Ref: 23-8389

AGENDA

INVESTMENT AND FINANCE COMMITTEE MEETING
LEUCADIA WASTEWATER DISTRICT

Wednesday, April 26, 2023 – 1:00 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: 23-8382

DATE: April 20, 2023

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 26, 2023 meeting:

1) <u>Actuarial Valuations of LWD's Pension Plan</u>

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 9 employees on the Classic plan and 10 PEPRA members.

This financial update item presents the results of this recent actuarial valuation. Based on this most recent report, the District's total Net Pension Liability is $2,916,678. The District's Plan Fiduciary Net Position (investments managed by CalPERS) of $18,011,113 were less than the District's Pension liability of $20,927,791.

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, 2021. You may recall that the Board 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) <u>Actuarial Valuation of LWD's Retiree Health Program</u>

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 valuations is rolled forward, making minor changes to the valuation to reflect updated information. In August 2021, LWD staff contracted with Nyhart Company to perform the required actuarial valuation for

June 30, 2022 (measured at June 30, 2021) and roll-forward for June 30, 2023 (measured at June 30, 2022).

This financial update item, which is a fiscal year 2022 tactical goal, presents the results of this recent actuarial valuation. Based on this most recent report, the District's Net OPEB Asset is $149,103. The District's Plan Fiduciary Net Position [investments managed by the California Employees' Retiree Benefit Trust (CERBT)] of $516,563 were greater than the District's OPEB liability of $367,460.

An executive summary of the Nyhart Company'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

	Fiscal Year 2023-24
Required Employer Contributions	
Employer Normal Cost Rate	**17.26%**
Plus	
Required Payment on Amortization Bases[1]	**$345,417**
Paid either as	
1) Monthly Payment	**$28,784.75**
Or	
2) Annual Prepayment Option*	**$334,240**

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 2022-23	Fiscal Year 2023-24
Development of Normal Cost as a Percentage of Payroll		
Base Total Normal Cost for Formula	22.34%	24.25%
Surcharge for Class 1 Benefits[2]		
a) FAC 1	0.72%	0.82%
Phase out of Normal Cost Difference[3]	0.00%	0.00%
Plan's Total Normal Cost	23.06%	25.07%
Formula's Expected Employee Contribution Rate	7.81%	7.81%
Employer Normal Cost Rate	15.25%	17.26%

[1] The required payment on amortization bases does not take into account any additional discretionary payment made after April 29, 2022.

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

[3] The normal cost change 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 the 2023-24 FY is $345,417. 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 2023-24 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 2023-24

Estimated Normal Cost	Minimum UAL Payment	ADP	Total UAL Contribution	Estimated Total Contribution
$262,924	$345,417	$0	$345,417	$608,341

Alternative Fiscal Year 2023-24 Employer Contributions for Greater UAL Reduction

Funding Target	Estimated Normal Cost	Minimum UAL Payment	ADP[1]	Total UAL Contribution	Estimated Total Contribution
5 years	$262,924	$345,417	$201,174	$546,591	$809,515

[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 Unfunded Accrued Liability as of June 30, 2023 as determined in the June 30, 2021 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.

Plan's Funded Status

	June 30, 2020	June 30, 2021
1. Present Value of Projected Benefits (PVB)	$21,015,897	$22,557,239
2. Entry Age Accrued Liability (AL)	19,105,554	20,382,579
3. Plan's Market Value of Assets (MVA)	14,118,897	17,441,230
4. Unfunded Accrued Liability (UAL) [(2) - (3)]	4,986,657	2,941,349
5. Funded Ratio [(3) / (2)]	73.9%	85.6%

The UAL and funded ratio are assessments of the need for future employer contributions based on the actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. The funded ratio, on the other hand, is a relative measure of funded status that allows for comparison between plans of different sizes. For measures of funded status that are appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

Projected Employer Contributions

The table below shows the required and projected employer contributions (before cost sharing) for the next six fiscal years. The projection assumes that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. In particular, the investment return beginning with FY 2021-22 is assumed to be 6.80% per year, net of investment and administrative expenses. Actual contribution rates during this projection period could be significantly higher or lower than the projection shown below. Future contribution requirements may differ significantly from those shown below. The actual long-term cost of the plan will depend on the actual benefits and expenses paid and the actual investment experience of the fund.

	Required Contribution	Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2021-22 and Beyond)				
Fiscal Year	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
	Rate Plan 1317 Results					
Normal Cost %	17.26%	17.3%	17.3%	17.3%	17.3%	17.3%
UAL Payment	$345,417	$334,000	$311,000	$287,000	$256,000	$267,000

For some sources of UAL, the change in UAL is amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A of the Section 2 Report. This method phases in the impact of the change in UAL over a 5-year period in order to reduce employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years when there is a large increase in UAL, the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

For projected contributions under alternate investment return scenarios, please see the "Future Investment Return Scenarios" in the "Risk Analysis" section.

Our online pension plan projection tool, Pension Outlook, is available in the Employers section of the CalPERS website. Pension Outlook can help plan and budget pension costs under various scenarios.

Required Contributions

	Fiscal Year 2023-24
Required Employer Contributions	
Employer Normal Cost Rate	**7.68%**
Plus	
Required Payment on Amortization Bases[1]	**$0**
Paid either as	
1) Monthly Payment	**$0.00**
Or	
2) Annual Prepayment Option*	**$0**
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 PEPRA member contribution rate see section on PEPRA Member Contribution Rates.

Development of Normal Cost as a Percentage of Payroll	**Fiscal Year 2022-23**	**Fiscal Year 2023-24**
Base Total Normal Cost for Formula	14.22%	15.43%
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	14.22%	15.43%
Plan's Employee Contribution Rate	6.75%	7.75%
Employer Normal Cost Rate	7.47%	7.68%

1 The required payment on amortization bases does not take into account any additional discretionary payment made after April 29, 2022.

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

3 The normal cost change 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 the 2023-24 FY is $0. 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 2023-24 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 2023-24

Estimated Normal Cost	Minimum UAL Payment	ADP	Total UAL Contribution	Estimated Total Contribution
$47,279	$0	$0	$0	$47,279

Alternative Fiscal Year 2023-24 Employer Contributions for Greater UAL Reduction

Funding Target	Estimated Normal Cost	Minimum UAL Payment	ADP[1]	Total UAL Contribution	Estimated Total Contribution
N/A	N/A	N/A	N/A	N/A	N/A

[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 Unfunded Accrued Liability as of June 30, 2023 as determined in the June 30, 2021 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.

Plan's Funded Status

	June 30, 2020	June 30, 2021
1. Present Value of Projected Benefits (PVB)	$1,079,138	$1,428,750
2. Entry Age Accrued Liability (AL)	377,975	545,212
3. Plan's Market Value of Assets (MVA)	340,792	569,883
4. Unfunded Accrued Liability (UAL) [(2) - (3)]	37,183	(24,671)
5. Funded Ratio [(3) / (2)]	90.2%	104.5%

The UAL and funded ratio are assessments of the need for future employer contributions based on the actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. The funded ratio, on the other hand, is a relative measure of funded status that allows for comparison between plans of different sizes. For measures of funded status that are appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

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	Required Contribution	**Projected Future Employer Contributions (Assumes 6.80% Return for Fiscal Year 2021-22 and Beyond)**				
Fiscal Year	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
	Rate Plan 26885 Results					
Normal Cost %	7.68%	7.7%	7.7%	7.7%	7.7%	7.7%
UAL Payment	$0	$0	$0	$0	$0	$0

For some sources of UAL, the change in UAL is amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A of the Section 2 Report. This method phases in the impact of the change in UAL over a 5-year period in order to reduce employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years when there is a large increase in UAL, the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

For projected contributions under alternate investment return scenarios, please see the "Future Investment Return Scenarios" in the "Risk Analysis" section.

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Attachment 3: Excerpt from OPEB actuary roll-forward report.

Executive Summary

Leucadia Wastewater District Interim GASB 74/75 Valuation for Fiscal Year Ending June 30, 2023

Summary of Results

Presented below is the summary of GASB 75 results for the fiscal year ending June 30, 2023 compared to the prior fiscal year as shown in the District's Notes to Financial Statement.

		As of June 30, 2022		As of June 30, 2023
Total OPEB Liability	$	349,933	$	367,460
Actuarial Value of Assets	$	(596,694)	$	(516,563)
Net OPEB Liability	$	(246,761)	$	(149,103)
Funded Ratio		170.5%		140.6%

		FY 2021/22		FY 2022/23
OPEB Expense	$	(4,554)	$	10,700
Annual Employer Contributions	$	25,748	$	16,610
Actuarially Determined Contribution	$	0	$	0

	As of June 30, 2022	As of June 30, 2023
Discount Rate	6.50%	6.50%
Expected Return on Assets	6.50%	6.50%