

Proposal for Charging the Current Cost of Retiree Benefits

2/26/09

Currently, 100% of the cost of retiree benefits is charged to Fund 1, even though there are full-time employees who spend their entire career at the District in a program in Fund 3, such as matriculation, DSPS or EOPS. This proposal would charge the current cost of the benefit that each active employee is earning each year as a new benefit expense. The offset to this benefit expense would be to the Retiree Benefit Fund. This would have the impact of reducing the burden on Fund 1 for those non-Fund 1 employees. However, because this would increase the total cost to the non-Fund 1 programs, the proposal includes transferring the saved dollars in Fund 1 back to Fund 3 to offset the increased benefit cost in Fund 3. As we write grants and are able to build this new benefit rate into the proposals, Fund 1 would be relieved of its need to subsidize the non-fund 1 programs. Some programs, such as the categoricals noted above, may never have sufficient funds to cover the increased cost. It would be a college decision as to when to reduce or eliminate the subsidy and use the released funds for other priorities. The goal would be that in 30 years or so, after we have fully reserved for our post-retirement benefits liability, we would only need to charge the current cost of employee’s future retiree benefits – the amount that each of us is earning each year – and the cost of retiree’s benefits would be paid out of the reserve fund.

Example for Charging Post-Retirement Benefits

Current Method				
	Fund 1	Fund 3	Fund 8	Total
Salaries	10,000	1,000		11,000
Active Benefits	1,000	100		1,100
Retiree Benefits	600			600
Transfer	1,000		(1,000)	-
	12,600	1,100	(1,000)	12,700

Proposed Method - Initial				
	Fund 1	Fund 3	Fund 8	Total
Salaries	10,000	1,000		11,000
Active Benefits	1,040	104	(44)	1,100
Retiree Benefits	600			600
Transfers	960	(4)	(956)	-
	12,600	1,100	(1,000)	12,700

Proposed Method - After several years				
	Fund 1	Fund 3	Fund 8	Total
Salaries	10,000	1,000		11,000
Active Benefits	1,040	104	(44)	1,100
Retiree Benefits	600			600
Transfers	956		(956)	-
Avail for other uses	4			4
	12,600	1,104	(1,000)	12,704

Proposed Method - After 30 years				
	Fund 1	Fund 3	Fund 8	Total
Salaries	10,000	1,000		11,000
Active Benefits	1,040	104	(44)	1,100
Retiree Benefits			600	600
Transfers				-
Avail for other uses	1,560			1,560
	12,600	1,104	556	14,260