Regional Water Authority

Other Post Employment Benefits (OPEB)

October 23, 2019
Outline

- OPEB Overview
- Current OPEB Assumptions Drive Funding
- OPEB Assumptions for June 30, 2017 Report
- Current OPEB Funding Status
- New OPEB Biennial Valuation Report
- Staff Recommendations
- Questions and Comments
OPEB Overview

• Policy 500.10 - OPEB policy:
  • Invest RWA’s retiree health funds into an irrevocable trust
  • RWA uses CalPERS California Employers’ Retiree Benefits Trust (CERBT) for their OPEB deposits

• OPEB Funding Report
  • Biennially, RWA hires an actuary to determine future funding contributions
  • Most recent report – June 30, 2017
  • New report needed for FY2021 and FY2022 budget
  • Actuary uses June 30, 2019 actuals as starting point for calculations
OPEB Assumptions Drive Funding Requirements

- Investment strategy
- Discount rate
- Amortization period
- Expected retiree health premiums
  - Implicit and explicit liability
- Amortization period of unfunded liability
- Healthcare costs
OPEB Assumptions for June 30, 2017 Report

On July 12, 2018, RWA Board approved:

- Continue using CERBT Strategy 1 (most aggressive)
- Discount rate of 7.0%
  - Official rate for Strategy 1 was 7.28%
- Used a 10-year closed amortization period
- Included the Health Excise Tax in calculation
  - Some concern on who should pay for this cost
  - Tax implementation postponed to 2022
OPEB Assumptions for June 30, 2017 Report, con’t.

- Fund healthcare premiums based on Explicit + Implicit Liability.
  - “Implicit” liability – premiums are age rated.
    - Theoretical liability
    - Younger staff subsidizes retirees
  - “Explicit” liability – premiums based on actual cash required

- Funding both allows use of higher discount rate.
Current OPEB Funding Status

• Compare June 30, 2019 actual trust assets to actuarial accrued liability (AAL)
• Investment Strategy 1 has performed well
  • Approximate 10% average annualized rate of return through July 2017
• Approximately 101% funded**
  • Based upon 2017 funding report expected AAL
  • Actual trust assets $1,188,139/AAL of $1,179,880
  • CERBT changed discount rate October 2018
  • New employees since last report
• Funding expected to be approximately 92%
  • Expected assets of $1,080,803/AAL of $1,179,880
New OPEB Biennial Valuation Report

• Actuary to begin June 30, 2019 OPEB Biennial Valuation Report
  • Needed for FY2021 and FY2022 budget
  • Two essential assumptions needed to develop the report in a timely manner
  • Recent CERBT discount rate changes impact the report
  • Modifications to employee and retiree health benefits in July 2019 (Updated Policy 400.1)
New OPEB Biennial Valuation Report, con’t.

- Actuary can now compute a customized discount rate
  - Updated cash flows for health care costs
  - New CERBT discount rate information (Oct. 2018)

<table>
<thead>
<tr>
<th>CERBT Expected Rates of Return</th>
<th>2018 Capital Market Assumptions</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Strategy 1</td>
</tr>
<tr>
<td>Expected Time-Weighted Return, Near Term</td>
<td>5.85%</td>
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<tr>
<td>Expected Time-Weighted Blended Return, Longer Term</td>
<td>7.59%</td>
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<tr>
<td>Standard Deviation of Expected Investment Returns</td>
<td>11.83%</td>
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</tbody>
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- Compare results to slightly lower rate
  - Similar to historical approach
  - Chosen to help mitigate risk of Strategy 1
New OPEB Biennial Valuation Report, con’t.

- Some agencies with well funded trust assets are moving out of Strategy 1 into either Strategy 2 or 3
  - Help mitigate investment risk of entire trust fund
  - Analyze expected cash requirements if assets are moved to Strategy 2 or 3
  - Ideal strategy with CERBT—bifurcate into multiple strategies
    - Retiree and near retiree assets in the more conservative strategy
    - Newer non-vested employees in the more aggressive strategy
    - Potential future opportunities with CERBT – not currently allowable
• **Discount Rate**: direct the actuary to provide OPEB cash flow and liability analysis using the customized blended rate for Strategy 1 (as determined by the actuary) and then an additional analysis with a lower discount rate for comparative purposes.

• **Investment Strategy**: direct the actuary to determine the customized rate for funding Strategies 2 and 3 and the resulting cash flow and liability analysis for comparison to Strategy 1.

• **Remaining Assumptions**: Keep the same as the previous report. Staff to review other assumptions with EC/Board in upcoming meetings.
Questions and Discussion