

Resolution No.:	<u>20-337</u>
Introduced:	<u>November 28, 2023</u>
Adopted:	<u>December 5, 2023</u>

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

Lead Sponsor: Government Operations and Fiscal Policy Committee

SUBJECT: Other Post-Employment Benefits (OPEB) Funding Policy

Background

1. Governmental Accounting Standards Board (GASB) Statement No. 45, and successor GASB Statement No. No. 75, address how state and local governments should account for and report their costs and obligations related to retiree health benefits, referred to as Other Post-Employment Benefits (OPEB).
2. Under the GASB Statements, County agencies (Montgomery County Government, Montgomery County Public Schools, Montgomery College, the Washington Suburban Sanitary Commission, and the Maryland-National Capital Park and Planning Commission) were required to report OPEB expense based on an actuarial valuation and disclose their OPEB liabilities in their financial statements, starting with FY 2008.
3. On April 10, 2007, the Council adopted Resolution No. 16-87, *Five-Year Funding Schedule for County Agencies' Annual Required Contribution for Other Post Employment Benefits (OPEB)*. This resolution acknowledged that the County agencies intended to establish one or more trusts on or before July 1, 2007 for the responsible fiscal management of these OPEB obligations and stated the Council's policy intent to phase-in pre-funding of OPEB obligations over a five-year period beginning with FY 2008.
4. On May 14, 2008, the Council adopted Resolution No. 16-555, *Resolution to Amend Resolution No. 16-87 to Establish an Eight-Year Funding Schedule for County Agencies' Annual Required Contribution for Retiree Health Benefits (Other Post Employment Benefits - OPEB)*. This resolution extended the planned timeframe to phase-in pre-funding of OPEB obligations to an eight-year period beginning with FY 2008. The County agencies achieved full OPEB pre-funding in FY 2015, in alignment with the approved phase-in schedule.
5. On April 1, 2008, the Council approved Expedited Bill 28-07, Personnel-Other Post Employment Benefits Trust - Establishment. This Bill established a Retiree Health Benefits Trust for the County Government. On June 28, 2011, the Council adopted Bill 17-11 to amend the law to allow the Trust to also receive OPEB pre-funding for Montgomery County Public Schools and Montgomery College and re-named it the Consolidated Retiree Health Benefits Trust (CRHBT).

6. On May 16, 2023, the Council discussed updated OPEB funding policy options for Montgomery County Government. To provide for the review and adoption of an updated policy, the County adopted language in the FY24 Operating Budget resolution for County Government (Resolution #20-184, provision #83) requiring the Executive to submit a draft OPEB funding policy to the Council in October 2023.
7. On October 2, 2023, the Executive submitted a draft OPEB funding policy to the Council.
8. On November 9, 2023, the Government Operations and Fiscal Policy Committee unanimously recommended adoption of a revised OPEB funding policy for Montgomery County Government.
9. This resolution replaces the OPEB funding policy established in Resolution No. 16-555.

Action

The County Council for Montgomery County, Maryland approves the following policies regarding funding of Montgomery County's Other Post-Employment Benefits (OPEB) obligations and use of Montgomery County's portion of the Consolidated Retiree Health Benefits Trust (CRHBT):

1. Policy Goal

To provide guidelines for the funding and use of the Montgomery County Government's portion of Consolidated Retiree Health Benefits Trust (CRHBT) assets to fund all or a portion of the County Government's share of annual retiree health insurance costs. It is the intent of this policy to:

- Ensure CRHBT assets are utilized for their intended purpose in a fiscally responsible manner;
- Ensure long-term viability of the CRHBT, with sufficient assets to pay for the County's share of earned benefits;
- Align the use of CRHBT assets with the County's overall fiscal policies and with generally accepted best practices for retiree health benefit trust funding and utilization; and
- Provide consistency and reliability in the annual budgeting process to the maximum extent practicable.

2. Funded Ratio Target and Timeframe

Beginning with the FY 2024 actuarial valuation for the FY 2025 budget, it is the County's goal to achieve a 75% funded ratio on a budgetary funding basis in the CRHBT within a 15-year period. After the funded ratio target is achieved, the actuarial valuations should seek to maintain a 75% funded ratio in subsequent years as part of determining annual contributions and/or withdrawals (see provision #5). The County acknowledges that there are external factors that could expedite or lengthen the number of years required to achieve the target funded ratio, and that can impact the funded ratio level once it is achieved.

3. Amortization of Liabilities

The County will use a closed, 15-year amortization period as part of the actuarial valuations used to determine contributions for pre-funding retiree health benefit liabilities. This includes amortizing all gains and losses over 15 years (from the time incurred) to reduce contribution volatility.

4. Investment Rate of Return

Changes to the investment rate of return should be considered as part of the County's standard periodic review of investment return assumptions for the pension and consolidated retiree health benefit trusts. The Chief Administrative Officer must notify the Council of any change in the assumed annual rate of return for CRHBT assets.

5. CRHBT Contributions/Withdrawals

Beginning with the FY 2024 actuarial valuation for the FY 2025 budget, annual contributions and/or withdrawals from the CRHBT will be determined by and result from actuarial valuation. During the planned 15-year buildup to the funded ratio target, it is anticipated that actuarially determined withdrawals (variable withdrawals) from the CRHBT may occur prior to achieving the funded ratio target. During the 15-year buildup period, any General Fund savings achieved via variable withdrawals from the CRHBT should be allocated to one-time expenditures, consistent with the County's Reserve and Select Fiscal Policies Resolution. An additional one-time use of such General Fund savings may be to create an internal reserve or set aside for OPEB pre-funding for years in which volatility in the actuarial valuation requires a significant and/or unexpected contribution requirement.

During the planned 15-year buildup to the funded ratio target, one-time contributions in excess of an annual actuarially calculated contribution may also be made to the CRHBT.

Once the funded ratio target is achieved, it is anticipated that the CRHBT will fund all or most of the County's share of annual retiree health benefit costs on an ongoing basis.

6. Funding Guardrails

During the planned 15-year buildup to the funded ratio target, volatility in investment returns, medical healthcare costs, or other factors can create volatility in annual funding requirements and the funded ratio. This policy includes actuarial "guardrails" incorporated into the actuarial valuation process that automatically adjust contributions and/or variable withdrawals over a two-year period if the actual funded ratio falls more than 10% above or below the projected funded ratio needed to ensure the target can be met within the desired timeframe. The purpose of the guardrails is to reduce funded ratio volatility.

7. Deviations from Actuarially Required Contribution/Withdrawal

The County's adopted Fiscal Policies ([Council Resolution 19-753](#)) include guidelines for the use of County reserves during economic recessions and/or national emergencies, stating in part: *"The County's goal is to identify targeted budget reductions to reduce the use of the County Government Reserves during economic recessions or national emergencies. The Council and Executive will work collaboratively to identify targeted reductions that will minimize impact on the County's service delivery in response to the economic recession or national emergency."*

Council Resolution 19-753 defines an economic recession as *"when the United States Gross Domestic Product, as published by the U.S. Department of Commerce Bureau of Economic Analysis, has experienced negative growth for at least two quarters; and/or the National Bureau of Economic Research has determined that the United States economy is in a recession"* and defines a national emergency as *"an event that is a federally declared natural or national disaster or emergency in all or part of the County."* Under these guidelines, the Executive may recommend, and the Council may approve, changes to a single year's actuarially required contribution or withdrawal amount (including as part of the annual operating budget or a formal mid-year budget Savings Plan) if needed to reduce the use of reserves or minimize the impact on the County's service delivery.

8. Required Policy Review

The County should review this policy every five years to confirm or update key assumptions that impact the actuarially calculated required level of contributions or withdrawals. This does not prohibit a review of policy elements outside of this cycle if warranted (e.g., a significant change in external factors impacting the liability, one-time contributions in excess of amounts actuarially required).

This is a correct copy of Council action.



Sara R. Tenenbaum
Clerk of the Council