



Sample Funding Strategies

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Sample Funding Statement #1: Fully discretionary prefunding

"The District will establish an irrevocable trust and prefund it from time to time at the sole discretion of the Board.

All retiree health benefits will be paid out of the irrevocable trust, set up for this purpose, to the extent funded. The purpose of this funding policy is to manage the District's OPEB obligations while at the same time maintaining as much flexibility as possible to adjust for changing budgetary considerations.

The Board reserves the authority to review and amend this funding policy from time to time in order to ensure that the funding policy continues to best suit the circumstances of the District."

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Sample Funding Statement #2: Fully funding the ARC

"As required by GASB 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every (two, three) fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year and (2) a component for amortization of the total unfunded actuarial accrued liability (UAL) over a

period not to exceed 30 years. The District's funding policy is to contribute an amount to an irrevocable trust each year equal to that year's ARC. This funding policy will have the goal of maintaining a year-end Net OPEB Obligation (NOO) of \$0 for all future years. All future retiree health benefits will be paid out of the irrevocable trust set up for this purpose.

The Board reserves the authority to review and amend this funding policy from time to time in order to ensure that the funding policy continues to best suit the circumstances of the District."

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Sample Funding Statement #3: Partially funding the ARC

"As required by GASB 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every (two, three) fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year and (2) a component for amortization of the total unfunded actuarial accrued liability (UAL) over a period not to exceed 30 years. The District's funding policy is to contribute an amount to an irrevocable trust each year equal to ___ % of that year's ARC. The percentage may be changed from time to time by Board action. All future retiree health benefits will be paid out of the irrevocable trust set up for this purpose.

The Board reserves the authority to review and amend this funding policy from time to time, in order to ensure that the funding policy continues to best suit the circumstances of the District."

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Sample Funding Statement #4: Continued pay-as-you-go funding, with internal reserve

"As required by GASB 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every (two, three) fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year and (2) a component for amortization of the total unfunded actuarial accrued liability (UAL) over a period not to exceed 30 years. The District's funding policy is to continue to pay health care premiums for retirees as they fall due. The District has elected not to establish an irrevocable trust at this time.

The District intends to make periodic contributions into an internal reserve fund that is dedicated to retiree health benefits and may only be used for that purpose. The intention of the District is to have these contributions qualify for charging to restricted categorical funds under the current guidelines of the California Department of Education (CDE) and the U.S. Department of Education (USDOE). The amount of contribution may be changed from time to time by Board action. All future retiree health benefits will be paid out of the reserve to the extent required to meet the requirements of the CDE and the USDOE. This fund does not qualify as an irrevocable trust under GASB 45.

The Board reserves the authority to review and amend this funding policy from time to time in order to ensure that the funding policy continues to best suit the circumstances of the District."

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Sample Funding Statement #5: Continued pay-as-you-go funding, without internal reserve

"As required by GASB 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every (two, three) fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year and (2) a component for amortization of the total unfunded actuarial accrued liability (UAL) over a period not to exceed 30 years. However, GASB 45 does not require prefunding of OPEB benefits. Therefore, the District's funding policy is to continue to pay health care premiums for retirees as they fall due. The District has elected not to establish an irrevocable trust at this time.

The Board reserves the authority to review and amend this funding policy from time to time in order to ensure that the funding policy continues to best suit the circumstances of the District."

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Sample Funding Statement #6: Level dollar amount for a fixed number of years

"The District's funding policy is to fund the OPEB obligation by contributing a level dollar amount of \$_____ for __ years, or until fully funded, as recommended by our actuary. The level dollar amount is sufficient to meet all pay-as-you-go costs for the next __ years and grow with compound interest at the assumed rate of __%, so that by the end of the __ year period the District will have fully funded the Actuarial Present Value of Total Projected Benefits (APVTPB) for all retirees and employees as of the valuation date. During the __ - year accumulation period, benefits will be paid out of the irrevocable trust set up for this purpose.

The Board reserves the authority to review and amend this funding policy from time to time in order to ensure that the funding policy continues to best suit the circumstances of the District."

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Sample Funding Statement #7: Level percentage increase for a fixed number of years

"The District's funding policy is to fund the OPEB obligation by contributing an initial dollar amount of \$_____, thereafter increasing by 3% per year for __ years, or until fully funded, as recommended by our actuary. The projected contribution stream is sufficient to meet all pay-as-you-go costs for the next __ years and grow with compound interest at the

assumed rate of __%, so that by the end of the __-year period the District will have fully funded the Actuarial Present Value of Total Projected Benefits (APVTPB) for all retirees and employees as of the valuation date. During the __-year accumulation period, benefits will be paid out of the irrevocable trust set up for this purpose.

The Board reserves the authority to review and amend this funding policy from time to time in order to ensure that the funding policy continues to best suit the circumstances of the District."

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Sample Funding Statement #8: Constant percentage of unfunded accrued liability

"The District's funding policy is to fund the OPEB obligation by contributing an initial dollar amount of \$_____, expressing that dollar amount as a percentage of the GASB 45 Accrued Liability as determined by our actuary, and thereafter contributing that same percentage of Unfunded Accrued Liability in each future fiscal year. The projected contribution stream is sufficient to meet all pay-as-you-go costs for the next __ years and grow with compound interest at the assumed rate of __%, so that by the end of the __-year period the District will have fully funded the Actuarial Present Value of Total Projected Benefits (APVTPB) for all retirees and employees as of the valuation date. During the __-year accumulation period, benefits will be paid out of the irrevocable trust set up for this purpose.

The Board reserves the authority to review and amend this funding policy from time to time in order to ensure that the funding policy continues to best suit the circumstances of the District."

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Sample Funding Statement #9: Constant percentage of payroll

"The District's funding policy is to fund the OPEB obligation by contributing an initial dollar amount of \$_____, expressing that dollar amount as a percentage of the District's payroll for the current fiscal year, and thereafter budgeting and contributing that same percentage of the District's payroll in each future fiscal year. All retiree health benefits will be paid out of the irrevocable trust set up for this purpose, to the extent funded.

The Board reserves the authority to review and amend this funding policy from time to time in order to ensure that the funding policy continues to best suit the circumstances of the District."

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Sample Funding Statement #10: Cost-neutral prefunding

"The District will establish an irrevocable trust and prefund it according to the following guidelines:

- (1) Calculate the payroll for groups of categorical employees who are entitled to OPEB upon retirement.
- (2) Determine a level percentage of payroll that would be sufficient to cover pay-as-you go costs for the upcoming year for employees paid from the general fund, plus additional categorical reimbursements.
- (3) To the amount determined in (2), add certain expenses (both external and internal) to the irrevocable trust, take them out of the budget, and contribute an offsetting amount.
- (4) To this result, add any amounts the Board may designate from time to time in its sole discretion.

All retiree health benefits will be paid out of the irrevocable trust, set up for this purpose, to the extent funded. The purpose of this funding policy is to establish a mechanism for prefunding OPEB at the lowest possible direct cost to the District.

The Board reserves the authority to review and amend this funding policy from time to time in order to ensure that the funding policy continues to best suit the circumstances of the District."

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*For more information on CSBA's GASB 45 Solutions program, please contact
Suzi Rader or Vina Guzman at (800) 266-3382*

NOTICE

As a public service to CSBA and California districts, the Independent Actuaries of California have provided these 10 sample funding statements that provide a framework for district action. IAC assumes no legal responsibility for the use of these statements and encourages districts to consult legal counsel prior to adopting a funding strategy.