**Business Item**

Item: 2012 - 34

# M Management Committee

**Meeting date:** January 25, 2012

**For Metropolitan Council Meeting:** February 8, 2012

| ADVISORY INFORMATION | |
|---|---|
| **Date:** | January 17, 2012 |
| **Subject:** | Policy Revision: Funding Other Post Employment Benefits |
| **District(s), Member(s):** | All |
| **Policy/Legal Reference:** | Policy 3-1-3 Funding Post Employment Benefits/MS 471.61 |
| **Staff Prepared/Presented:** | Mary Bogie, Chief Financial Officer, 651-602-1359 |
| **Division/Department:** | Regional Administration/Finance |

## Proposed Action

That the Metropolitan Council approves Revised Policy 3-1-3 Funding Other Post Employment Benefits.

## Background

The Council has agreements with some employee bargaining units to provide Council paid other post employment benefits for eligible staff and retirees.

Other Post Employment Benefits (OPEB) are employee benefits (other than pensions) that are earned by employees during employment at the Council, but are not paid by the Council until retirement.

Retiree health insurance benefits that result in OPEB liability have since been sunset (2004 or earlier) for new hires in all bargaining agreements.

The Council's Funding policy requires annual funding of the future costs associated with eligible active employees (normal cost) and current costs associated with retirees (pay-as-go).

## Rationale

This policy revision does not change the Council's current funding practice.  The revision seeks to clarify that the funding policy relates only to the explicit benefit portion of the Council's liability for Other Post Employment Benefits and adds background and definition of terms to the policy.

## Funding

Division operating budgets include funding for current retirees and the future costs of eligible active employees.

## Know Support / Opposition

None

**Metropolitan Council**

## POLICY - Funding Other Post Employment Benefits

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|---|---|---|---|
| Section/Number: | 3-1-3 | Total Pages: | 2 |
| Dept. Responsible: | Regional Administration Finance | Effective Date: | ~~9/13/2006~~2/8/2012 |
| Special Note: | | Revision No. | 2~~1~~ |

### I. Policy:

The Council is committed to responsibly managing its other post~~-~~ employment benefits, and will ensure appropriate funding of the benefit.

### II. Purpose of policy:

To establish minimal levels and methodology for funding the explicit other post employment benefit obligations of the Council.

Other Post Employment Benefits (OPEB) are employee benefits (other than pensions) that are earned by employees during employment at the Council, but are not paid by the Council until retirement.

### III. Background and reasons for policy:

The Council has agreements with some employee bargaining units to provide Council paid other post~~-~~ employment benefits for eligible staff and retirees. This is termed an explicit benefit.

Maintaining a funding plan for explicit benefits is prudent because of the magnitude of the expected future cost, intergenerational equity issues and the potential impact on the Council's future financial strength and bond ratings.

In addition, state law (M.S. 471.61) requires that all Council retirees be allowed to participate in insurance pools with active employees. Participating retirees pay the full premium cost, however, because expected medical costs for retirees are greater than for actives, retirees benefit through lower premiums than would be generally available if based solely on retiree insurance costing experience. This is termed an implicit rate subsidy (or implicit benefit). Since the full premium is paid by the retiree, the Council has no need to pre-fund future implicit benefits.

Accounting Standards require a biennial actuarial valuation of other post employment benefits and balance sheet accrual and note disclosure of liabilities for both explicit and implicit benefits. The standards determine reporting requirements only, not funding requirements. The Council establishes funding levels and methodology through this policy.

**IV. Implementation/Accountability:**

The Council has developed and adopted a funding approach for explicit other post employment benefits based on forecasting the expected future cost of the benefit. At least once every~~-~~ two years, the Council will complete an actuarial ~~e~~valuation of the liability related to other post employment benefits. The actuarial ~~e~~valuation will be used to adjust the funding plan as necessary.

Each divisional funding plan will, at a minimum, require annual funding of the annual normal cost and annual retiree premium cost for all eligible employees by division until funding, with projected interest, is adequate to cover all future explicit retiree benefits of the divisional group.

Existing funds set-aside for this purpose~~,~~ and future contributions shall be accumulated, with interest thereon, in a segregated reserve fund. Funds reserved for other post employment benefits will be deposited with the Minnesota State Board of Investment. Use of these monies shall be restricted solely to funding payments of other post employment ~~pension~~ benefits. Individual account balances shall be maintained on the Council's accounting system for the three divisional groups: Regional Administration (and other staff funded by the General Fund), Environmental Services and Metro Transit. Uses, transfers or withdrawals shall be limited to uses/actions within the respective division. Uses, transfers and withdrawals from this fund for purposes other than paying retiree benefits attributable to the division, shall require a resolution passed by the Council stating the purpose of the withdrawal.

~~Once~~ When the actuarial valuation of a division's reserve balance, with projected interest, is adequate to cover all projected future explicit retiree benefits, the division will continue to budget and pay explicit retiree benefits from their operating funds. In the following year the division will be reimbursed the lesser of:

i) actual explicit benefits paid for retirees in the preceding year

or

ii) reserves exceeding the amount required to cover future retiree benefits.

The withdrawal of funds to reimburse the divisional budgets for explicit retiree benefits paid in the previous year will follow the normal budget process and will not require a resolution.

Until the balance in a division's fund is adequate, with expected interest, to meet all projected future explicit retiree benefits, the Council will make reasonable efforts to find additional funds to set aside for funding the benefit. All year-end surpluses and any unexpected revenues will be reviewed to determine the feasibility of making additional contributions to the benefit fund.