

**AGENDA**

**INVESTMENT AND FINANCE COMMITTEE MEETING  
LEUCADIA WASTEWATER DISTRICT**

November 7, 2011 – 10:00 a.m.  
1960 La Costa Avenue, Carlsbad, CA 92009

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1. **Call to Order**
2. **Roll Call**
3. **Public Comment**
4. **Old Business**  
None.
5. **New Business**
  - A. Recommend that the Board of Directors receive and file the LWD Actuarial Valuation as of June 30, 2011. (Pages 1-5)
6. **Information Items**  
None.
7. **Director's Comments**
8. **General Manager's Comments**
9. **Adjournment**

MEMORANDUM

Ref: 12-3015

**DATE:** November 3, 2011  
**TO:** Investment & Finance Committee  
**FROM:** Paul J. Bushee, General Manager   
**SUBJECT:** Government Accounting Standards Board (GASB) Actuarial Valuation

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**RECOMMENDATION:**

Staff requests that the Investment and Finance Committee (IFC):

1. Receive the LWD Actuarial Valuation as of June 30, 2011; and
2. Discuss and provide direction, as appropriate.

**DISCUSSION:**

During 2004, the Government Accounting Standards Board (GASB) issued statements (No's. 43 and 45) requiring agencies such as LWD to accrue and expense liabilities of other post employment benefits (OPEB). For LWD, this meant that the district had to account for how it would pay for retiree health benefits over the working career of employees rather than on a pay-as-you-go basis. In July 2008, LWD staff contracted with The Epler Company to perform an initial actuarial valuation of its retiree health program. Following this valuation, the Board authorized staff to pre-fund its actuarial liabilities through the California Employees' Retiree Benefit Trust (CERBT) with an initial deposit of approximately \$177,000.

This agenda item, which is a FY 2012 tactical goal, presents the results of the most recent actuarial valuation as of June 30, 2011. Based on this most recent report, the District's annual required contribution (ARC) for FY 2011/2012 is a negative or surplus \$3,262. This "negative" amount means that the surplus amortization of the unfunded actuarial accrued liability (surplus \$9,445) will exceed the normal cost (\$6,183) leaving a surplus of \$3,262.

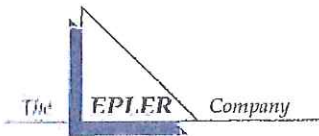
Although LWD's ARC reflects an "excess", staff will not request that excess contributions be returned to the District since interest earned in the CERBT is greater than that available from other LWD investment options.

Ms. Marilyn Jones of the Epler Company will present an overview of the actuarial valuation. A copy of the valuation report's Executive Summary is attached.

Staff requests that the committee receive and discuss the report. With the committee's approval, this item will be placed on the consent calendar for the Board's November 9, 2011 meeting.

cal:PB

Attachment



## Section I. Executive Summary

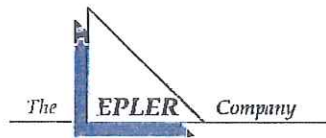
### Background

Leucadia Wastewater District (the District) selected The Epler Company to perform an actuarial valuation of its retiree health program. The purpose of the actuarial valuation is to measure the District's liability for retiree health benefits and to determine the District's accounting requirements for other post-employment benefits (OPEB) under Governmental Accounting Standards Board Statements No. 43 & 45 (GASB 43 and GASB 45). GASB 45 requires accrual accounting for the expensing of OPEB. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis. GASB 43 requires additional financial disclosure requirements for funded OPEB Plans.

The District currently provides a contribution towards retiree health benefits through the CalPERS Health Program for 3 retirees. In addition, 19 employees and 2 non-employee Board Members are either currently eligible for or earning service credit for eligibility for retiree health benefits. To be eligible for retiree health benefits, an employee must retire from the District and commence pension benefits under PERS (typically on or after age 50 with at least 5 years of PERS service). The District's pays the CalPERS minimum required employer contribution (\$108 per month in 2011, \$112 per month in 2012 and indexed in the future to medical CPI) for retirees electing coverage. Section IV of the report details the plan provisions and current premium costs that were included in the valuation.

### Results of the Retiree Health Valuation

The amount of the actuarial liability for the District's retiree health benefits program as of June 30, 2011, the measurement date, is \$190,545. This amount is based on a discount rate of 7.61% which assumes the District continues to pre-fund its annual required contribution in the California Employers' Retiree Benefit Trust (CERBT). The amount represents the present value of all contributions for retiree health benefits projected to be paid by the District for current and future retirees. If the District were to place this amount in a fund earning interest at the rate of 7.61% per year, and all other actuarial assumptions were exactly met, the fund would have enough to pay all expected benefits. This includes contributions for retiree health benefits for the current retirees as well as the current active employees expected to retire in the future. The valuation does not consider employees not yet hired as of the valuation date.



If the amount of the actuarial liability is apportioned into past service, current service and future service components; the past service component (actuarial accrued liability) is \$151,822, the current service component (normal cost or current year accrual) is \$5,746 and the future service component (not yet accrued liability) is \$32,977.

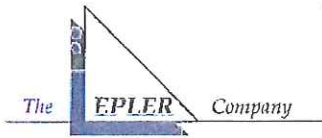
Changes from Prior Valuation

The results of the valuation reflect updated census and premium information. The discount rate has been lowered to reflect a decrease in the expected long term rate of return in CERBT assets from 7.75% to 7.61% due to the implementation of the CERBT asset allocation strategy 1 effective beginning in July of 2011. In addition, the expected future increase in the CalPERS minimum required contribution reflects a lowering of expected future medical price inflation from 5% to 4%. A reconciliation of the approximate changes in the liability from the prior valuation is provided below:

	<u>TOTAL</u>
<b>July 1, 2010 Valuation @7.75%</b>	<b>\$0.222M</b>
Increase due to passage of time	\$0.012M
Increase due to new entrants	\$0.003M
Decrease due to experience gain (due to death & withdrawal greater than expected & the CalPERS minimum required contribution increasing less than expected)	(\$0.027M)
<b>June 30, 2011 Valuation @7.75% Pre-Assumption Changes</b>	<b>\$0.210M</b>
Increase due to lowering of interest rate to 7.61%	\$0.004M
Decrease due to lowering of expected future medical price inflation from 5% to 4%	(\$0.023M)
<b>June 30, 2011 Valuation @7.61% Post-Assumption Changes</b>	<b>\$0.191M</b>

Funding

The District's funding policy is to fund at least 100% of the annual required contribution as determined under GASB 45 through the CERBT. The market value of assets in CERBT as of June 30, 2011 is \$262,191. The unfunded actuarial accrued liability/(surplus) at June 30, 2011 is (\$110,369). The funded ratio (actuarial value of assets to actuarial accrued liability) is 172% at June 30, 2011.



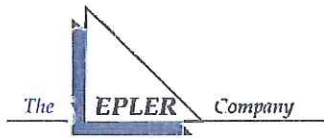
Effective July 2011, the CERBT is providing participating employers with three investment allocation strategies. All assets at June 30, 2011 are being rolled over to the CERBT's allocation strategy 1. The expected rate of return of assets is dependent on the funding strategy of a participating employer and which investment allocation strategy is selected. For employers fully funding their annual required contribution, strategy 1 has an expected yield of 7.61%, strategy 2 has an expected yield of 7.06% and strategy 3 has an expected yield of 6.39%. The valuation was performed using a 7.61% discount rate assuming the District remains in strategy 1 for the 2011/12 and 2012/13 fiscal years. The results for alternative allocation strategies using a 7.06% and 6.39% discount rate are also provided in Section IIIJ of the report.

#### Annual Required Contribution

The District's annual required contribution (accrual expense) for the 2011/2012 fiscal year is (\$3,262). Because the amortization of the surplus of assets over the actuarial accrued liability at June 30, 2011 exceeds the normal cost, the annual required contribution is negative. The annual required contribution is comprised of the present value of benefits accruing in the current fiscal year (normal cost with interest) plus a 30-year amortization (on a level-dollar basis) of the unfunded actuarial accrued liability/(surplus). Thus, it represents a means to expense the plan's liabilities in an orderly manner. The change in the net OPEB obligation/(asset) at the end of the fiscal year will reflect any actual contributions made by the District during the period for retiree health benefits including any pre-funding amounts.

#### Actuarial Basis

The actuarial valuation is based on the assumptions and methods outlined in Section VI of the report. To the extent that a single or a combination of assumptions is not met the future liability may fluctuate significantly from its current measurement. As an example, the healthcare cost increase anticipates that the rate of increase in medical cost will be at moderate levels and decline over several years. Increases higher than assumed would bring larger liabilities and expensing requirements. A 1% increase in the healthcare trend rate for each future year would increase the annual required contribution by \$3,068. In addition, the results reflect an assumed participation rate of 50% since many eligible retirees will not elect coverage due to the low employer contribution. If the participation rate were to increase to 100%, the annual required contribution would increase by \$14,376.



Another key assumption used in the valuation is the discount rate which is based on the expected rate of return of plan assets. The valuation is based on a discount rate of 7.61%. A 1% decrease in the discount (interest) rate would increase the annual required contribution by \$3,834. A 1% increase in the discount (interest) rate would decrease the annual required contribution by \$3,578.

GASB 45 requires that implicit rate subsidies be considered in the valuation of medical costs. An implicit rate subsidy occurs when the rates for retirees are the same as for active employees. Since pre-Medicare retirees are typically much older than active employees, their actual medical costs are almost always higher than for active employees. It is our understanding that the District participates in a community-rated health plan (CalPERS Health Plan) and is exempt from valuing this rate subsidy. Typically, inclusion of the rate subsidy will result in significantly larger liabilities and expensing requirements.