

CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Study Session Worksheet

Presentation Date: 10/22/2013 **Approx Start Time:** 10:30 **Approx Length:** One hour

Presentation Title: Sheriff's Office Retiree Medical Fund

Department: Department of Employee Services & Sheriff's Office

Presenters: Nancy Drury, Director of Employee Services
Carolyn Williams, Benefits Manager
Mark Stotik, Assistant Director of Employee Services
Steve Steinberg, CCPOA President
David Kirby, Undersheriff
David Anderson, County Counsel

Other Invitees: Shari Anderson, County Treasurer
Marc Gonzales, Director of Finance

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

We are requesting that the Board approve the creation of the Clackamas County Sheriff's Retiree Medical Trust Fund to replace the current Retiree Medical Fund.

EXECUTIVE SUMMARY:

In 1980, the County created a retiree medical fund as part of a collective bargaining agreement with the Clackamas County Peace Officers Association. The purpose of the fund was to subsidize medical insurance premiums for POA retirees between the date of their retirement and Medicare eligibility. In 1985, the County created another retiree medical fund to provide similar subsidies to management retirees from the Sheriff's Office.

These funds were financed by a 0.5% percent of payroll from the Sheriff's Office budget. The percentage of payroll was increased several times, but the escalating cost of health insurance caused the funds to become nearly depleted. In 2005, the funds were combined into a single retiree medical fund and the County made a one-time contribution of \$150,000 and increased the payroll contribution again. The current contribution is 3.25% of payroll for all Sheriff's Office employees.

The Sheriff's Retiree Medical Fund is invested by the Treasurer's Office which maintains accounts with the State Treasury Investment Pool and various banks. These are very conservative investments with rate of return below 0.5% over the past several years. The fund balance at the end of FY 2012/13 was \$2,384,900 and interest was \$7,541 or about 0.3%.

Under the current contribution rate of 3.25%, the fund has a positive cash flow. However, according to an actuarial study projecting a 10-year cash flow, the positive cash flow will peak in FY 2018/19 and then begin declining. In order to avoid fund depletion in the future or increasing the contribution rate, the fund must produce greater investment returns. The only method to increase the return on investments would be to form a separate trust with fewer restrictions on investment options.

Similar trusts have been formed by other public sector agencies, including the City of Portland, State of Washington, San Bernardino County and the City of San Diego.

As part of the 2012/15 collective bargaining agreement with POA, the County agreed "...to form a committee to review and make a recommendation to the Board of County Commissioners about the establishment of an Independent Retiree Medical Trust... Such recommendation shall include (a) the County's obligation is to solely provide the agreed upon funds as outlined in the Collective Bargaining Agreement and shall have no obligation to provide additional funds should the IRMT not have sufficient money to meet its obligations or is in deficit for any other reason; and (b) direction of an IRMT should be based on the principle of equal representation from the County and the Association."

The committee was comprised of POA President Steve Steinberg, Deputy Steve Shelley, Corrections Deputy Jaime Ingham, Retired Sergeant Ed Mura, Undersheriff Dave Kirby, Captain Mike Alexander, DES Director Nancy Drury, Assistant DES Director Mark Stotik, Benefits Manager Carolyn Williams and Senior Legal Counsel David Anderson.

The Committee met several times over the course of 15 months. Members conducted a Request for Proposal, interviewed two trust attorneys and four investment advisors, and educated themselves on how to make an independent trust feasible. The Committee is recommending to the Board that creating an Independent Retiree Medical Trust is in the best interest of the County and the retirees from the Sheriff's Office.

The Committee has agreed to recommend trust attorney, Joseph Reinhart to assist with creating a legal trust document which would include the provision that the County and POA would appoint an equal amount of trustees. The trustees would be responsible for selecting an investment consultant to provide advice and fiduciary oversight, creating an investment policy statement and determining the administrative procedures for the trust.

FINANCIAL IMPLICATIONS (current year and ongoing):

The County no longer would bear any financial risk for holding and investing funds designated for providing retiree medical benefits. The Sheriff's Office would continue to have budget stability with a known contribution rate of 3.25%.

The Trust also would pay all administrative costs related to its operation. These include an actuarial study at approximately \$4,000 every other year and internal administration, both of which are currently subsidized by the Department of Employee Services at no cost to the Sheriff's Office or the Retiree Medical Fund. The Trust would also pay the costs of its attorney fees, investment consultant fees, fiduciary insurance and

administration fees. The Trust would not be subject to claims of County creditors in the event of County insolvency or bankruptcy.

LEGAL/POLICY REQUIREMENTS:

The Trust would be a legal entity separate and independent of the County, and would be governed by the law pertaining to trusts. The Trust would take legal title to the funds paid each month by the County, and would be required to hold the funds for the benefit of the of the trust beneficiaries. The beneficiaries would be the current and prospective retirees of the Sheriff's Office.

The Board of Trustees would be appointed as provided in the trust document. The trustees would each have a fiduciary obligation to act as a reasonable and prudent person to serve the interests of the beneficiaries and avoid conflicts of interest. The Trust would have the legal capacity to sue and be sued. Individual trustees could also be sued for breach of their legal duties. The administration and all the business of the Trust would be conducted subject to the requirements of the trust document.

PUBLIC/GOVERNMENTAL PARTICIPATION:

None.

OPTIONS:

Approve the establishment of an independent retiree medical trust fund for current and future retirees from the Sheriff's Office.

Maintain the current practice of investing through the Treasurer's Office.

RECOMMENDATION:

We recommend that the Board approve the establishment of an independent retiree medical trust fund for current and future retirees from the Sheriff's Office.

ATTACHMENTS:

- Collective Bargaining Agreement Article 11 – Health and Welfare, Section 8 – Retiree Medical Benefits
- Memorandum of Understanding – October 14, 2013
- Actuarial Study – 10-year cash flow return assumptions at 0.5% and 4.0%
- Sheriff's Fund Monthly Financial Report for FY 2012/13 (unaudited)

SUBMITTED BY:

Division Director/Head Approval CPW
Department Director/Head Approval [Signature]
County Administrator Approval _____

For information on this issue or copies of attachments, please contact Carolyn Williams at 503-742-5470 or Nancy Drury at 503-655-8812.

AGREEMENT BETWEEN CLACKAMAS COUNTY OREGON and CLACKAMAS
COUNTY PEACE OFFICERS ASSOCIATION
ARTICLE 11 – HEALTH AND WELFARE

Section 8. Retiree Medical Benefits.

Three and one quarter percent (3.25%) of employee compensation as set forth in the appendices shall be placed into a fund to be administered by the Independent Retiree Medical Trust (subject to the agreement below) to provide medical benefits for retired eligible employees who have not yet become eligible for Medicare benefits. The Retiree Medical Trust shall have the sole responsibility and the right for determining the amounts of benefits to be received and the eligibility for receipt of those benefits, subject to the agreement below.

Clackamas County (County) and the Clackamas County Peace Officers' Association (Association) agree to form a committee to review and make a recommendation to the Board of County Commissioners about the establishment of an Independent Retiree Medical Trust (IRMT). The purpose of the IRMT would be to administer the retiree medical benefits which are described in Article 11 Section 8 of the collective bargaining agreement and in the Agreement dated February 25, 2005 related to the Sheriff's Office Retiree Medical Fund. The committee will proceed as follows:

- 1) Upon signature of this agreement, the parties shall begin searching for a mutually acceptable consultant to assist with the work of IRMT Committee. The process for selecting such consultant shall be:
 - a. The request for proposal will be conducted through the County's Purchasing Division following its standard processes. All interested parties are welcome to make a proposal.
 - b. The union and management members of the IMRT Committee shall develop the request for proposal requirements, evaluate the submitted proposals and recommend a finalist to the Board of County Commissioners.
 - c. The cost of such consultant shall be equally divided between the County and the Union.
- 2) Within six months after the ratification by both parties of the successor agreement, the committee shall report back to the Board its recommendation. The meeting of such committee shall occur every two weeks until a recommendation is formed or six months passes, whichever is first. Such Recommendation shall include (a) the County's obligation is to solely provide the agreed upon funds as outlined in the Collective Bargaining Agreement and shall have no obligation to provide additional funds should the IRMT not have sufficient money to meet its obligations or is in deficit for any other reason; and (b) direction of an IRMT should be based on the principle of equal representation from the County and the Association:
- 3) Each party shall appoint its own committee members up to three, with voting being equally divided between each side. If the final recommendation has a tie vote, that shall be reported to the Board.

MEMORANDUM OF UNDERSTANDING

Clackamas County (County) and


Clackamas County Peace Officers Association (CCPOA)

1. The 2012-2014 collective bargaining agreement between County and CCPOA provides in Article 11, Section 8 for the formation of a labor-management committee to review and make a recommendation to the Board of County Commissioners (BCC) regarding the establishment of an Independent Retiree Medical Trust (IRMT).


2. The committee has carried out its responsibilities as required. A request-for-proposals seeking the services of a consultant was conducted, but no formal responses were received. The committee has interviewed a number of attorneys and financial advisors.

3. The committee recommends to the BCC that an IRMT be formed. As provided in the collective bargaining agreement, this recommendation includes the provisions that (1) the County's sole obligation is to provide the agreed-upon funds as provided in the collective bargaining agreement, and shall have no obligation to provide funds should the IRMT not have sufficient money to meet its obligation or be in deficit for any other reason, and (2) direction of an IRMT would be based on the principle of equal representation from the County and the Association.

4. The committee further recommends that attorney Joe Reinhart be retained to draft a trust agreement for the IRMT, subject to approval by County and CCPOA, with the cost of that service to be divided equally between County and CCPOA.



For the County



For the CCPOA

10-16-13

Date

Table 1B
10-Year Projection
Investment Return Assumption 0.5%

Fiscal Year Beginning	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016	7/1/2017	7/1/2018	7/1/2019	7/1/2020	7/1/2021	7/1/2022
Fiscal Year End	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
Beginning Balance	\$ 2,122,420	\$ 2,384,481	\$ 2,690,337	\$ 3,022,455	\$ 3,365,051	\$ 3,772,000	\$ 4,197,447	\$ 4,649,507	\$ 5,081,939	\$ 5,439,538	\$ 5,756,509
Revenue											
Interest	7,122	12,594	14,179	15,860	17,716	19,788	21,972	24,182	26,168	27,859	29,509
Contributions	884,156	917,312	951,711	987,400	1,024,427	1,062,843	1,102,700	1,144,051	1,186,953	1,231,464	1,277,644
Total Revenue	891,278	929,905	965,890	1,003,260	1,042,143	1,082,632	1,124,672	1,168,233	1,213,121	1,259,323	1,307,153
Expenditures	(629,217)	(624,049)	(633,772)	(660,664)	(635,195)	(657,185)	(672,611)	(735,801)	(855,523)	(942,352)	(960,099)
Ending Balance	\$ 2,384,481	2,690,337	3,022,455	3,365,051	3,772,000	4,197,447	4,649,507	5,081,939	5,439,538	5,756,509	6,103,563
Increase (Decrease)	262,061	305,856	332,118	342,596	406,948	425,447	452,061	432,432	357,598	316,971	347,054
Total Payroll	27,204,792	28,224,971	29,283,408	30,381,536	31,520,843	32,702,875	33,929,233	35,201,579	36,521,638	37,891,199	39,312,119

Table 1A
10-Year Projection
Investment Return Assumption 4.0%

Fiscal Year Beginning	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016	7/1/2017	7/1/2018	7/1/2019	7/1/2020	7/1/2021	7/1/2022
Fiscal Year End	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
Beginning Balance	\$ 2,122,420	\$ 2,384,481	\$ 2,778,442	\$ 3,213,286	\$ 3,674,480	\$ 4,217,752	\$ 4,799,478	\$ 5,429,348	\$ 6,062,177	\$ 6,642,106	\$ 7,202,146
Revenue											
Interest	7,122	100,699	116,905	134,458	154,039	176,068	199,780	224,579	248,499	270,928	293,846
Contributions	884,156	917,312	951,711	987,400	1,024,427	1,062,843	1,102,700	1,144,051	1,186,953	1,231,464	1,277,644
Total Revenue	891,278	1,018,010	1,068,615	1,121,858	1,178,467	1,238,912	1,302,480	1,368,630	1,435,452	1,502,392	1,571,490
Expenditures	(629,217)	(624,049)	(633,772)	(660,664)	(635,195)	(657,185)	(672,611)	(735,801)	(855,523)	(942,352)	(960,099)
Ending Balance	\$ 2,384,481	2,778,442	3,213,286	3,674,480	4,217,752	4,799,478	5,429,348	6,062,177	6,642,106	7,202,146	7,813,537
Increase (Decrease)	262,061	393,961	434,843	461,194	543,272	581,727	629,869	632,829	579,929	560,040	611,391
Total Payroll	27,204,792	28,224,971	29,283,408	30,381,536	31,520,843	32,702,875	33,929,233	35,201,579	36,521,638	37,891,199	39,312,119

Sheriff's Fund Monthly Financial Report
(Unaudited)

	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	TOTAL
BEGINNING FUND BALANCE	2,122,420	2,139,836	2,194,078	2,212,641	2,231,337	2,249,520	2,267,328	2,281,869	2,296,883	2,345,894	2,361,305	2,377,385	
REVENUE													
Interest	677	744	684	757	618	591	563	504	561	566	560	715	7,541
Contributions	66,019	102,010	67,271	66,973	67,586	66,991	68,294	68,825	103,306	68,619	69,024	69,237	884,156
TOTAL REVENUE	66,696	102,754	67,955	67,730	68,204	67,582	68,857	69,329	103,867	69,185	69,584	69,952	891,696
EXPENDITURES													
Medical Premiums	49,281	48,512	49,392	49,034	50,021	49,775	54,315	54,315	54,857	53,774	53,503	62,438	629,217
TOTAL EXPENDITURES	49,281	48,512	49,392	49,034	50,021	49,775	54,315	54,315	54,857	53,774	53,503	62,438	629,217
ENDING FUND BALANCE	2,139,836	2,194,078	2,212,641	2,231,337	2,249,520	2,267,328	2,281,869	2,296,883	2,345,894	2,361,305	2,377,385	2,384,900	
INCREASE/DECREASE	17,415	54,242	18,563	18,696	18,183	17,808	14,542	15,014	49,010	15,411	16,081	7,515	262,479