Ref: 25-9112

AGENDA

INVESTMENT AND FINANCE COMMITTEE MEETING
LEUCADIA WASTEWATER DISTRICT

Tuesday, April 29, 2025 – 2:30 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: 25-9115

DATE: April 24, 2025

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 29, 2025 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 12 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 $5,551,647. The District's Plan Fiduciary Net Position (investments managed by CalPERS) of $17,542,582 were less than the District's Pension liability of $23,094,229.

Excerpts from the latest Classic and PEPRA actuarial valuation reports are attached. The first page highlights the District's required payments for fiscal year 2026; the second shows the funded status as of June 30, 2023; and the last page shows the additional discretionary payment options. 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 2025 tactical goal, presents the results of this recent actuarial valuation roll-forward. Based on this most recent report, the District's Net OPEB Asset is $63,596. The District's plan fiduciary net position [investments managed by the California Employees' Retiree Benefit Trust (CERBT)] of $609,778 were greater than the District's OPEB liability of $546,182.

An excerpt from Actuarial Retirement Consulting, Inc.'s actuarial valuation roll-forward 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 Employer Contributions

The required employer contributions in this report do not reflect any cost sharing arrangement between the agency and the employees.

Required Employer Contributions	Fiscal Year 2025-26
Employer Normal Cost Rate	**17.39%**
Plus	
Unfunded Accrued Liability (UAL) Contribution Amount[1]	**$453,122**
Paid either as	
1) Monthly Payment	**$37,760.17**
Or	
2) Annual Prepayment Option*	**$438,460**

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) and the 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 Member Contribution Rates see the following page.

Development of Normal Cost as a Percentage of Payroll	Fiscal Year 2024-25	Fiscal Year 2025-26
Base Total Normal Cost for Formula	24.32%	24.39%
Surcharge for Class 1 Benefits[2]		
a) FAC 1	0.82%	0.83%
Plan's Total Normal Cost	25.14%	25.22%
Offset Due to Employee Contributions[3]	7.81%	7.83%
Employer Normal Cost	17.33%	17.39%

[1] The required payment on amortization bases does not take into account any additional discretionary payment made after April 30, 2024.

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

[3] This is the expected employee contributions, taking into account individual benefit formula and any offset from the use of a modified formula, divided by projected annual payroll. For member contribution rates above the breakpoint for each benefit formula, see Member Contribution Rates.

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, 2022	June 30, 2023
1. Present Value of Benefits	$22,833,536	$24,045,454
2. Entry Age Accrued Liability	20,937,843	22,224,658
3. Market Value of Assets (MVA)	15,671,697	16,784,650
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	$5,266,146	$5,440,008
5. Funded Ratio [(3) ÷ (2)]	74.8%	75.5%

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	$25,015,290	$22,224,658	$19,891,867
2. Market Value of Assets (MVA)	16,784,650	16,784,650	16,784,650
3. Unfunded Accrued Liability (UAL) [(1) – (2)]	$8,230,640	$5,440,008	$3,107,217
4. Funded Ratio [(2) ÷ (1)]	67.1%	75.5%	84.4%

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.

Additional Employer Contributions

The minimum required employer contribution towards the Unfunded Accrued Liability (UAL) for this rate plan for FY 2025-26 is $453,122. CalPERS allows agencies to make additional discretionary payments (ADPs) at any time. 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 2025-26 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 Amortization Schedule and Alternatives. Agencies considering making an ADP should contact CalPERS for additional information.

Fiscal Year 2025-26 Employer Contributions — Illustrative Scenarios

Funding Approach	Estimated Normal Cost	Minimum UAL Contribution	ADP[1]	Total UAL Contribution	Estimated Total Contribution
Minimum required only	$166,844	$453,122	0	$453,122	$619,966
20 year funding horizon	$166,844	$453,122	$11,554	$464,676	$631,520
15 year funding horizon	$166,844	$453,122	$88,963	$542,085	$708,929
10 year funding horizon	$166,844	$453,122	$252,233	$705,355	$872,199
5 year funding horizon	$166,844	$453,122	$759,868	$1,212,990	$1,379,834

[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.

The calculations above are based on the projected UAL as of June 30, 2025, as determined in the June 30, 2023, 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.

Additional Discretionary Payment History

The following table provides a recent history of actual ADPs made to the plan.

Fiscal Year	ADP
2019-20	$239,253
2020-21	$271,979
2021-22	$283,260

Fiscal Year	ADP
2022-23	$263,996
2023-24[2]	$250,000

[2] Excludes payments made after April 30, 2024

Required Employer Contributions

The required employer contributions in this report do not reflect any cost sharing arrangement between the agency and the employees.

Required Employer Contributions	Fiscal Year 2025-26
Employer Normal Cost Rate	**7.96%**
Plus	
Unfunded Accrued Liability (UAL) Contribution Amount[1]	**$6,302**
Paid either as	
1) Monthly Payment	**$525.17**
Or	
2) Annual Prepayment Option*	**$6,098**

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) and the 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 Member Contribution Rates see the following page.

Development of Normal Cost as a Percentage of Payroll	Fiscal Year 2024-25	Fiscal Year 2025-26
Base Total Normal Cost for Formula	15.62%	15.71%
Surcharge for Class 1 Benefits[2]		
None	0.00%	0.00%
Plan's Total Normal Cost	15.62%	15.71%
Offset Due to Employee Contributions[3]	7.75%	7.75%
Employer Normal Cost	7.87%	7.96%

1 The required payment on amortization bases does not take into account any additional discretionary payment made after April 30, 2024.

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

3 This is the expected employee contributions, taking into account individual benefit formula and any offset from the use of a modified formula, divided by projected annual payroll. For member contribution rates above the breakpoint for each benefit formula, see Member Contribution Rates.

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, 2022	June 30, 2023
1. Present Value of Benefits	$1,956,502	$2,357,918
2. Entry Age Accrued Liability	692,689	869,571
3. Market Value of Assets (MVA)	609,026	757,932
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	$83,663	$111,639
5. Funded Ratio [(3) ÷ (2)]	87.9%	87.2%

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	$1,071,943	$869,571	$712,107
2. Market Value of Assets (MVA)	757,932	757,932	757,932
3. Unfunded Accrued Liability (UAL) [(1) – (2)]	$314,011	$111,639	($45,825)
4. Funded Ratio [(2) ÷ (1)]	70.7%	87.2%	106.4%

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.

Additional Employer Contributions

The minimum required employer contribution towards the Unfunded Accrued Liability (UAL) for this rate plan for FY 2025-26 is $6,302. CalPERS allows agencies to make additional discretionary payments (ADPs) at any time. 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 2025-26 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 Amortization Schedule and Alternatives. Agencies considering making an ADP should contact CalPERS for additional information.

Fiscal Year 2025-26 Employer Contributions — Illustrative Scenarios

Funding Approach	Estimated Normal Cost	Minimum UAL Contribution	ADP[1]	Total UAL Contribution	Estimated Total Contribution
Minimum required only	$103,624	$6,302	0	$6,302	$109,926
20 year funding horizon	$103,624	$6,302	$4,879	$11,181	$114,805
15 year funding horizon	$103,624	$6,302	$6,742	$13,044	$116,668
10 year funding horizon	$103,624	$6,302	$10,670	$16,972	$120,596
5 year funding horizon	$103,624	$6,302	$22,885	$29,187	$132,811

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 **2026-27**, as shown in the Amortization Schedule and Alternatives section of the report (see columns labeled Current Amortization Schedule).

Fiscal Year 2025-26 Employer Contribution Necessary to Avoid Negative Amortization

Estimated Normal Cost	Minimum UAL Contribution	ADP[1]	Total UAL Contribution	Estimated Total Contribution
$103,624	$6,302	$1,879	$8,181	$111,805

[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.

The calculations above are based on the projected UAL as of June 30, 2025, as determined in the June 30, 2023, 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.

Additional Discretionary Payment History

The following table provides a recent history of actual ADPs made to the plan.

Fiscal Year	ADP
2019-20	$705
2020-21	$1,910
2021-22	$2,291

Fiscal Year	ADP
2022-23	$2,647
2023-24[2]	$0

[2] Excludes payments made after April 30, 2024

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balances at June 30, 2023	$511,709	$549,485	$(37,776)
Changes for the year:			
Service cost	25,115		25,115
Interest	31,553		31,553
Changes of benefit terms	0		0
Difference between expected and actual experience	0		0
Changes in assumptions or other inputs	0		0
Adjustment*		227	(227)
Contributions – employer		22,195	(22,195)
Net investment income		60,245	(60,245)
Benefit payments	(22,195)	(22,195)	0
Administrative expenses		(179)	179
Net changes	34,473	60,293	(25,820)
Balances at June 30, 2024	$546,182	$609,778	$(63,596)

* One-time adjustment equal to the difference between the unaudited and audited June 30, 2023 trust balance provided by CERBT.

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (5.00%)	Discount Rate (6.00%)	1% Increase (7.00%)
Net OPEB liability (asset)	$20,892	$(63,596)	$(132,747)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (4.20% current, 3.00% ultimate, 3.00% Medicare)	Trend Rate (5.20% current, 4.00% ultimate, 4.00% Medicare)	1% Increase (6.20% current, 5.00% ultimate, 5.00% Medicare)
Net OPEB liability (asset)	$(148,689)	$(63,596)	$44,666