

OUHSD Retiree Health Benefits Trust Frequently Asked Questions

What is the Retiree Health Benefits Trust?

The Trust is a tax-exempt organization initially established in 1999 by an agreement between the Oxnard Union High School District (District) and the Oxnard Federation of Teachers (Federation). The Trust is legally separate and independent from the District and the Federation. The Trust is governed by a Board of Trustees consisting of representatives selected by the District and the Federation.

What is the mission of the Trust?

The mission of the Trust is contained in the opening recitals of its establishing Agreement. The mission is “to financially ensure, through investment of Trust funds and the cooperative efforts of the District and the Federation, a comprehensive health and benefits program for every eligible retiree of the District at the most efficient cost achievable through unity of design, purchase and administration.”

What was the intent of the Trust?

The intent of the Trust, from its inception, was to build up funds to fully meet the District’s unfunded obligations to pay for retiree benefits to eligible District employees and retirees and their respective dependents who are Trust beneficiaries. Since the Trust began, its goal has been to reach a point where the total assets of the Trust are equal to the projected obligations of the District to fund and provide contractual health care benefits to all eligible retirees and dependents.

As the most recent actuarial report (June 8, 2011) prepared for the District notes, the District will directly fund retiree benefits from the District’s General Fund until the Trust is fully funded. Trust assets will thereafter be used to make benefit payments. This approach is consistent with the Trust’s intent. The Trust is not fully funded at this time.

The principal focus of the Trust is the investment of funds. The Trust has never provided any funding for current retiree obligations, nor made any distributions to fund such benefits. There are no provisions in the Trust Agreement or in the history of the Trust’s creation indicating an intent or purpose to make any interim distributions to beneficiaries.

Who are the beneficiaries of the Trust?

The beneficiaries of the Trust are broadly defined and include eligible retired employees of the District and current or former OUHSD Governing Board members who are eligible to receive health care benefits from the Trust. Eligible dependents of these individuals may also receive such benefits. For example, spouses of retirees are eligible for coverage during the retiree’s life. In addition, and as explained below, many current active District employees are also beneficiaries of the Trust.

In accordance with the Trust Agreement, no Trust assets may revert to the District or the Federation. The Trust is only for the benefit of eligible retired employees and their dependents.

What are the District's contractual obligations for retiree benefits?

The specific terms of the District's obligations as to retiree health benefits are contained in the collective bargaining agreement (CBA), as applicable for different time periods, between the District and the Federation. The CBA should be reviewed for those terms. Since the CBA is between the District and the Federation, its terms do not directly affect the Trust.

Generally speaking, the District is obligated to provide lifetime health benefits for eligible retirees, with variation in the benefits dependent upon the hire and retirement dates of the employee. More extensive benefits are provided to those individuals who retired prior to July 1, 1991, with somewhat less extensive but nevertheless lifetime benefits starting at age 55 for eligible employees hired before July 1, 2004.

The retiree benefits are deemed vested through the CBA and as such are legally enforceable and represent a significant liability to the District.

As of March 2012, the following is the approximate number of current retirees (not including dependents): (a) 137 pre-1991 retirees; (b) 434 post-1991 retirees. Approximately 737 active District employees hired before July 1, 2004 are also Trust beneficiaries and will receive retiree benefits in the future as they move into the retirement pool.

What is the current projection of the District's unfunded liability for retiree health benefits?

As of the most recent actuarial report (June 8, 2011), the estimated actuarial accrued liability of the District as of July 1, 2010 for such benefits is approximately \$204.3 million. Taking into account the then-current value of the Trust assets (\$33.7 million), the unfunded liability was approximately \$170.6 million.

What's the current value of the Trust?

As of February 29, 2012, the total value of Trust assets was approximately \$39 million.

Why was the Trust started?

The Trust was started for many reasons.

--There was a recognition in the late 1990's that the cost of retiree medical benefits was escalating and that public entities were faced with significant unfunded liabilities for such benefits.

--The District had funded fully-paid lifetime retiree benefits for many years, but the employee population mix began to change as additional employees retired and

became eligible for benefits. The District's insurance costs were rapidly rising and the District was faced with climbing PPO plan costs.

--Legislation enacted in the mid-1990's required school districts and other public education agencies through actuarial studies to annually disclose information, including the accrued yet unfunded costs of retiree health and welfare benefits for retirees aged 65 and over, and district monies used to fund such costs. As of 1999, the projected accrued liability to the District for retiree medical benefits (for then-current and future retirees) was approximately \$ 48 million.

--The District and the Federation recognized the need to start saving funds toward projected rising benefits costs in order to protect retirees and meet the District's obligations, and to provide a vehicle to protect the saved funds from depletion for other uses and to ensure proper investment oversight of the savings, i.e. the Trust assets.

Who oversees the Trust?

A six-member Board of Trustees. Three of the trustees are selected by the District, and three by the Federation. The Trustees receive no compensation for their service.

What are the Trustees' obligations?

The Trustees have a fiduciary obligation to administer the Trust in accordance with its purpose and intent and with the terms of the Trust Agreement. The purpose of the Trust is to financially ensure the provision of health and welfare benefits to the beneficiaries.

The Trustees' fiduciary obligations include, but are not limited to: (a) administering the Trust solely for the benefit of the beneficiaries; and (b) treating the beneficiaries impartially, i.e. treating them fairly in relation to each other, both individually and by class.

How is the Trust funded?

The Trust has been funded by contributions made in accordance with the CBA(s) between the District and the Federation. Because of budget difficulties, there have been no recent unit share contributions to the Trust. However, other contributions have been made in recent years through reimbursement of Medicare Part D program costs.

What are the Trust's investments?

The lion's share of Trust assets (approximately \$38.9 million) consist of cash, and equities and fixed income securities, held in custody by City National Bank. The equities and fixed income securities are invested in a number of mutual funds. The allocation and investment of Trust assets is done in accordance with investment policies approved by the Trustees. The Trustees are advised by Canterbury Consultants, a professional investment advisory firm.

A small portion of the Trust's assets, used for Trust expenses, is held in a checking account at City National Bank.

How have the Trust's investments performed?

The Trust has been very successful. As of December 31, 2011, the total composite rate of return net of fees since the inception of the Trust was 5.3%. This compares very favorably to a composite policy index benchmark of 4.4% since inception.

Are there other advisers to the Trust?

Yes. The Trustees are assisted by the Trust's attorneys and its accountants. The accountants produce quarterly financial statements.

Does the Trust purchase health benefits for District retirees?

No. As set forth above, the Trust has not made any interim distributions, e.g. purchasing health benefits, or paying claims which remain the financial obligation of the District. Health insurance plans and costs are the result of negotiations between the District and the Federation; the Trust is not involved in these matters.

When does the Board of Trustees meet?

The Board typically meets on Friday afternoons at 2:00 PM at the District office on dates established by the Board. These meetings normally occur every two to three months.

Are Board meetings open to the beneficiaries and the public?

Yes. The only exception is if the Board meets in executive session.

Who can I contact for more information about the Trust?

The current chair of the Board of Trustees is Jan Henry, who can be reached at Frontier High School. The current co-chair is Steven Gama, who can be reached at the District Office.

I've Heard About CSEBO and the Medical Benefits Committee. What are these groups? Are they part of the Trust?

CSEBO stands for the Coastal Schools Benefits Organization. The District is a member of CSEBO. CSEBO is a risk pool of several K-12 school districts in Ventura County. Its primary purpose is acquiring insurance or service contracts for medical, dental, and vision insurance for its members. CSEBO maintains and establishes funding levels for group health insurance. The District works through CSEBO to acquire group health insurance. CSEBO is not part of the Trust and its activities are separate from the Trust.

The Medical Benefits Committee is a joint committee of District and Federation representatives. In accordance with the CBA, the committee monitors and reviews employee insurance to maximize coverage and minimize cost. The Committee makes recommendations to the District and the Federation regarding health benefits and overseeing health benefits for active District employees, and analyzing medical, dental and vision programs. The Committee is not part of the Trust and its activities are separate from the Trust.