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COMMISSION

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## *Memorandum*

TO: Administration Committee

DATE: September 5, 2007

FR: Executive Director

W.I.: 1153

RE: Resolution No. 3822 – Authorizing Participation in PERS Prepaid Post Employment Benefits Trust Program

### **Recommendation:**

Staff recommends that the Committee approve Resolution No. 3822 authorizing MTC to participate in the Public Employee Retirement System (PERS) administered trust for Other Post Employment Benefits (OPEB). The PERS OPEB program will function similar to the Employees Retirement Program in establishing a formal trust for administration of OPEB benefit payments in compliance with GASB 43 and 45 standards.

### **Background:**

One of the most complex government liability issues is evaluating and funding the cost of future retirement benefits. The actuarial valuation of employee retirement costs is well established and, while the annual cost has seen considerable spikes, the costs are routinely included in most annual agency budgets. In addition, the level of “funded” and “unfunded” actuarial liability is a matter of audit documentation.

While retirement costs and liabilities are made part of all financial statements, little has been done to evaluate the cost and future liability associated with other post-employment benefits, mainly medical coverage for retired employees. Unlike retirement funding which is fully funded when the employee retires, other retirement benefits require an agency to cover both the retired employee and new employee on an ongoing basis.

The growth of these “other” post-employment costs has potentially serious financial consequences for government agencies. The level of unknown future costs caused the Government Accounting Standards Board (GASB) to release two statements (GASB 43 & 45) that require every agency to establish the actuarial liability for these “other” retirement benefits and to establish an annual contribution rate (similar to retirement calculations) to fund both the current and future liability.

MTC has completed the appropriate actuarial study and has established the agency’s actuarial liability as \$10.3 million. The liability breaks down as follows:

% of Liability		
MTC	91%	\$ 9.4 million
BATA	6%	0.6 million
SAFE	3%	<u>0.3 million</u>
Total		<u>\$10.3 million</u>

As relatively recent enterprises with fewer employees, both SAFE and BATA currently have the means to fully fund their entire liability. However, MTC will need to evaluate options to fund its \$9.4 million liability.

**PERS Trust:**

Regardless of how MTC meets its funding obligation, GASB 45 requires the establishment of a legal trust in order to satisfy the obligation and eliminate the liability for financial statement purposes. PERS has established a new trust program specifically designed to meet the GASB 45 requirement. As with other PERS programs, the new benefits trust will be “irrevocable” in that once the funds are paid to PERS, they can only be used to pay OPEB costs. PERS will administer the trust, invest funds and pay out the required benefit costs.

PERS has a series of requirements that must be met in order to participate in the new trust. These requirements will be met with approval of the resolution, including:

- PERS qualified actuarial study (completed)
- Adoption of PERS Resolution (No. 3822)
- Approval and execution of participation contract (attached to Res. No. 3822)

Once the agreement is executed, MTC will have taken the first step in developing a permanent resolution of the OPEB issue. Staff will return later in the year with a formal funding proposal for commission consideration and approval.

Staff recommends approval of Resolution No. 3822.

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Steve Heminger

SH:BM:cj

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