



BOARD BRIEFING REPORT

DATE: October 23, 2014

TO: Board of Trustees

FROM: Becky Van Wyk *Becky Van Wyk*
Interim Retirement Administrator

SUBJECT: **Non-Vested Health Benefit Reserve**

EXECUTIVE SUMMARY

A recently discovered accounting error has found that Fresno County Employees' Retirement Association (FCERA) recorded a portion of the proceeds of the 2004 Pension Obligation Bonds (POB) to the Health Benefit Reserve. The accounting error resulted in non-vested benefits being paid to retirees for a period of approximately six months without appropriate funding being available. This Board Briefing Report will describe the error and actions the FCERA Board of Retirement will consider for correcting this error.

HISTORY/STATUS

Non-Vested Health Benefit Reserve

Prior to May 31, 1987, the FCERA Board of Retirement used a portion of undistributed earnings (recognized earnings in excess of the assumed rate of return) to pay a portion of the health insurance premium for retirees enrolled in the County's health insurance program, as authorized by Government Code section 31691.1. Effective June 1, 1987, the FCERA Board of Retirement changed the health insurance premium to a stipend paid to all retirees and their beneficiaries, not just those enrolled in the County's health insurance program. The Health Benefit Reserve was established to account for the transactions and was funded periodically by undistributed earnings and interest. The Health Benefit (currently called Health Benefit 2) is based on full years of credited service. The maximum benefit payable is \$150 per month.

After 1987, the FCERA Board of Retirement annually adopted a resolution extending the benefit payment for another year, until 2006. On June 21, 2006, after several public meetings on the topic of the non-vested health benefit, the FCERA Board of Retirement adopted a resolution providing payment of the benefit at the then current level until all then-existing funds in the Health Benefit Reserve were distributed. Thereafter, no additional funds would go into the discretionary Health Benefit Reserve.

Board Briefing Report

Page 2

Each year, FCERA's outside actuary determines an estimate of the expected future liability of the reserve, and the expected date the Health Benefit 2 is projected to end. Members are regularly provided with an estimated end date of the benefit via the FCERA newsletters, Active and Retired Member Handbooks, retirement seminars and workshops, counseling sessions, Board of Retirement meetings, and most recently a letter to all retirees stating an expected end date of the first quarter of the 2016 fiscal year. This projection was calculated prior to the identification of the FCERA accounting error using 2004 POB proceeds for this benefit.

Vested Health Benefit

Unlike the non-vested benefit described above, FCERA also administers a vested health benefit. The Vested Health Benefit (also known as "Health Benefit VS," for the "*Ventura Settlement*") is the result of the 2000 post- Ventura litigation Settlement Agreement and provides a monthly benefit equal to \$3 per full year of credited service. So, for example, if a retiree has 30 years of credited service, their monthly Vested Health Benefit would be \$90. The benefit does not have a maximum number of years of service attributable to it, but does have a maximum benefit level equal to the insurance premium for a single retiree under age 65 enrolled in the lowest cost plan offered by the County.

Prior to 2003, the contributions and expenditures for both the Non-Vested Health Benefit 2 and the Vested Health Benefit were accounted for in one reserve account on the books of FCERA. In 2003, the single reserve was divided into two reserves with approximately 1/3 of the balance being transferred to the new Vested Health Benefit (Health Benefit VS) Reserve.

Pension Obligation Bonds

The County of Fresno issued Pension Obligation Bonds (POB) in 2004 that provided FCERA \$398,140,728 million in contributions to fund the unfunded actuarial accrued liability (UAAL) associated with vested benefits, as of June 30, 2003. In an email dated August 9, 2004, FCERA's actuary recommended the funds be allocated to the various reserves based on the proportion of the reserve balance to the UAAL at June 30, 2003. The email directed that \$13,024,663.28 be recorded to the Retiree Health Insurance Reserve. However, instead of posting the \$13 Million to the Vested Health Benefit reserve only, FCERA staff applied the ratio previously used to split the single reserve to the \$13 Million POB funding resulting in \$8,682,240.54 being posted to the non-vested health benefit reserve (Health Benefit 2).

Consequence of the Error

Since 2004, the non-vested Health Benefit Reserve has held \$8,682,240.54 more than it should have held, and some discretionary Non-Vested Health Benefits have been paid out of those funds. As of October 31, 2014, the balance in the reserve is \$7,865,944.20, including interest posted to the account through June 30, 2008 (unaudited). Accordingly, if the error were to be reversed immediately, the account would be in deficit and no further disbursements could be made to retirees.

Board Briefing Report

Page 3

Since 2004, FCERA has earned an average of 8.0% per annum (net of fees) on its assets (at market value.) No interest has been credited to the non-vested Health Benefit Reserve account since 2008; all of the interest earned on the assets of that account has been credited to the County Advance Reserve used to pay vested benefits. Accordingly, County contributions since 2004 have not been adversely affected by the error, although the UAAL attributed to the vested benefits has been overstated by \$8,682,240.54.

FOCUS OF FCERA RETIREMENT BOARD AND STAFF

The FCERA Board of Retirement will be discussing this issue on November 5th in public session at its regular Board meeting. Letters have been mailed to all recipients alerting them to the error and the meeting. The FCERA Board will consider the following items at the meeting:

1. Cease paying the Health Benefit 2 as soon as possible
2. Cease adding additional participants
3. Whether recipients of overpayments will be required to repay some or all of those amounts.
4. Interest Earnings
5. Options for repaying the Vested Health Benefit Reserve

CONCLUSION

The intent of this BBR is to provide background and relevant information on an issue before the FCERA Board of Retirement that impacts the plan sponsors and plan members.

CONTACT PERSON

Contact Becky Van Wyk, Interim Retirement Administrator, Fresno County Employees' Retirement Association, at 559.457.0681 for further information.

12/ Year month Interest apportionment Periods	INTEREST RECALCULATION OF HB RESERVE (VS) FROM DECEMBER 2004 TO CURRENT													Original Contra Account Balance	Adjusted Contra Account Balance
	ORIGINAL RESERVE BALANCE HB BOR	ADJUSTED RESERVE BALANCE HB BOR	CHANGE IN RESERVE BALANCE	ORIGINAL INTEREST CREDITED HB BOR	ADJUSTED INTEREST CREDITED HB BOR	CHANGE IN INTEREST CREDITED HB BOR	ORIGINAL RESERVE BALANCE HB VS (Section 9)	ADJUSTED RESERVE BALANCE HB VS (Section 9)	CHANGE IN RESERVE BALANCE VS (Section 9)	ORIGINAL INTEREST CREDITED HB VS (Section 9)	ADJUSTED INTEREST CREDITED HB VS (Section 9)	CHANGE IN INTEREST CREDITED HB VS (Section 9)	(Increase) / Decrease to Contra Account		
6/30/2004	(74,480,224.32)	(65,798,183.78)	8,682,240.54	(1,399,543.88)	(1,819,941.60)	418,397.72	(84,109,671.19)	(42,791,911.73)	(41,317,760.46)	(41,317,760.46)	(42,791,911.73)	(156,478.27)	-		
12/31/2004	(73,192,174.37)	(64,346,787.92)	8,845,386.45	(1,399,543.88)	(1,819,941.60)	529,601.28	(83,371,219.61)	(42,716,606.06)	(8,845,386.45)	(9,064,604.07)	(87,048.03)	(163,145.91)	-		
6/30/2005	(67,267,920.56)	(58,203,316.49)	9,064,604.07	(1,594,733.98)	(1,594,733.98)	219,217.62	(82,792,335.59)	(44,856,895.66)	(9,064,604.07)	(9,064,604.07)	(87,048.03)	(1,046,285.65)	(219,217.62)		
12/31/2005	(56,851,902.97)	(47,519,801.45)	9,312,101.52	(1,224,185.54)	(1,224,185.54)	247,497.45	(82,265,989.07)	(44,576,060.59)	(9,312,101.52)	(895,352.89)	(1,442,850.34)	(247,497.45)	-		
6/30/2006	(55,987,899.31)	(46,340,397.56)	9,647,501.75	(1,689,996.38)	(1,689,996.38)	390,000.23	(81,940,395.17)	(44,582,496.92)	(9,647,501.75)	(1,143,364.22)	(1,473,364.45)	(390,000.23)	-		
12/31/2006	(55,350,334.92)	(45,392,949.10)	10,027,385.82	(1,853,815.90)	(1,853,815.90)	385,684.07	(81,726,677.82)	(44,584,665.54)	(10,027,385.82)	(1,277,615.81)	(1,663,299.88)	(385,684.07)	0.00		
6/30/2007	(54,599,884.73)	(44,170,387.48)	10,429,497.25	(1,812,117.96)	(1,812,117.96)	401,111.44	(81,476,722.95)	(44,595,619.50)	(10,429,497.25)	(1,289,075.11)	(1,670,186.54)	(401,111.44)	0.01		
12/31/2007	(53,775,659.81)	(44,929,906.67)	10,846,053.14	(1,766,815.50)	(1,766,815.50)	417,155.89	(81,180,777.94)	(44,026,890.38)	(10,846,053.14)	(1,259,068.89)	(1,676,224.78)	(417,155.89)	-		
6/30/2008	(52,845,246.45)	(44,595,431.19)	11,279,895.26	(1,717,196.27)	(1,717,196.27)	433,842.12	(80,832,226.75)	(44,112,122.99)	(11,279,895.26)	(1,247,231.09)	(1,681,073.22)	(433,842.12)	(0.01)		
12/31/2008	(49,709,314.35)	(48,430,019.09)	11,279,895.26	-	-	-	(80,436,540.66)	(42,167,631.64)	(11,731,090.98)	(1,233,289.07)	(1,684,484.88)	(451,195.81)	(451,195.81)		
6/30/2009	(46,459,568.81)	(45,213,673.55)	11,279,895.26	-	-	-	(79,980,481.04)	(42,180,815.66)	(12,200,334.62)	(1,217,461.60)	(1,686,705.27)	(469,243.67)	(469,243.67)		
12/31/2009	(43,214,735.96)	(41,934,840.70)	11,279,895.26	-	-	-	(79,467,086.14)	(42,155,384.15)	(12,688,348.01)	(1,199,219.24)	(1,687,232.63)	(488,013.39)	(488,013.39)		
6/30/2010	(39,874,798.96)	(38,594,903.70)	11,279,895.26	-	-	-	(78,898,662.03)	(42,094,543.96)	(13,195,861.93)	(1,176,681.45)	(1,686,215.37)	(507,533.92)	(507,533.92)		
12/31/2010	(36,461,310.82)	(35,182,015.56)	11,279,895.26	-	-	-	(78,270,834.77)	(41,994,551.98)	(13,723,717.21)	(1,155,946.48)	(1,683,781.76)	(527,835.28)	(527,835.28)		
6/30/2011	(33,984,854.40)	(32,704,959.14)	11,279,895.26	-	-	-	(77,572,005.03)	(41,844,670.93)	(14,277,665.90)	(1,130,833.39)	(1,679,782.08)	(548,948.69)	(548,948.69)		
12/31/2011	(29,439,810.30)	(28,159,915.04)	11,279,895.26	-	-	-	(76,772,271.01)	(41,598,000.72)	(14,825,731.71)	(1,068,415.19)	(1,621,481.00)	(553,065.81)	(553,065.81)		
6/30/2012	(25,789,676.36)	(24,509,781.00)	11,279,895.26	-	-	-	(75,854,160.35)	(41,254,385.17)	(15,996,987.69)	(1,037,425.50)	(1,611,922.61)	(574,497.11)	(574,497.11)		
12/31/2012	(22,048,314.49)	(20,768,419.23)	11,279,895.26	-	-	-	(74,257,909.90)	(40,254,897.59)	(16,616,870.96)	(939,994.01)	(1,559,877.28)	(596,758.87)	(596,758.87)		
6/30/2013	(18,253,981.35)	(16,974,086.09)	11,279,895.26	-	-	-	(72,099,471.83)	(39,172,111.75)	(17,260,774.71)	(895,994.01)	(1,539,008.28)	(619,883.27)	(619,883.27)		
12/31/2013	(14,412,651.51)	(13,132,156.25)	11,279,895.26	-	-	-	(71,911,337.04)	(38,205,171.10)	(17,929,639.73)	(849,064.31)	(1,517,919.33)	(668,855.02)	(668,855.02)		
6/30/2014	(10,502,813.82)	(9,222,318.56)	11,279,895.26	-	-	-	(70,636,067.48)	(37,585,697.21)	(17,929,639.73)	(849,064.31)	(1,517,919.33)	(668,855.02)	(668,855.02)		
7/31/2014	(9,840,146.36)	(8,560,251.10)	11,279,895.26	-	-	-	(70,275,541.37)	(37,488,377.16)	(17,929,639.73)	(849,064.31)	(1,517,919.33)	(668,855.02)	(668,855.02)		
8/31/2014	(9,180,322.98)	(7,900,427.72)	11,279,895.26	-	-	-	(70,036,067.48)	(37,488,377.16)	(17,929,639.73)	(849,064.31)	(1,517,919.33)	(668,855.02)	(668,855.02)		
9/30/2014	(8,523,133.59)	(7,243,238.33)	11,279,895.26	-	-	-	(69,806,467.48)	(37,488,377.16)	(17,929,639.73)	(849,064.31)	(1,517,919.33)	(668,855.02)	(668,855.02)		
10/31/2014	(7,860,311.64)	(6,595,416.38)	11,279,895.26	-	-	-	(69,595,416.38)	(37,488,377.16)	(17,929,639.73)	(849,064.31)	(1,517,919.33)	(668,855.02)	(668,855.02)		
11/30/2014 a	(7,198,329.69)	(6,079,965.57)	11,279,895.26	-	-	-	(69,387,345.91)	(37,488,377.16)	(17,929,639.73)	(849,064.31)	(1,517,919.33)	(668,855.02)	(668,855.02)		
12/31/2014 a	(6,535,927.74)	(5,439,967.52)	11,279,895.26	-	-	-	(69,187,345.15)	(37,488,377.16)	(17,929,639.73)	(849,064.31)	(1,517,919.33)	(668,855.02)	(668,855.02)		
													(9,247,389.32)		
													(6,649,734.59)		

a) Estimated amounts. Applied the Health Benefit BOR benefit expense from October 2014. In the amount of \$682,401.95 to November and December 2014.

* June 2005 includes a BOR authorized Transfer of \$5MM to Supplemental Cost of Living Reserve from HB BOR Reserve

** December 2005 includes BOR authorized Transfer of \$5.167MM to Supplemental Cost of Living and 3.958MM to Cost of Living Reserve from HB BOR Reserve.



FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
Dr. Rod Coburn, III, Chair
Marion Austin
Laura P. Basua
Judith Case McNairy
Vicki Crow
Robert Dowell
Eulalio Gomez
Steven J. Jolly

Becky Van Wyk
Interim Retirement Administrator

October 23, 2014

Dear Retired FCERA Member,

I must inform you of an important change in your non-vested health benefit allowance ("Health2" on your check advice) that will be occurring shortly. FCERA staff has recently discovered that funds previously earmarked for payment of the vested retiree health benefit were incorrectly credited to the non-vested health benefit account many years ago. Had they been properly credited at the time, the funds remaining in the non-vested account would now be fully depleted.

Although we recently notified you that the non-vested benefit would be available until July – September next year, we now know that there are no more funds left in that account and the funding of this non-vested benefit must end as soon as possible.

Your FCERA Retirement Board is keenly aware that many of our retirees have come to depend on receiving these discretionary benefits to help manage their personal budgets, and did not expect that these funds would run out before next year. However, we cannot continue to pay this non-vested benefit out of money that was designated to pay for your promised benefits. California law and the Internal Revenue Service require us to adjust our books accordingly.

The Retirement Board is just now learning about this matter and intends to address it and discuss all available options during its next regularly scheduled public meeting on November 5th. We invite all members to attend and provide your comments at that time. If you are unable to attend but wish the Board to consider your views, please submit them in writing to the Board no later than 5:00 p.m. PST on October 30th so we may include them in the material provided to the Board in their meeting packet. Written comments may be emailed to FCERAWebmail@co.fresno.ca.us, or sent by U.S. Mail to the attention of Elizabeth Avalos, Board Secretary, FCERA, 1111 H Street, Fresno, CA 93721.

On behalf of the Board and all of us at FCERA, thank you for your patience as we work through this unexpected change in our ability to continue to pay these non-vested benefits. We pledge to seek the very best options legally available for lessening the impact on your personal budgets.

Sincerely,

Becky Van Wyk
Interim Retirement Administrator

RECEIVED

OCT 26 2014 ^{ms}

Oct 27 2014

Fresno County Employees
Retirement Association

Dear Elizabeth
I received your letter of bad news the
24th of this month after reading it I
knew that I'd lost a benefit. On June
of this year I was diagnosed with
Cancer in my right lung and I'm going
through Chemotherapy. I don't know
how losing this benefit is going to
affect me and my treatments. I can only
hope for the best. I'm hoping the board
will come up with a solution around
this problem. Losing health benefit 2
is going to play havoc with my
budget. But if worse comes to worse
I'll take the bitter with the sweet.

Sincerely





RECEIVED

OCT 27 2014 MS

Fresno County Employees' Retirement Association

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
Dr. Rod Coburn, III, Chair
Marion Austin
Laura P. Basua
Judith Case McNairy
Vicki Crow
Robert Dowell
Eulalio Gomez
Steven J. Jolly

Becky Van Wyk
Interim Retirement Administrator

October 23, 2014

Dear Retired FCERA Member,

I must inform you of an important change in your non-vested health benefit allowance ("Health2" on your check advice) that will be occurring shortly. FCERA staff has recently discovered that funds previously earmarked for payment of the vested retiree health benefit were incorrectly credited to the non-vested health benefit account many years ago. Had they been properly credited at the time, the funds remaining in the non-vested account would now be fully depleted.

Although we recently notified you that the non-vested benefit would be available until July – September next year, we now know that there are no more funds left in that account and the funding of this non-vested benefit must end as soon as possible.

Your FCERA Retirement Board is keenly aware that many of our retirees have come to depend on receiving these discretionary benefits to help manage their personal budgets, and did not expect that these funds would run out before next year. However, we cannot continue to pay this non-vested benefit out of money that was designated to pay for your promised benefits. California law and the Internal Revenue Service require us to adjust our books accordingly.

The Retirement Board is just now learning about this matter and intends to address it and discuss all available options during its next regularly scheduled public meeting on November 5th. We invite all members to attend and provide your comments at that time. If you are unable to attend but wish the Board to consider your views, please submit them in writing to the Board no later than 5:00 p.m. PST on October 30th so we may include them in the material provided to the Board in their meeting packet. Written comments may be emailed to FCERAWebmail@co.fresno.ca.us, or sent by U.S. Mail to the attention of Elizabeth Avalos, Board Secretary, FCERA, 1111 H Street, Fresno, CA 93721.

On behalf of the Board and all of us at FCERA, thank you for your patience as we work through this unexpected change in our ability to continue to pay these non-vested benefits. We pledge to seek the very best options legally available for lessening the impact on your personal budgets.

Sincerely,

Becky Van Wyk

Becky Van Wyk
Interim Retirement Administrator



We've relied on these benefit especially now we are on fixed income being retired.

*Sincerely,
Natividad
Mercado
C. Mercado*

1111 H Street, Fresno, CA 93721, Tel 559.457.0681 Fax 559.457.0318

From: Natividad L. Mercado

Van Wyk, Becky

From: joy [REDACTED]
Sent: Tuesday, October 28, 2014 5:26 PM
To: FCERAwemail
Subject: health benefit

Retirement Administrator:

In the future if you send me an important life-changing letter, I want it sent registered mail to me personally. My name or current resident is not acceptable. I am very upset at the casual manner this life altering problem is being handled. Why is it the retirees problem to take care of the your unbelievable mistake? I can't believe this has been happening for "many years" with no oversight from the board which also includes a County Supervisor. Your explanation of the situation is very vague and makes me wonder what other incompetence will impact our current and future pension. I t is now impossible to see any future planning, since this depletion impacts my total income.
Joy Boyce

Van Wyk, Becky

From: joy [REDACTED]
Sent: Wednesday, October 29, 2014 10:00 PM
To: FCERAwebmail
Subject: benefit

To Retirement administrator:

If you are going to send me another life-altering letter; it needs to be more personal than "or current resident". What are you thinking? I will expect any further notice that affects my personal finances to be sent by registered mail only.

Is the October check going to be short? Shouldn't there be a little more notice? Is this legal? How many other "mistakes" have been made in our pension fund? It is difficult to believe the Board was not aware when a County Supervisor has her name listed on the Board. I am a little confused about how the money was distributed between the two health benefits. Will the health fixed health benefit be raised again (\$96 currently for me. It would be beneficial to have a raise to compensate for the larger loss.) It is disturbing to realize how quickly a situation can change and so little notice or explanation. What other pension surprises await all of us. The County has lost a lot of credibility with pension recipients.

Joy Boyce

Van Wyk, Becky

From: Linda Hutcheson [REDACTED]
Sent: Wednesday, October 29, 2014 7:26 PM
To: FCERAwebmail
Subject: Health Benefit 2

I am writing to express my concern regarding the discontinuance of these funds. I understand the health benefit allowance is a non-vested allowance, however, many of our retirees will suffer significantly due to this loss. Most retirees are senior citizens that are unable to go back to work to make additional income to replace this loss. Not only is the benefit going away much sooner than we were told, but we understand there is even some discussion regarding pay back by the retirees for some of the health benefits already received.

Regardless of who made the accounting error (incorrectly credited) referenced in Ms Van Wyk's letter dated October 23, retirees on fixed incomes should not be penalized by requiring any pay back.

Please take my concerns and those of my fellow retirees in consideration at the upcoming FCERA Board meeting on November 5.

Sincerely,

Linda Hutcheson
REFCO Vice-President

-----Original Message-----

From: Isabel Good [REDACTED]
Sent: Thursday, October 30, 2014 7:16 PM
To: ECERAWebmail
Cc: [REDACTED]
Subject: Health Benefit-2

October 30, 2014

To whom it may concern:

I have received two letters regarding this benefit. The first one a few months ago stated that the fund would run out in June of 2015, so I knew my check would be decreased next year and I could make adjustments. Now the most recent letter arrives that is confusing. The auditors that you supposedly have had checking and auditing your accounts yearly say the fund is in arrears and now you want your mistake repaid by the retiree who certainly was not at fault nor was there any attempt to defraud the county by a retiree!

While I personally, might be able to afford an unplanned decrease in my retirement, many retirees can not. I would expect the trustees to afford the retirees the same consideration and courtesy that is afforded a cash aid recipient; adequate and very clear notification. Since this was your mistake (and who really knows here since either the first CPA auditors were incompetent or the current assessment is incorrect); no retiree should be expected to repay any supposed overages. It is enough that we are having to endure the decrease earlier than originally notified.

And unfortunately, I cannot attend the next Board meeting as I am working a part-time job but I strongly object to how this supposed over payment issue is being handled.

Isabel Good
[REDACTED]

From: [REDACTED]
Sent: Thursday, October 30, 2014 9:26 PM
To: FCERAwebmail
Subject: Health 2 Issue

This is in response to the letter dated October 23rd and the REBCO Luncheon on October 23rd. I have to share my dismay at hearing about this issue at the luncheon like it was nothing. I have always been aware that these dollars were time limited but I take issue with being told that they will likely be abruptly stopped and that we may be asked to pay back funds already issued. \$150 is not insignificant to me. I worked for the County long enough to know that this is someone's very critical error and probably occurred without proper oversight. I am very opposed to paying any money back due to someone's carelessness and I also take issue with such short notice for the discontinuance of this benefit. I spend an incredible amount for health coverage and this is a significant loss.
Sincerely, Marlene Pascua