

IRREVOCABLE TRUST RECOMMENDATION

The Futuris Public Entity Investment Trust was established during fiscal year 2010-2011 (FY 11) by the Ventura County Community College District for the purposes of investment and disbursement of funds, irrevocably designated for the payment of premiums for eligible district employees, retirees and their dependents for life, sick, hospitalization, major medical, accident, disability, dental and other similar benefits. As of June 30, 2018, the trust had a market value of \$21,110,529 and has net earnings of \$6,660,529 since inception.

The VCCCD and other public agencies are required to conduct an actuarial study every two years to estimate the costs of contractually mandated post-employment benefits or "OPEB." An actuarial study for post-employment benefits was performed in October 2016 which estimated the OPEB costs using the accounting standards and requirements stated in GASB 45. In October 2016, the District's actuarial accrued liability for OPEB costs was estimated at approximately \$210.3 million. The accounting standards under GASB 45, for postemployment benefits other than pensions, was superseded by GASB 75. With a measurement date of June 30, 2017, the total OPEB liability was approximately \$194.7 million under GASB 75.

In the 2018-2019 Adoption Budget, the estimated expenditure for OPEB is \$15.7 million. The District currently utilizes a 'pay as you go' methodology for retiree health premiums, with all premium increases being absorbed in the current year operating budget. The District assesses employer expense rates that range from 6% to 17.5% on each payroll dollar depending on employee type and funding source to accrue the amount required to pay for OPEB. These fringe benefit rates are assessed to all eligible employees' salaries in all funds, including categorical, grants and contracts. Using this methodology, the expenditure for post-retirement benefits is projected to be approximately \$15.7 million for all funds, which is transferred to the District Retiree Health Benefits Fund. Health benefit premiums for retirees are then paid directly from the Retiree Health Benefits Fund.

In preparation for the FY 19 District Budget, DCAS recommended not to make any further general fund contributions to the irrevocable trust. A subcommittee of DCAS was formed in FY 18 for the purpose of evaluating and recommending a long-term plan for the use of the district's irrevocable trust to address OPEB liabilities.

According to the District's 2016 actuarial report, the projected retiree claims and expenses for FY 19 is \$14,327,365, and will increase every year until FY 32, at which time the annual expense is projected to reach \$18,026,362. The annual expense will then begin to decrease for 57 years, until FY 89 when the liability is expected to be zero.

Eventually, the retiree liability and irrevocable trust will reach equilibrium and the annual required contribution can be transferred to the trust. Rather than waiting until equilibrium is reached, the work group recommends accessing the Trust funds in FY 22 to pay for

the increases in annual contributions resulting in a level budgetary impact through FY 41, at which time the annual required contribution would decrease. Annual increases in OPEB expenses will not affect the general fund budget beginning in FY22.

