"Good Government at Affordable Cost"

Breaking Through the Bargaining Impasse

A Recommendation from the Contra Costa County Taxpayers' Association

Although Governor Newsom's budget will provide MDUSD near-term budgetary relief, the district should plan for the day when extraordinary state support ends. As part of this planning, we believe that MDUSD should look for opportunities to reduce its long term obligations, so it retains the budgetary flexibility to recruit and retain excellent teachers.

OPEB Benefits: An Opportunity for a Win-Win Scenario

MDUSD offers retiree health insurance, known as "Other Post- Employment Benefits" ("OPEB"). These benefits were initiated decades ago when their costs to the district were lower and retirees feared losing coverage altogether upon separating service.

Since the 2010 passage of the Affordable Care Act, however, many school districts and their bargaining units have begun analyzing the costs of these benefits. All pre-age 65 retirees are now guaranteed access to high-quality insurance through Covered California, along with generous federal subsidies that ensure affordability. Upon age 65, they are eligible for Medicare. Under this regime, the need for a district-provided plan no longer exists.

Per the FCMAT report of May 2021, the district's OPEB costs total **7.2% of unrestricted general fund revenues** (the costs were $20,668,861 in 2019-20), which exceeds the current bargaining gap with its teachers. Even worse, these costs divert resources that could be used to compensate active teachers or otherwise improve classroom performance.

As shown in Appendix I, MDUSD has higher retiree healthcare liabilities and costs than surrounding districts. However, the subsidized alternatives now readily available bring opportunity for constructive change.

We call upon you to bring this issue to the attention of your bargaining units so that you can mutually determine the best path to redirect these costs into the classroom.

As a nonpartisan community interest group, we will be happy to discuss this situation and publicly share our findings. We hope to share the news of a positive outcome when all is said and done. In the meantime, we stand ready to offer our expertise in helping you work toward a solution that enhances classroom performance in your district.

Sincerely,

Jim Pezzaglia

Jim Pezzaglia, Vice President, Contra Costa Taxpayers' Association

Supporting Materials:

- Appendix 1: A comparative summary of local school district OPEB liabilities
- Appendix 2: Examples of federal subsidies available through the
- Affordable Care Act
- Appendix 3: An article describing how the city of Glendale successfully offloaded retiree health care to the health care exchanges.

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District	Net OPEB Liability	Total Revenues	OPEB Liability/Revenues
Mt Diablo Unified School District	213,427,260	433,405,310	49.24%
Orinda Union Elementary School District	18,636,715	38,891,312	47.92%
West Contra Costa Unified School District	223,643,476	501,516,227	44.59%
Martinez Unified School District	16,634,894	57,715,587	28.82%
Pittsburg Unified School District	47,705,795	172,701,647	27.62%
Contra Costa County Office of Education	21,349,111	77,670,930	27.49%
John Swett Unified School District	6,265,920	24,141,619	25.95%
Oakley Union Elementary School District	14,006,337	62,867,144	22.28%
Antioch Unified School District	46,121,993	226,056,733	20.40%
Liberty Union High School District	15,081,718	118,696,562	12.71%
San Ramon Valley Unified School District	47,204,309	422,223,145	11.18%
Lafayette School District	5,089,296	48,444,843	10.51%
Acalanes Union High School District	8,987,230	99,957,711	8.99%
Knightsen Elementary School District	597,585	6,836,835	8.74%
Brentwood Union School District	8,806,091	110,705,322	7.95%
Walnut Creek School District	3,327,673	45,768,568	7.27%
Moraga Elementary School District	19,509	26,279,675	0.07%
Byron Union School District	0	17,756,403	0.00%

TABLE 5

Current PTC vs Proposed PTC for a 60-Year-Old, Annual Amounts

	Single Coverage				Family of Four			
FPL	Income	Current PTC	Proposed PTC	PTC Increase	Income	Current PTC	Proposed PTC	PTC Increase
150%	$19,320	$10,684	$11,484	$800	$39,750	$28,714	$30,360	$1,646
200%	$25,760	$9,804	$10,969	$1,164	$53,000	$26,904	$29,300	$2,396
250%	$32,200	$8,802	$10,196	$1,394	$66,250	$24,841	$27,710	$2,869
300%	$38,640	$7,686	$9,166	$1,480	$79,500	$22,545	$25,590	$3,045
350%	$45,080	$7,053	$8,216	$1,163	$92,750	$21,243	$23,636	$2,393
400%	$51,520	$6,420	$7,105	$685	$106,000	$19,940	$21,350	$1,410
401%	$51,649	$0	$7,094	$7,094	$106,265	$0	$21,327	$21,327
450%	$57,960	$0	$6,557	$6,557	$119,250	$0	$20,224	$20,224
500%	$64,400	$0	$6,010	$6,010	$132,500	$0	$19,098	$19,098
550%	$70,840	$0	$5,463	$5,463	$145,750	$0	$17,971	$17,971
600%	$77,280	$0	$4,915	$4,915	$159,000	$0	$16,845	$16,845
700%	$90,160	$0	$3,820	$3,820	$185,500	$0	$14,593	$14,593
800%	$103,040	$0	$2,726	$2,726	$212,000	$0	$12,340	$12,340
900%	$115,920	$0	$1,631	$1,631	$238,500	$0	$10,088	$10,088
1000%	$128,800	$0	$536	$536	$265,000	$0	$7,835	$7,835
1100%	$141,680	$0	$0	$0	$291,500	$0	$5,583	$5,583
1200%	$154,560	$0	$0	$0	$318,000	$0	$3,330	$3,330
1300%	$167,440	$0	$0	$0	$344,500	$0	$1,078	$1,078

SOURCE: Author's calculations based on the subsidy formula and using national averages for premiums.

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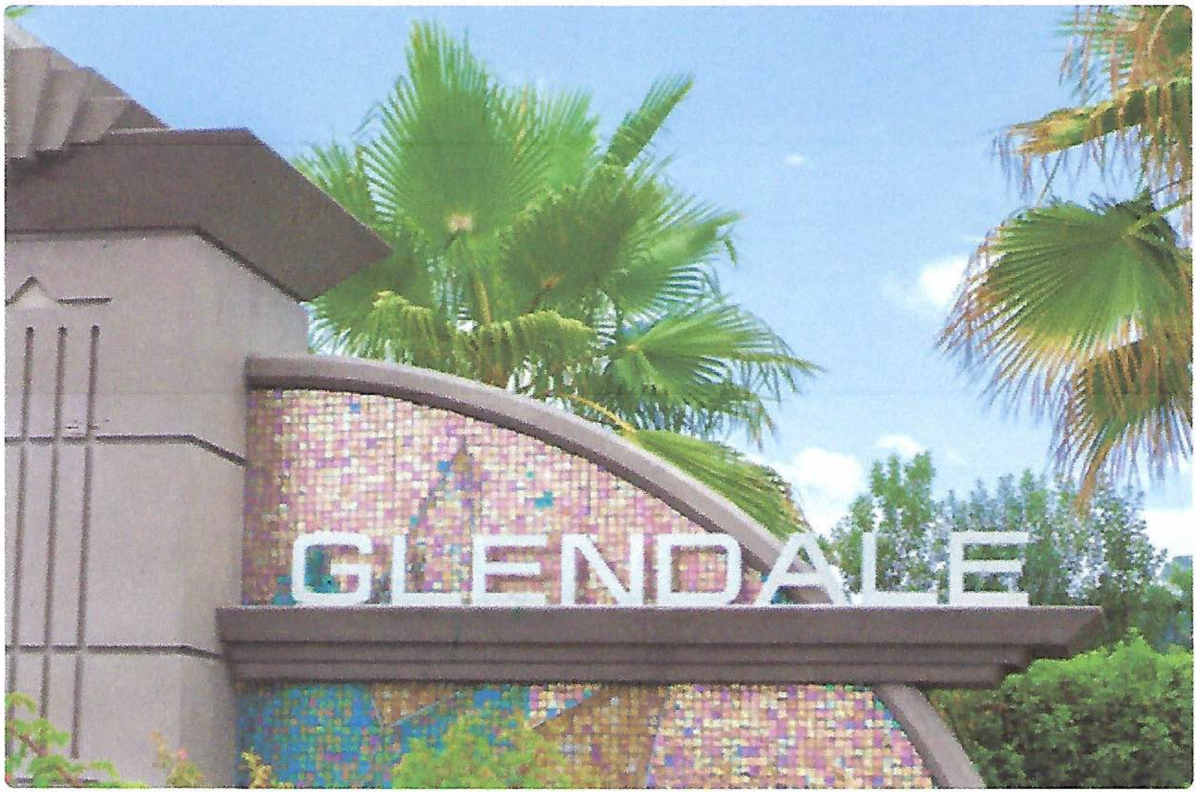

How Glendale Saved Money on Retiree Health Costs

January 4, 2018 / in Policy Briefs / by Edward Ring

In most cities and counties in California, "OPEB" (other post-employment benefit) costs are a growing expense.

While OPEB costs do not amount to nearly as much as costs for pensions, they are significant, and like pension costs, they are increasing every year. And unlike pensions, cities and counties usually have more flexibility to modify OPEB benefits. The most significant OPEB cost is for retiree health care. What the City of Glendale did to address their OPEB costs provides an example that can potentially be emulated in other cities and counties.

By the end of 2015, the City of Glendale, California had accumulated Other Post Employment Benefits (OPEB) liabilities of $250 million as of the end of the 2015 fiscal year. Over the coming decade, projected annualized benefits subsidies to be paid by the City were predicted to nearly triple. Not only did these escalating liabilities translate into higher expenditures each year, but a new GASB (Government Accounting Standards Board) ruling was about to require OPEB liabilities to be recorded on municipal balance sheets. This, in turn, could jeopardize the city's credit rating and result in higher interest rates on their bond financings.

In order to address this growing financial challenge to the city, council members and city staff worked with Keenan, a privately held insurance brokerage/consulting firm with offices throughout California. Keenan developed an approach to transition pre-age-65 and Medicare retirees from the City-sponsored plans into health care benefit exchange services. This allowed the City of Glendale to "unblend" the retiree costs from the premium rates for the active employee population.

In plain English, this means the city decided to no longer guarantee that retirees would pay no more than active employees for their health insurance, by no longer subsidizing the higher premiums that typically apply with older participants. Involving the affected retiree population in the discussion and development of the proposed solution, according to Keenan [https://keenan.com/futuris/City_of_Glendale_Case_Study.pdf], the retirees were ultimately provided with a coverage solution giving them greater flexibility and lower premium costs than participating in the City's plans.

As reported in the Los Angeles Times [http://www.latimes.com/socal/glendale-news-press/tn-gnp-glendale-to-end-health-benefit-for-retired-city-workers-20151007-story.html] , in October 2015 the Glendale City Council gave unanimous approval to the new benefit arrangement. The solution effectively reduced the City's unfunded OPEB liability by $200 million. As noted in Glendale's 2017 Annual Financial Report [http://www.glendaleca.gov/home/showdocument?id=40789] :

"In October 2015, the City Council approved unblending medical insurance premium rates between active employees and retired employees effective June 1, 2016. Accordingly, City's actuarial liability decreased from $214
million from the June 30, 2013 valuation to $16 million from the June 30, 2016 valuation, due to the fact that

there is no more "implied subsidy" after June 1, 2016."

According to the Los Angeles Times, "A two-party PPO plan under Anthem, for example, costs $2,454 per month with the city [Glendale] covering $1,049. The decision means retirees would pay the full amount." This represents a monthly savings of around $1,400 per retiree. According to Transparent California, in 2016 the City of Glendale had 1,729 retirees receiving pension benefits. Assuming all of these retirees are also receiving OPEB benefits, this means the city is saving around $22 million per year. As noted, this amount was projected to triple within the next ten years – hence the $198 million reduction in liability.

Determining a fair and financial sustainable level of employee benefits requires striking a difficult balance. What may be fair is not only highly subjective, but may be easily perceived as in conflict with what is financially sustainable. The City of Glendale, along with most cities and counties in California, had the ability to modify retiree health insurance benefits. They, along with most cities and counties in California, do not have the ability to exercise nearly as much latitude to modify pension benefits. So they took a significant step towards ensuring ongoing financial sustainability for their city using the option that was available to them.

In this context, it is relevant to observe that the average pension [https://transparentcalifornia.com/pensions/2016/calpers/emplo *(Cntl F "Glendale")* for a City of Glendale retiree with 30 years of service is $84,578.

Tags: City of Glendale, Keenen, OPEB reform, other post employment benefits, unblending active and retiree health benefits

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