



December 17, 2019

Other Post Employment Benefits (OPEB) Past Liability Funding

Board Meeting



FOCUSING ON A SUSTAINABLE FUTURE



DISCUSSION

- ❖ Prior to the merger, NCWD's Other Post Employment Benefits (OPEB) past liabilities were fully funded and held in a trust (CERBT-California Employers' Retiree Benefit Trust).
- ❖ CLWA/SCWD past liabilities were also held in a CERBT trust, but past liabilities were not fully funded.
- ❖ As part of the merger, employee benefits between CLWA and NCWD were aligned, and as a result, NWD's past liabilities are no longer fully funded.
- ❖ CERBT would also like to combine the two trusts into one.
- ❖ Staff requested from the Agency's actuarial consultant the amount needed fully fund its past OPEB liability.





UNFUNDED LIABILITY

| | Regional | SCWD | NWD | VWD | Total All |
|---------------------------------|---------------------|--------------------|--------------------|------------------|-----------------------|
| Total OPEB Liability | \$11,966,709 | \$6,429,943 | \$5,295,314 | \$294,356 | \$23,986,322 |
| Trust Assets | (10,123,533) | (5,439,569) | (3,107,727) | (249,018) | (18,919,847) |
| Net OPEB Liability | 1,843,176 | 990,374 | 2,187,587 | 45,338 | 5,066,475 |
| Normal Cost & Interest | 939,680 | 325,509 | 280,194 | 307,096 | 1,852,479 |
| Amount to Fund Liability | \$ 2,782,856 | \$1,315,883 | \$2,467,781 | \$352,434 | \$ 6,918,953 |
| FY 2019/20 Payment | (810,657) | (256,183) | (127,063) | (303,923) | (1,497,826) |
| Unfunded Payment | \$ 1,972,199 | \$1,059,700 | \$2,340,718 | \$ 48,511 | \$ 5,421,127 * |



*Total Unfunded Actuarial Accrued Liability (UAAL)



VESTING

| | Regional | SCWD | NWD | VWD | Total All |
|-----------------------------|--------------|--------------|--------------|---------------|--------------|
| Average Age of Active | 49.2 | 42.1 | 46.3 | 44.7 | 46.0 |
| Average Age of Retirees | 68.9 | 69.8 | 72.8 | n/a | 69.6 |
| Average Age of All | 55.1 | 47.8 | 51.6 | 44.7 | 50.9 |
| Average Service Years | 9.9 | 11.3 | 17.0 | 0.4 | 9.2 |
| % Subject to Vesting | 32.7% | 39.7% | 11.4% | 100.0% | 43.3% |

| Years of Service | % of Employer Contribution |
|------------------|----------------------------|
| 10 | 50 |
| 15 | 75 |
| 20 | 100 |

- ❖ To qualify for OPEB, employees need to have a minimum of 10 years of CalPERS service credit
- ❖ Each additional service credit after 10 years increases the employer contribution percentage by 5%





PROJECTED SAVINGS

- ❖ If the Agency, stayed its course and continued to make annual payments towards the Unfunded Actuarial Accrued Liability (UAAL) over the next 27 years the total amortization payments would total \$12,571,527.
- ❖ If the Agency committed to pay its UAAL (\$5,421,127) by FYE 2020, the Agency would see savings of \$7,150,400 over the next 27 years.

| (total over 27 years) | Regional | SCWD | NWD | VWD | Total All |
|------------------------|------------------|------------------|------------------|---------------|------------------|
| Amortization Payments | \$ 4,573,502 | \$2,457,431 | \$5,428,097 | \$112,497 | \$12,571,527 |
| UAAL Payment | (1,972,199) | (1,059,700) | (2,340,718) | (48,511) | (5,421,127) |
| 27 Year Savings | 2,601,303 | 1,397,731 | 3,087,379 | 63,986 | 7,150,400 |





PREFUNDING ADVANTAGE

- ❖ Provides funding security for current and future retirees by accelerating funding.
- ❖ Allows access to the higher expected rates of return through equity based investments in a qualified trust.
 - 7% return in CERBT vs. <1% (10 year average) return in LAIF
- ❖ Matches payment of past service liability associated with previous ratepayers to those ratepayers.
- ❖ Payment of future normal costs creates the fairest intergenerational equity for current and future ratepayers while stabilizing this element of the rate base.





RESERVES

❖ Projected reserve levels at FYE 2020:

| Projected Reserves @ 06/30/20 | | % of Target |
|---|-----------------------|-------------|
| Regional | \$ 97,070,935 | 100% |
| SCWD | 28,582,919 | 100% |
| NWD | 8,003,364 | 68% |
| VWD | 7,419,813 | 36% |
| Total Projected Reserves | \$ 141,077,031 | 89% |
| | | |
| Projected after Prefunding @ 06/30/20 | | % of Target |
| Regional | \$ 95,098,736 | 98% |
| SCWD | 27,523,219 | 96% |
| NWD | 5,662,646 | 48% |
| VWD | 7,371,302 | 36% |
| Total Projected after Prefunding | \$ 135,655,904 | 86% |





NEXT STEPS

- ❖ Receive Board of Directors approval to fund the UAAL by FYE 2020
- ❖ Begin discussions with CERBT to either establish a new trust or to utilize one of the existing trusts.
- ❖ Actuary to calculate exact prefunding amount based on funding of the trust at June 2020.

