



DEPARTMENT OF FINANCE

Douglas M. Duncan  
County Executive

Timothy L. Firestine  
Director

MEMORANDUM

June 15, 2006

TO: Stephen B. Farber, Council Staff Director  
Montgomery County Council

FROM: Timothy L. Firestine, Director  
Department of Finance 

SUBJECT: OPEB Update

The purpose of this letter is to respond to your request for an update on the County Government's activities related to GASB Statement 45, Financial Reporting for Other Post-employment Benefits (OPEB).

In order to assure timely implementation and coordination, the Department of Finance has created a project timeline that includes tasks and milestones related to the administrative aspects of the OPEB project. The major task categories include actuarial valuation process, trust creation, budgeting/funding, plan design options/considerations, accounting, and coordination/communication. The steps necessary for completing each major task are identified and the timeline for completing those steps is mapped. A copy of the project timeline is attached.

In addition to creating the project timeline, an internal County Government workgroup was formalized. The work group includes representatives from the Department of Finance, Office of Human Resources, Office of Management and Budget, and Office of the County Attorney. The work group has met several times since the November MFP Committee meeting. The work group has focused its agendas on ensuring the completeness of, approving, and periodically updating the project timeline, organizing work related to updating the actuarial valuation, identifying issues for legal consideration, and identifying opportunities for County multi-agency coordination and collaboration. The workgroup has also actively participated in the MDGFOA OPEB Affinity Group, through which we share information between other local Phase 1 governments (those required to implement by the same deadline as the County agencies) on approach, issues, and internal progress toward implementation. Another focus of this work group has been to stay abreast of clarifying guidance being issued by GASB and to work to determine its impact on the County's efforts.



Office of the Director

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In response to your request for information on progress related to the steps identified at the MFP meeting last November, the most substantial progress relates to updating the actuarial valuation. The County has selected an actuary to provide the OPEB valuation and held initial discussions to identify the scope of an initial updated valuation and identify issues that have required follow-up. For example, issues arose during the planning processes that have required additional clarification from GASB. As part of planning for the valuation, the workgroup has identified scenario options that are being incorporated into the valuation process, such as alternative funding phase-in options and alternative actuarial assumptions and methodologies. The updated valuation will also include expanded information beyond that included in the original valuation, such as a breakout of the annual required contribution attributable to County government, as plan sponsor employer, vs. the other agencies that participate in the County plan. The County is currently working with the actuary to finalize the assumptions the actuary is using in the valuation. It is expected that the updated valuation will be available later this summer. This timing is currently several months later than the originally planned goal; however, the workgroup is working with the actuary to identify opportunities for work relating to plan design and legal considerations to be conducted simultaneously, rather than sequentially, over the summer.

Also, to continue the interagency coordination on this subject you started several years ago, a multi-agency OPEB workgroup has been formalized. This group met a few weeks ago and was attended by 12 representatives from the various agencies of the County. The objectives covered at this first meeting included:

- Communicating agencies' status and planned next steps;
- Identifying information needed for FY 08 and multi-year fiscal planning/budgeting;
- Identifying opportunities for comparability of data based on consistency of valuation assumptions; and,
- Identifying next steps, including multi-agency coordination.

As I'm sure you will see from the responses from the various agencies to your request for an update for the MFP Committee meeting, most agencies have been working on updating their actuarial valuations. One of the results of the recently held meeting was to identify areas where agencies could try and achieve consistencies in the assumptions and funding scenarios incorporated into its updated valuations, and to start to identify areas where there may be valid reasons for inconsistencies. The group plans on meeting again in late August to start to review agencies' updated valuations from a fiscal planning perspective, and further identify those areas where there are valid reasons for different assumptions used across the agencies.

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The County looks forward to working with the Council on this topic of significant impact to state and local governments, and suggests that future updates to the Council be accomplished in a single multi-agency report coordinated through the Workgroup.

Attachment

ID	Task Name	Duration	Start	Finish
1				
2	<b>Formal Trust</b>	<b>357 days?</b>	<b>Wed 3/1/06</b>	<b>Sat 6/30/07</b>
3	Identify/Evaluate Options & Impact (not FY07)	65 days?	Wed 3/1/06	Tue 5/30/06
4	Staff Recommendations re Options	22 days?	Thu 6/1/06	Fri 6/30/06
5	Management Policy Recommendations	20 days?	Mon 7/3/06	Fri 7/28/06
6	Implement - create trust document (IA) (goal: 3/15 budget date)	167 days?	Tue 8/1/06	Tue 3/13/07
7	Implement - create/amend laws - County (goal: 3/15 budget date)	165 days?	Tue 8/1/06	Fri 3/9/07
8	Implement - create/amend laws - State (goal: FY07 legislative session)	64 days?	Thu 1/11/07	Tue 4/10/07
9	Deadline - trust to be in place if applicable (for FY08 effective yr)	0 days	Sat 6/30/07	Sat 6/30/07
10				
11	<b>Budget/Funding</b>	<b>317 days?</b>	<b>Mon 3/27/06</b>	<b>Thu 5/31/07</b>
12	Obtain updated baseline valuation (scope of report to be determined) - A	26 days?	Mon 3/27/06	Mon 5/1/06
13	Perform analysis over valuation (ie, non-tax supp rate impact) & options (ie, funding period)	22 days?	Tue 5/2/06	Wed 5/31/06
14	Obtain actuarial estimates re: cost/plan design options - B	94 days?	Mon 3/27/06	Tue 8/1/06
15	Staff Recommendations re Options	22 days?	Thu 6/1/06	Fri 6/30/06
16	Management Policy Recommendations	22 days?	Sun 7/2/06	Mon 7/31/06
17	Implement - Obtain ongoing assistance as needed - C	46 days?	Tue 8/1/06	Sun 10/1/06
18	Obtain updated actuarial valuations from other Council-funded/approved agencies - M	14 days?	Mon 8/14/06	Thu 8/31/06
19	Consider need for update for final FY06 valuation for budget planning purposes - D	45 days?	Mon 10/2/06	Wed 11/29/06
20	Implement - Incorporate initial estimate to Budget Process and fiscal plan - FY08 - E	11 days?	Thu 11/30/06	Wed 12/13/06
21	Implement - Update budget estimates when FY06 valuation available	7 days?	Sun 10/1/06	Sat 10/7/06
22	Brief new CCand CE (part of budget process?) - G	22 days?	Fri 12/8/06	Fri 1/5/07
23	Development of FY08 Recommended Budget - pre new CE	80 days?	Fri 8/18/06	Fri 12/1/06
24	Development of FY08 Recommended Budget - post new CE	75 days?	Sat 12/2/06	Wed 3/14/07
25	Consideration by CE of Funding Options (part of budget process)	75 days?	Sat 12/2/06	Wed 3/14/07
26	Consideration by CE of Plan Design Options - I	75 days?	Sat 12/2/06	Wed 3/14/07
27	Deadline - FY08 CE Recommended Budget Published	0 days	Thu 3/15/07	Thu 3/15/07
28	Development of Final FY08 Budget Adopted by Council	54 days?	Mon 3/19/07	Wed 5/30/07
29	Est Deadline - FY08 Council Approved Budget	0 days	Thu 5/31/07	Thu 5/31/07
30				
31	<b>Plan Design Options/Considerations</b>	<b>696 days?</b>	<b>Wed 3/1/06</b>	<b>Wed 10/8/08</b>
32	Identify/Evaluate Options & Impact	65 days?	Wed 3/1/06	Tue 5/30/06
33	Obtain actuarial estimates re: cost/plan design options - B	94 days?	Mon 3/27/06	Tue 8/1/06
34	Determination of involvement/role of others (legal counsel, unions, etc)	65 days?	Wed 3/1/06	Tue 5/30/06
35	Normal annual plan design/redesign considerations & tie-in to GASB work	91 days?	Mon 5/1/06	Thu 8/31/06
36	Staff Recommendations re Options	22 days?	Thu 6/1/06	Fri 6/30/06
37	Initial Management Policy Recommendations	22 days?	Sun 7/2/06	Mon 7/31/06
38	Implement - Obtain ongoing assistance as needed - C	46 days?	Tue 8/1/06	Sun 10/1/06
39	FY08 annual rate-setting process	42 days?	Mon 8/14/06	Fri 10/6/06
40	Consideration by CE of Plan Design Options - I	75 days?	Sat 12/2/06	Wed 3/14/07
41	Obtain FY08 actuarial valuation - J	67 days?	Tue 7/17/08	Wed 10/1/08
42	Implement - Updated actuarial valuation	21 days?	Sat 12/2/06	Fri 12/29/06

ID	Task Name	Duration	Start	Finish
43	Implement - Incorporate to OHR contracting processes (assumes 1/1/08 effective date)	45 days?	Wed 8/1/07	Mon 10/1/07
44	Implement - Incorporate to future budgeting processes	165 days?	Thu 8/2/07	Sat 3/15/08
45	Implement - Incorporate final disclosures to FY08 F/S - K	5 days?	Thu 10/2/08	Wed 10/8/08
46	Future ongoing considerations??	1 day?	Wed 3/1/06	Wed 3/1/06
47				
48	<b>Actuarial Valuations</b>	<b>678 days?</b>	<b>Mon 3/27/06</b>	<b>Wed 10/8/08</b>
49	Conduct kickoff meeting with actuary and County	11 days?	Wed 3/29/06	Wed 4/12/06
50	Obtain updated baseline valuation (scope of report to be determined) - A	47 days?	Mon 3/27/06	Tue 5/30/06
51	Obtain actual estimates re: cost/plan design options - B	94 days?	Mon 3/27/06	Tue 8/1/06
52	Implement - Obtain ongoing assistance as needed - C	46 days?	Tue 8/1/06	Sun 10/1/06
53	Consider need for update for final FY06 valuation for budget planning purposes - D	45 days?	Tue 8/1/06	Sat 9/30/06
54	Implement - Incorporate initial estimate to Budget Process and fiscal plan - FY08 - E	11 days?	Sun 10/1/06	Thu 10/12/06
55	Obtain FY08 actuarial valuation - K	67 days?	Tue 7/1/08	Wed 10/1/08
56	Implement - Incorporate to financial statements (for FY08 from FY08?) - L	5 days?	Thu 10/2/08	Wed 10/8/08
57				
58	<b>Accounting</b>	<b>583 days?</b>	<b>Thu 8/3/06</b>	<b>Wed 10/8/08</b>
59	Determine F/S impact of trust and funding policy decisions	167 days?	Thu 8/3/06	Thu 3/15/07
60	Determine F/S impact of any creation or amendment to laws	185 days?	Thu 8/3/06	Tue 4/10/07
61	Implement - fund/general ledger changes	244 days?	Fri 8/4/06	Sat 6/30/07
62	Obtain FY08 actuarial valuation - K	67 days?	Tue 7/1/08	Wed 10/1/08
63	Implement - Incorporate final disclosures to FY08 F/S - L	5 days?	Thu 10/2/08	Wed 10/8/08
64				
65	<b>Coordination/Communication</b>	<b>358 days?</b>	<b>Wed 3/1/06</b>	<b>Sat 6/30/07</b>
66	<b>Coordination/consultation with other Council-funded/approved agencies</b>	<b>291 days?</b>	<b>Wed 3/1/06</b>	<b>Fri 3/30/07</b>
67	Planning (valuation timing, consistent funding assumptions, etc)	66 days?	Wed 3/1/06	Wed 5/31/06
68	Obtain updated actuarial valuations from other Council-funded/approved agencies - M	14 days?	Mon 8/14/06	Thu 8/31/06
69	Meet with interagency OPEB Workgroup to review address results of updated valuations	15 days?	Mon 8/21/06	Fri 9/8/06
70	Periodic (estimated)	22 days?	Fri 12/1/06	Fri 12/29/06
71	Periodic (estimated)	22 days?	Thu 3/1/07	Fri 3/30/07
72	Participating agencies - planning - rates/budget & accounting - prelim est	45 days?	Tue 8/1/06	Sat 9/30/06
73	Participating agencies - update based on CE rec budget	22 days?	Fri 3/16/07	Sun 4/15/07
74	Participating agencies - update based on CC approved budget	22 days?	Fri 6/1/07	Sat 6/30/07
75	Departs - enterprise/int svc - planning - rates/budget & accounting	45 days?	Tue 8/1/06	Sat 9/30/06
76	Departs - enterprise/int svc - update for FY06 valuation - rates/budget & accounting	7 days?	Sun 10/1/06	Sat 10/7/06
77	Depts - enterprise/int svc - final impact based on CC approved budget	57 days?	Thu 3/15/07	Thu 5/31/07
78	Departments - as part of normal budget process??	124 days?	Sun 10/1/06	Thu 3/15/07
79	Others?	1 day?	Wed 3/1/06	Wed 3/1/06

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850 Hungerford Drive \* Rockville, Maryland \* 20850-1747

Telephone (301) 279-3626

June 12, 2006

Mr. Steve Farber, Staff Director  
Montgomery County Council  
100 Maryland Avenue  
Rockville, Maryland 20850

Dear Mr. Farber:

This letter is in response to your May 3, 2006, request for an update on the Governmental Accounting Standards Board (GASB) Statement Number 45, Financial Reporting for Other Post-employment Benefits (OPEB) which requires governmental agencies to disclose the liability for the cost of health benefits current employees and retirees will receive during retirement. This disclosure requirement was originally targeted for implementation in FY 2006; however, implementation has been delayed to FY 2008.

At the November 28, 2005, meeting of the County Council's Management and Fiscal Policy (MFP) Committee, it was agreed that several steps would be taken by County agencies over the coming months. We welcome the opportunity to update the MFP Committee on the status of these efforts.

The Montgomery County Public Schools (MCPS) is working with its actuary to prepare a new valuation, effective July 1, 2006. The valuation will include analysis of current demographics, plan design, and cost-sharing arrangements. MCPS has been working with other county and bi-county agencies to ensure there is consistency across agencies in methodology, process, timelines, and assumptions used. Agencies will consider common funding options and amortization methods, and will, to the extent possible, use a common approach for evaluating trend data. The agencies also are developing a plan to share data and report back to the MFP Committee.

The valuation also will look at the impact of the Medicare Part D prescription drug benefit that went into effect January 1, 2006. It should be noted that MCPS has opted to receive a subsidy from the Center for Medicare and Medicaid Services (CMS) as reimbursement for providing prescription drug benefits to Medicare eligible retirees. We have been advised that the GASB voted last week to finalize GASB's proposed technical bulletin, which will not allow MCPS to net out the subsidy payments and report reduced retiree medical liabilities when we adopt GASB Statement 45.

Finally, MCPS has begun discussions with legal counsel to explore options with respect to the possible need to establish a trust arrangement to manage funding our GASB liabilities.

Montgomery County needs to address the issues of Other Post-employment Benefits funding as part of its overall financial planning. MCPS continues to work closely with the County Council and county agencies to address this issue cooperatively. MCPS staff will be present at the June 26, 2006, Management and Fiscal Policy Committee meeting.

Sincerely,



Larry A. Bowers  
Chief Operating Officer

LAB:

Copy to:

Members of the County Council  
Members of the Board of Education  
Dr. Weast  
Mrs. DeGraba  
Mr. Doody  
Mr. Girling  
Dr. Spatz

June 7, 2006

Mr. Steve Farber  
Montgomery County Council Staff Director  
100 Maryland Avenue  
Rockville, MD 20850

Dear Mr. Farber:

This letter is in response to your request of May 3, 2006 for an update on the Governmental Accounting Standards Board Statement Number 45, Financial Reporting for Other Post-employment Benefits (OPEB). This statement requires governmental agencies to disclose the liability for the cost of health benefits current employees and retirees will be eligible to receive during retirement. At the Management and Fiscal Policy Committee meeting in November 2005, it was agreed that the following steps appeared to make sense:

- Update the actuarial valuations as of July 1, 2006, three years later than the current valuations. This would allow adjustments for current cost figures and for changes such as the inception of the new Medicare Part D prescription drug benefit.
- Create a trust – perhaps effective July 1, 2007 – if the agency has not already done so. As Mr. Firestine notes, the advantage is a higher rate of investment return, on an actual and actuarial basis, and thus lower annual required contributions in FY08.
- Assess the costs and benefits of different pre-funding options and make specific recommendations on the extent, timing, and phasing of pre-funding.
- Assess the full range of options for limiting liability, including collective bargaining implications that may vary by agency.
- Use consulting assistance for these tasks that can draw on the growing body of experience from other jurisdictions. (Apart from the consultants used by the individual agencies, the Council has in the past received expert assistance on interagency health benefits issues from Bolton Partners.)
- Provide updates to the Committee at least twice in 2006 – for example, in June and November – and regularly in 2007 until implementation begins on July 1, 2007.
- Design and implement a communications plan to keep agencies, employees, and the public informed of developments on this issue.

As you are aware, the College had previously decided to comply with FAS106 beginning in FY94. As a result funds had been set aside to the extent possible until FY04. We have continued to have annual valuations to determine our accrued actuarial liability since then. We will be having a FAS106 calculation to determine our June 30, 2006 Accumulated Post-Retirement Benefit Obligation (APBO) as well as an estimate of what our liability might be under GASB standards. We also have met with AON Consultants to discuss the implications of establishing a trust effective July 1, 2007. While there are still some questions to be answered, it appears there are many favorable aspects to be gained by the establishment of a trust for the GASB funding.



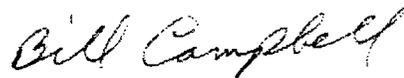
Mr. Steve Farber  
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We continue to support the position that pre-funding to the greatest extent possible is the most prudent approach to take. In light of this expectation, the College hopes to be able to set aside some budgeted FY06 benefits funds that might be available as of June 30, 2006.

We also are reviewing our current retiree group insurance coverage eligibility requirements to determine what changes might be made to limit our future liability. We believe there are some options to consider. Our Office of Human Resources has been working with our consultants as well as participating in several informative educational opportunities on the implications and impact of GASB Statement 45. We also find the continued communication among all of the agencies benefits professionals to be extremely beneficial for assessing all aspects of the effect GASB 45 will have on all of us.

We look forward to our continued discussions and will be present at the June 26 worksession with the MFP Committee and our colleagues from the County-funded agencies.

Sincerely,



William E. Campbell  
Executive Vice President  
for Administrative and Fiscal Services

cc: Ms. Lawyer  
Mr. Moore  
Mr. Mullinix  
Ms. von Bargaen

**THE MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION**  
***Department of Finance, Office of Secretary-Treasurer***

PCB06-35  
June 14, 2006

TO: Management and Fiscal Policy Committee

FROM: Patricia Colihan Barney, Secretary-Treasurer *PCB*

SUBJECT: Update on M-NCPPC Other Post Employment Benefits (OPEB) –  
response to GASB Statement No. 45

**BACKGROUND:** Per your request, this memo provides an update of the status of work related to implementing the Governmental Accounting Standards Board Statement Number 45, Financial Reporting for Other Post Employment Benefits. These benefits include medical, dental, and life insurance benefits at the Maryland-National Capital Park and Planning Commission.

One of the action items discussed at the November 2005 Management and Fiscal Policy Committee meeting related to the creation of a trust. The Commission established a 115 Trust in July of 1999. At the end of fiscal year 2005, after various contributions and withdrawals, the fund was almost depleted. The Commission decided to retain a small balance to keep the 115 Trust Fund open and ready to receive pre-funding contributions at a future date.

**CURRENT STATUS:** The Commission has been working with Aon Consulting to compare Commission OPEB with benefits offered by other governmental agencies. This study includes looking at alternatives offered to retirees by other agencies, examining possibilities of different levels of OPEB based on years of service, and benchmarking these various alternatives to estimate cost impacts. Commission Management is currently reviewing the consultant's report. Any proposed changes will be presented to the Commissioners in late fall.

Concurrently, we are pursuing the engagement of an actuary by riding a current contract. The selected actuary will perform a valuation as of July 1, 2006 to include the impact of Medicare Part D (if GASB's pending Technical Bulletin allows) and the requirement for consideration of implicit subsidies not included in the prior study. We will also look at

recording of a liability on the entity-wide financial statements of an amount equal to any unfunded required annual contribution beginning in fiscal year 2008. We are aware that the rating agencies will be looking for plans to be in place to address the pre-funding issue. It should be noted that the Prince George's County side of the Commission has factored in full annual pre-funding requirements in its long-term fiscal plan. The Commission will continue to work with the Montgomery County agencies to review a series of recommended strategies for pre-funding retiree medical.

The Commission's Finance Department has briefed the Commissioners on GASB Statement No. 45 so they will be informed as we move forward with both counties in determining how to establish a plan to address this issue. The Commission has not adopted a formal policy on pre-funding strategies. A series of recommendations will likely proceed to them after staff review of the Aon study.

V:\Update on MNCPPC OPEB-6\_2006

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# WASHINGTON SUBURBAN SANITARY COMMISSION

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## Memorandum

**TO:** STEVE FARBER  
MONTGOMERY COUNTY COUNCIL STAFF DIRECTOR

**FROM:** TOM TRABER  
WSSC CHIEF FINANCIAL OFFICER

**DATE:** JUNE 13, 2006

**SUBJECT:** GASB 45 STATUS

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Since last November, we have done the following with regards to implementing GASB 45:

- Our Commissioners were briefed on GASB 45 in February. This briefing was a high-level view of the pronouncement and its implications for WSSC and other governmental agencies.
- Aon prepared a June 30, 2005 actuarial valuation of OPEB in March. We are currently evaluating its results.
- A legal opinion as to whether WSSC can establish a trust under the current provisions of Article 29 of the Annotated Code of Maryland has been requested from outside counsel. If we do not have legislated authority, and the Commission determines that a trust is the appropriate vehicle for compliance, we would be submitting legislation in the upcoming legislative session.
- We have continued to participate with the Montgomery County Working Group in sharing information. It is very beneficial to have a feel for the specific plans that local agencies are making.
- Staff has also attended several briefings on GASB 45 by Aon, the Maryland Government Finance Officers' Association, and others.

Looking ahead, we anticipate having our implementation plan ready for Commissioner review by September and incorporating OPEB funding into the FY 2008 Spending Affordability process.

We look forward to continued participation with the Working Group and sharing our progress with the MFP Committee on June 26<sup>th</sup>.