11.1 Purpose

The purpose of this Retirement Benefits Funding Policy ("Policy") is to provide a funding plan for the Grossmont Healthcare District (District) California Public Employees' Retirement System (CalPERS) defined benefit pension plan and retiree health benefit plan, also known as Other Post-Employment Benefits (OPEB). This funding Policy supports the decision-making process of the District. The District recognizes that a fiscally prudent Policy should:

- Maintain the District's sound financial position,
- Align with District's long-range financial plan,
- Provide guidance in making annual budget decisions,
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenditures,
- Ensure that all retirement benefit funding decisions are structured to protect both current and future taxpayers and residents of the District, and
- Protect the District's ability to provide employees with the retirement benefits promised.

11.2 Background

The primary goal of funding retirement benefits is to ensure that sufficient assets will be accumulated to deliver promised benefits when they come due and to protect benefits in situations that involve employer insolvency or bankruptcy. The District's retirement benefit funding philosophy is to establish sound funding guidelines that promote retirement benefit security. This policy will guide the District's strategy to fund the retirement benefit plans to a minimum target of 90% of the total accrued liability.

The District's Board of Directors is committed to fiscal sustainability by employing long-range financial planning efforts, maintaining appropriate reserve levels, and employing prudent practices in governance, management, budget administration, and financial reporting.

The District contracts with CalPERS for defined benefit pension. Eligible employees become vested after five years of CalPERS employment. Benefits are based on years of service, age, and compensation.

Medical, Dental, Vision, and Pharmacy benefits (OPEB) are offered to eligible former full-time employees who have accrued not fewer than five years' service with the District, not less than ten years' service with CalPERS, and who retire within 120 days of separation from the District.

11.3 Trust Funds

CalPERS maintains the Public Employees' Retirement Fund (PERF) to pool contributions from public employees and employers, invest across various asset classes, and pay out retirement benefits to over two million California public members.

For OPEB, the District contracted with California Employers' Retiree Benefit Trust Fund (CERBT), a Section 115 public-employer trust managed by CalPERS that enables California's public agencies to prefund OPEB for their employees. The balance in this irrevocable trust is for the exclusive benefit of eligible retirees.

11.4 Actuarial Studies

Each year, CalPERS performs actuarial valuations on behalf of participating public employers, including the District, to assess pension liabilities. The District contracts with an independent actuary to prepare the valuation of the OPEB liability in accordance with generally accepted actuarial principles and practices and all applicable Actuarial Standards of Practice. The OPEB evaluation is required every two years, and a roll-over valuation is performed in the interim years to inform specific line items in the audited financial statement s of the District.

Actuarial valuations and studies determine accrued liabilities, funded status, expected annual cost of benefits earned this year (normal cost), and, for pension, required employer and employee contributions. Actuarial reports are crucial for budgeting, meeting financial reporting standards, and determining the necessary contribution amount to target a 90% funded status.

11.5 Funding and Funding Targets

The District shall fully fund the annual required actuarially determined contribution (ADC). For pension, the District will prepay, each July, the required annual amortization of the Unfunded Accrued Liability (UAL), rather than make optional monthly payments. Prepayment can result in significant savings to the District.

During the budget preparation, if pension or OPEB liabilities are less than 90% funded, District staff will calculate an Additional Discretionary Payment (ADP) to achieve 90% funded status by the end of the budget year for both pension and OPEB liabilities, to the extent of reserves in excess of policy minimums. The District does not target funded levels of 100% to avoid stranding resources in irrevocable trusts.

If the pension obligation is funded in excess of 100%, no more ADPs shall be executed until funded status drops below 90%.

For OPEB, the District will not request disbursement from CERBT to reimburse for retiree medical benefits for the year if the funded status is less than 100%. If reserve levels are adequate and the funded status remains over 100% for three consecutive years, the District should consider reimbursements from the trust for retiree medical benefits paid for the year. If reserve levels are anticipated to drop below minimum targets, the District should consider disbursement requests when funded status is above 90%.

11.6 Future Retirement Benefit Enhancements

Future benefit enhancements will only be considered if the cost of those enhancements do not cause the plan's funded ratio to go below 90%.