



OPEB Advance Funding Policy

September 18, 2014

1



PART 1: DECEMBER 31, 2013 ACTUARIAL VALUATION OF RETIREE HEALTH CARE BENEFITS

Jill Stockard, FSA, Director
PricewaterhouseCoopers LLP

2



Agenda – Overview of Other Postemployment Benefits (OPEB) Liability

- I. District Liability
- II. Funded Ratio
- III. Components of the Change in Unfunded Liability
- IV. District Funding Progress

3



District Liability (\$ thousands)

District's Other Postemployment Benefits (OPEB)

The District's Other Postemployment Benefits include retiree health care benefits for qualifying employees and their eligible spouses and dependents. These benefits include medical and prescription drug coverage only. No dental, life or disability benefits are paid by the plan.

Accrued Liability

The present value of all postretirement benefits that is expected to be paid to plan members based on both past and projected future service is known as the Present Value of Future Benefits (PVFB).

The portion of the PVFB that is attributable to past service is the Accrued Liability (AL).

The following table summarizes the Accrued Liability as of December 31, 2013 and two years prior:

	December 31, 2013	December 31, 2011
Membership Data		
Active members	1,893	1,875
Retirees and survivors	1,964	1,977
Dependent spouses	844	912
GASB 43 Discount Rate		
	7.00%	7.00%
Accrued Liability		
Active members	\$ 104,689	\$ 162,267
Retirees, survivors, and dependents	155,672	242,409
Total	\$ 260,364	\$ 394,676

4



Funded Ratio (\$ thousands)

Funded Ratio

- The Unfunded Liability represents the amount by which the Accrued Liability exceeds the value of the Plan Assets that have been placed in a trust and dedicated to providing benefits to retirees and their beneficiaries.
- The Funded Ratio is the percentage of the Accrued Liability that is covered by the Plan Assets.
- The Funded Ratio = Plan Assets/Accrued Liability.
- The following table summarizes the Funded Ratio as of December 31, 2013 and two years prior:

	December 31, 2013	December 31, 2011
Accrued Liability	\$ 260,364	\$ 394,676
Retiree Healthcare Trust Assets	\$ 120,883	\$ 54,996
Unfunded Liability	\$ 139,481	\$ 339,680
Funded Ratio	46.4%	13.9%
Unfunded Ratio	53.6%	86.1%

5



Components of the Change in Unfunded Liability (\$ thousands)

Reconciliation of the Changes in Unfunded Liability

Unfunded liability (UL) as of December 31, 2011	\$ 339,680
Expected UL as of December 31, 2013	\$ 314,214
Decrease in UL due to investment return greater than expected	(\$ 13,950)
Decrease in UL due changes in census	(\$ 10,187)
Decrease in UL due to net claims lower than expected	(\$ 134,606)
Decrease in UL due to implementation of EGWP prescription drug program effective January 1, 2014	(\$ 15,990)
Total increase(decrease) in UL	(\$ 174,733)
Unfunded liability as of December 31, 2013	\$ 139,481

6



District Funding Progress (\$ thousands)

Schedule of Employer Contributions

Fiscal Year December 31	Annual Required Contributions	Actual Contributions	Percentage Contributed
2007	\$ 44,739.00	\$ 37,334.00	83%
2008	\$ 44,739.00	\$ 35,816.00	80%
2009	\$ 39,847.00	\$ 14,592.00	37%
2010	\$ 39,847.00	\$ 15,517.00	39%
2011	\$ 27,264.00	\$ 18,020.00	66%
2012	\$ 27,264.00	\$ 35,426.00	130%
2013	\$ 13,212.00	\$ 33,835.00	256%

7



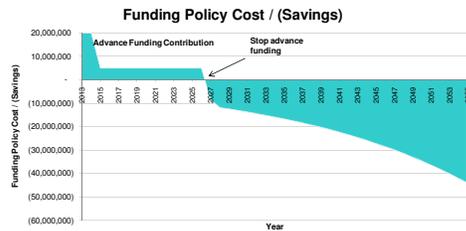
District Funding Progress (cont'd) (\$ thousands)

Schedule of Funding Progress

Fiscal Year Ended December 31	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded/ Overfunded AAL (U/AAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	AAL as a Percentage of Covered Payroll [(b)-(a)]/(c)
2007	\$ 25,025	\$ 442,683	\$ 417,658	5.7%	\$ 158,832	263.0%
2008	\$ 47,797	\$ 487,820	\$ 440,023	9.8%	\$ 167,865	262.1%
2009	\$ 47,891	\$ 526,476	\$ 478,585	9.1%	\$ 170,392	280.9%
2010	\$ 52,153	\$ 555,679	\$ 503,526	9.4%	\$ 172,273	292.3%
2011	\$ 54,996	\$ 394,676	\$ 339,680	13.9%	\$ 162,853	208.6%
2012	\$ 86,102	\$ 408,049	\$ 321,947	21.1%	\$ 158,995	202.5%
2013	\$ 120,883	\$ 260,364	\$ 139,481	46.4%	\$ 164,005	85.0%

8

District Funding Progress (continued)



- Total Pay-As-You-Go Costs = \$1.57 billion
- Total Cash Contributions = \$996 million
- Total Prefunding Cash Contributions in Excess of Pay-As-You-Go Costs (from 2013 to 2026) = \$100 million
- Total Withdrawals (from 2027 to 2055) = \$700 million
- Total Overall Net Savings = \$600 million
- Note: Assumes No Actuarial Gains or Losses

9



Questions...

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and to the extent permitted by law PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2010 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PWC" refers to PricewaterhouseCoopers LLP which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

10



PART 2: OPEB ADVANCE FUNDING POLICY

11



Plan and Liability

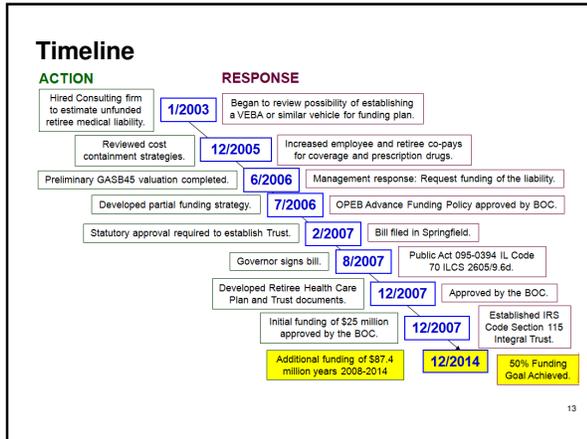
Retiree Medical Plan

- Self-funded medical plan paid from District's General assets on a pay-as-you-go basis.
- For 2014, District pays 67.5% of retiree medical and prescription drug coverage for retirees and their dependents.
- Retiree pays 32.5% of cost. Will progress to 50% cost share by 2021.
- 1,875 active employees and 1,964 retirees were covered at December 31, 2013.

Liability

- Unfunded Liability at December 31, 2013 was \$140 million.

12



Funding Benefits

- Make progress towards reducing large unfunded liability.
- Capture long-term investment returns by using the Trust only as funding vehicle.
- Reduce future GASB 45 expense and cash funding requirements.
- Rating agency guidance to the District has been to "explore meaningful alternatives to reduce its future OPEB liability in order to maintain its high quality ratings." A plan to fully fund the liability in a short time frame will be viewed as a positive rating factor for bond rating agencies.
- GASB is proposing similar changes to OPEB accounting (equivalent of 67/68) with effective date of fiscal year 2017 for the District.



Current Advance Funding Policy

The District's Board of Commissioners ("BOC") established a partial funding policy to advance fund retiree health care costs. The District believes that advance funding will establish a reserve that will help ensure the financial ability to provide health care coverage for District retirees and their beneficiaries in the future. The Policy is as follows:

Target Funding Level:	50%
Funding Period:	50 years
Funding Amount:	\$10 million funding in each of the first five years beginning in 2007. (The \$50 million funding for the first five years was reached by the end of 2011 in compliance with the District's Funding Policy).
Basis for Funding:	Percentage of Payroll for each year after first 5 years.

There is currently no legal requirement for the District to partially or fully fund the Other Postemployment Benefits ("OPEB") Trust Fund and any funding is on a voluntary basis.

Current Funding Status

- The District's goal of advance funding 50% of the OPEB liability by 2055 is projected to be achieved early, by the end of 2014.
- The District's OPEB funding ratio increased to 46.43% funded at December 31, 2013.
- The District achieved this funding percentage earlier than anticipated due to significant advance funding contributions.



Recommended Policy Change

- The OPEB Executive Committee recommends that the Advance Funding Policy be amended to reflect a 100% funding goal to be achieved within 12 years or by 2026. No further advance funding contributions would be required after that date.
- The District would then begin to withdraw funds from the Trust beginning in 2027 to fund pay-as-you-go claims and insurance premiums currently paid with operating funds and maintain a 100% funding ratio of the OPEB liability.
- Changing the Advance Funding Policy to increase the OPEB liability funding percentage helps to solidify the District's strategic goal of having a solid financial foundation and makes the retiree healthcare plan sustainable for the long-term.

Suggested Advance Funding Policy to be Effective January 1, 2015

Target Funding Level:	100% (maximum funding level)
Funding Period:	12 years
Funding Amount:	\$5 million funding in each of the twelve years 2015 through 2026.

No further advance funding contributions will be required after 2026. Beginning in 2027, cash to be withdrawn from the Trust to fund claims and insurance premiums will be determined by the Plan's actuary with the funding percentage to be maintained at 100% for all future years.

Benchmark: Progress toward the funding goal will be determined by an actuarial projection to be performed by the Plan's actuary every two years. The funded ratio will be calculated as part of this projection, and will serve as the benchmark to determine progress toward the funding goal.

There is currently no legal requirement for the District to partially or fully fund the Other Postemployment Benefits ("OPEB") Trust Fund and any funding is on a voluntary basis.



Recommendation

- The Executive Director recommends the adoption of the MWRD Advance Funding Policy as presented which is consistent with the overall fiscal goals of the District.

19



Exhibit

Metropolitan Water Reclamation District
Cash Expense Projection
Contribute \$5 million for 12 years beginning in 2015 until 100% funded ratio is achieved
Withdrawal payments to remain at 100% funded

Year ending:	Accrued Liability	Assets	Annual OPEB Cost	2017 Net OPEB Obligation/Asset	Total Cash Contributions	Pty #9 per 98 Days Service Year	Assessment Contribution	Funding Percentage
2013	260,364,021	130,885,435	13,211,937	49,853,083	33,834,831	13,824,821	20,000,000	46.4%
2014	289,109,883	150,048,273	12,270,626	27,689,886	34,540,654	14,340,894	20,000,000	55.8%
2015	278,343,811	165,725,444	12,305,504	19,978,928	20,024,461	15,024,461	5,000,000	59.6%
2016	287,506,620	185,489,465	12,223,771	11,778,148	20,414,503	15,414,503	5,000,000	63.4%
2017	298,257,038	205,448,021	12,128,791	3,207,187	20,700,680	15,700,680	5,000,000	67.2%
2018	309,474,837	219,650,453	12,028,433	(6,673,422)	20,974,922	15,974,922	5,000,000	71.0%
2019	321,744,791	240,238,325	11,921,874	(14,649,447)	20,943,069	15,943,069	5,000,000	74.7%
2020	335,181,474	262,182,724	11,806,138	(23,792,695)	20,976,987	15,976,987	5,000,000	78.2%
2021	349,952,523	285,724,483	11,747,538	(33,024,402)	20,979,448	15,979,448	5,000,000	81.6%
2022	365,191,726	310,600,584	11,691,026	(42,148,569)	21,776,420	16,776,420	5,000,000	85.1%
2023	381,289,203	337,838,210	11,652,459	(51,348,851)	22,817,343	17,817,343	5,000,000	88.6%
2024	397,925,364	366,647,485	11,621,734	(60,607,525)	23,468,259	18,468,259	5,000,000	92.1%
2025	415,183,095	397,533,217	10,970,045	(69,266,979)	24,423,119	19,423,119	5,000,000	95.7%
2026	433,123,018	430,590,442	10,842,786	(68,684,458)	25,394,476	20,394,476	5,000,000	99.4%
2027	451,794,813	451,734,813	11,028,566	(66,851,886)	12,868,864	21,413,869	(8,544,065)	100.0%
2028	471,178,150	471,178,150	11,277,894	(65,721,979)	10,653,887	22,484,688	(1,821,022)	100.0%
2029	491,300,089	491,300,089	12,156,789	(64,757,281)	11,188,371	23,608,522	(2,422,522)	100.0%
2030	510,100,868	510,100,868	12,764,628	(63,738,323)	11,746,889	24,786,389	(3,048,876)	100.0%
2031	528,869,009	528,869,009	13,402,859	(62,668,437)	12,332,874	26,028,827	(3,696,882)	100.0%
2032	546,395,860	546,395,860	14,073,002	(61,548,077)	12,949,823	27,333,278	(4,366,656)	100.0%
2033	579,672,582	579,672,582	14,778,832	(60,383,509)	13,597,104	28,696,793	(5,066,889)	100.0%
2034	603,840,088	603,840,088	15,515,489	(60,126,982)	14,276,959	30,133,822	(5,824,674)	100.0%

20