STAFF REPORT

MEETING DATE:	**10/22/13**
SUBJECT:	**Funding Retiree Health Insurance and Accelerating Annual Payments**
ITEM #:	**5-5**
STAFF CONTACT:	**Dave Wallace, Chief Fiscal Officer**

STAFF RECOMMENDATION:

It is recommended that the board of directors:

1. Authorize the executive director to establish a trust account for retiree health insurance pursuant to Resolution Number 13-13;
2. Authorize the executive director to sign an "Agreement and Election of SRTA to Prefund Other Post Employment Benefits Through CalPERS," and sign all necessary certifications; and
3. Accelerate annual payments to increase interest earnings.

DISCUSSION:

SRTA offers partially paid health insurance for retirees. SRTA has two choices to pay retiree health benefits: 1) it can set aside payments now in a trust account; or 2) pay when the employee retires. Many local agencies have elected to pay when the employee retires due to lack of available funds.

SRTA is on sound financial footing and can invest the anticipated premiums now, as opposed to later. The agency has the ability to charge grantors for the annual amount provided to the health insurance trust fund for retirees. By investing now, SRTA would avoid the issue many governments have with large unfunded liabilities.

The trust account is established through the California Public Employees Retirement System (CalPERS) and generates interest of approximately 7.6%. In order to determine the cost, SRTA hired an actuary to study future costs. The actuarial study indicates that the agency should pay $1,208 monthly ($14,496 annually) for future retiree health benefits. Once contributed to the trust, the funds are available only to SRTA for retiree medical premiums. Every two years a new study is performed to adjust for over- or under-payments.

The agency can reduce future medical insurance costs further with an additional $125 monthly payment. These accelerated payments over the next twenty years (totaling $30,000) will earn an additional $22,000 in interest. From a fiscal standpoint, the acceleration of payments makes sense. The increase in the costs of medical insurance is rising faster than the standard 0.4% interest earned on the agency's traditional deposits.

ALTERNATIVES:

The board of directors may decline establishment of a trust or the accelerated payments.

OTHER AGENCY INVOLVEMENT:

The SRTA Finance committee concurs with the staff recommendation.

FINANCING:

If approved by the board of directors, the agency will avoid a large, unfunded retiree health insurance liability, while also gaining approximately $22,000 in interest over the next twenty years by accelerating payments.

Daniel S. Little, AICP, Executive Director

Attachment: Resolution Number 13-13: Funding Retiree Health Insurance

RESOLUTION

RESOLUTION NUMBER:	**13-13**
SUBJECT:	**Funding Retiree Health Insurance**

WHEREAS, the Shasta Regional Transportation Agency (SRTA) has established a health insurance plan for retirees; and

WHEREAS, SRTA desires to prefund future retirees' health benefits; and

WHEREAS, the California Public Employee Retirement System (CalPERS) makes available the California Employers' Retirement Benefit Trust Fund.

NOW, THEREFORE, BE IT RESOLVED that the Shasta Regional Transportation Agency hereby establishes CalPERS as the trustee on the retiree health plan and authorize the executive director to sign all necessary certifications; and

THEREFORE, BE IT FURTHER RESOLVED that the Shasta Regional Transportation Agency hereby delegates to the incumbent, in the position of executive director, authority to request on behalf of the employer, disbursements from the Other Post Employment Prefunding Plan and to certify as to the purpose for which the disbursed funds will be used.

PASSED AND ADOPTED this 22nd day of October, 2013, by the Shasta Regional Transportation Agency.

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Greg Watkins, Chair
Shasta Regional Transportation Agency