Ref: 24-8769

AGENDA

INVESTMENT AND FINANCE COMMITTEE MEETING
LEUCADIA WASTEWATER DISTRICT

Tuesday, April 30, 2024 – 3:00 p.m.
1960 La Costa Avenue, Carlsbad, CA 92009

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1. **Call to Order**
2. **Roll Call**
3. **Public Comment**
4. **CalPERS Pension & OPEB Updates.** (Pages 2-10)
5. **Information Items**
   None.
6. **Directors' Comments**
7. **General Manager's Comments**
8. **Adjournment**

MEMORANDUM

Ref: 24-8732

DATE: April 25, 2024

TO: Investment & Finance Committee

FROM: Paul J. Bushee, General Manager

SUBJECT: CalPERS Pension & OPEB Updates

RECOMMENDATION:

This item is presented for information purposes only.

DISCUSSION:

Staff will present two financial items at the upcoming April 30, 2024 meeting:

1) Actuarial Valuations of LWD's Pension Plan

LWD employees participate in a defined benefit pensions plan administered by the California Public Employees' Retirement System (CalPERS). An actuarial valuation of the LWD's pension is required every year to determine its pension liability. CalPERS publishes two actuarial reports in August every year for LWD: one report is for Classic members (employees hired before Jan. 1, 2013) and the other is for PEPRA members (employees hired after Jan. 1, 2013). LWD currently has 8 employees on the Classic plan and 10 PEPRA members.

This financial update item presents the results of the most recent CalPERS actuarial valuation. Based on this most recent report, the District's total Net Pension Liability is $5,263,483. The District's Plan Fiduciary Net Position (investments managed by CalPERS) of $16,364,386 were less than the District's Pension liability of $21,627,869.

Excerpts from the latest Classic and PEPRA actuarial valuation reports are attached. The first page highlights the District's required payments for fiscal year 2024; the second shows the additional discretionary payment options; and the last page shows the funded status as of June 30, 2022. The Board previously approved a 10-year discretionary payment plan in fiscal year 2019. The full reports are available on CalPERS' website or from staff upon request. Staff will present an overview of the pension plan actuarial valuation.

2) Actuarial Valuation of LWD's Retiree Health Program

Tactical Goal: Financial/OPEB Valuation Roll-Forward

LWD is a member of CalPERS Health, which requires employers contribute to health benefits of all qualified retirees if they elect to continue CalPERS health coverage. In February 2009, the Board approved the establishment of a trust through California Employees' Retiree Benefit Trust (CERBT) to fund these future costs.

A full actuarial valuation of the District's retiree health program is required every two years to determine LWD's Other Postemployment Benefits (OPEB) liability. In the off years, the valuation is rolled forward, making minor changes to the valuation to reflect updated information. In March 2023, LWD staff contracted with Actuarial Retirement Consulting, Inc. to perform the required actuarial valuation for June 30, 2024 (measured at June 30, 2023) and roll-forward for June 30, 2025 (measured at June 30, 2024).

This financial update item, which is a fiscal year 2024 tactical goal, presents the results of this recent actuarial valuation. Based on this most recent report, the District's Net OPEB Asset is $37,776. The District's plan fiduciary net position [investments managed by the California Employees' Retiree Benefit Trust (CERBT)] of $549,485 were greater than the District's OPEB liability of $511,709.

An executive summary of the Actuarial Retirement Consulting, Inc.'s actuarial valuation report is attached. The full report is available upon request. Staff will present an overview of the OPEB actuarial valuation.

reg:PB

Attachments (3)

Required Contributions

Required Employer Contributions	Fiscal Year 2024-25
Employer Normal Cost Rate	17.33%
Plus	
Required Payment on Amortization Bases[1]	$405,309
Paid either as	
1) Monthly Payment	$33,775.75
Or	
2) Annual Prepayment Option*	$392,194

The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll and paid as payroll is reported) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly (1) or prepaid annually (2) in dollars).

** Only the UAL portion of the employer contribution can be prepaid* ***(which must be received in full no later than July 31).***

	Fiscal Year 2023-24	Fiscal Year 2024-25
Development of Normal Cost as a Percentage of Payroll		
Base Total Normal Cost for Formula	24.25%	24.32%
Surcharge for Class 1 Benefits[2]		
a) FAC 1	0.82%	0.82%
Phase out of Normal Cost Difference[3]	0.00%	0.00%
Plan's Total Normal Cost	25.07%	25.14%
Offset Due to Employee Contributions	7.81%	7.81%
Employer Normal Cost Rate	17.26%	17.33%

[1] The required payment on amortization bases does not take into account any additional discretionary payment made after April 28, 2023.

[2] Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges.

[3] When a rate plan joins the pool, the difference in normal cost between the pool and the rate plan is phased out over a five-year period in accordance with the CalPERS contribution allocation policy.

Additional Discretionary Employer Contributions

The minimum required employer contribution towards the Unfunded Accrued Liability (UAL) for this rate plan for FY 2024-25 is $405,309. CalPERS allows agencies to make additional discretionary payments (ADPs) at any time and in any amount. These optional payments serve to reduce the UAL and future required contributions and can result in significant long-term savings. Agencies can also use ADPs to stabilize annual contributions as a fixed dollar amount, percent of payroll or percent of revenue.

Provided below are select ADP options for consideration. Making such an ADP during FY 2024-25 does not require an ADP be made in any future year, nor does it change the remaining amortization period of any portion of unfunded liability. For information on permanent changes to amortization periods, see the "Amortization Schedule and Alternatives" section of the report.

Agencies considering making an ADP should contact CalPERS for additional information.

Minimum Required Employer Contribution for Fiscal Year 2024-25

Estimated Normal Cost	Minimum UAL Payment	ADP	Total UAL Contribution	Estimated Total Contribution
$175,799	$405,309	$0	$405,309	$581,108

Alternative Fiscal Year 2024-25 Employer Contributions for Greater UAL Reduction

Funding Horizon	Estimated Normal Cost	Minimum UAL Payment	ADP[1]	Total UAL Contribution	Estimated Total Contribution
20 years	$175,799	$405,309	$43,371	$448,680	$624,479
15 years	$175,799	$405,309	$118,116	$523,425	$699,224
10 years	$175,799	$405,309	$275,765	$681,074	$856,873
5 years	$175,799	$405,309	$765,925	$1,171,234	$1,347,033

[1] The ADP amounts are assumed to be made in the middle of the fiscal year. A payment made earlier or later in the fiscal year would have to be less or more than the amount shown to have the same effect on the UAL amortization.

Note that the calculations above are based on the projected UAL as of June 30, 2024 as determined in the June 30, 2022 actuarial valuation. New unfunded liabilities can emerge in future years due to assumption or method changes, changes in plan provisions, and actuarial experience different than assumed. Making an ADP illustrated above for the indicated number of years will not result in a plan that is exactly 100% funded in the indicated number of years. Valuation results will vary from one year to the next and can diverge significantly from projections over a period of several years.

Funded Status – Funding Policy Basis

The table below provides information on the current funded status of the plan under the funding policy. The funded status for this purpose is based on the market value of assets relative to the funding target produced by the entry age actuarial cost method and actuarial assumptions adopted by the board. The actuarial cost method allocates the total expected cost of a member's projected benefit (**Present Value of Benefits**) to individual years of service (the **Normal Cost**). The value of the projected benefit that is not allocated to future service is referred to as the **Accrued Liability** and is the plan's funding target on the valuation date. The **Unfunded Accrued Liability** (UAL) equals the funding target minus the assets. The UAL is an absolute measure of funded status and can be viewed as employer debt. The **funded ratio** equals the assets divided by the funding target. The funded ratio is a relative measure of the funded status and allows for comparisons between plans of different sizes.

	June 30, 2021	June 30, 2022
1. Present Value of Benefits	$22,557,239	$22,833,536
2. Entry Age Accrued Liability	20,382,579	20,937,843
3. Market Value of Assets (MVA)	17,441,230	15,671,697
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	$2,941,349	$5,266,146
5. Funded Ratio [(3) / (2)]	85.6%	74.8%

A funded ratio of 100% (UAL of $0) implies that the funding of the plan is on target and that future contributions equal to the normal cost of the active plan members will be sufficient to fully fund all retirement benefits if future experience matches the actuarial assumptions. A funded ratio of less than 100% (positive UAL) implies that in addition to normal costs, payments toward the UAL will be required. Plans with a funded ratio greater than 100% have a negative UAL (or surplus) but are required under current law to continue contributing the normal cost in most cases, preserving the surplus for future contingencies.

Calculations for the funding target reflect the expected long-term investment return of 6.8%. If it were known on the valuation date that future investment returns will average something greater/less than the expected return, calculated normal costs and accrued liabilities provided in this report would be less/greater than the results shown. Therefore, for example, if actual average future returns are less than the expected return, calculated normal costs and UAL contributions will not be sufficient to fully fund all retirement benefits. Under this scenario, required future normal cost contributions will need to increase from those provided in this report, and the plan will develop unfunded liabilities that will also add to required future contributions. For illustrative purposes, funded statuses based on a 1% lower and higher average future investment return (discount rate) are as follows:

	1% Lower Average Return	Current Assumption	1% Higher Average Return
Discount Rate	5.8%	6.8%	7.8%
1. Entry Age Accrued Liability	$23,590,199	$20,937,843	$18,720,783
2. Market Value of Assets (MVA)	15,671,697	15,671,697	15,671,697
3. Unfunded Accrued Liability (UAL) [(1) – (2)]	$7,918,502	$5,266,146	$3,049,086
4. Funded Ratio [(2) / (1)]	66.4%	74.8%	83.7%

The "Risk Analysis" section of the report provides additional information regarding the sensitivity of valuation results to the expected investment return and other factors. Also provided in that section are measures of funded status that are appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities.

Required Contributions

	Fiscal Year 2024-25
Required Employer Contributions	
Employer Normal Cost Rate	**7.87%**
Plus	
Required Payment on Amortization Bases[1]	**$2,902**
Paid either as	
1) Monthly Payment	**$241.83**
Or	
2) Annual Prepayment Option*	**$2,808**
Required PEPRA Member Contribution Rate	**7.75%**

The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll and paid as payroll is reported) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly (1) or prepaid annually (2) in dollars).

* *Only the UAL portion of the employer contribution can be prepaid* ***(which must be received in full no later than July 31).***

For additional detail regarding the determination of the required contribution rate for PEPRA members, see "PEPRA Member Contribution Rates" section.

	Fiscal Year 2023-24	Fiscal Year 2024-25
Development of Normal Cost as a Percentage of Payroll		
Base Total Normal Cost for Formula	15.43%	15.62%
Surcharge for Class 1 Benefits[2]		
None	0.00%	0.00%
Phase out of Normal Cost Difference[3]	0.00%	0.00%
Plan's Total Normal Cost	15.43%	15.62%
Offset Due to Employee Contributions	7.75%	7.75%
Employer Normal Cost Rate	7.68%	7.87%

[1] The required payment on amortization bases does not take into account any additional discretionary payment made after April 28, 2023.

[2] Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges.

[3] When a rate plan joins the pool, the difference in normal cost between the pool and the rate plan is phased out over a five-year period in accordance with the CalPERS contribution allocation policy.

Additional Discretionary Employer Contributions

The minimum required employer contribution towards the Unfunded Accrued Liability (UAL) for this rate plan for FY 2024-25 is $2,902. CalPERS allows agencies to make additional discretionary payments (ADPs) at any time and in any amount. These optional payments serve to reduce the UAL and future required contributions and can result in significant long-term savings. Agencies can also use ADPs to stabilize annual contributions as a fixed dollar amount, percent of payroll or percent of revenue.

Provided below are select ADP options for consideration. Making such an ADP during FY 2024-25 does not require an ADP be made in any future year, nor does it change the remaining amortization period of any portion of unfunded liability. For information on permanent changes to amortization periods, see the "Amortization Schedule and Alternatives" section of the report.

Agencies considering making an ADP should contact CalPERS for additional information.

Minimum Required Employer Contribution for Fiscal Year 2024-25

Estimated Normal Cost	Minimum UAL Payment	ADP	Total UAL Contribution	Estimated Total Contribution
$96,013	$2,902	$0	$2,902	$98,915

The minimum required contribution above is less than interest on the UAL. With no ADP the UAL is projected to increase over the following year. If the minimum UAL payment were split between interest and principal, the principal portion would be negative. This situation is referred to as **negative amortization**. If only the minimum required contribution is made, contributions are not expected to exceed interest on the UAL until FY **2027-28**, as shown in the "Amortization Schedule and Alternatives" section of the report (see columns labeled "Current Amortization Schedule").

Fiscal Year 2024-25 Employer Contribution Necessary to Avoid Negative Amortization

Estimated Normal Cost	Minimum UAL Payment	ADP[1]	Total UAL Contribution	Estimated Total Contribution
$96,013	$2,902	$3,655	$6,557	$102,570

Alternative Fiscal Year 2024-25 Employer Contributions for Greater UAL Reduction

Funding Horizon	Estimated Normal Cost	Minimum UAL Payment	ADP[1]	Total UAL Contribution	Estimated Total Contribution
20 years	$96,013	$2,902	$6,059	$8,961	$104,974
15 years	$96,013	$2,902	$7,552	$10,454	$106,467
10 years	$96,013	$2,902	$10,701	$13,603	$109,616
5 years	$96,013	$2,902	$20,490	$23,392	$119,405

[1] The ADP amounts are assumed to be made in the middle of the fiscal year. A payment made earlier or later in the fiscal year would have to be less or more than the amount shown to have the same effect on the UAL amortization.

Note that the calculations above are based on the projected UAL as of June 30, 2024 as determined in the June 30, 2022 actuarial valuation. New unfunded liabilities can emerge in future years due to assumption or method changes, changes in plan provisions, and actuarial experience different than assumed. Making an ADP illustrated above for the indicated number of years will not result in a plan that is exactly 100% funded in the indicated number of years. Valuation results will vary from one year to the next and can diverge significantly from projections over a period of several years.

Executive Summary

This report presents the results of the District's July 1, 2023 actuarial valuation of the OPEB plan. Actuarial valuations determine, as of a valuation date, certain actuarial measurements that assess an employer's financial liability and annual costs.

Results of an actuarial valuation reflect plan census, benefit provisions, premium rates, decrement assumptions, discount rate, and assets, if applicable, as of the valuation date. Future valuation results may differ significantly to the extent that actual plan experience differs from the expected plan experience detailed in this report. Future results are also dependent on any change to the discount rate and actual experience of plan assets, if applicable.

The District's prior actuarial valuation was dated June 30, 2021 and the total OPEB liability at 7.00% was $394,815. The District's current July 1, 2023 valuation has a discount rate of 6.00% and a total OPEB liability of $511,709.

This valuation includes benefits for 5 retirees and 22 active employees who may become eligible to retire and receive benefits in the future. It excludes employees hired after the valuation date.

The District's net OPEB liability as of July 1, 2023 is:

Discount rate	6.00%
Total OPEB liability	$511,709
Plan fiduciary net position	$549,485
Net OPEB liability	$(37,776)
Plan fiduciary net position as a percentage of the total OPEB liability	107.38 %

The total OPEB liability includes both explicit and implicit subsidies. The explicit subsidy includes any employer paid benefits for retirees. Explicit subsidies can include, but are not limited to, payments towards medical, dental and vision coverage. The implicit subsidy values the difference between the expected retiree claims and the actual premium charged for retiree coverage.

The District's total OPEB liability in this valuation reflects the value of an explicit subsidy liability equal to $365,592 and an implicit subsidy liability equal to $146,117.

The results of this actuarial valuation are intended to be used for the District's June 30, 2024 and June 30, 2025 disclosure reports. The next actuarial valuation is scheduled to be completed as of July 1, 2025. An updated actuarial valuation may need to be completed at an earlier date if the District experiences any significant changes to plan census, benefit provisions, or funding strategy. We are available to discuss any changes to determine the significance and, if needed, any adjustments to future reporting dates.