

REGIONAL WATER AUTHORITY POLICIES AND PROCEDURES MANUAL

Policy Type : Fiscal Management
Policy Title : Other Post Employment Benefits (OPEB) Funding Policy
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OTHER POST EMPLOYMENT BENEFITS (OPEB) FUNDING POLICY

In preparation for compliance with GASB 45, **Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (OPEB)**, an actuarial evaluation of the Regional Water Authority's OPEB obligation was conducted in January 2009 for the period as of July 1, 2008.

Actuarial Accrued Liability (AAL)

The actuarial analysis calculated an actuarial accrued liability (AAL) representing the current and future OPEB retirement obligation related to prior employment service for former and existing employees through July 1, 2008¹. The RWA Board of Directors, at its March 12, 2009 meeting, approved paying the calculated July 1, 2008 OPEB liability (AAL) for the prior service cost in Fiscal Year 2009 using available designations.

The actuarial assumptions used in the calculations may vary from actual results. Three significant assumptions include an interest earnings rate of 7.75% (as permitted by GASB 45), an annual 3.25% salary increase, and health care costs increases ranging from 10.0% in 2008 to 4.50% in 2017. To the extent these assumptions vary from the actual results, RWA could incur additional liabilities resulting from these differences.

Amortizing the differences between Actuarial Accrued Liability and the Actuarial Asset Value generated from valuation assumptions.

Differences resulting from the actuarial accrued liability and the actuarial asset value due to changes in valuation assumptions can be computed at such times as an actuarial analysis is required by GASB or the OPEB trustee.

¹ Referred to as "prior service costs" in the presentations to the Executive Committee and Board of Directors.

RWA's AAL policy is to amortize these differences over ten years as part of the annual required contribution, using a level dollar open period basis. The additional required funding resulting from estimate versus actual differences would be included in the annual required contribution (ARC). This liability represents a general operating and administrative obligation of RWA.

Normal Costs

RWA incurs an annual OPEB retirement obligation for current employees.² In order to keep RWA's OPEB obligations current, the normal cost for service will be paid for on an annual basis and included as part of the overall RWA budget. The payment of these funds will be made to the OPEB retirement trust vehicle. The funding concept is similar to the annual PERS pension obligation that RWA incurs and funds.

Annual Required Contributions (ARC)

The annual required contributions (ARC) reflect the normal costs, amortization of the AAL, plus any interest costs related to the timing of the payment. It is RWA's policy to fully fund the annual ARC into an irrevocable trust. Any funding in excess of the required ARC would require prior approval by the RWA Executive Committee.

Investment/Trust Vehicle

In order to maximize the earnings rate for these OPEB deposits, RWA invests these funds into an irrevocable trust vehicle. Once the funds are invested into the trust, they can only be used to fund ongoing OPEB retirement obligations.

At its March 12, 2009 meeting, the Board of Directors approved using the California Employers' Retiree Benefits Trust (CERBT), which is managed by CalPERS. From time to time, the Board may evaluate this trust advisor/organization to determine if the service and safety goals are being met for these funds.

² Referred to as on-going service costs in the presentations to the Executive Committee and Board of Directors meetings.