

**MEMORANDUM OF UNDERSTANDING
BETWEEN
LOS RIOS COMMUNITY COLLEGE DISTRICT
AND
LOS RIOS COLLEGE FEDERATION OF TEACHERS LOCAL 2279**

April 10, 2007

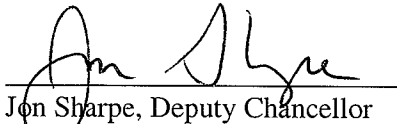
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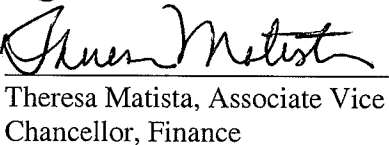
During negotiations of 2005 and 2006 with the District's collective bargaining units, the parties agreed to form a committee to examine issues related to health care benefits for eligible retirees. Such issues included, but were not limited to, the rising cost of premiums, the adequacy of current contributions, funding sources for post-retirement benefits, and coverage for dental insurance. The committee also explored expansion of options under IRC Section 125. Representatives from the Confidential and Management groups also participated in the discussion.

For fiscal year 2006-07, the District received a one-time allocation of unrestricted funds in the amount of \$4,386,650. Per section A.7, any new unrestricted funds received during a contract are subject to negotiation. The committee recommended an enhancement to post-retirement health care benefits funded in part by this one-time revenue source.

The committee's recommendations were brought forward to LRCFT. The recommendation was to increase the District's contribution by \$15 per month effective July 1, 2006, and thereafter. The cost of this increase will be borne by the employee groups and the District as follows: The one-time revenue source described above will be split with 80% going to the compensation formula and 20% to the District. The District will use its 20% share plus additional PDF resources to fund the cost of the increase for current retirees. In addition, the District will fund the continuing cost associated with this increase for active employees. The employee groups, including LRCFT, will use their share of these one-time funds to fund their proportionate cost of the past service cost for active employees. The balance of these funds will be paid as a one-time only salary payment in conjunction with the retroactive salary payment planned for August 2007.

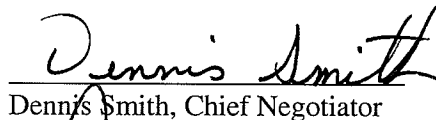
LOS RIOS COMMUNITY
COLLEGE DISTRICT


Jon Sharpe, Deputy Chancellor


Theresa Matista, Associate Vice
Chancellor, Finance

5/1/07
DATE

LOS RIOS COLLEGE
FEDERATION OF TEACHERS


Dennis Smith, Chief Negotiator


Dean Murakami, LRCFT President,

DATE

Attachments: Overview of post retirement healthcare ("white paper")
Recommendation from the committee
Analysis specific to LRCFT

Los Rios Community College District
Overview of Post-Retirement Health Benefits and Funding Provisions

The issue of post-retirement health benefits has recently come to the forefront. Two factors are primarily responsible for this: one, increased health insurance costs and, two, a new accounting standard for recognizing the full cost of providing these benefits. Los Rios, due to the foresight of its management and employee groups, is positioned to provide reasonable benefits without compromising the financial status of the District. This statement is true for both present and future employees. It is important for the organization to have a good understanding of this issue and the plan for meeting the District's obligation to its employees. This document gives an overview of the District's benefit and funding plan.

First, some definitions may be helpful.

- Pay-As-You-Go* Refers to funding only the portion of post-retirement costs related to the current year's cost for active retirees' benefits.
- Unfunded Liability* The portion of the total liability for current and future retirees that has not been funded.
- GASB 45* The Governmental Accounting Standards Board (GASB) statement that requires public agencies to recognize the annual cost for post-retirement benefits for both current retirees and active employees.
- Vesting* Requirement, typically years of service, to qualify for retirement benefits.
- Actuarial Study* Analysis projecting the amount required for providing future benefits using assumptions for mortality rates, turnover, cost increases, and investment earnings.

Although there are almost as many plans as there are agencies, most plans fall into one of three major categories:

Allowance	Full Premium	Full Premium to Age 65
Monthly amount toward the cost of medical and/or dental premiums of the retiree.	Premium for retiree and sometimes spouse and dependents is paid by agency.	Premium is paid until age 65 when Medicare coverage is available resulting in a lower premium @ age 65.

Each of these plans has advantages and disadvantages. The allowance provides the best method for predicting and controlling the District's cost. The full lifetime premium provides the most security to the employee for this important part of their retirement plan. The premium to age 65 provides a "bridge" for employees who retire before full social security eligibility. At age 65, the retiree is responsible for health insurance premiums.

As mentioned above, rising health insurance costs have dramatically impacted funding post-retirement benefits especially for those organizations that pay the full premium for their retirees. Even without the change in the accounting standard, the resources of these agencies were increasingly burdened. As a result, many organizations offer more limited benefits for new employees, sometimes eliminating them completely.

Los Rios' plan is an "allowance plan" where retirees receive a set amount each month toward their premium costs. The allowance may be increased to help offset increasing premium costs. The actuarial assumptions include a planned annual increase in the allowance. Increases in the allowance beyond the actuarial assumptions would require additional financial resources. Although this plan insulates the District from uncontrolled increases, it has resulted in less overall benefit for our retirees as costs have outpaced the annual increase. However, it does provide a stable plan that is sustainable.

The current vesting requirement for District employees is 15 years of full-time service for employees hired after 6/30/1990. The only exception is management and confidential employees who have a service requirement of 10 years for employment after 6/30/1990. In addition, an employee must be at least 55 years of age and retire from the District and either PERS or STRS simultaneously. They must either participate in the District's plan for retirees or show evidence of health insurance cost to receive the allowance. An employee who is at least age 50 and receiving District disability benefits is also eligible. Spouses and dependent children may participate in the plan.

These requirements are balanced between providing a reasonable service requirement and supporting employees who desire early retirement. The chart below tracks the District's plan over the last ten years:

Historical Contribution/Retiree Cost Levels

Fiscal Year	Lowest Premium combined with Medicare	Monthly District Contribution	Lowest Out-of-Pocket
1996-97	\$60.15	\$100	Zero
1999-00	\$58.31	\$119	Zero
2002-03	\$169.19	\$149	\$20.19
2005-06	\$285.53	\$161	\$124.53

For some years, the District increased its contribution by 6% annually. The last two years, the increase has been 4%. The lower increase was primarily a reflection of the low annual return on investment due to the decline in interest rates. Even a return of 4% has been difficult to achieve during this period of historically low interest rates.

The actuarial study in 2002 provided funding requirements based upon two scenarios: 1) a 4% return on investments and a 4% increase in the allowance and, 2) a 4% return and a 6% increase in the allowance. The results were as follows:

Option	Present Value of Benefits	Annual Funding	Unfunded Liability
4% annual increase	\$69.4M	\$2.4M	\$32.2M
6% annual increase	\$109M	\$5.3M	\$72M

These results illustrate why the District has chosen to increase its contribution by 4% and fund the unfunded liability over a period of 20 years. It also demonstrates that a relatively small change in benefit assumptions can have a tremendous financial impact. The above example strongly cautions against increasing the District allowance higher than the expected return on investments.

The table below details the results from the actuarial study in 2000 and 2003, and the projected GASB 45 funding level based upon the 2003 statistics.

Actuarial Requirements/Projections

Actuarial Study	Annual Contribution	Funded	Unfunded Liability	Years to Fund
2000	\$1,426,455	\$28,802,391	\$14,422,156	17
2003	\$2,366,791	\$37,200,000	\$32,165,458	20
2003 GASB	\$2,722,629	\$37,200,000	\$10,151,161	30

As the table illustrates, even with annual contributions toward funding the unfunded liability, the District did not gain any ground. In fact, the change in unfunded liability from 2000 was \$17.6M or a 122% increase. This was primarily due to the rapid increase in healthcare costs. At the time of the 2000 actuarial study, the District's contribution level exceeded the full cost of the Kaiser single retiree premium, with Medicare, which meant a significant number of retirees did not require the full allowance. When the 2003 actuarial study was performed in 2003, that same group of retirees not only needed the full district contribution but also had an out-of-pocket cost of \$88.

Implementation of GASB 45 will result in a higher annual contribution, but a lower unfunded liability. The decrease in the unfunded liability results from the change in the accounting method. The pre-GASB 45 method forecasted the entire liability based upon the current population of retirees and active employees. The GASB accrual only includes the liability for active employees up to their current service level. In other words, under the former method, the full liability would be projected for an employee with only two years of service. Under GASB, the liability for that same employee would be the expense for two years of service toward the future liability, i.e. 2/15th of the total liability for that employee assuming 15 years vesting. It should not be construed, though, that the obligation is lower.

GASB 45 requires the full cost of providing post-retirement benefits for active employees be recognized for each year of service. Prior to GASB 45, many organizations cost reflected just the pay as you go amount for that year. The District's cost has always been a combination of the pay as you go amount, and a contribution toward active employees' benefits.

In 2005-06 and again in 2006-07, the District will commit continuing program development funds (PDF) to increase the annual contribution to \$2,722,629. Combined with the increase from the 2003 study, the District has almost doubled the contribution toward this benefit since 2002.

Post-retirement medical benefits have been funded through PDF rather than compensation ("bucket") funds. Given the relatively low amount of continuing PDF, increases in this benefit would need to be provided for from the "bucket."

Some employee groups of the District have expressed possible interest in using a portion of the net continuing funds available for salary schedule improvements to provide increased post-retirement medical benefits. However, a flat exchange of salary for benefits is unlikely to be advantageous. For example, in the comparative table above, a 6% annual increase would have required the equivalent of a 2% continuing improvement on the salary schedule. That 2% including compounding for salary schedule improvements for fifteen years would have been included in the calculation of employees' retirement allowances from STRS or PERS. The higher retirement allowance could be used toward medical premiums. In addition, if individual employees chose to shelter the 2% salary schedule improvement through a 403(b) or 457 plan, the funds available to that employee upon retirement would likely exceed the amount provided by the increased District allowance.

A diversion of salary improvements to benefit improvements requires all employees contribute including those who do not require post-retirement coverage. The primary beneficiaries of a direct exchange of compensation for benefits would be employees who retire in the near-term. The District and its employee groups have always maintained a long-term perspective to protect the interests of current and future employees so this option is not particularly attractive. In addition, the unfunded liability would have more than doubled increasing the vulnerability of future benefits in the event of a financial catastrophe.

One criteria been established in reviewing our program for possible enhancements is to identify solutions that will not increase the unfunded liability. This is consistent with Los Rios' fiscally conservative policies to protect the District's resources and to ensure appropriations are balanced across the spectrum of the District's programs. The projected GASB funding requirement is over 1% of the 2005-06 general fund projected revenues. Many districts' funding requirements could

range several times higher requiring either difficult program reductions, sales of assets, or issuance of pension obligation bonds to meet their contractual obligations. A survey done by the Community College League concluded that only seven of 59 community college districts, with Los Rios being one of those, could be described as fully prepared for GASB 45. The basis for that distinction was having a recent actuarial valuation based upon reasonable assumptions and an annual funding level compliant with the actuarial valuation.

Estimates of unfunded liabilities for some school districts range from \$345 million for Sacramento City Unified to Fresno Unified at \$1.2B. These districts typically offer lifetime benefits for retirees sometimes including dependents as well. These Districts have little choice but to consider a reduction or elimination of benefits for new employees.

However, undoubtedly born out of necessity, other strategies for improving benefits without increased costs are emerging. Those strategies will be fully explored in Spring 2006. As mentioned earlier, this topic is of vital interest to many in our District. Management and members of employee groups will meet in the Spring to review the current plan and explore options for improving benefits without increasing our unfunded liability or at least educating our employees regarding planning for retirement.

Funding	
One Time Discretionary Funding (2006-07)	\$ 4,372,768
Percent per Bucket Formula (negotiable)	80%
Total Funding Available	3,498,214
LRCFT Proportionate Share Percentage (2005-06)	64.43%
Share of Funding Available	\$ 2,253,899
1% Calculation	
LRCFT 1% Salary (2005-06)	997,455
LRCFT 1% Salary & Benefits (2005-06)	1,112,724
Post Retirement Recommendation	
Cost of \$15 per month Increase	\$ 2,431,607
LRCFT Proportionate Share Percentage	64.43%
LRCFT Share of Cost	\$ 1,566,684
One Time Retro Forfeited	
LRCFT Share of Post Retirement Increase	\$ 1,566,684
1% Salary & Benefits (2005-06)	1,112,724
% of Total Forfeited	1.41%
LRCFT Share of Post Retirement Increase	\$ 1,566,684
1% Salary (2005-06)	997,455
% of Salary Forfeited	1.57%
Remaining One Time Retro	
One Time Discretionary Funds	\$ 3,498,214
Cost of Post Retirement Increase	2,431,607
Funds Available	1,066,607
LRCFT Proportionate Share	64.43%
LRCFT Share of Funds Available	\$ 687,215
LRCFT 1% Salary (2005-06)	997,455
Remaining Retro Percentage	0.69%
Payback Schedule	
% of Salary Forfeited	1.57%
Average Salary for LRCFT	70,076
Total \$ Amount Forfeited	1,100
\$ Amount Contributed for Post Retirement Per Year	
July 2006	180
July 2007	187
July 2008	194
July 2009	202
July 2010	210
July 2011	218
Total Contributed after 6 Years	1,191

Recommendation of Post-Retirement Benefits Committee

This committee was comprised of representatives from all employee groups. It met five times and concluded its review on November 30, 2006.

The following is the recommendation of the committee to increase the district contribution toward medical premiums of retired employees. The amounts required to fund this increase are from an actuarial review performed by Dennis Daugherty of the firm, Nicolay Consulting. This is the firm that performed the most recent actuarial study for the district of its post-retirement benefit program. The data used was from that last study and did not reflect any changes in our employee population since the last study.

- The district will increase its contribution to retired employees by \$15 to \$182 effective 7/1/06.
- The district will change the date of annual increases in contributions to 7/1 going forward.
- The total amount required to fund the past service portion of this increase is \$4,503,193. Of that \$2,073,586 is for current retirees and \$2,431,607 is for active employees.
- The amount required to fund the on-going cost for active employees (current service cost) is \$220,358.

The recommendation is for the employee groups to fund the past service portion for active employees. The district will fund the cost for current retirees (past service). The district will also fund the on-going cost for active employees.

In 2006-07, the District received \$4,372,764 in one-time funds that are not restricted (*this amount may be adjusted slightly when the 2005-06 recalculation is issued in February 2007*). These funds are subject to negotiation. The recommendation is to split these funds using the standard 80/20 split. The 80% portion will then be used to fund the past service cost for active employees and the residual funds paid as a one-time salary improvement for 2006-07.

The 20% portion will be used by the District to fund the past service cost for retirees. This amount will not be sufficient and the District also reserved an additional \$1.2M from PDF funds for this increase. In addition, the District will fund the on-going cost of \$220,358 which is consistent with prior funding of these benefits being provided for from on-going 20% funds.