OTHER POST EMPLOYMENT BENEFITS (OPEB) FUNDING POLICY

The fundamental financial objective of the OPEB policy is to fund the long-term costs of the benefits promised to participants. The principal goal of the funding policy is to plan for future contributions and current plan assets to provide for OPEB benefits expected to be paid to participants.

This funding policy is separate from the accounting policy in determining the overall net OPEB liability. RWA follows Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“GASB 75”) for financial statement purposes. The net OPEB liability determined under GASB 75 will be different than the unfunded actuarially accrued liability determined for funding purposes due to shorter allocation time horizons that GASB 75 uses to allocate unfunded liabilities for past services.

OPEB Actuarially Determined Contribution (ADC)

RWA hires an actuary to determine the ADC for funding based upon biennial actuarial valuations. The ADC will include the normal cost for current employee services and amortization of the unfunded liability for past services, plus any interest due to the timing of the funding. It is RWA’s policy to fund the annual ADC into an irrevocable trust.

The RWA Executive Committee will review and approve the biennial actuarial report. Any funding in excess or less than the ADC would require prior approval by the RWA Executive Committee.

Normal Costs

RWA incurs an annual OPEB obligation for current employees. 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 an OPEB retirement trust vehicle.
The normal cost will be calculated using the entry age normal cost method using economic and non-economic assumptions. RWA will review these assumptions and employee census data with the actuary.

The actuarial assumptions used in the calculations may vary from actual results. Three significant assumptions for the calculations include the discount rate for assets and liabilities, annual salary increase, and health care costs increases over a period of years. RWA may use a modified discount rate to account for a margin for adverse deviation.

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.

RWA’s policy is to amortize these differences over ten years as part of the annual required contribution, using a level dollar closed period basis. The additional required funding resulting from estimate versus actual differences would be included in the ADC. This liability represents a general operating and administrative obligation of RWA. From time to time, RWA may establish a fresh start amortization period for these unfunded liabilities so as to avoid over funding the OPEB trust.

Implicit and Explicit Subsidy

RWA’s calculation of OPEB funding includes both the implicit and explicit subsidy determination. RWA currently participates in a health plan that charges the same health premiums for active and retired members. In theory, since retired or older workers incur higher health care costs, active employees are subsidizing these retirees’ health premiums. In other words, if health premiums were based upon expected costs, active employees’ health premiums would be lower and retirees’ health premiums would be higher.

RWA will consider annually whether to fund both the explicit and implicit subsidy. RWA will also evaluate the actuarial value of total plan assets in comparison to actuarial present value of projected benefits for the explicit subsidy.  

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1 For example, RWA is using a 7.0% discount rate for the July 1, 2017 valuation whereas the California Employers’ Retiree Benefit Trust (CERBT) allows a 7.28% discount rate for strategy one.

2 The present value of projected benefits represents the amount presently required to fund all projected benefits in the future, including future benefits expected to be earned by continuing employment of existing employees.
assets exceed the actuarial present value of projected benefits for the explicit subsidy, RWA may consider reducing the implicit portion of the annual determined contribution. This consideration of reduction would be based upon avoiding over funding the trust assets in light of the probability that health care premiums would continue to be same cost for both active and retirees.

**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 Executive Committee may evaluate this trust advisor/organization to determine if the service and safety goals are being met for these funds.