Regional Water Authority
BUILDING ALLIANCES IN NORTHERN CALIFORNIA

Regional Water Authority
Other Post Employment Benefits (OPEB)

October 23, 2019

Outline

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- 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 postposed 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)

CERBT Expected Rates of Return

2018 Capital Market Assumptions	Strategy 1	Strategy 2	Strategy 3
Expected Time-Weighted Return, Near Term	5.85%	5.22%	4.41%
Expected Time-Weighted Blended Return, Longer Term	7.59%	7.01%	6.22%
Standard Deviation of Expected Investment Returns	11.83%	9.24%	7.28%

Near term is 10 years. Longer term is 60 years. Expected returns are net of fees. CERBT total fees are 10 bps. Standard deviation is 10 years.

CalPERS

- Compare results to slightly lower rate
  - Similar to historical approach
  - Chosen to help mitigate risk of Strategy 1

RVA

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

Staff Recommendation

- **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