



RECEIVED

JAN 25 2011

VENTURA COUNTY
GRAND JURY

309 South K Street • Oxnard, California 93030 • (805) 385-2527 • FAX (805) 247-9001

January 20, 2011

Board of Trustees

SOCORRO LÓPEZ HANSON
President

DICK JÁQUEZ
Vice President

WAYNE EDMONDS
Clerk

JOHN ALAMILLO
Member

STEVE W. STOCKS
Member

Don Cody, Ed.D.
Grand Jury of Ventura County
800 South Victoria Avenue
Ventura, CA 93009

Dear. Dr. Cody:

RE: *The Half Billion Dollar Elephant in Our Schools' Closets*

On behalf of the Oxnard Union High School District Governing Board, please accept the report submitted to the Ventura County Grand Jury by Mr. Steven Gama, Director of Risk Management. The Board President and I approved the report.

Administration

BOB CARTER, Ed.D.
Superintendent

ROBERT "ROCKY" VALLES, Ed.D.
Assistant Superintendent
Human Resources

WILLIAM E. DABBS, JR.
Assistant Superintendent
Educational Services


RANDY WINTON
Assistant Superintendent
Business Services

JENNIFER ZAVOIKO
Administrator
Student Services & Interventions

Thank you for all the work that the Ventura County Grand Jury does on behalf of the residents of Ventura County.

If you have any additional comments, please contact me at 805-385-2561.

Sincerely,



Bob Carter, Ed.D.
Superintendent

Visit our Website at
www.ouhsd.k12.ca.us

District of Scholars, Achievers, and Champions!

Adolfo Camarillo • Adult School • Channel Islands • Frontier • Hueneme • Oxnard • Pacifica • Rio Mesa



Oxnard Union High School District

STEVEN A. GAMA
DIRECTOR, RISK MANAGEMENT

January 11, 2011

RECEIVED
JAN 19 2011

Mr. Don Cody, Ed.D.
Grand Jury of Ventura County
800 South Victoria Avenue
Ventura, CA 93009

VENTURA COUNTY
GRAND JURY

Re: Letter Dated December 30, 2011, Retiree Medical Benefits

Dear Dr. Cody:

R-01

Because the liability for lifetime retiree medical benefits is so complex and tracking it so important, we formed the Oxnard Union High School Retiree Benefit Trust (RBT) in 1999. The formation of the RBT was the first step to address the unfunded liability. The RBT's initial funding came from an approximately \$4,000,000.00 surplus withdrawal from our self-insured PPO plan. Since the formation of the Oxnard Union High School RBT we have obtained an Actuarial study on the unfunded liability each year. We have reframed from calling the benefit "Lifetime Medical" and opted to call it "continued medical coverage for eligible retirees". An eligible retiree is one who has had 15 years of service and attained the age of 55 at retirement. Since that time we have seen our super composite medical insurance rate go from the mid \$400.00 to nearly \$1000. Almost two years ago we formed a committee called the Gap Committee to be involved in the development of a master plan to deal with the immanent impact of the escalating costs in health care. The formation of the committee was to address three developing issues 1) the post July 1, 2004, employees 2) develop alternatives to reduce the

unfunded liability 3) insurance coverage for future retirees not eligible for retiree continued medical during the Medi-care the GAP age 55 through age 65.

The non-eligible employees hired after July 1, 2004, are increasing in numbers each year and when their time comes to be the leaders of the collective bargaining unit, it is expected that they shall not be willing to continue pay as you go as it shall result in pay decreases for them without eligibility for the benefit. It is anticipated that the funding would be transferred to the Retiree Benefit Trust. The main objective was to develop the what, when and how; as the alternative to the pay as you go method. This would be very helpful in getting consensus and a better understanding of the issue as it becomes more difficult to continue to pay as we go. The current reality of pay as you go is that at some point in the very near future, pay decreases or the Oxnard Union High School District Retiree Benefit Trust will have to shoulder the monthly premium payments for retirees. Currently, the trust's assets total approximately \$32,000,000.00. The monthly cost for retiree benefits is approximately \$500,000.00. This amounts to a little more than 6 years of funding until the Trust assets are zero. At that point, it is my understanding that the District would no longer provide retiree health benefits for the Post 1991 retirees. The cost to fund and to address the past service costs are unaffordable at this time as the combined service cost and current funding would amount to over \$5400.00 per eligible employee per year. This would be in excess of \$5,000,000.00 per year and would take approximately 30 years to fully cover the unfunded liability. Risk Management has identified some alternatives for discussion such as Health Savings Accounts. Because the unfunded liability is so large, we have begun conversations on how to reduce it. For example: a 47 year old employee with 15 years of service and plans on retiring at the age of 55. It is apparent that the prospects for the affordability for retiree health benefits are dim. Would this employee be willing to give up eligibility for retiree continued medical benefits if he/she were allowed to establish a Health Savings Account (HAS)? A high deductible HSA would reduce the monthly premium by an estimated 24% for each participant. This would allow him/her to build an asset for future health coverage post retirement. While it appears that this is a viable option and if a large number of eligible current employees were to agree to this, it would reduce the liability and the monthly premium costs; however, it would have to be studied in an actuarial valuation in order to understand all the financial impacts of this

idea. One of the issues with this approach is the possibility for adverse selection in the current PPO Self-funded plan we have in place. In other words, there would be a concern that all the young and healthy participants would enroll in the HSA plan leaving behind the older and unhealthy population. Clearly, surpluses would be a challenge. Over the last several years, the primary funding source for the Retirement Benefit Trust has been the generated surpluses from our Self-funded PPO plan. Currently, after subtracting out the Incurred But Not Reported (IBNR) claims factor, we have an estimated \$3,364,211.55 surplus balance in our self-funded PPO plan. As was our past practice, there most likely is consideration to remove a portion of that surplus balance to the RBT.

R-02

Each district within the County Schools jurisdiction has different plans and insurance programs. There is no ability to create a one size fits all cost reducing insurance program as each district has its own bargaining units and contracts. General recommendations can be recommended; however, it is up to each district to decide which would work with their specific insurance program. There are vast differences from district to district with regards to insurance eligibility and the insurance programs being offered to employees. If a one size fits all health insurance plan was implemented there would be losers and winners in the short term; however, over the long term the costs would be steadier and less apt to large fluctuations due to the law of large numbers.

R-03

Each district within the County Schools jurisdiction has different plans and insurance programs. There is no ability to create a one size fits all cost reducing insurance program as each district has its own bargaining units and contracts. General recommendations can be recommended; however, it is up to each district to decide which would work with their specific insurance program. There are vast differences

from district to district with regards to insurance eligibility and the insurance programs being offered to employees.

R-04

As it relates to the issue of the unfunded liabilities with retiree health benefits, our district has not expressed in any direct fashion the indebtedness with regards to retiree health benefits; however, we have in a public fashion discussed the unfunded liability as actuarial reports had been conducted each since the establishment of the RBT. Over the course of the last 10 years we have seen the unfunded liability predictions rising due to rising medical costs and the absence of interest income from the funds not currently set aside. Each and every year the findings were presented to the Board of Trustees, administrative staff, RBT and the bargaining unit.

R-05

The Oxnard Union High School District regularly posts adopted budgets, interims and the unaudited actuals as well as the annual audit.

R-06

The Oxnard Union High School District through the medical committee, the GAP committee and a Retiree Benefit Newsletter has been communicating the issue evolving around the unfunded liability with retiree medical benefits. Negotiations and discussions have been on-going with the bargaining unit with regards the three groups of retirees (Pre-91, Post 91 and Post Active 2004 Employees).

R-07

While the Oxnard Union High School District has not found a way to fund the current obligation on a regular basis, it has taken proactive steps over the past 10 years to bring in to the forefront of negotiations and discussion. The creation of the RBT has led to the accumulation of over \$30,000,000.00 in the Trust towards the unfunded liability.

R-08

The Oxnard Union High School District has over the last ten years required benefit premium contribution, implemented new benefits programs (Raising Deductibles and Co Pays), adopted Prescriptions drug savings programs, educated retirees and actives employees on how to lower their costs, Mandated Medi-care Part B participation, participates in the Medi-care Part D drug subsidy program and froze entitlement to retiree continued medical coverage effective July 1, 2004.

Very truly yours,



Steven A. Gama

Director, Risk Management