

**DRAFT2**

**West Basin Municipal Water District**

**GASB 45 Actuarial Valuation**

**As of July 1, 2009**

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## Section I. Executive Summary

### Background

West Basin Municipal Water 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. 45. GASB 45 requires accrual accounting for the expensing of OPEB. The expense is generally accrued over the working career of employees. The District adopted GASB 45 for its 2007/2008 fiscal year.

The District provides medical, dental and vision coverage to 33 active employees and 8 retired employees through the ACWA health program. The ACWA health program is a community-rated program.

At retirement, the District provides for the continuation of health coverage to eligible retirees. To be eligible for coverage an employee must retire on or after age 55 with at least 10 years of District service or meet the “Rule of 75”. The “Rule of 75” requires that an employee have at least 5 years of District service and their age plus CalPERS service at retirement must equal at least 75. The District’s provides 100% of the cost of coverage for the retiree and any covered spouse. In addition, the District provides for reimbursement of non-covered health services up to an annual maximum which varies by the coverage category elected by the retiree. Shared retirees receive a District contribution to a health savings account in lieu of the reimbursement benefit.

Section IV of the report details the plan provisions that were included in the valuation and the current premium costs for coverage. As the premiums billed for retiree medical coverage under age 65 are the same as those for active medical coverage, the blended rates results in a “rate subsidy” for the retiree medical coverage. GASB 45 requires that when an employer provides benefits to both active employees and retirees through the same plan, the benefits to retirees should be segregated and measured independently. This requires valuing any “rate subsidy” as an additional financial obligation to the District. GASB 45 provides an exemption to valuing any rate subsidy if benefits are provided through a community-rated plan meeting certain conditions. The prior valuation included the rate subsidy as an additional obligation. This valuation provides the results with the rate subsidy included and without assuming the District would be eligible for the exemption.

### Results of the Retiree Health Valuation

We have determined that the amount of the actuarial liability for the District's retiree health program as of July 1, 2009, the measurement date, is \$4,603,836 with the rate subsidy or \$3,838,984 without the rate subsidy. This amount represents the present value of all 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 7.75% per year, and all other actuarial assumptions were exactly met, the fund would have exactly enough to pay all expected benefits. This includes 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 \$3,035,952 with the rate subsidy or \$2,456,093 without the rate subsidy, and the current service component (normal cost) is \$215,894 with the rate subsidy or \$192,478 without the rate subsidy. The remaining liability reflects the future service component (net yet accrued liability) to be accrued in future fiscal years. The future liability is \$1,351,990 with the rate subsidy and \$1,190,413 without the rate subsidy.

### Changes from Prior Valuation

In addition to new census and new premium information, the results of the valuation reflect an assumption change in the ultimate trend rate used to measure future medical costs and a change in the plan design impacting shared retirees of the District. A reconciliation of the approximate changes in the actuarial liability from the prior valuation is provided below:

|  |                     |
|--|---------------------|
| <b>2007 Valuation</b>  | <b>\$ 3,462,000</b> |
| Increases due to passage of time   | \$ 407,000          |
| Increase due to net demographic experience loss  | \$ 138,000          |
| Increase due to new entrants   | \$ 461,000          |
| Increase due to medical trend assumption change  | <u>\$ 214,000</u>   |
| <b>2009 Valuation</b>  | <b>\$ 4,682,000</b> |
| Decrease due to plan change (shared employees moved from reimbursement benefit to HRA savings account) | <u>(\$ 78,000)</u>  |
| <b>2009 Valuation With the Rate Subsidy</b>  | <b>\$ 4,604,000</b> |
| Rate Subsidy   | <u>(\$ 765,000)</u> |
| <b>2009 Valuation Without the Rate Subsidy</b>   | <b>\$ 3,839,000</b> |

### Funding

The District established a policy to pre-fund for its retiree health benefits using the California Employers' Retiree Benefit Trust (CERBT). As of July 1, 2009, the market value of plan assets is \$1,084,341. The District's funding policy is to fund the annual required contribution determined in accordance with GASB 45.

#### Annual Required Contribution

The annual required contribution (accrual expense) for the current fiscal year is \$358,601 with the rate subsidy or \$295,941 without the rate subsidy. This amount is comprised of the present value of benefits accruing in the current fiscal year (normal cost) plus a 28-year amortization (on a level-percentage of pay basis) of the unfunded actuarial accrued liability (past service liability) at July 1, 2009. Thus, it represents a means to expense the plan's liabilities in an orderly manner. The net OPEB obligation at the end of the fiscal year will reflect any actual retiree health payments and any additional contributions made during the period by the District. The expected District payments for retiree health benefits for the 2009/2010 fiscal year are \$66,477 with the rate subsidy and \$42,183 without the rate subsidy.

#### Actuarial Basis

The annual required contribution is highly sensitive to the assumptions used in the valuation. Section VI of the report details the actuarial assumptions used in the valuation. 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 25% or 28% if the rate subsidy excluded.

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 7.75%. A 1% decrease in the discount (interest) rate would increase the annual required contribution by 19% or 22% if the rate subsidy is excluded. A 1% increase in the discount (interest) rate would decrease the annual required contribution by 16% or 18% if the rate subsidy excluded.

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|--------------------------------------|
| <b>Section II. Financial Results</b> |
|--------------------------------------|

A. Valuation Results as of July 1, 2009

The table below presents the employer liabilities associated with the District's retiree health benefits determined in accordance with GASB 43 & 45. The actuarial liability is the present value of all benefits projected to be paid under the program. The actuarial accrued liability reflects the amount attributable to the past service of current employees and retirees. The normal cost reflects the accrual attributable for the current period. The subsidy column provides an estimate of the additional District liability if including an amount for the "rate subsidy" associated with the blended medical rates charged by ACWA.

|                                      | <u>Premium</u> | <u>Reimbursement</u> | <u>Subtotal</u> | <u>Subsidy</u> | <u>Total</u>   |
|--------------------------------------|----------------|----------------------|-----------------|----------------|----------------|
| 1. Actuarial Liability (AL)          |                |                      |                 |                |                |
| Actives                              | \$2,905,779    | \$466,970            | \$3,372,749     | \$436,874      | \$3,809,623    |
| Retirees                             | <u>434,885</u> | <u>31,350</u>        | <u>466,235</u>  | <u>327,978</u> | <u>794,213</u> |
| Total AL                             | \$3,340,664    | \$498,320            | \$3,838,984     | \$764,852      | \$4,603,836    |
| 2. Actuarial Accrued Liability (AAL) |                |                      |                 |                |                |
| Actives                              | \$1,703,964    | \$285,894            | \$1,989,858     | \$251,881      | \$2,241,739    |
| Retirees                             | <u>434,885</u> | <u>31,350</u>        | <u>466,235</u>  | <u>327,978</u> | <u>794,213</u> |
| Total AAL                            | \$2,138,849    | \$317,244            | \$2,456,093     | \$579,859      | \$3,035,952    |
| 3. Normal Cost                       | \$ 165,959     | \$ 26,519            | \$ 192,478      | \$ 23,416      | \$ 215,894     |
| No. of Active Employees              |                |                      |                 |                | 33             |
| Average Age                          |                |                      |                 |                | 45.5           |
| Average Past Service                 |                |                      |                 |                | 7.4            |
| Estimated Payroll                    |                |                      |                 |                | \$3,368,000    |
| No. of Retired Employees             |                |                      |                 |                | 8              |
| Average Age                          |                |                      |                 |                | 73.1           |
| Average Retirement Age               |                |                      |                 |                | 62.7           |