consider an increase to the voluntary additional contribution toward the City's ARC, with the intention to fully fund the ARC by FY 2022.

As of June 30, 2019, approximately 706 retirees were eligible and were receiving retiree health care benefits, an increase of 2.8% over the 2017 actuarial valuation. There are approximately 821 active employees that may be eligible to receive health care benefits upon retirement, an increase of 1.9% over the 2017 actuarial valuation. This group of employees represents the number of eligible, current employees and it is the City's current maximum exposure; it does not necessarily mean all of these employees will either retire with the City or ultimately meet the requirements for receiving this benefit.

Table 2 provides a summary of the number of covered employees by group within the City's OPEB program in 2017 compared to the latest 2019 actuarial valuation.

TABLE 2: COMPARISON OF NUMBER OF COVERED EMPLOYEE BY GROUP

GROUP	6/30/2017			6/30/2019		
	Actives	Retiree	Total	Actives	Retiree	Total
Clerical	190	116	306	208	94	302
Confidential	4	7	11	5	5	10
Elected	5	3	8	5	2	7
Fire	92	147	239	101	150	251
Fire Management				0	2	2
Maintenance	116	67	183	115	73	188
Management	83	72	155	81	78	159
Police	170	191	361	149	208	357
Professional & Tech	95	60	155	101	67	168
Unrepresented	51	24	75	56	27	83
TOTAL	806	687	1493	821	706	1527

NEXT STEPS

Staff will continue to actively manage OPEB benefit liabilities, and present Council with an update to the City's financial position to consider additional contributions towards the OPEB ARC during FY 2021.

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Recommended by: Dustin Claussen, Director of Finance

Approved by:



Kelly McAdoo, City Manager