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Initiating Dept./Div.: Administration/Finance



BOARD POLICY

OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDING

OBJECTIVE

Central San's primary financial objective is to maintain long-term fiscal stability. Properly monitoring, managing, and funding Central San's OPEB obligations, commonly known as retiree medical benefits, is important to achieving this objective.

PURPOSE

The purpose of this policy is to establish practices that promote transparency, ensure appropriate funding, and communicate the investment philosophy for managing Central San's OPEB defined benefit plan. Nothing in this policy shall constitute an irrevocable obligation of Central San, or an implied contract. The Board of Directors may revoke or amend this policy in the best interests of the District. Funding of the OPEB Trust does not change Central San's intent to fully pay annual medical costs for retirees.

BACKGROUND

Central San has provided a retiree health benefit to its employees for many years. Over time, this benefit was modified through the establishment of benefit Tiers, which are specified in Memoranda of Understanding with each relevant bargaining unit. In an effort to address the long-term costs of this expense, a trust was created to begin funding this benefit in 2009 (OPEB Trust). The practice in place prior to adoption of this policy was to fund all actual retiree OPEB premium expenses incurred in the current year on a pay-as-you-go basis and make additional contributions to the trust fund to the extent pay-as-you-go retiree OPEB premium costs fall short of the Actuarially Determined Contribution ("ADC"). The ADC, calculated by an independent actuary, is comprised of two cost components as follows:

- **Normal Cost** - Central San incurs an annual OPEB retirement cost for current employees. The ongoing service cost for retiree medical benefits earned by current employees during the current year is referred to as the "Normal Cost." In order to keep Central San's OPEB obligations current, the Normal Cost for

service will be paid for on an annual basis and included as part of the overall District budget. Payment of these funds will be made to the OPEB Trust. The Normal Cost will be calculated using the entry age normal cost method using appropriate economic and non-economic assumptions approved by Central San.

- ***Unfunded Actuarial Accrued Liability (UAAL)*** - The actuarial valuation calculates a UAAL as of the valuation date. The UAAL represents the difference between OPEB assets available in the trust fund and the OPEB liability related to prior employment service for former and existing employees. The UAAL (or funding shortfall) is amortized as a level dollar amount over a closed period (16 years as of July 1, 2020), and is also paid annually along with the normal cost into the OPEB Trust.

The UAAL can be adversely (or positively) impacted when assumptions used in the actuarial valuations vary from actual results. Significant assumptions used in the latest actuarial report dated July 1, 2020 include:

- Discount rate (or assumed annual investment earnings rate) - 5.75%
- General Inflation - 2.75% annually
- Health care cost increases - Ranging from 7.0% to 5.0% in 2022 and decreasing to 4.0% for all plans by 2076.

POLICY

A. Actuary

Central San will engage a qualified and independent OPEB actuary to determine the District's ADC based on biennial actuarial valuations. This is referred to as the "Funding Actuarial Report", which determines the amount of funding necessary based on approved actuarial assumptions (i.e. discount rate, inflation, wages, etc.), amortization periods, plan benefits, and the OPEB Trust's target yield. The ADC will include both the Normal Cost for current service as well as amortization of the UAAL. In contrast, the "GASB 75 Reporting Actuarial Report," required by generally accepted accounting principles, provides the amount of net OPEB liability (or asset) to be reported in Central San's Annual Comprehensive Financial Report (ACFR), which may differ from the Funding Actuarial Report due to methodology and timing differences.

Central San will review the actuarial valuations to validate the completeness and accuracy of the employee census data and the reasonableness of the actuarial assumptions. Actuarial valuations involve estimates and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

B. Funding Level Target and Contribution Amounts

Central San intends to achieve full funding (100% funded level) of its OPEB plan by making increasing contributions to the OPEB Trust, to the extent feasible, in the context of other competing demands, including Central San's financial plans, rate stability, aging infrastructure and various inflationary cost pressures.

Each fiscal year, between the cost of retiree OPEB premiums and additional contributions to the Trust, Central San shall contribute no less than the ADC as determined by an independent actuary and reported in the Funding Actuarial Report. Additional contributions beyond the ADC shall be made to the extent resources are available in Central San's operating budget and/or from unexpected non-recurring monies from year-end favorable budgetary variances. Accordingly, the following summarizes the funding sources:

- Operating budget appropriations equal to the ADC, including the cost of OPEB plan premiums, as well as additional contributions to the trust.
- Additional contributions to the Trust included in Central San's Operations and Maintenance (O&M) budget.
- Additional contributions to the Trust from year-end favorable budget variances or other non-recurring revenue sources.

The actual dollar amount of available one-time funds from year-end favorable budget variances or other non-recurring revenue sources will be presented to Board of Directors with a recommendation as to how much is being recommended for contribution to the OPEB Trust. This recommendation will be based on the dollars available, other competing priorities, and input from the Board of Directors.

C. Reimbursements from the Trust

Central San plans to continue to fund the full cost of retiree medical benefits from its O&M budget until such a time as those expenses exceed the District's ADC. At that time, the District is eligible to reimburse the excess payments through withdrawals from the OPEB Trust, as the minimum ADC contribution was met. For budgetary reporting, any OPEB costs, whether in the form of contributions to the Trust or retiree OPEB premium payments, in excess of the ADC that are not reimbursed shall be reported as "additional contributions" toward any outstanding UAAL. Accordingly, as these additional contributions help in achieving the District's objective of full funding, OPEB costs in excess of the ADC shall not be reimbursed until Central San has achieved a funding rate of at least 90% (on an actuarial funding, not GASB 76/market, basis).

D. Timing of Contributions

The amount of any additional contributions to the OPEB Trust beyond the cost of retiree OPEB plan premiums approved by the Board of Directors shall be considered, with a recommendation by staff as to whether the contribution should be made on a lump-sum basis or allocated over a reasonable period such as the balance of the fiscal year.

TRANSPARENCY AND REPORTING

Funding of Central San's OPEB defined benefit plan should be transparent to interested parties, including plan participants, annuitants, the Board of Directors, and the District's customers. In order to achieve this transparency, the following information shall be available:

- Copies of the biennial actuarial valuations for Central San's OPEB plan shall be made available to the Board of Directors.
- Central San's independently audited CAFR shall be published on its website. This report includes information on the District's annual contributions to the OPEB Trust and the funded status of the OPEB plan.
- Central San's annual operating budget shall include the OPEB plan ADC as well as any additional budgeted contributions available to be made toward the Pension Prefunding Trust or OPEB Trust at the discretion of the Board of Directors.
- Central San shall periodically, but no less than biennially, report to the Board of Directors on the long-term UAAL trend showing progress toward fully-funded status.

REVIEW OF POLICY

Funding a defined benefit OPEB plan requires a long-term horizon. As such, the Board of Directors will review this policy at least every two years to determine if changes are needed to ensure adequate resources are being accumulated.

[Original Retained by the Secretary of the District]