Other Post-Employment Benefits (OPEBs)

Retiree Health Care Benefits for CalPERS-Contracted Cities in San Diego County

Prepared by:

San Diego County Taxpayers Association

707 Broadway, Suite 905
San Diego, CA 92101
P: (619) 234-6423
F: (619) 234-7403
www.sdcta.org

707 Broadway, Suite 905, San Diego, CA 92101
P: (619) 234-6423 • F: (619) 234-7403 • www.sdcta.org

Contents

Tables

Figures

Executive Summary

In 2009, the San Diego County Taxpayers Association embarked on a multi-phase study of public sector wages and benefits to better understand the costs over time. **Other Post-Employment Benefits** (OPEBs) have gone almost unrecognized by the general public because of lax accounting rules. New public accounting rules make public spending on OPEBs more transparent. Mostly coming in the form of post-retirement health care, these benefits present significant future financial burdens for governments that are not adequately prepared to deal with them. Rising health care costs nationwide further complicate the issue.

This report addresses the 13 cities in San Diego County that contract with **California Public Employees' Retirement System** (CalPERS) to handle pension and benefit funding and offer other post-employment benefits. Four CalPERS-contracted cities in San Diego County (Del Mar, Escondido, Poway, and Vista) do not offer OPEBs.

Key Findings

- The value of the countywide unfunded OPEB liability ($45 million) represents approximately 13% of estimated countywide payroll.
- The cities of El Cajon and La Mesa have been paying more than their OPEB Annual Required Contributions, while Carlsbad/Carlsbad Municipal Water District and Encinitas/San Dieguito Water District have been paying the exact Annual Required Contribution. All other cities are still paying OPEBs on a pay-as-you-go basis.
- The cities of Coronado, Imperial Beach and Oceanside paid the smallest percentages of their Annual Required Contributions in fiscal year 2010. Coronado paid 16% of their ARC, Imperial Beach paid 19%, and Oceanside paid 26%.
- The total countywide OPEB obligation is approximately 14.5% funded.
- Even though OPEBs represent a small fraction of cities' funds, medical inflation threatens to increase the amount needed to pay for these benefits.

Conclusions & Recommendations

Local governments must prepare to fund these liabilities or face serious shortfalls in the future. Compounding the problem is the expected rise in health care costs across the country. Without proper planning OPEBs will present serious financial burdens in the future.

The following reform recommendations are based upon the opportunity to achieve cost savings within current legal parameters. SDCTA recommends cities adopt the following recommendations:

- Reform retiree health care benefits for employees to a level at which the city can sustain payments of the full Annual Required Contribution each year.
    - Cities that extend retiree health care benefits to spouses and dependents should consider limiting those benefits to the employee alone.
    - Cities should place a cap on taxpayer subsidized premiums if retiree health care benefits are offered.
- Cities that have not created a trust or joined the California Employee's Retirement Benefits Trust (CERBT) to help fund OPEBs should do so as soon as possible.
- If a city chooses to offer retiree health care benefits to new employees, cities should enroll those new employees into a defined contribution plan to invest in the benefit granted upon retirement.

Section I: Introduction to Other Post-Employment Benefits

Introduction

Due to fiscal shortfalls at the national, state and local levels, governments have been forced to find methods to ease financial burdens on their jurisdictions. Recently, governments began curtailing pay and pension benefits to public sector workers in order to save money. The problem persists in other areas, however. State and local retiree health care costs for the State of California were approximately $4 billion in 2006. Estimates put the cost in 2012 at around $10 billion and the projected cost in 2019 around $27 billion.[1] State and local governments are now forced to look beyond current employee benefits and face the burdens posed by retiree benefits.

This report details **Other Post-Employment Benefits** (OPEBs) for all cities in San Diego County that contract with the **California Public Employees' Retirement System** (CalPERS) to handle pension and benefit funding. New accounting rules have increased transparency by mandating that governments report and publicize OPEB expenditures and liabilities (with rare exceptions for small retiree health care plans). Using this new information, the San Diego County Taxpayers Association is performing a financial "check-up" to understand the burdens that these benefits place on local governments. All dollar amounts are adjusted for inflation and expressed in 2010 dollars.[2] Currently, expenditures on OPEBs consume a small fraction of the cities' budgets, but that number threatens to increase with estimated medical inflation rates. The Cities of Del Mar, Escondido, Poway and Vista do not offer Other Post-Employment Benefits.

Other Post-Employment Benefits (OPEBs)

OPEB stands for Other Post-Employment Benefits. "Other" in this context means any benefit other than pension income that employees receive after retirement. Examples include but are not limited to health care coverage, dental and vision coverage, life insurance, disability insurance, and legal coverage. The only OPEB offered by public sector employers in San Diego County is retiree health care. Minimum eligibility requirements are set by CalPERS and state that an employee must be at least 50 years old and have at least five years of service. Retiree health care plans are often identical to **active employee** health care plans. Benefits are available in accordance with various labor agreements in each City.

Retirees collect OPEBs for differing lengths of time depending on when they retire. A police officer who retires at 50 years old will receive retiree health care longer than an administrator

[1] The Pew Center on the States (2007). *Promises with a Price: Public Sector Retirement Benefits*, pp 12. Retrieved from The Pew Center on the States: http://www.pewcenteronthestates.org/uploadedfiles/Promises%20with%20a%20Price.pdf

[2] Bureau of Labor Statistics CPI for San Diego, CA region. Retrieved from http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?data_tool=dropmap&series_id=CUURA424SA0,CUUSA424SA0

who retires at 60 years old. All plans available through CalPERS require that a retiree be eligible for a CalPERS pension in order to receive a retiree health care benefit. This means that each employee must have at least five years of service and be at least 50 years old. At age 65, Medicare becomes the main provider for these plans and City health plans become supplementary. Retirees are required to enroll in **Medicare Part A and Part B** when they become eligible.[3] Part A mostly covers hospital visits and Part B helps pay for doctors' visits. Retiree coverage through a City acts as a supplement once the retiree is enrolled in Medicare and shifts a significant financial burden from local governments to Medicare.

Actuarial Analysis

An actuarial valuation is an analysis to determine the financial health of a pension or OPEB plan. An **actuary** uses statistical and financial techniques to predict the future liabilities of a pension or OPEB plan. The actuary must make certain assumptions (called **actuarial assumptions**) regarding returns on investment, rising costs, cost-of-living adjustments, disability, death, values of assets, and numerous other variables. Using these assumptions, the actuary predicts how much a government must pay to keep up with its OPEB costs (called the **normal cost**) and contribute toward paying off any **amortized** debt over no more than a 30 year period (unfunded actuarial accrued liability). This amount is called the **annual required contribution (ARC)**.[4]

Annual Required Contribution (ARC) =
Normal Cost + Amortized Unfunded Actuarial Accrued Liability (UAAL)

Cities report actuarial analyses on their annual financial reports. Following is a basic example using the format required by GASB 45 and a description of each line item.

[3] Centers for Medicare and Medicaid Services (2011). *Medicare and Other Health Benefits: Your Guide to Who Pays First*, pp 14. CMS Product No. 02179. Retrieved from http://www.medicare.gov/Publications/Pubs/pdf/02179.pdf

[4] Boyken, Grant (2008). *Actuarially Speaking: A Plain Language Summary of Actuarial Methods and Practices for Public Employee Pension and Other Post-Employment Benefits*, pp 12. Retrieved from http://www.library.ca.gov/crb/08/08-003.pdf.

Figure 1: Actuarial Valuation Example

1	Actuarial Accrued Liability (AAL)	$5,000,000
2	Actuarial Value of Assets (AVA)	$1,000,000
3	Unfunded Actuarial Accrued Liability (UAAL)	$4,000,000
4	Funded Ratio	20%
5	Covered Payroll	$30,000,000
6	UAAL as % of Payroll	13.33%

1) The **actuarial accrued liability (AAL)** is the sum of all past **normal costs**. For employees that have already retired, **AAL** is the value of their entire benefit because all of their normal costs are in the past.[5]
2) The **actuarial value of assets (AVA)** is the market value of all assets that go toward paying the actuarial accrued liability. Assets can include cash and other investments used to fund OPEBs.
3) The **unfunded actuarial accrued liability** (UAAL) is the difference between the **AAL** and the **AVA**: $5,000,000 - $1,000,000 = $4,000,000. This shortfall is amortized and paid off over a period of no more than 30 years.[6]
4) The **funded ratio** is the percentage of the **AAL** that is funded by **AVA**: $1,000,000 divided by $5,000,000 = 20% funded.
5) **Covered payroll** is the sum of all yearly salaries of current employees who will most likely collect the benefit in the future.
6) The UAAL as % of payroll is the ratio of the unfunded liability to total annual wages paid by the City. It is a way of emphasizing how heavy the OPEB liability burden is on cities.

Health care costs are the most important variable when calculating retiree health care liabilities. Actuarial assumptions differ between cities, but there is a noticeable trend. Actuaries calculating OPEB liabilities for cities in San Diego County have been using medical insurance premium inflation rates between 7% and 12% in the short term. In the medium term, actuaries expect medical inflation to increase at a decelerating rate of about 0.5% per year until it reaches approximately 5% toward the end of the decade.[7]

---

[5] Boyken, Grant, pp 10.
[6] Boyken, Grant, pp 11.
[7] These figures, when available, are based on actuarial assumptions in each city's Consolidated Annual Financial Reports.

Government Accounting Standards Board (GASB) Statement No. 45

The **Government Accounting Standards Board** enacted **GASB Statement 45** (usually referred to simply as GASB 45) due to increasing concerns about funding OPEBs. Recognizing the increasing financial burden of retired public sector employers, GASB now requires governments to perform actuarial analyses of OPEB liabilities and publish the results in their annual financial statements. GASB 45 took effect between 2006 and 2008, depending on the size of the government.[8] Prior to GASB Statement 45, most governments paid OPEB obligations on a **pay-as-you-go (PAYGO)** basis, meaning that OPEB obligations were paid as the bills came due for retirees. Under the new rules governments are required to report current costs as well as estimated future costs. From the actuarial valuations required by GASB 45 we know the ARC for each OPEB plan and the unfunded liabilities that coincide with them.

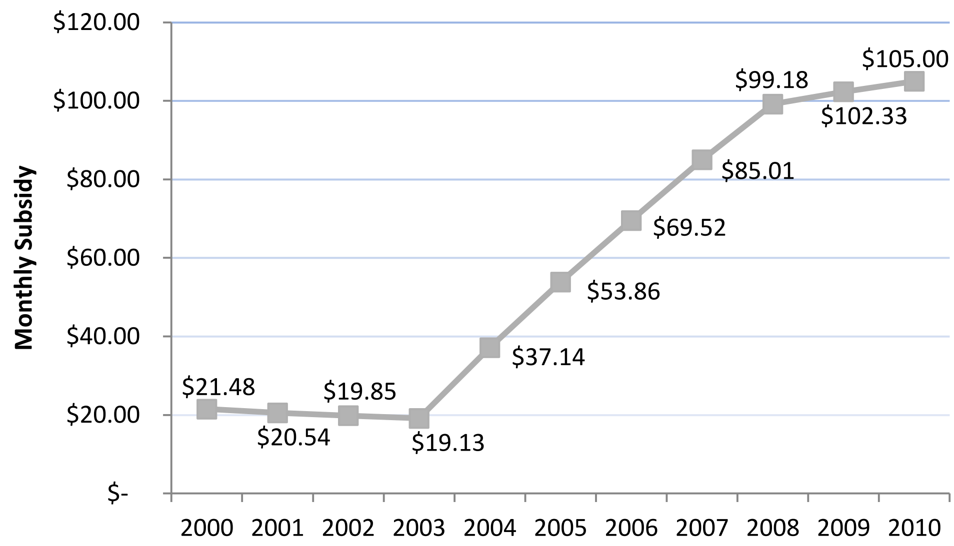
Note that GASB Statement 45 does not require governments to make payments toward future OPEB liabilities. It simply requires government employers to report OPEB liabilities on their financial statements. In fact, most cities in San Diego County are still paying for OPEB obligations on a PAYGO basis.

Public Employees Medical and Hospital Care Act (PEMHCA)

PEMHCA is a section of the California government code that allows local and state agencies to contract CalPERS to handle health care coverage for both active and retired employees. Should a city contract CalPERS to handle benefits, PEMHCA requires cities to pay a portion of monthly medical premiums for retirees. The same amount must be paid to both active and retired employees. The following table shows the minimum monthly amount for the last decade (expressed in 2010 dollars).[9]

[8] Government Accounting Standards Board. *GASB Technical Issues*. Retrieved from Government Accounting Standards Board: http://www.gasb.org/st/summary/gstsm45.html
[9] State of California. California Government Code, Section 22890-22905.

Figure 2: PEMHCA Minimum Subsidy Amounts (2010 Dollars)



California Government Code, Section 22890-22905.

PEMHCA's rules state that CalPERS must charge all active and retired plan members the same amount for health insurance premiums regardless of age and health status. A 25 year old worker and a 62 year old retiree not yet eligible for Medicare must be charged the same premium for the same health insurance plan. Since older people tend to have more health problems, this results in an "implied subsidy," meaning that younger workers are subsidizing the premiums of older workers who are more likely to use health care services.

California Employees' Retirement Benefit Trust (CERBT)

The **California Employees' Retirement Benefit Trust** was created by CalPERS to assist cities in funding OPEBs. It works similarly to the way retirement contributions are invested and is expected to earn investment gains. Public agencies make contributions to the trust in order to earn interest during the year and seek reimbursement for PAYGO expenses from the trust.[10]

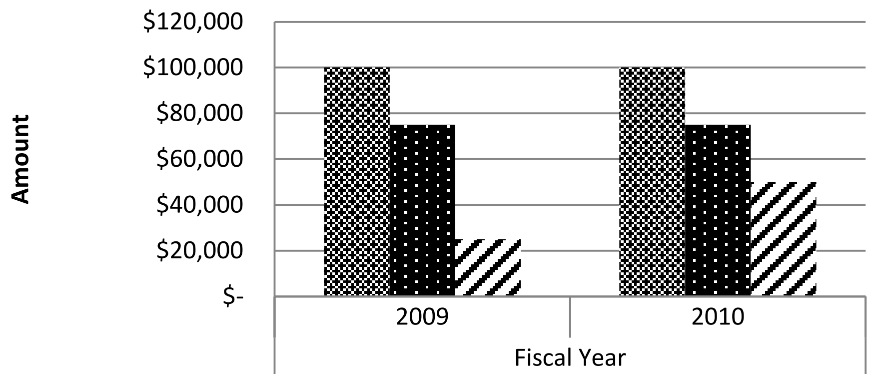
Net OPEB Obligation

Net OPEB obligation is different from unfunded liability. The unfunded liability is calculated in an actuarial analysis. The net OPEB obligation is a simpler temporary accrual of the difference between the ARC and a city's contribution following the most recent unfunded

[10] California Public Employees' Retirement System, (2011). *GASB 45 & California Employers' Retiree Benefit Trust Fund Overview*

liability calculation. If a City contributes less than the ARC then the remainder is added to the net OPEB obligation. The calculation of the net OPEB obligation begins in the first reporting year.

Figure 3: Net OPEB Obligation Example



	2009	2010
ARC	$100,000	$100,000
Contribution	$75,000	$75,000
Net OPEB Obligation	$25,000	$50,000

The ARC for this example is $100,000 for both fiscal years. In 2009, the City paid $75,000, leaving the City with a net OPEB obligation of $25,000 ($100,000 - $75,000 = $25,000). The City paid the same amount in 2010 and increased its obligation by another $25,000 to a total of $50,000. Any shortfall in ARC payments will be carried over to the following year. The sum of these shortfalls is called the net OPEB obligation. Cities that overpay to pre-fund OPEBs will have a negative net OPEB obligation. Net OPEB obligations for cities in San Diego County are available in Appendix D.

Total Retiree Health Care Liability

Cities in San Diego County that offer these benefits are facing a financial liability of approximately $45 million. Following are the unfunded liabilities according to the most recent actuarial valuations found in each city's annual financial reports.[11] All amounts are expressed in 2010 dollars.

[11] The City of San Marcos does not perform actuarial valuations.

Table 1: Countywide OPEB Liability (CalPERS)	
City	**Unfunded Liability**
City of Carlsbad	$1,049,417
Carlsbad Municipal Water District	$1,602,528
City of Chula Vista	$12,005,051
City of Coronado	$2,287,408
City of Del Mar	N/A
City of El Cajon	$2,979,798
City of Encinitas	$9,619,192
San Dieguito Water District	$291,919
City of Imperial Beach	$240,549
City of La Mesa	$2,615,152
City of Lemon Grove	$2,347,323
City of National City	$1,085,356
City of Oceanside (OFA)	$4,642,586
City of Oceanside (non-OFA)	$3,219,426
City of Poway	N/A
City of San Marcos	N/A
City of Santee	$2,979,798
City of Solana Beach	$1,723,232
City of Vista	N/A
TOTAL	**$45,469,309**

For the most recent actuarial analyses please check Appendix A.

707 Broadway, Suite 905, San Diego, CA 92101
P: (619) 234-6423 • F: (619) 234-7403 • www.sdcta.org

Section II: Retiree Health Care Plan Analysis by City

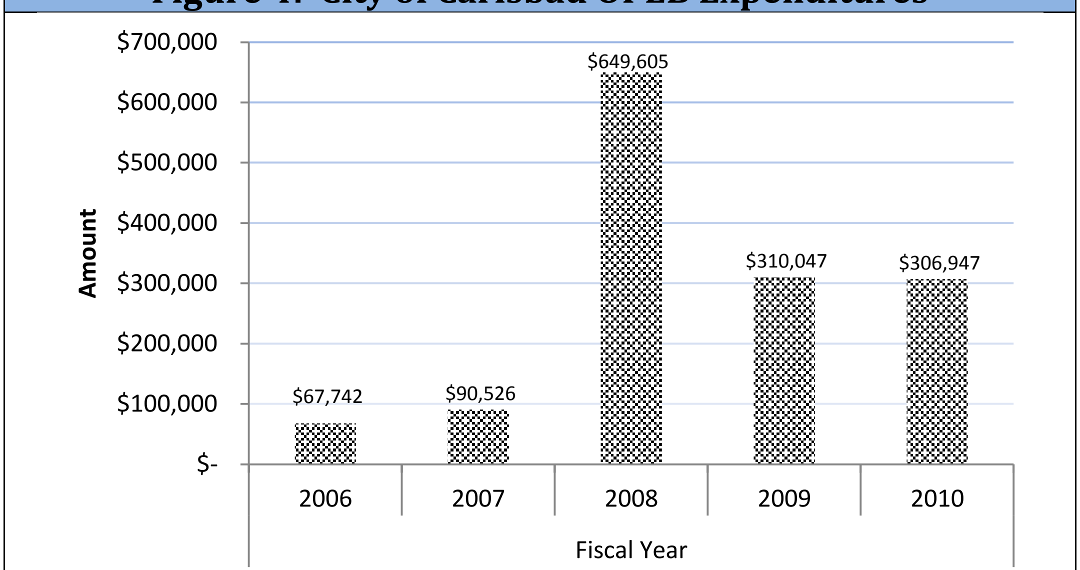
Carlsbad

City of Carlsbad

City of Carlsbad Valuation performed 6/30/10	
AAL	$6,147,434
AVA	$5,098,017
UAAL	$1,049,417
Funded Ratio	82.90%
Covered Payroll	$51,741,620
UAAL % of Payroll	2.00%
ARC % of Payroll	0.59%

The City of Carlsbad allows retirees to continue to receive health care coverage from the City. Surviving spouses and domestic partners are also eligible if the retiree reached age 50 and had at least five years of service with the City. The City contributes the minimum amount toward retiree health care coverage allowed by PEMHCA ($108 for 2011) and is a member of CERBT. There were approximately 712 active and 132 retired eligible retiree health care benefit recipients as of June 30th, 2010.[12] OPEB expenditures by the City of Carlsbad during the last five years are shown in the following graph.

Figure 4: City of Carlsbad OPEB Expenditures

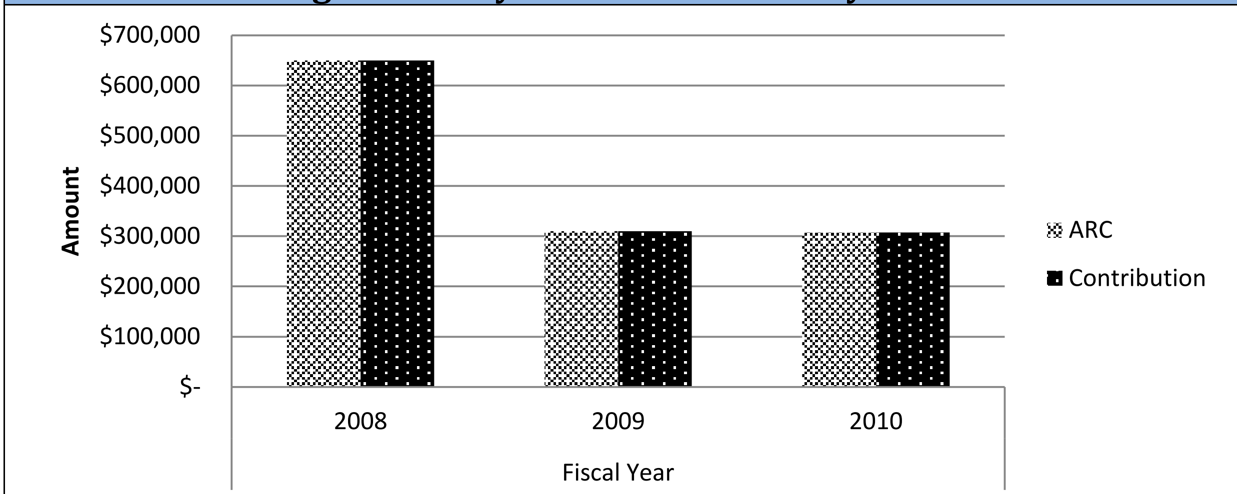


Source: City of Carlsbad Consolidated Annual Financial Reports for Year Ending June 30, 2010

[12] City of Carlsbad. *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2010*, pp 86.

In addition to these amounts, the City paid the entire unfunded liability from the 2006 valuation ($5,811,096) in fiscal year 2008. The City has paid its ARC for the last three years. Beginning with a larger payment in fiscal year 2008, the ARC has remained stable at a little over $300,000 per year during fiscal years 2009 and 2010. The following graph shows that there have been no shortfalls in ARC payments.

Figure 5: City of Carlsbad ARC Payments



	2008	2009	2010
ARC	$649,605	$310,047	$306,947
Contribution	$649,605	$310,047	$306,947
Shortfall	$0	$0	$0

Source: City of Carlsbad Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

According to the most recent financial statements, Carlsbad has a total unfunded OPEB liability of **$1,049,417** as of June 30th, 2010.[13] Despite full funding of the benefit, an unfunded liability remains. This could be due in part to actual experience not aligning with actuarial assumptions, therefore causing a difference that must be paid over time. It is important to note that the costs determined by the valuation must be regarded as estimates of the true plan costs. However, the City of Carlsbad is paying the full ARC to help future funding.

[13] City of Carlsbad. *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2010*, pp 88.

Carlsbad Municipal Water District (CMWD)

Carlsbad Municipal Water District Valuation performed 6/30/10	
AAL	$3,561,082
AVA	$1,958,554
UAAL	$1,602,528
Funded Ratio	55.00%
Covered Payroll	$319,932
UAAL % of Payroll	500.90%
ARC % of Payroll	6.92%

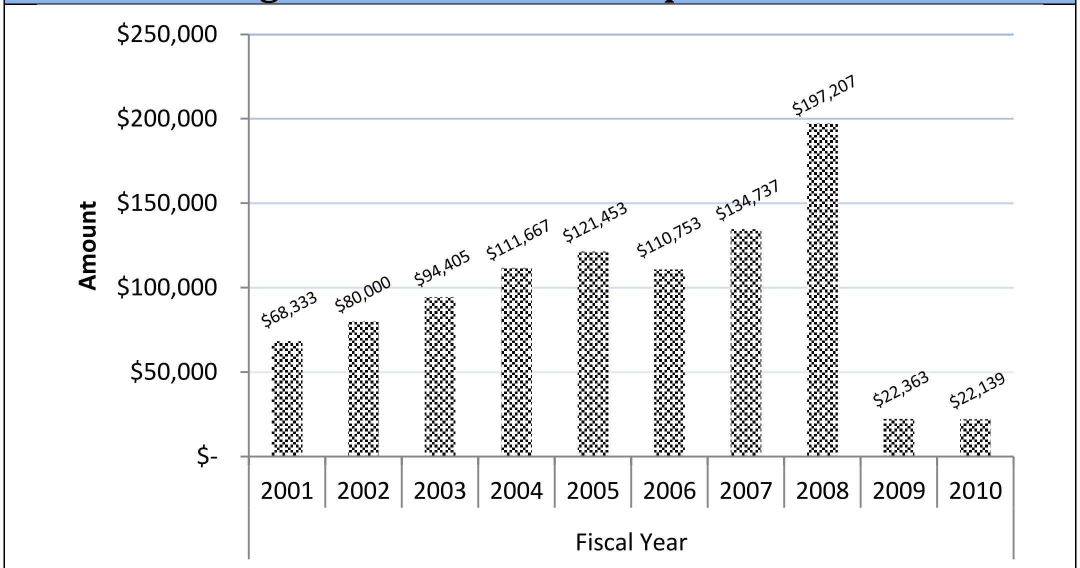
The plan offered by the Carlsbad Municipal Water District differs from the plan offered by the City of Carlsbad. It applies to active and retired employees that were employed by CMWD when the District was taken over by the City. The City pays 100% of health care premiums for the retiree and dependents. To qualify, employees must retire after age 50 with no less than five (5) years of service and the sum of the employee's age at retirement and years of service must equal at least 70. For example, a 50 year old employee who has worked at the Carlsbad Municipal Water District for 20 years is eligible for retiree health care (50 + 20 = 70). The plan is coordinated with Medicare.

Expenditures have decreased greatly in recent years because the District is being phased out; once all CMWD employees retire the Carlsbad Municipal Water District will cease to exist as the functions have been acquired by the City of Carlsbad. CMWD's retiree health care plan is administered by the Association of California Water Agencies (ACWA) and not CalPERS. As of June 30, 2010 there were approximately five active employees and 17 retired employees enrolled in the plan.[14]

In fiscal year 2008, CMWD fully funded the previous 2006 actuarial valuation ($2,740,710). In addition to that, the city spent the following amounts to fund this benefit during the last ten years:

[14] City of Carlsbad. *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2010*, pp 86.

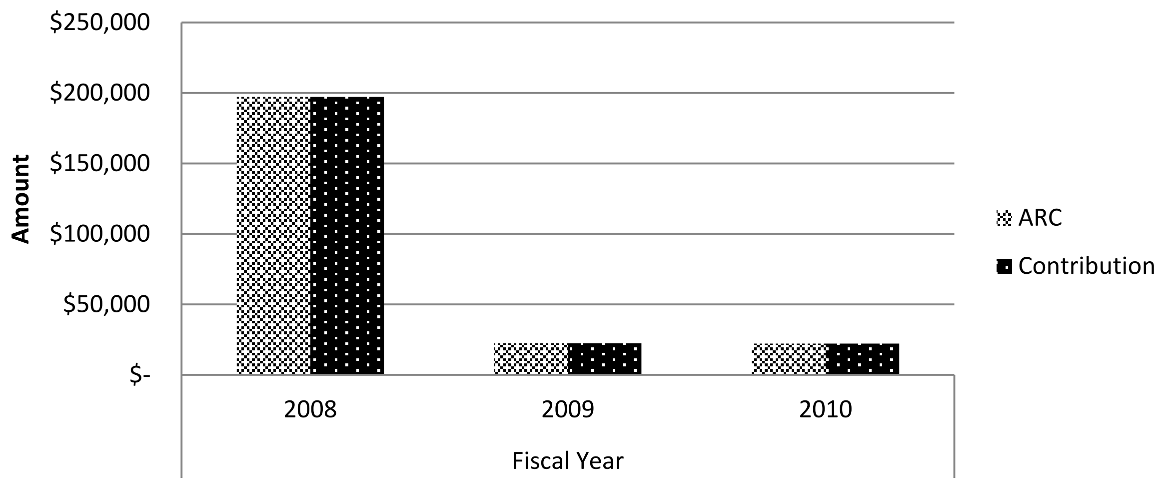
Figure 6: CMWD OPEB Expenditures



Source: City of Carlsbad Consolidated Annual Financial Reports for Year Ending June 30, 2010

Just like the City of Carlsbad's retiree health care plan, CMWD's OPEB obligations are also being met. The following graph shows no shortfalls in ARC payments during the last three fiscal years.

Figure 7: CMWD ARC Payments



	2008	2009	2010
ARC	$197,207	$22,363	$22,139
Contribution	$197,207	$22,363	$22,139
Shortfall	$0	$0	$0

Source: City of Carlsbad Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

CMWD currently faces an unfunded liability of $1,602,528 as of the most recent valuation.[15] Despite full funding of the benefit, an unfunded liability remains. This could be due in part to actual experience not aligning with actuarial assumptions, therefore causing a difference that must be paid over time. It is important to note that the costs determined by the valuation must be regarded as estimates of the true plan costs.

[15] City of Carlsbad. *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2010*, pp 88.

City of Chula Vista

City of Chula Vista Valuation performed 6/30/09	
AAL	$12,005,051
AVA	$0
UAAL	$12,005,051
Funded Ratio	0.00%
Covered Payroll	$69,784,848
UAAL % of Payroll	17.20%
ARC % of Payroll	2.04%

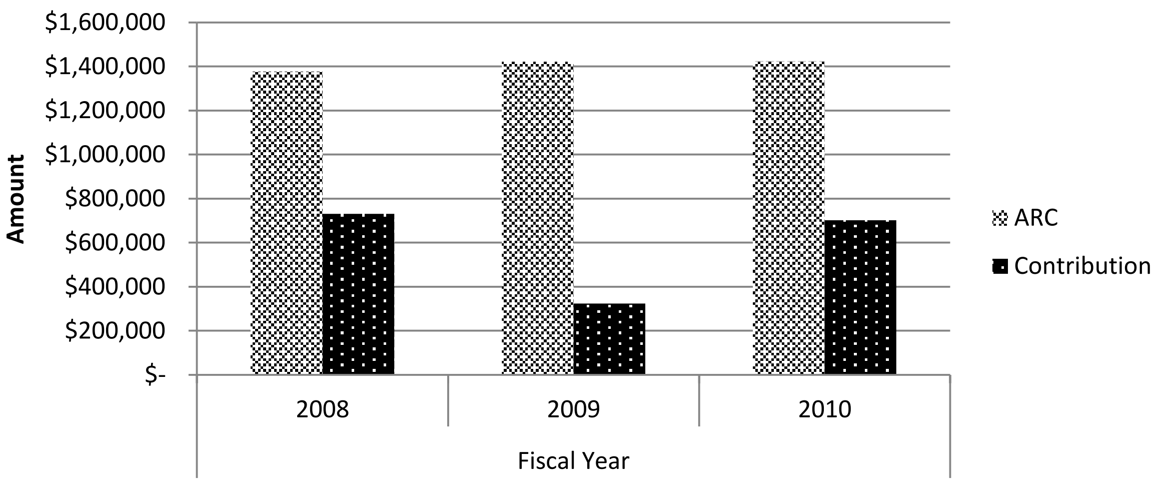
The City of Chula Vista allows retirees to buy health insurance under Chula Vista's medical plan if they are at least 50 years old and eligible for a CalPERS pension. Retirees pay the same premiums as active employees. At age 65, Medicare becomes the primary provider.

Retirees pay 100% of health coverage premiums except for those who retired under a recent early retirement incentive programs. The City temporarily paid 100% of retiree health care premiums for employees who retired between May 5, 2008 and December 16, 2008. The City repeated the same incentive program for employees who retired between January 1, 2009 and March 27, 2009. The last payment by the City under the early retirement incentive program happened on December 31, 2010.

Chula Vista is the second largest city in San Diego County and has a large number of retired employees collecting the benefit as well as many current employees who are expected to collect the benefit in the future. As of June 30, 2010 there were 965 active employees and 203 retired employees enrolled in the plan.

The following chart shows Chula Vista's recent ARC payment patterns for retiree health care.

Figure 8: City of Chula Vista ARC Payments



	2008	2009	2010
ARC	$1,376,768	$1,421,212	$1,423,000
Contribution	$731,564	$323,927	$702,598
Shortfall	$645,204	$1,097,285	$720,402

Source: City of Chula Vista Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

According to the City's annual financial statements, Chula Vista is still paying OPEBs on a PAYGO basis, resulting in yearly ARC shortfalls. According to the most recent actuarial valuation, performed on June 30th, 2009 the City of Chula Vista faces an unfunded liability of **$11,776,150**. [16]

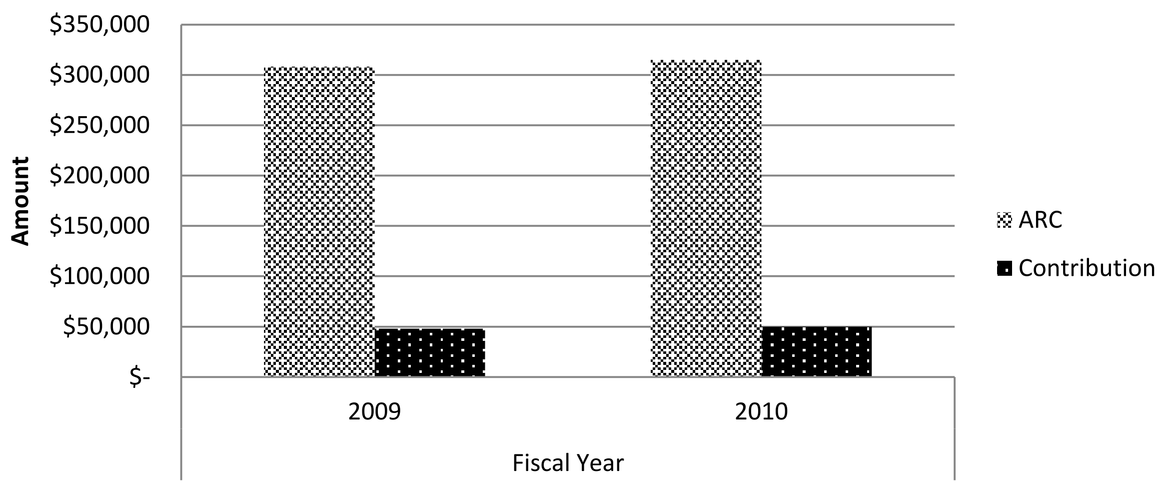
[16] City of Chula Vista. *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2010*, pp 87-88.

City of Coronado

City of Coronado Valuation performed 7/1/08	
AAL	$2,287,408
AVA	$0
UAAL	$2,287,408
Funded Ratio	0.00%
Covered Payroll	$16,118,182
UAAL % of Payroll	14.20%
ARC % of Payroll	1.95%

The City of Coronado extends health care coverage to retirees and pays the minimum amount allowed by PEMHCA ($108 per month for calendar year 2011). The following table shows retiree health care payments for fiscal years 2009 and 2010:

Figure 9: City of Coronado ARC Payments



	2009	2010
ARC	$308,081	$314,818
Contribution	$48,114	$49,928
Shortfall	$259,967	$264,890

Source: City of Coronado Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

Instead of paying off amortized debt, Coronado is paying retiree health care liabilities on a PAYGO basis. Shortfalls between the ARC and payments have been large in fiscal years 2009 and 2010. Coronado faces a total unfunded liability of **$2,241,889**.[17]

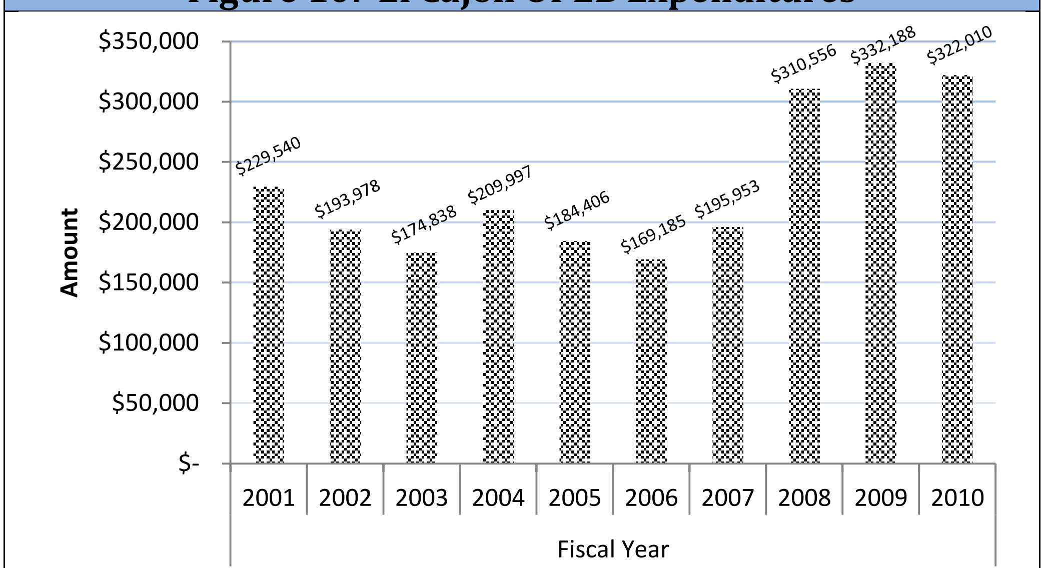
[17] City of Coronado. *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2010*, pp 74-75.

City of El Cajon

City of El Cajon Valuation performed 7/1/09	
AAL	$3,061,616
AVA	$81,818
UAAL	$2,979,798
Funded Ratio	2.67%
Covered Payroll	$31,949,770
UAAL % of Payroll	9.33%
ARC % of Payroll	0.48%

El Cajon gives retirees the option of continuing health insurance coverage through the City. All **safety** and **miscellaneous** employees who retired from the City on or after July 14, 1988 qualify for the benefit. The City pays the minimum monthly subsidy allowed by PEMHCA ($108 for calendar year 2011). Expenditures by the City on retiree health care have increased over the last decade.

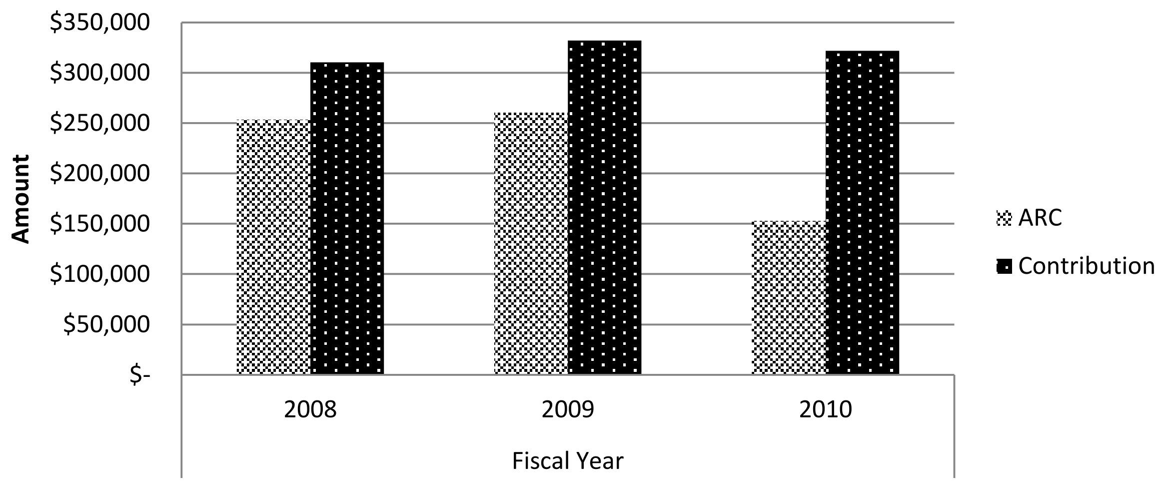
Figure 10: El Cajon OPEB Expenditures



Data Provided by the City of El Cajon

The following chart shows the ARC and the amount spent by the City on retiree health care for the last three years.

Figure 11: City of El Cajon ARC Payments



	2008	2009	2010
ARC	$253,535	$260,606	$153,000
Contribution	$310,556	$338,188	$322,010
Shortfall	$(57,020)	$(71,582)	$(169,000)

Source: City of El Cajon Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

In stark contrast to other cities across the County, the City of El Cajon is pre-funding its future OPEB obligations. Even if El Cajon stopped pre-funding, and only paid the ARC in the future, the City would still be in good fiscal shape with regard to retiree health care.[18] According to the most recent valuation, the City of El Cajon has a total unfunded liability of **$3,031,000**.

[18] City of El Cajon. *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2010*, pp 61-62.

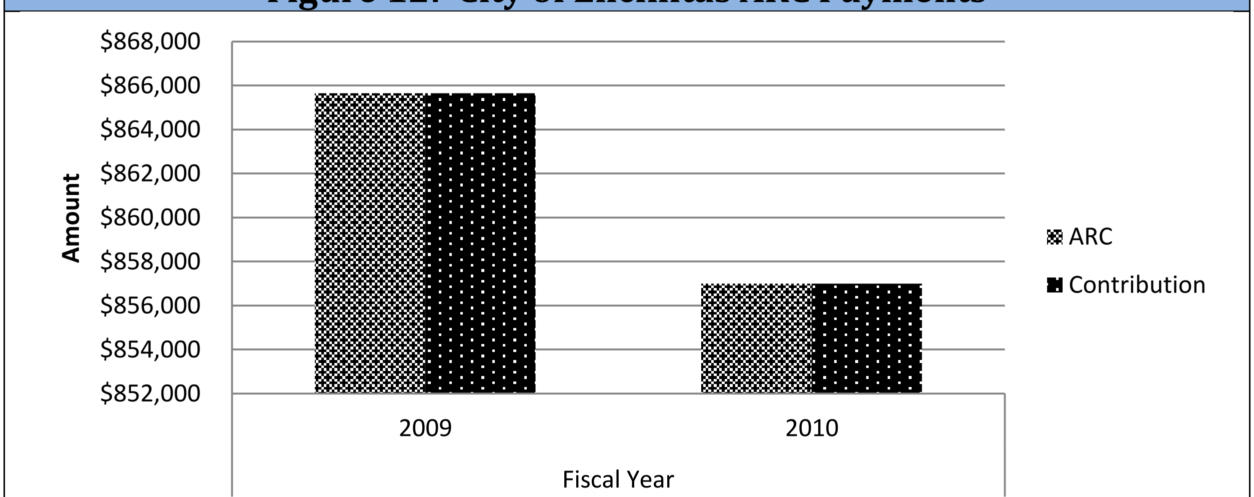
City of Encinitas

City of Encinitas

City of Encinitas Valuation performed 6/30/09	
AAL	$10,090,909
AVA	$471,717
UAAL	$9,619,192
Funded Ratio	4.67%
Covered Payroll	$17,311,111
UAAL % of Payroll	55.57%
ARC % of Payroll	4.95%

The City of Encinitas gives retirees the option to continue receiving health care coverage from the City through PEMHCA. All fire department personnel hired before March 16, 1995 qualify for retiree health care coverage for not just themselves but dependents as well. Encinitas pays the minimum monthly benefit allowed by PEMHCA ($108 for calendar year 2011). The City of Encinitas has adopted a policy of paying the ARC.

Figure 12: City of Encinitas ARC Payments



	2009	2010
ARC	$865,657	$857,000
Contribution	$865,657	$857,000
Shortfall	$0	$0

Source: City of Encinitas Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

According to the most recent valuation of Encinitas' OPEBs, the City has a total unfunded liability of **$9,619,192**.[19]

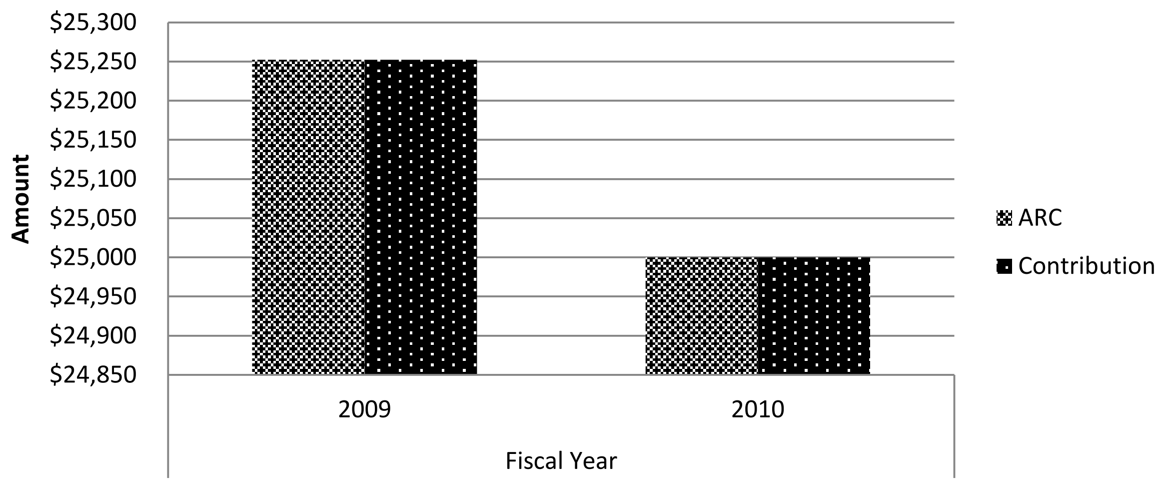
San Dieguito Water District

San Dieguito Water District Valuation performed 6/30/09	
AAL	$305,051
AVA	$13,131
UAAL	$291,919
Funded Ratio	4.30%
Covered Payroll	$1,059,596
UAAL % of Payroll	1.43%
ARC % of Payroll	2.36%

Also a member of CERBT, the San Dieguito Water District offers retiree health care to employees who retire directly from the District. The benefit is identical to that offered by the City; Encinitas provides the minimum monthly amount allowed by PEMHCA.

[19] City of Encinitas. *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2010*, pp 66-67.

Figure 13: SDWD ARC Payments



	2009	2010
ARC	$25,253	$25,000
Contribution	$25,253	$25,000
Shortfall	$0	$0

Source: City of Encinitas Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

SDWD is significantly smaller than the City and the unfunded liability totals **$291,919**. The City has paid the full ARC to fund OPEB liabilities for the San Dieguito Water District for the last two years. There is no OPEB data available for SDWD prior to that time.[20]

[20] City of Encinitas. *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2010*, pp 67-68.

707 Broadway, Suite 905, San Diego, CA 92101
P: (619) 234-6423 • F: (619) 234-7403 • www.sdcta.org

City of Imperial Beach

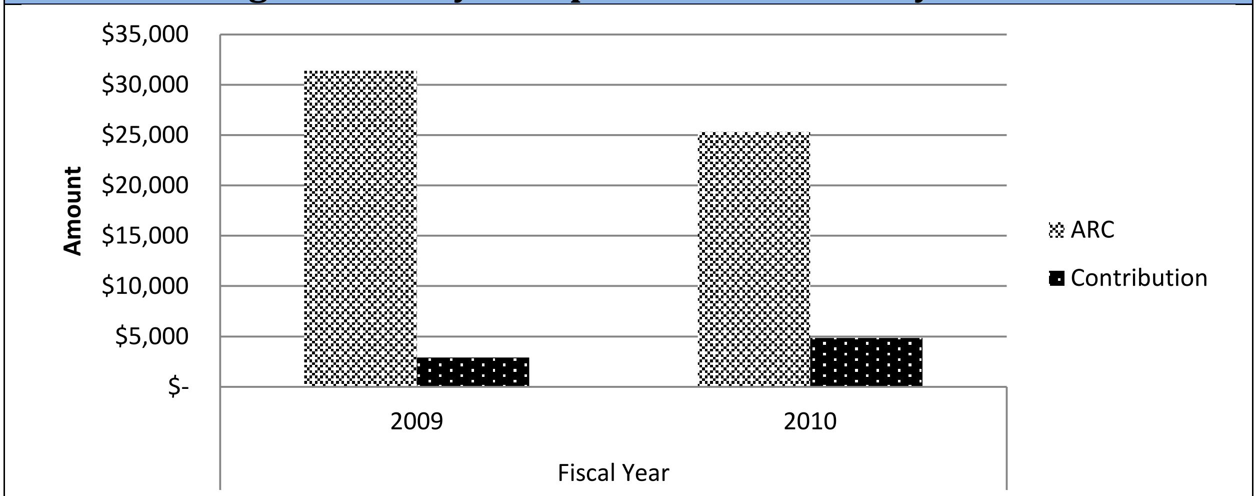
City of Imperial Beach Valuation performed 9/1/09	
AAL	$240,549
AVA	$0
UAAL	$240,549
Funded Ratio	0.00%
Covered Payroll	$16,766,667
UAAL % of Payroll	1.43%
ARC % of Payroll	0.15%

Imperial Beach offers employees who retire from the City the opportunity to continue their health care coverage. The City's retiree health care plan is not administered by CalPERS, so Imperial Beach does not have to pay the minimum subsidy set by PEMHCA. Past monthly subsidy amounts are shown in the Table 3:

Table 2: Imperial Beach Monthly Health Coverage Subsidy

Fiscal Year	Monthly Subsidy
2004	$9.81
2005	Not Available
2006	$15.46
2007	$19.50
2008	$67.90
2009	$75.75
2010	$84.00

Figure 14: City of Imperial Beach ARC Payments



	2009	2010
ARC	$31,380	$25,329
Contribution	$2,917	$4,898
Shortfall	$28,463	$20,471

Source: City of Imperial Beach Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

In fiscal years 2004 – 2010 the number of retired employees collecting the retiree health care benefit varied between three and seven, as Imperial Beach is one of the smaller cities in San Diego County. The total unfunded liability, according to the most recent valuation performed on September 1, 2009, was **$240,549**. However, the City has not been paying its full ARC since the valuation was performed.[21]

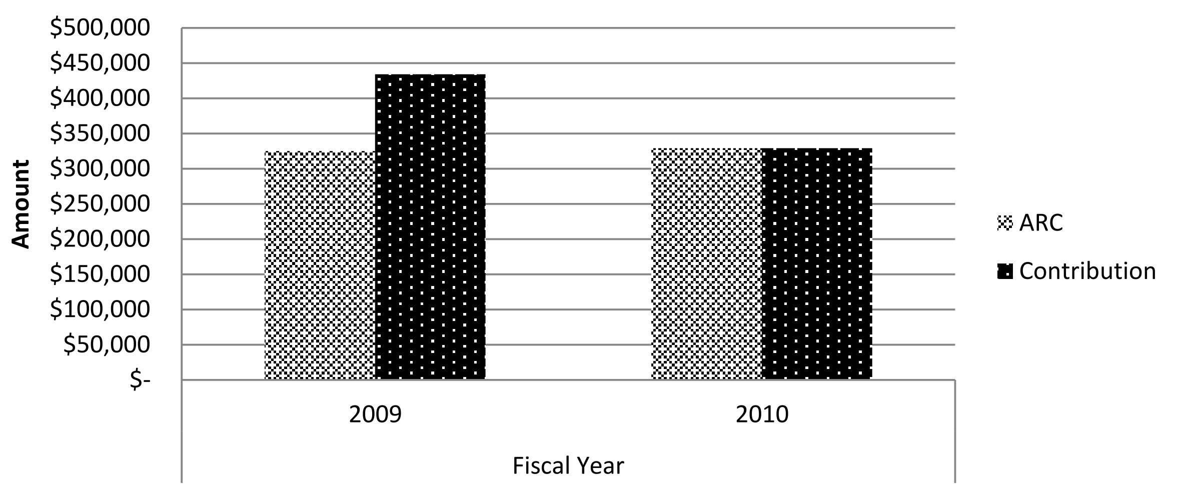
[21] City of Imperial Beach. *Consolidated Annual Financial Statement for Fiscal Year Ending June 30, 2010*, pp 39-40.

City of La Mesa

City of La Mesa Valuation performed 7/1/08	
AAL	$2,615,152
AVA	$0
UAAL	$2,615,152
Funded Ratio	0.00%
Covered Payroll	$17,858,586
UAAL % of Payroll	14.64%
ARC % of Payroll	1.84%

The City of La Mesa offers retiree health care coverage to all retired employees and surviving spouses who currently receive a CalPERS pension. La Mesa pays the minimum amount allowed by PEMHCA ($108 per month for calendar year 2011). The ARC, according to the actuarial valuation, has been approximately $325,000 for the last two years.

Figure 15: City of La Mesa ARC Payments



	2009	2010
ARC	$324,628	$328,883
Contribution	$433,891	$328,890
Shortfall	$(109,263)	$(7)

Source: City of La Mesa Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

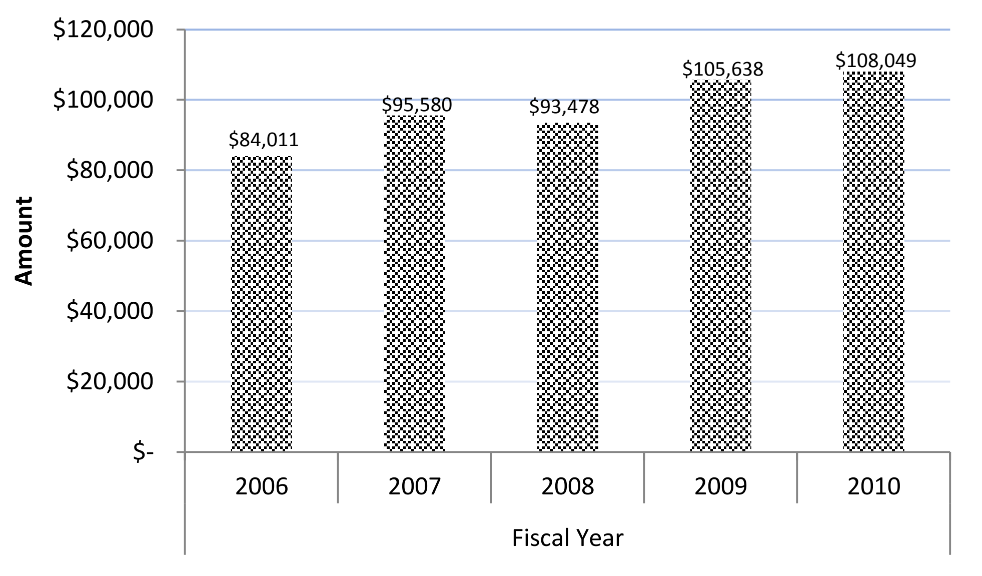
The City of La Mesa has adopted a policy of over-paying its ARC, resulting in balances that are negative and recorded as an asset. The total unfunded liability the City faces for OPEBs is **$2,615,152**.

City of Lemon Grove

City of Lemon Grove Valuation performed 3/1/10	
AAL	$968,973
AVA	$0
UAAL	$2,347,323
Funded Ratio	0%
Covered Payroll	Not Available
UAAL % of Payroll	Not Available
ARC % of Payroll	Not Available

Lemon Grove offers retiree health care to retirees and their spouses. In order to qualify, a retiree must meet the CalPERS requirements, meaning that the individual must have worked for the agency for at least five (5) years and be at least 50 years old. Lemon Grove provides the benefit through PEMHCA and helps fund it through CERBT. Expenditures have increased over recent years.

Figure 16: City of Lemon Grove OPEB Expenditures



Data Provided by the City of Lemon Grove

Due to the City's small size, Lemon Grove was not required to perform an actuarial valuation of OPEB liabilities until 2010. The valuation was completed on March 1, 2010 and provides insight into the liabilities that Lemon Grove is facing. Lemon Grove made its first payment toward the ARC in fiscal year 2010.[22]

Fiscal Year	ARC	Contribution	Shortfall
2010	$179,133	$108,049	$71,084

The City only paid a portion of its ARC and had a shortfall of $71,084. Lemon Grove is still paying for retiree health care on a PAYGO basis. The total unfunded liability for Lemon Grove is **$2,347,323**.

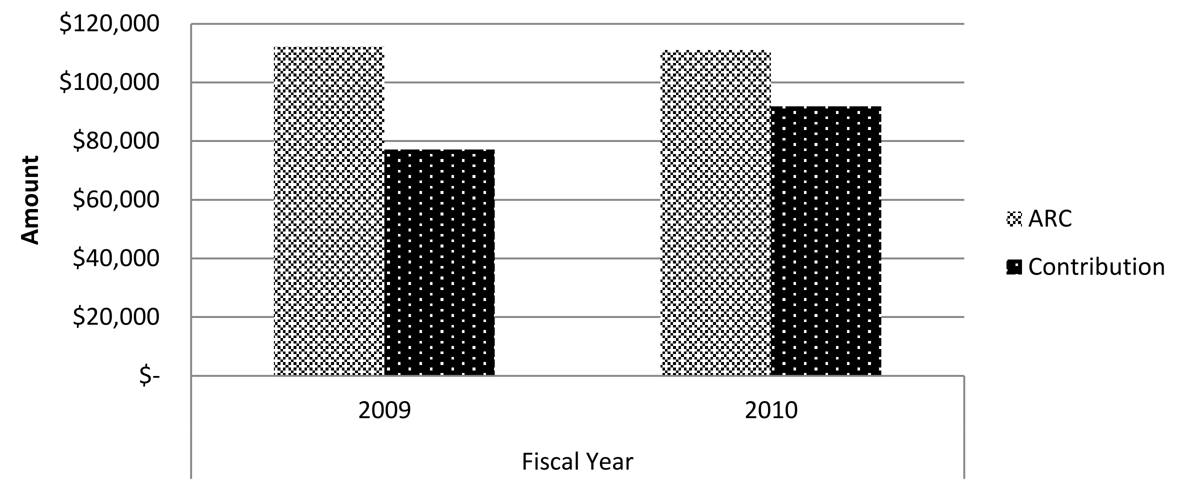
[22] City of Lemon Grove. *Consolidated Annual Financial Report for Fiscal Year Ending June 30 2010*, pp 45.

City of National City

City of National City Valuation performed 06/30/10	
AAL	$1,058,356
AVA	$0
UAAL	$1,058,356
Funded Ratio	0.00%
Covered Payroll	$23,196,000
UAAL % of Payroll	4.56%
ARC % of Payroll	0.48%

National City provides retiree health care to employees who retire directly from the City and their eligible spouses. As of June 30, 2011 there were approximately 42 retirees collecting the benefit and approximately 339 active employees who will likely collect the benefit in the future. The City's ARC payment history is in the following graph.

Figure 17: City of National City ARC Payments



	2009	2010
ARC	$112,075	$110,954
Contribution	$77,101	$91,783
Shortfall	$34,974	$19,171

Source: City of National City Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

The City has not adopted a policy of paying its entire ARC and faces yearly shortfalls. The total unfunded liability for National City is **$1,058,356**.

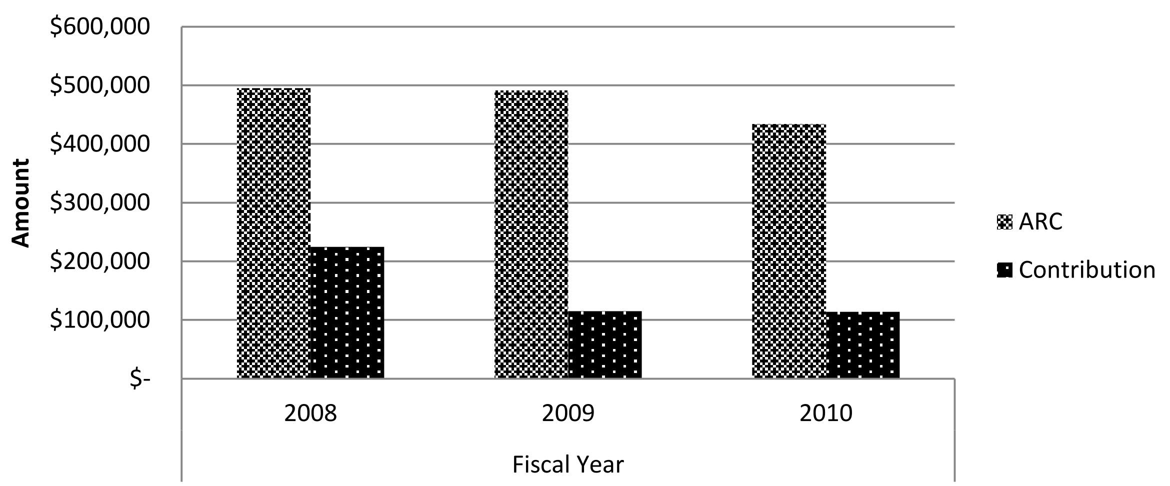
City of Oceanside

Non-Oceanside Firefighters' Association Employees

City of Oceanside (non-OFA) Valuation performed in 2009	
AAL	$3,219,426
AVA	$0
UAAL	$3,219,426
Funded Ratio	0.00%
Covered Payroll	$67,269,817
UAAL % of Payroll	4.79%
ARC % of Payroll	0.65%

The City of Oceanside offers retiree health care benefits to all eligible employees who are not members of the Oceanside Firefighter's Association and their covered dependents upon retirement from the City. Non-OFA employees pay 100% of their health insurance premiums because this retiree health care plan is not operated through CalPERS and PEMHCA.[23]

Figure 18: City of Oceanside (non-OFA) ARC Payments



	2008	2009	2010
ARC	$494,795	$491,379	$434,046
Contribution	$224,665	$115,079	$113,928
Shortfall	$270,130	$376,300	$320,118

Source: City of Oceanside Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

[23] City of Oceanside. *Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010*, pp 74-75.

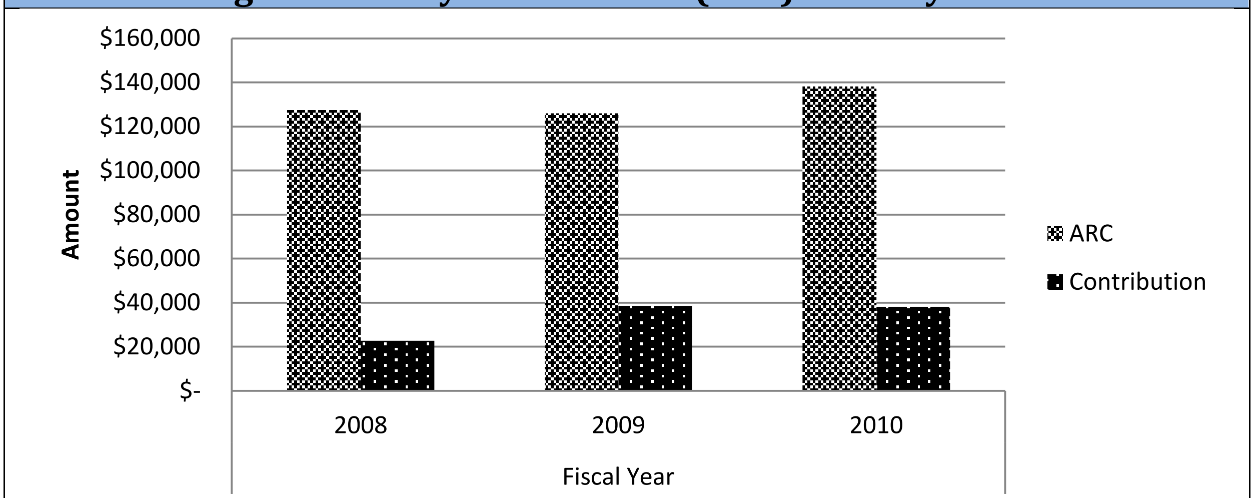
The City of Oceanside has not been keeping pace with its ARC. Its non-OFA retiree health care plan faces an unfunded liability of **$3,219,426** for its non-OFA retiree health care plan.

Oceanside Firefighters' Association Employees

City of Oceanside (OFA) Valuation performed in 2009	
AAL	$1,423,160
AVA	$0
UAAL	$1,423,160
Funded Ratio	0%
Covered Payroll	$12,690,076
UAAL % of Payroll	11.21%
ARC % of Payroll	1.09%

Oceanside Firefighters Association (OFA) retirees receive health benefits for themselves and covered dependents. Unlike the non-OFA plan, the OFA plan is run through CalPERS and subject to PEMHCA regulations. This benefit is coordinated with Medicare when the retiree becomes 65. The graph below details payment patters during the last three years.

Figure 19: City of Oceanside (OFA) ARC Payments



	2008	2009	2010
ARC	$127,291	$125,968	$138,060
Contribution	$22,711	$38,573	$38,030
Shortfall	$104,580	$87,395	$100,030

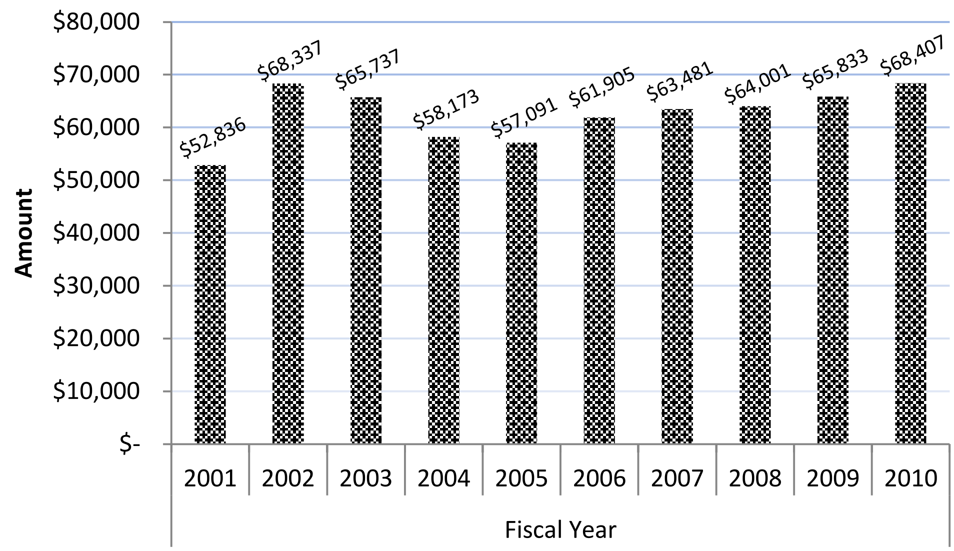
Source: City of Oceanside Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

The Oceanside Firefighters Association retiree health care plan has not adopted a policy of paying the entire ARC and has experienced shortfalls for the last three years. The total unfunded liability for the OFA plan is **$1,423,160**.

City of San Marcos

The City of San Marcos offers retiree health care benefits to safety employees only (police and fire fighters). Miscellaneous employees do not qualify for the benefit. After beginning an actuarial valuation, it was determined that the retiree health care plan did not have to be completed and published in the City's annual financial reports. The valuation is considered immaterial to the City's financial reports and an unfunded liability was never calculated. However, the City of San Marcos provided OPEB expenditures for the last decade.

Figure 20: San Marcos OPEB Expenditures



Data Provided by the City of San Marcos

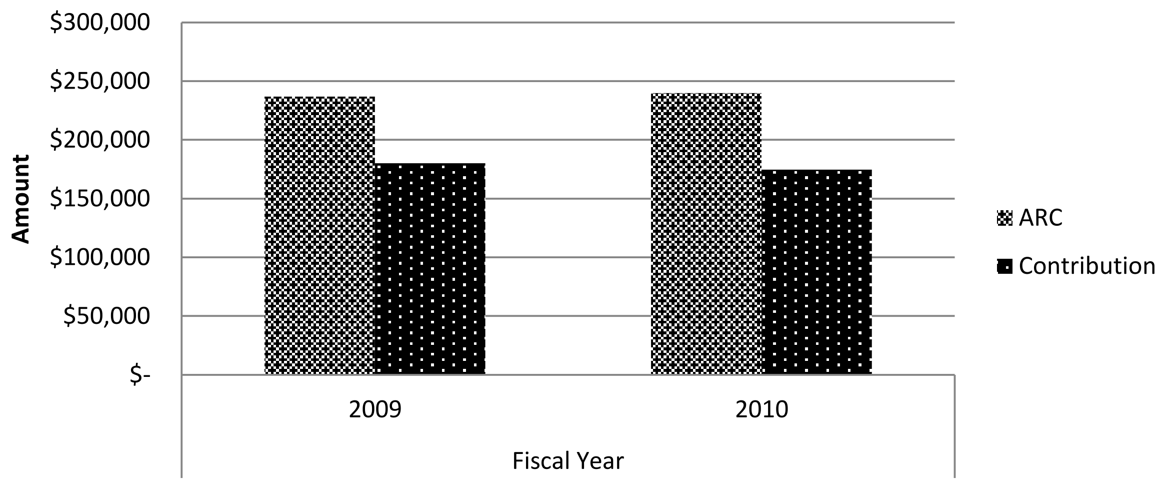
City of Santee

City of Santee Valuation performed 7/1/09	
AAL	$3,061,616
AVA	$81,818
UAAL	$2,979,798
Funded Ratio	2.67%
Covered Payroll	$31,949,770
UAAL % of Payroll	9.33%
ARC % of Payroll	0.75%

Retiree health care benefits in the City of Santee differ depending on bargaining group. Fire department employees receive benefits depending on when they retire. Fire department employees who retired prior to August 1, 1986 receive lifetime health care coverage for themselves and one dependent. The benefit is fully funded by the City. Fire department employees who retired on or after August 1, 1986 receive a maximum of $182 per month from the City to help fund retiree health care premiums. Surviving spouses receive $91 per month for premiums. Forty participants were eligible for this benefit as of June 30, 2010.

Executive management who retire after at least eight years of employment with the City qualify for retiree health premium assistance. In fiscal year 2010 there was one participant in this program and the cost was $2,123. All other eligible retirees may receive medical insurance coverage through the City until age 65 in accordance with various labor agreements. The following figure shows Santee's ARC payment history.

Figure 21: City of Santee ARC Payments



	2009	2010
ARC	$237,001	$239,788
Contribution	$180,167	$174,725
Shortfall	$56,834	$65,063

Source: City of Santee Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

The City of Santee has not opted to pay the full ARC and experiences shortfalls each year. The total unfunded liability is **$2,979,798**. [24]

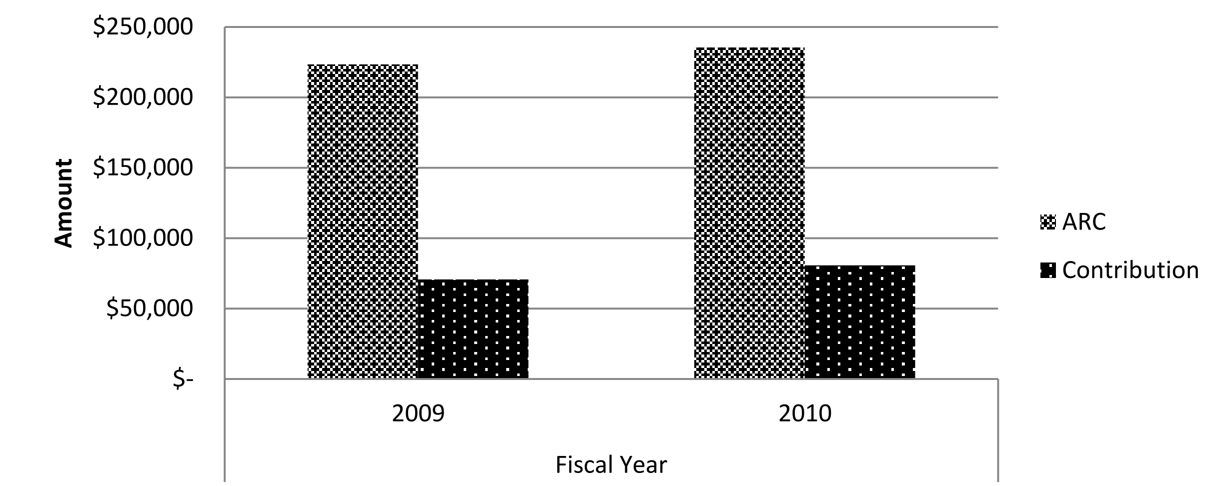
[24] City of Santee. *Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010*, pp 41-42.

City of Solana Beach

City of Solana Beach Valuation performed 7/1/09	
AAL	$1,723,232
AVA	$0
UAAL	$1,723,232
Funded Ratio	0.00%
Covered Payroll	$3,381,818
UAAL % of Payroll	50.96%
ARC % of Payroll	6.96%

The City of Solana Beach offers retiree health care to all eligible employees and their dependents through CalPERS. Recent ARC payment history is below:[25]

Figure 22: City of Solana Beach ARC Payments



	2009	2010
ARC	$223,232	$235,400
Contribution	$70,606	$80,600
Shortfall	$152,626	$154,800

Source: City of Solana Beach Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010.

Solana Beach continues to pay its OPEB bills on a PAYGO basis. Without paying its full ARC the city will continue to have shortfalls. The total unfunded liability for Solana Beach is **$1,723,232**.

25 City of Solana Beach. *Consolidated Annual Financial Report for Fiscal Year Ending June 30, 2010*, pp 64-65.

Conclusions

Local governments must prepare to fund these liabilities or face serious shortfalls in the future. Compounding the problem is the expected rise in health care costs across the country.[26] Without proper planning, OPEBs will present serious financial burdens in the future.

Key Findings

- The value of the countywide unfunded OPEB liability ($45 million) represents approximately 13% of estimated countywide payroll.
- The cities of El Cajon and La Mesa have been paying more than their OPEB Annual Required Contributions, while Carlsbad/Carlsbad Municipal Water District and Encinitas/San Dieguito Water District have been paying the exact Annual Required Contribution. All other cities are still paying OPEBs on a pay-as-you-go basis.
- The cities of Coronado, Imperial Beach and Oceanside paid the smallest percentages of their Annual Required Contributions in fiscal year 2010. Coronado paid 16% of their ARC, Imperial Beach paid 19%, and Oceanside paid 26%.
- The total countywide OPEB obligation is approximately 14.5% funded.
- Even though OPEBs represent a small fraction of cities' funds, medical inflation threatens to increase the amount needed to pay for these benefits.

Recommendations

The following reform recommendations are based upon the opportunity to achieve cost savings within current legal parameters. SDCTA recommends cities adopt the following recommendations:

- Reform retiree health care benefits for employees to a level at which the city can sustain payments of the full Annual Required Contribution each year.
  - Cities that extend retiree health care benefits to spouses and dependents should consider limiting those benefits to the employee alone.
  - Cities should place a cap on taxpayer subsidized premiums if retiree health care benefits are offered.
- Cities that have not created a trust or joined the California Employee's Retirement Benefits Trust (CERBT) to help fund OPEBs should do so as soon as possible.

[26] This is based on assumptions made by actuaries while calculating OPEB liabilities.

- If a city chooses to offer retiree health care benefits to new employees, cities should enroll those new employees into a defined contribution plan to invest in the benefit granted upon retirement.

707 Broadway, Suite 905, San Diego, CA 92101
P: (619) 234-6423 • F: (619) 234-7403 • www.sdcta.org

Section III: Appendices

Appendix A: Most Recent Actuarial Valuations (2010 dollars)

City of Carlsbad Valuation performed 6/30/10	
AAL	$6,147,434
AVA	$5,098,017
UAAL	$1,049,417
Funded Ratio	82.90%
Covered Payroll	$51,741,620
UAAL % of Payroll	2.00%
ARC % of Payroll	0.59%

City of El Cajon Valuation performed 7/1/09	
AAL	$3,061,616
AVA	$81,818
UAAL	$2,979,798
Funded Ratio	2.67%
Covered Payroll	$31,949,770
UAAL % of Payroll	9.33%
ARC % of Payroll	0.48%

Carlsbad Municipal Water District Valuation performed 6/30/10	
AAL	$3,561,082
AVA	$1,958,554
UAAL	$1,602,528
Funded Ratio	55.00%
Covered Payroll	$319,932
UAAL % of Payroll	500.90%
ARC % of Payroll	6.92%

City of Encinitas Valuation performed 6/30/09	
AAL	$10,090,909
AVA	$471,717
UAAL	$9,619,192
Funded Ratio	4.67%
Covered Payroll	$17,311,111
UAAL % of Payroll	55.57%
ARC % of Payroll	4.95%

City of Chula Vista Valuation performed 6/30/09	
AAL	$12,005,051
AVA	$0
UAAL	$12,005,051
Funded Ratio	0.00%
Covered Payroll	$69,784,848
UAAL % of Payroll	17.20%
ARC % of Payroll	2.04%

San Dieguito Water District Valuation performed 6/30/09	
AAL	$305,051
AVA	$13,131
UAAL	$291,919
Funded Ratio	4.30%
Covered Payroll	$1,059,596
UAAL % of Payroll	1.43%
ARC % of Payroll	2.36%

City of Coronado Valuation performed 7/1/08	
AAL	$2,287,408
AVA	$0
UAAL	$2,287,408
Funded Ratio	0.00%
Covered Payroll	$16,118,182
UAAL % of Payroll	14.20%
ARC % of Payroll	1.95%

City of Imperial Beach Valuation performed 9/1/09	
AAL	$240,549
AVA	$0
UAAL	$240,549
Funded Ratio	0.00%
Covered Payroll	$16,766,667
UAAL % of Payroll	1.43%
ARC % of Payroll	0.15%

Appendix A (continued): Actuarial Valuations (2010 dollars)

City of La Mesa Valuation performed 7/1/08	
AAL	$2,615,152
AVA	$0
UAAL	$2,615,152
Funded Ratio	0.00%
Covered Payroll	$17,858,586
UAAL % of Payroll	14.64%
ARC % of Payroll	1.84%

City of Oceanside (non-OFA) Valuation performed in 2009	
AAL	$3,219,426
AVA	$0
UAAL	$3,219,426
Funded Ratio	0.00%
Covered Payroll	$67,269,817
UAAL % of Payroll	4.79%
ARC % of Payroll	0.65%

City of Lemon Grove Valuation performed 3/1/10	
AAL	$968,973
AVA	$0
UAAL	$2,347,323
Funded Ratio	0%
Covered Payroll	Not Available
UAAL % of Payroll	Not Available
ARC % of Payroll	Not Available

City of Santee Valuation performed 7/1/09	
AAL	$3,061,616
AVA	$81,818
UAAL	$2,979,798
Funded Ratio	2.67%
Covered Payroll	$31,949,770
UAAL % of Payroll	9.33%
ARC % of Payroll	0.75%

City of National City Valuation performed 06/30/10	
AAL	$1,058,356
AVA	$0
UAAL	$1,058,356
Funded Ratio	0.00%
Covered Payroll	$23,196,000
UAAL % of Payroll	4.56%
ARC % of Payroll	0.48%

City of Solana Beach Valuation performed 7/1/09	
AAL	$1,723,232
AVA	$0
UAAL	$1,723,232
Funded Ratio	0.00%
Covered Payroll	$3,381,818
UAAL % of Payroll	50.96%
ARC % of Payroll	6.96%

City of Oceanside (OFA) Valuation performed in 2009	
AAL	$1,423,160
AVA	$0
UAAL	$1,423,160
Funded Ratio	0%
Covered Payroll	$12,690,076
UAAL % of Payroll	11.21%
ARC % of Payroll	1.09%

Appendix B: Unfunded Liabilities and Funded Ratios

Unfunded Liabilities and Funded Ratios			
Plan	**UAAL**	**Funded Ratio**	**UAAL as % of funded ratio**
Carlsbad	$1,049,417	82.90%	2.30%
CMWD	$1,602,528	55.00%	500.90%
Chula Vista	$12,005,051	0.00%	17.20%
Coronado	$2,287,408	0.00%	14.19%
Del Mar	City does not offer OPEBs		
El Cajon	$2,979,798	2.67%	9.33%
Encinitas	$9,619,192	4.67%	55.57%
Escondido	City does not offer OPEBs		
SDWD	$291,919	4.30%	27.55%
Imperial Beach	$240,549	0.00%	1.43%
La Mesa	$2,615,152	0.00%	14.64%
Lemon Grove	$2,347,323	0.00%	Not Available
National City	$1,085,356	0.00%	4.56%
Oceanside (OFA)	$4,642,586	0.00%	11.21%
Oceanside (non-OFA)	$3,219,426	0.00%	4.79%
Poway	City does not offer OPEBs		
San Marcos	No actuarial valuation information available.		
Santee	$2,979,798	2.67%	9.33%
Solana Beach	$17,234,343	0.00%	50.96%
Vista	City does not offer OPEBs		

Appendix C: Summary of Retiree Health Care Plans

City	Retiree Health	Spouse Coverage	Surviving Spouse	Dependent Coverage	Member of Trust	Medicare Coordinated	PEMHCA	City Provides Subsidy
Carlsbad	✓	✗	✓	✗	✓	✓	✓	✓
CMWD	✓	✗	✗	✓	✓	✓	✗	✓[1]
Chula Vista	✓	✗	✗	✗	✗	✓	✗	✗
Coronado	✓	✗	✗	✗	✗	✓	✓	✓
Del Mar	City does not offer OPEB							
El Cajon	✓	✗	✗	✗	✓	✓	✓	✓
Encinitas	✓	✗	✗	✓	✓	✓	✓	✓[2]
SDWD	✓	✗	✗	✗	✓	✓	✓	✓
Escondido	City does not offer OPEB							
Imperial Beach	✓	✗	✗	✓	✗	✓	✗	✓[3]
La Mesa	✓	✗	✗	✗	✓	✓	✓	✓
Lemon Grove	✓	✓	✗	✗	✗	✓	✓	✓
National City	✓	✓	✗	✗	✗	✓	✗	✓[4]
Oceanside (OFA)	✓	✗	✗	✓	✗	✓	✓	✓
Oceanside (non-OFA)	✓	✗	✗	✓	✗	✓	✗	✗
Poway	City does not offer OPEB							
San Marcos	✓[5]	✓	✓	✓	✗	✓	✓	✓
Santee	✓	✓	✗	✗	✗	✓[6]	✗	✗[7]
Solana Beach	✓	✗	✗	✓	✗	✓	✓	✓[8]
Vista	City does not offer OPEB							

[1] CMWD pays 100% of retiree health care premiums.
[2] City pays 100% of premiums for fire safety personnel hired before 3/16/95. All others receive minimum benefit.
[3] Imperial Beach is not a member of PEMHCA and is allowed to offer a lower subsidy. The current subsidy amount is $75.75 per month.
[4] City pays 100% of premiums.
[5] San Marcos provides retiree health care benefits to safety personnel only.
[6] Benefits for fire department employees hired before 7/1/85 are not coordinated with Medicare.
[7] Most employees receive no subsidy, but fire department retirees receive $182/month and surviving spouses receive $91/month.
[8] Amount vary by bargaining group.

Appendix D: Net OPEB Obligation by Plan

Net OPEB Obligations	
Plan	**Net OPEB Obligation (2010)**
City of Carlsbad	$0
Carlsbad Municipal Water District	$0
City of Chula Vista	$2,549,000
City of Coronado	$522,257
City of Del Mar	N/A
City of El Cajon	$(302,720)
City of Encinitas	$0
San Dieguito Water District	$0
City of Escondido	N/A
City of Imperial Beach	$48,649
City of La Mesa	$(108,177)
City of Lemon Grove	$71,084
City of National City	$53,795
City of Oceanside (OFA)	$290,085
City of Oceanside (non-OFA)	$960,084
City of Poway	N/A
City of San Marcos	N/A
City of Santee	$121,329
City of Solana Beach	$305,900
City of Vista	N/A

Glossary of Terms

Active Employee: A current employee who will be eligible for other post-employment benefits upon retirement.

Actuary: A person professionally trained in the technical and mathematical aspects of insurance and pensions. The actuary estimates how much money must be paid by a city each year in order to support the benefits that will become payable in the future.

Actuarial Accrued Liability (AAL): The sum of all past normal costs

Actuarial Assumption: A set of future estimates made to determine the cost of benefits. Examples of assumptions include but are not limited to demographics, mortality, disability, economic, and investment earnings assumptions.

Actuarial Value of Assets (AVA): The value of assets that go toward paying pension or other post-employment benefits.

Amortize: To pay off gradually over a period of installments.

Annual Required Contribution (ARC): Contribution required to cover normal benefit costs and amortize unfunded liabilities over a period of time not to exceed 30 years.

California Public Employees Retirement System (CalPERS): A public agency established in 1931 to manage pension and health benefits for California public workers.

California Employers' Retirement Benefit Trust (CERBT): A trust fund established in 2007 to assist governments and public agencies in paying for post-employment benefits other than pensions.

Covered Payroll: Total payroll of all employees eligible for postretirement benefits.

Funded Ratio: Percentage of the actuarial accrued liabilities that is funded by the actuarial value of assets.

Governmental Accounting Standards Board (GASB): Provides accounting standards for local and state government reporting.

GASB 45: The rule issue by GASB in 2004 requiring municipalities and other public agencies to account for OPEB costs and unfunded liabilities. Available at: http://www.gasb.org/st/summary/gstsm45.html

Medicare Part A: Part of Medicare that helps members pay for hospital stays.

Medicare Part B: Part of Medicare that helps pay for primary care physicians and specialist visits.

Miscellaneous Employee: Employees not classified as public safety.

Net OPEB Obligation: The difference between the ARC and actual contributions made by the City toward funding OPEB. The balance accumulates over time if cities do not pay the full ARC.

Normal Cost: The cost of service for all active employees in the fiscal year.

Other Post-Employment Benefits (OPEBs): Benefits paid out after retirement commences, such as retiree healthcare and life insurance.

Pay-as-you-go (PAYGO): Refers to the practice of paying OPEB liabilities after eligible employees have retired rather than as they are accrued.

Public Employees' Medical and Hospital Care Act (PEMHCA): A California law that allows governments and public agencies to contract with CalPERS to handle pensions and benefits. PEMHCA sets the minimum monthly subsidy public employers must pay toward health insurance premiums.

Safety Employee: Employees who provide safety services (mostly police officers, fire fighters, and lifeguards).

Unfunded Accrued Actuarial Liability (UAAL): Shortfall in payment of benefit obligations due to demographic changes, unrealized actuarial assumptions, and lower than expected investment returns.