



County OPEB Trust Fund

In 2004, the Governmental Accounting Standards Board (GASB) issued Statement #45 (GASB #45), Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, to address how governmental entities should account for and report their costs and obligations related to “other post-employment benefits” (OPEB). OPEB refers to fringe benefits provided to retired and former employees other than pension benefits. In past accounting standards, entities recognized the cost of these benefits as they were paid. This standard requires recognition of the cost of the benefits over the service period of the employee. In 2015, GASB issued Statement #75 (GASB # 75), Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions, which required the County to record a liability on the government-wide financial statements for its net OPEB liability.

Currently, Loudoun County and Loudoun County Public Schools (LCPS) offer post-retirement benefits, which include healthcare coverage for eligible retirees and their families. The program includes coverage for both pre-65 and Medicare-eligible retirees with an appropriate medical and prescription drug plan and dental and vision coverage. The bond rating agencies have stated that they consider OPEB funding status in their evaluations of government financial condition. It is possible that bond ratings may suffer for governments with large and/or mounting liabilities that do not have a mechanism in place to manage these obligations. Following these guidelines, the LCPS and County’s actuarial firms have been conducting bi-annual analyses in accordance with GASB #45, and more recently, GASB #75.

In response to the reporting requirements, the County created a fiduciary fund in FY 2009 with a budget of \$10,000,000; \$7,000,000 for LCPS and \$3,000,000 for Loudoun County. The purpose of this fiduciary fund was to provide the County with a means to budget for the annual cost of public employee non-pension benefits related to OPEB in the same manner as pensions.

In September 2009, LCPS and Loudoun County joined the Virginia Municipal League (VML)/Virginia Association of Counties (VACo) Pooled OPEB Trust for the investment of County assets related to OPEB. This Trust was established as an investment vehicle for participating employers to accumulate assets to fund OPEB. The initial funding transfer occurred on September 8, 2009, with the County OPEB Committee (Local Finance Board) continuing its role of monitoring the funding and performance of the VML/VACo Pooled OPEB Trust. Additionally, LCPS and Loudoun County are currently represented by a Local Finance Board member on the VML/VACo Pooled OPEB Trust Board of Trustees. To better control the increasing cost of retiree health benefits and to mitigate future liabilities, LCPS and the County have continued to monitor the program, implementing a number of cost saving measures over the last several years. The changes, which include restructuring cost sharing and eligibility, have resulted in notable savings. The County and LCPS will continue to explore innovative solutions that will assist in future program cost management.

The FY 2020 Adopted Budget included an annual contribution of \$15,500,000 to the OPEB Trust; \$10,000,000 for the LCPS and \$5,500,000 for Loudoun County. Similarly, the FY 2021 Proposed Budget includes an annual contribution of \$15,500,000-including 10,000,000 in contributions for the LCPS. LCPS’s FY 2021 budget amount of \$10,000,000, which represents a \$2 million reduction from FY 2018, reflects retiree health reforms previously approved by the School Board. The County FY 2021 Proposed Budget includes an amount of \$5,500,000 to be paid into the OPEB Trust, which represents a commitment to a full funding approach and will result in an ongoing annual reduction to the Net OPEB Obligation. Beginning in FY 2021, staff anticipates expenses of \$4,473,000, which represents benefits payments to beneficiaries from the OPEB Trust Fund. The County’s full funding approach has brought the funding level to 73 percent, allowing the County to start using the trust fund to pay full benefits.

Contributions to the OPEB Trust Fund are anticipated to continue at FY 2020 and FY 2021 levels in FY 2022 and possibly future fiscal years.

**County OPEB Trust Fund****Financial Summary**

	FY 2018 Actual	FY 2019 Actual	FY 2020 Adopted	FY 2021 Proposed	FY 2022 Projected
Contributions					
County	\$5,500,000	\$5,500,000	\$5,500,000	\$5,500,000	\$5,500,000
Schools	12,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Total OPEB Contributions	\$17,500,000	\$15,500,000	\$15,500,000	\$15,500,000	\$15,500,000
Expenditures					
County	\$0	\$0	\$0	\$4,473,000	\$4,500,000
Schools	0	0	0	0	0
Total OPEB Expenditures	\$0	\$0	\$0	\$4,473,000	\$4,500,000

Policies

The County and LCPS participate in the Virginia Pooled OPEB Trust, administered by VML/VACo. Funds are pooled from participating jurisdictions and invested in the name of the Virginia Pooled OPEB Trust. The Board of Trustees of the Virginia Pooled OPEB Trust establishes investment objectives, risk tolerance, and asset allocation policies in light of market and economic conditions and generally prevailing prudent investment practices.

Effective January 1, 2013, cost-saving measures were implemented by the County. Employees were designated into groups based on years of service and/or age, which determine their retiree health benefit eligibility. With the designation of groups, the County's defined benefit OPEB plan is closed to new participants, and a defined contribution Retirement Health Savings Program ("RHSP") is used for new employees. Other cost saving measures, including caps on employer cost sharing and a 10 percent aggregate cost shift to retirees, were put into place to further mitigate future OPEB costs as well as to reduce the County's Annual Required Contribution. Employer contribution rates for retirees vary based on the designated group, type of retirement, years of service, plan type, and coverage level.