

Retiree Health Forum

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Government Code Rules

- Article 8.5, Sections 31691 et. seq., allows for the provision of and amend to certain benefits for retirees including health care (BOS Resolution 74-469).
- Section 31691(c) specifically allows the Board of Retirement to provide payments for retiree health benefits from excess earnings, once pension reserves have been credited with the interest rate assumed by the actuary and a 1% reserve has been funded.
- Section 31592.4 (Resolution 98-147) prescribes the hierarchy of posting investment earnings, and the terms for using excess earnings in order to remain compliant with the Internal Revenue Service for a tax-exempt plan.

Current Status of the Retirees Insurance Reserve

• Current Reserves	• \$6,788,023
• Incurred But Not Reported (IBNP)	• <u>-820,628</u>
• Reserves after IBNP	5,967,395
• Average Mo. Claims	390,259
• Mo. Premiums	<u>-64,068</u>
• Average Mo. Draw on Reserves	326,191

Estimated Remaining Life of the Retiree Insurance Reserves

- Estimated Life:
 - \$5,967,395
 - 326,191 = 18.29 months
- This is purely an estimate for planning purposes and can change either direction due to claims and other draws, number of plan participants and premiums, and/or a return of excess earnings.
- Numbers do not reflect any changes proposed by the County.
- These numbers are preliminary as of the end of July, 2009. The Association's and County's books have not yet been closed.

Return of Excess Earnings?

- For the last one year period, MCERA suffered a loss in the value of its assets of 16.5%.
- During the 2nd Quarter of 2009, asset values produced a return of 13.8% (\$30.5 million), and during July experienced another increase of roughly \$12 million.
- The total increase in asset values for 2009/10 needed to credit reserves at 8%, ensure a contingency fund at 1%, and pay administrative expenses is approximately \$25 million.

Risk Factors

- It may appear as if there is no problem, the capital markets and the returns on our assets are headed in the right direction, isn't that true?
- If this past year has taught us anything, it is to be cautious in projecting and counting on short-term returns:
 - Equity market corrections.
 - Equity market stabilization until real recovery catches up with the market and leading indicator projected recovery.
 - Equity markets continue to be “bullish” and excess earnings return, but we will not know this until June 30, 2010 – approximately 7 months before Retiree Insurance Reserves are projected to be depleted. That's not much of a time cushion.