

OTAY WATER DISTRICT  
SPECIAL MEETING OF THE BOARD OF DIRECTORS  
DISTRICT BOARDROOM

2554 SWEETWATER SPRINGS BOULEVARD  
SPRING VALLEY, CALIFORNIA

**MONDAY**  
**April 4, 2016**  
**3:00 P.M.**

**AGENDA**

1. ROLL CALL
2. PLEDGE OF ALLEGIANCE
3. APPROVAL OF AGENDA
4. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

**WORKSHOP**

5. WORKSHOP ON OTHER POST EMPLOYEE BENEFITS ACTUARIAL VALUATION (BEACHEM/KOEPPEN)
6. ADJOURNMENT





**B**ARTEL  
ASSOCIATES, LLC

## OTAY WATER DISTRICT RETIREE HEALTHCARE PLAN

June 30, 2015 OPEB Actuarial Valuation  
Board Presentation

**Bartel Associates, LLC**  
John Bartel, President  
Joseph R. D’Onofrio, Assistant Vice President  
Adam Zimmerer, Actuarial Analyst  
Tak Frazita, Associate Actuary  
**April 4, 2016**

### AGENDA

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Current Benefit Design (Actives)	7
Funding Policy	8
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## DEFINITIONS

### ■ GASB 45

- Accounting Statement for Other (than pension) Post Employment Benefits (OPEB)
- Recognize OPEB costs over active service rather than pay-as-you-go when employees retire
- Pre-funding prudent but not required
- Likely to be modified in a similar manner to GASB 68

### ■ Normal Cost (NC)

- Value of benefits allocated to current year

### ■ Actuarial Accrued Liability (AAL)

- Obligation for benefits allocated to prior service

### ■ Unfunded Actuarial Accrued Liability (UAAL)

- Unfunded amount of AAL
- Assets must be in restricted trust to be considered for GASB 45

## DEFINITIONS

### ■ Annual Required Contribution (ARC)

- Normal Cost, plus
- Amortization of UAAL

### ■ Net OPEB Obligation (NOO)

- Historical difference between ARCs and actual contributions
- Accumulated amount expensed but not yet funded

### ■ Annual OPEB Cost (AOC)

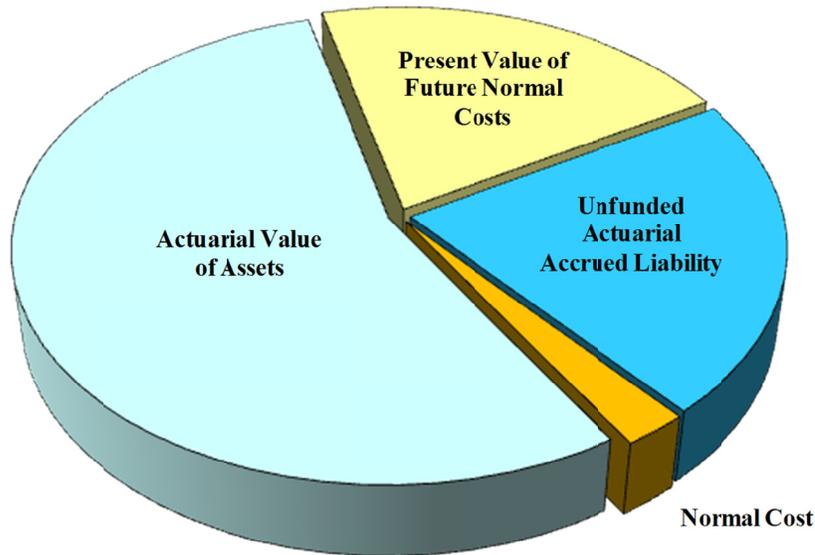
- ARC, plus
- Interest on NOO, less
- NOO adjustment for amounts expensed but not funded

### ■ Entry Age Normal Funding Method

- Calculates a Normal Cost for each eligible active employee
- Normal Cost calculated as a level percentage of pay

## DEFINITIONS

### Present Value of Benefits



## DEFINITIONS

- **Present Value of Benefits (PVB)**
  - Projected amount needed to fund all expected benefits of current actives and retirees
- **Market Value of Assets (MVA)**
  - Current value of OPEB trust assets
- **Actuarial Value of Assets (AVA)**
  - Value of plan assets with investment gains and losses recognized over 5 years to moderate the impact of market value fluctuations
- **Unfunded Actuarial Accrued Liability**
  - AAL less AVA, the amount of AAL still needed to be funded by future contributions
- **Present Value of Future Normal Costs**
  - PVB less AAL and current year's NC, the amount of PVB expected to be funded by contributions for future years' Normal Costs
- **CERBT #1**
  - California Employers' Retiree Benefit Trust Investment Strategy #1

## WHY AGENCIES PREFUND OPEB OBLIGATION

- Fiscally prudent to prefund:
  - Pension plan funding discipline imposed by CalPERS
  - OPEB plan funding discipline at discretion of agency
  - Prevent increasing unfunded obligation and pay-as-you-go costs
  - Prefund NC plus UAAL amortized over appropriate number of years
- Allocate current employee deferred compensation costs to current taxpayers and ratepayers
- Can invest assets in more risky investments with higher expected return
  - Greater portion of benefits expected to be paid from investment earnings rather than cash
- Allows use of a higher discount rate
  - Discount rate for funding reflects expected long-term return of source from which benefit payments are made
  - Lower obligation (PVB, AAL, UAAL) than if not prefunding
  - Unfunded liability will be reported on statement of position under GASB 75, effective for 2017/18
  - Funding plan may be looked upon favorably by credit rating agencies

## WHY AGENCIES DO NOT PREFUND OPEB OBLIGATION

- Agency may not currently have available funds
- District assets can be used for other purposes
- Time and expense required to set up and manage OPEB trust
- OPEB trust assets are restricted and cannot be used by the District for any other purpose until all benefits are paid

## CURRENT BENEFIT DESIGN (ACTIVES)

<p>■ Eligibility</p>	<ul style="list-style-type: none"> <li>• Full-time employees who retire directly from District under CalPERS</li> </ul>
<p>■ Current Plan</p> <p>Service Retirement Eligibility &amp; Benefits</p>	<ul style="list-style-type: none"> <li>• Age and service requirements<sup>1</sup>:                             <ul style="list-style-type: none"> <li>➢ Represented hired &lt; 1/1/13 - 55 and 20 years of District svc</li> <li>➢ Unrepresented hired &lt; 1/1/13 - 55 and 15 years of District svc</li> <li>➢ Hired ≥ 1/1/13 - Age 55 and 20 years of District service</li> <li>➢ Disability Retirement - Age 50 and 10 years of District service</li> </ul> </li> <li>• Retiree healthcare benefit:                             <ul style="list-style-type: none"> <li>➢ Retiree - 100% retiree medical &amp; dental premium for life, 88% spouse premium for life, 88% eligible dependent premium</li> <li>➢ Survivors - 88% spouse medical and dental premium for life, 88% eligible dependent premium</li> </ul> </li> <li>• Life insurance - none</li> </ul>
<p>■ Medical Plans</p>	<ul style="list-style-type: none"> <li>• SDRMA EPO, Gold PPO, HMO 15 available before Medicare eligibility</li> <li>• Gold PPO available after Medicare eligibility</li> </ul>

<sup>1</sup> Retiree benefit based on original hire date and retirement date. Directors not eligible.

## FUNDING POLICY

<p>■ Current District Funding Policy</p>	<ul style="list-style-type: none"> <li>• Contribute full ARC with CERBT Investment Strategy #1</li> <li>• In addition, District pays benefits (cash subsidy and implied subsidy) directly from District assets</li> <li>• Unfunded Liability amortized over 22 years for 2015/16</li> </ul>																								
<p>■ Recent District Contributions ('000s)</p>	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;"><u>Fiscal Year</u></th> <th style="text-align: center;">Cash Subsidy <u>PayGo</u></th> <th style="text-align: center;">Implied Subsidy <u>PayGo</u></th> <th style="text-align: center;"><u>CERBT Funding</u></th> <th style="text-align: center;">Total District <u>Contrib</u></th> <th style="text-align: center;"><u>ARC</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2014/15</td> <td style="text-align: right;">\$929</td> <td style="text-align: right;">\$118</td> <td style="text-align: right;">\$1,413</td> <td style="text-align: right;">\$2,460</td> <td style="text-align: right;">\$1,413</td> </tr> <tr> <td style="text-align: center;">2013/14</td> <td style="text-align: right;">940</td> <td style="text-align: right;">116</td> <td style="text-align: right;">1,370</td> <td style="text-align: right;">2,426</td> <td style="text-align: right;">1,439</td> </tr> <tr> <td style="text-align: center;">2012/13</td> <td style="text-align: right;">809</td> <td style="text-align: right;">86</td> <td style="text-align: right;">1,287</td> <td style="text-align: right;">2,182</td> <td style="text-align: right;">1,287</td> </tr> </tbody> </table>	<u>Fiscal Year</u>	Cash Subsidy <u>PayGo</u>	Implied Subsidy <u>PayGo</u>	<u>CERBT Funding</u>	Total District <u>Contrib</u>	<u>ARC</u>	2014/15	\$929	\$118	\$1,413	\$2,460	\$1,413	2013/14	940	116	1,370	2,426	1,439	2012/13	809	86	1,287	2,182	1,287
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## PARTICIPANTS

Valuation Date	6/30/09	6/30/11	6/30/13	6/30/15
<b>■ Actives</b>				
• Count	160	150	137	136
• Average Age	44.8	46.5	46.5	47.1
• Average Hire Age	36.4	36.3	37.0	37.4
• Ave District Service	8.4	10.2	9.5	9.7
• Average Pay	\$76,634	\$80,784	\$87,366	\$93,146
• Total Payroll (000's)	11,878	12,118	11,969	12,668
<b>■ Retirees</b>				
• Count	69	69	80	79
• Average Age	67.7	68.7	68.5	69.2
• Ave Retirement Age	59.0	58.5	58.3	58.4
<b>■ Retirees/Actives</b>	43%	46%	58%	58%

## ASSUMPTIONS HIGHLIGHTS

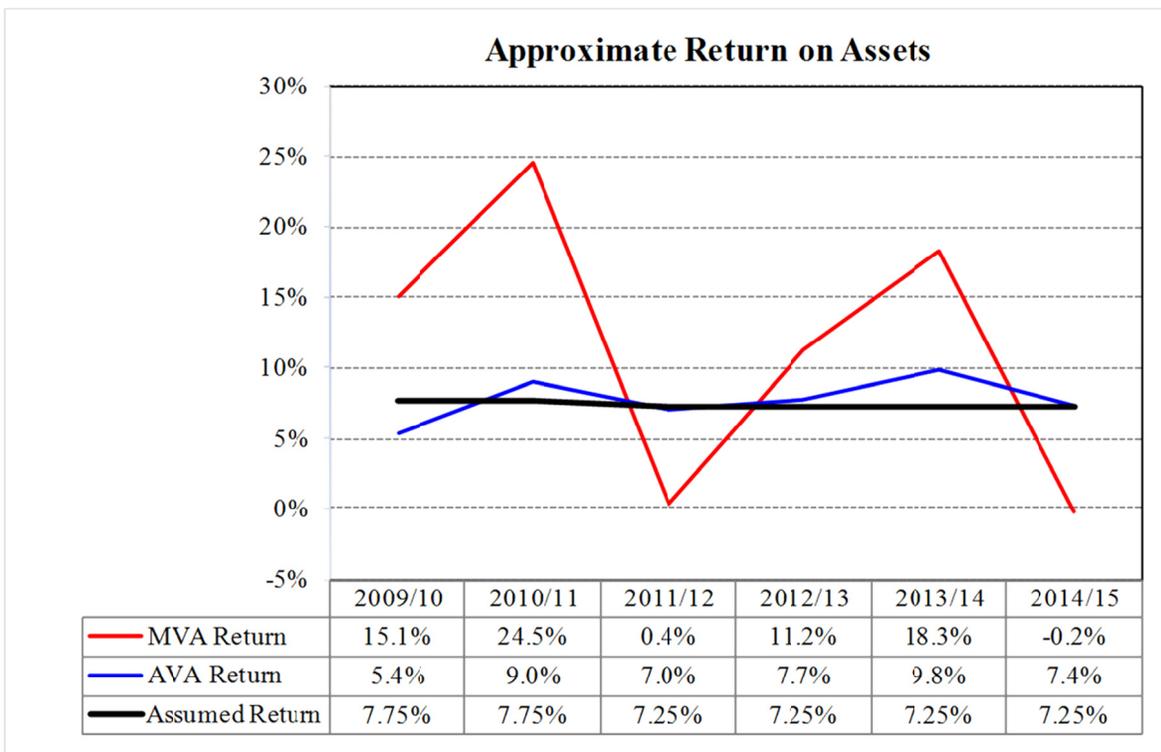
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<b>■ Dental Trend</b>	• 4.0% annually	• Same																																																																		

## ASSUMPTIONS HIGHLIGHTS

Assumption	June 30, 2013 Valuation	June 30, 2015 Valuation
<ul style="list-style-type: none"> <li>■ Mortality, Termination, Disability, Merit Pay</li> </ul>	<ul style="list-style-type: none"> <li>• CalPERS 1997-2007 Experience Study</li> <li>• Mortality Improvement Scale AA</li> </ul>	<ul style="list-style-type: none"> <li>• CalPERS 1997-2011 Experience Study</li> <li>• Modified Mortality Improvement Scale MP-2014</li> </ul>
<ul style="list-style-type: none"> <li>■ Participation at Retirement</li> </ul>	<ul style="list-style-type: none"> <li>• Currently covered and waived                             <ul style="list-style-type: none"> <li>➢ Medical - 100%</li> <li>➢ Dental - 80%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Same</li> </ul>
<ul style="list-style-type: none"> <li>■ Hardship Retirements</li> </ul>	<ul style="list-style-type: none"> <li>• n/a</li> </ul>	<ul style="list-style-type: none"> <li>• 1% liability load for active obligation</li> </ul>
<ul style="list-style-type: none"> <li>■ PPACA High Cost Plan Excise Tax “Cadillac Tax”</li> </ul>	<ul style="list-style-type: none"> <li>• n/a</li> </ul>	<ul style="list-style-type: none"> <li>• 1.25% liability load</li> </ul>



## ASSUMPTIONS HIGHLIGHTS



**VALUATION RESULTS**

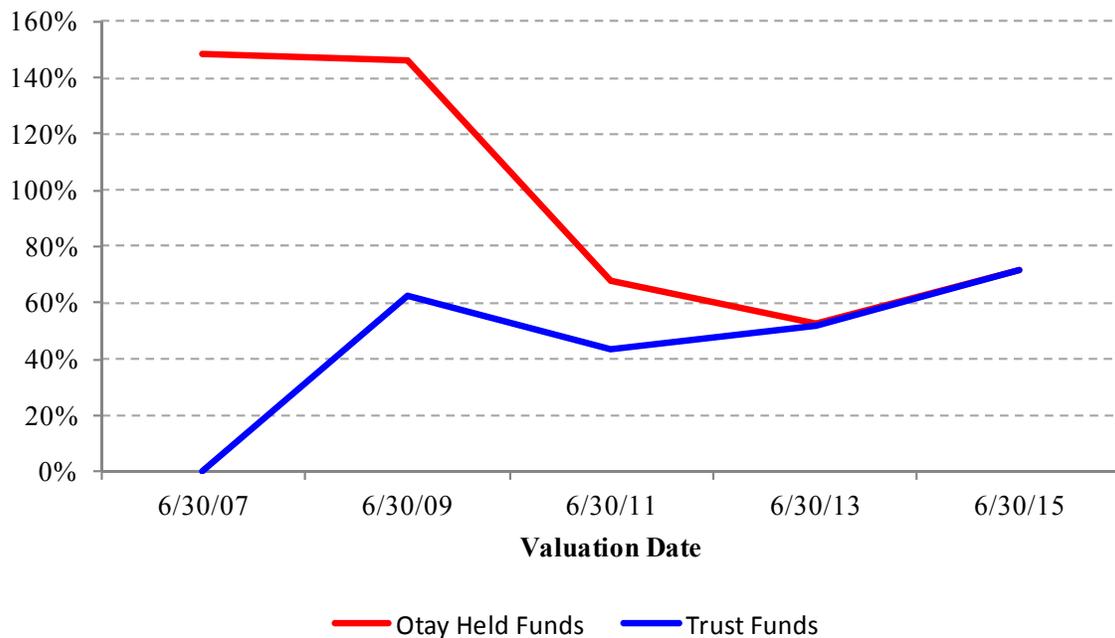
**Actuarial Obligations**

Actuarial Obligations (Amounts in 000's)	6/30/13 Valuation	6/30/15 Valuation
<b>■ Actuarial Accrued Liability</b> <ul style="list-style-type: none"> <li>• Actives</li> <li>• Retirees</li> <li>• Total</li> </ul>	\$ 9,832 <u>13,059</u> 22,891	\$ 10,884 <u>12,805</u> 23,689
<b>■ Actuarial Value of Assets</b>	<u>11,831</u>	<u>16,920</u>
<b>■ Unfunded Actuarial Accrued Liability</b>	11,060	6,769
<b>■ Funded Percent</b>	52%	71%
<b>■ Normal Cost</b>	699	761
<b>■ Pay-As-You-Go Cost</b>	1,045	1,034



**VALUATION RESULTS**

**Funded Percent**



**VALUATION RESULTS**

**Estimated Actuarial Gains & Losses**

(Amounts in 000's)

Actuarial Gains & Losses	AAL
■ <b>6/30/13 Actuarial Accrued Liability</b>	\$22,891
■ <b>6/30/15 Expected Actuarial Accrued Liability</b>	25,527
■ <b>Experience Losses (Gains)</b>	
• Actual versus expected premiums	(2,692)
• Demographic & other	(899)
■ <b>Assumption Changes</b>	
• CalPERS demographic assumptions	532
• Projected mortality improvement	824
• Hardship retirement assumption	105
• PPACA excise tax	<u>292</u>
■ <b>Total Changes</b>	(1,838)
■ <b>6/30/15 Actuarial Accrued Liability</b>	23,689

**VALUATION RESULTS**

**Annual Required Contribution (ARC)**

(Amounts in 000's)

Annual Required Contribution	<u>6/30/13 Valuation</u>		<u>6/30/15 Valuation</u>	
	2013/14	2014/15	2015/16	2016/17
■ <b>ARC - \$</b>				
• Normal Cost	\$ 699	\$ 722	\$ 761	\$ 786
• UAAL Amortization	<u>739</u>	<u>691</u>	<u>478</u>	<u>414</u>
• Total ARC	1,439	1,413	1,239	1,200
■ <b>Estimated Payroll</b>	11,969	12,358	13,080	13,505
■ <b>ARC - %</b>				
• Normal Cost	5.8%	5.8%	5.8%	5.8%
• UAAL Amortization	<u>6.2%</u>	<u>5.6%</u>	<u>3.7%</u>	<u>3.1%</u>
• Total ARC %	12.0%	11.4%	9.5%	8.9%
■ <b>UAAL Amortization Years</b>	24	23	22	21

## MEMBER CONTRIBUTION STUDY

### ■ Study Methodology

- Prospective study assuming OPEB change made for current actives
- For prior plan results, AVA reduced by current value of prior CalPERS member contributions allocated to fund OPEB
- Represented cost sharing higher than Unrepresented due to higher OPEB cost for Represented employees

CalPERS Member Contributions	Unrepresented		Represented	
	<u>Classic</u>	<u>New</u>	<u>Classic</u>	<u>New</u>
■ CalPERS Member				
■ Required Contributions	8.00%	6.25%	8.00%	6.25%
■ Additional Contributions	<u>0.00%</u>	<u>1.75%</u>	<u>0.75%</u>	<u>2.50%</u>
■ Total Member Contributions	8.00%	8.00%	8.75%	8.75%
■ Prior Member Contributions	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>
■ Member Contributions for OPEB Funding	7.00%	7.00%	7.75%	7.75%

## MEMBER CONTRIBUTION STUDY

### Actuarial Obligations - Current Plan

June 30, 2015 - 7.25% Discount Rate

(Amounts in 000's)

Actuarial Obligations	Unrepresented	Represented	Total
■ <b>Present Value of Benefits</b>			
• Actives	\$5,715	\$12,287	\$18,001
• Retirees <sup>2</sup>	<u>3,295</u>	<u>9,510</u>	<u>12,805</u>
• Total	9,010	21,797	30,806
■ <b>Actuarial Accrued Liability</b>			
• Actives	3,912	6,972	10,884
• Retirees	<u>3,295</u>	<u>9,510</u>	<u>12,805</u>
• Total	7,207	16,482	23,689
■ <b>Actuarial Value of Assets<sup>3</sup></b>	<u>5,148</u>	<u>11,772</u>	<u>16,920</u>
■ <b>Unfunded AAL</b>	2,059	4,710	6,769
■ <b>Funded Percent</b>	71%	71%	71%
■ <b>Normal Cost for 2015/16</b>	227	533	761
■ <b>Normal Cost %Pay</b>	4.7%	6.4%	5.8%

<sup>2</sup> Employee group information was not available for retirees. Retiree liability was allocated to Unrepresented and Represented employee groups in proportion to active counts on 6/30/15 (35 Unrepresented and 101 Represented.)

<sup>3</sup> Actuarial Value of Assets was allocated to Unrepresented and Represented employee groups in proportion to AAL.

## MEMBER CONTRIBUTION STUDY

### **Funding Projection - OPEB Change Additional Cost - Total**

(Amounts in 000's)

<b>Fiscal Year End</b>	<b>Change in Total ARC</b>	<b>Member OPEB Contr.</b>	<b>Net District Annual Savings</b>
Prior Member Contribution Study			
2014	\$ 937	\$ 894	\$ 43
Current Member Contribution Study			
2016	1,007	978	30
2017	987	1,010	(22)
2018	964	1,042	(79)
2019	934	1,077	(142)

#### ■ Study Results

- Short-term increase in District contribution
- Future employee contributions more than offset cost of enhanced OPEB