



Finance and Asset Management Committee

Board Requested Discussion on Section 115 Trusts for Pension and Other Post-Employment Benefit (OPEB) Plans

Item 6b

June 11, 2024

Item 6b
Board
Requested
Discussion on
Section 115
Trusts for
Pension and
OPEB Plans

Subject

- Metropolitan's Pension and OPEB Plans

Purpose

- Present data of participant counts and actual and projected contributions
- Provide information on plan assets, liabilities, funding status, and funding ratio
- Present the benefits of Section 115 trust funding

Agenda

- Benefits Structure
- Pension Background
- OPEB Background
- Additional Funding Options
- Conclusion

Benefit Structure

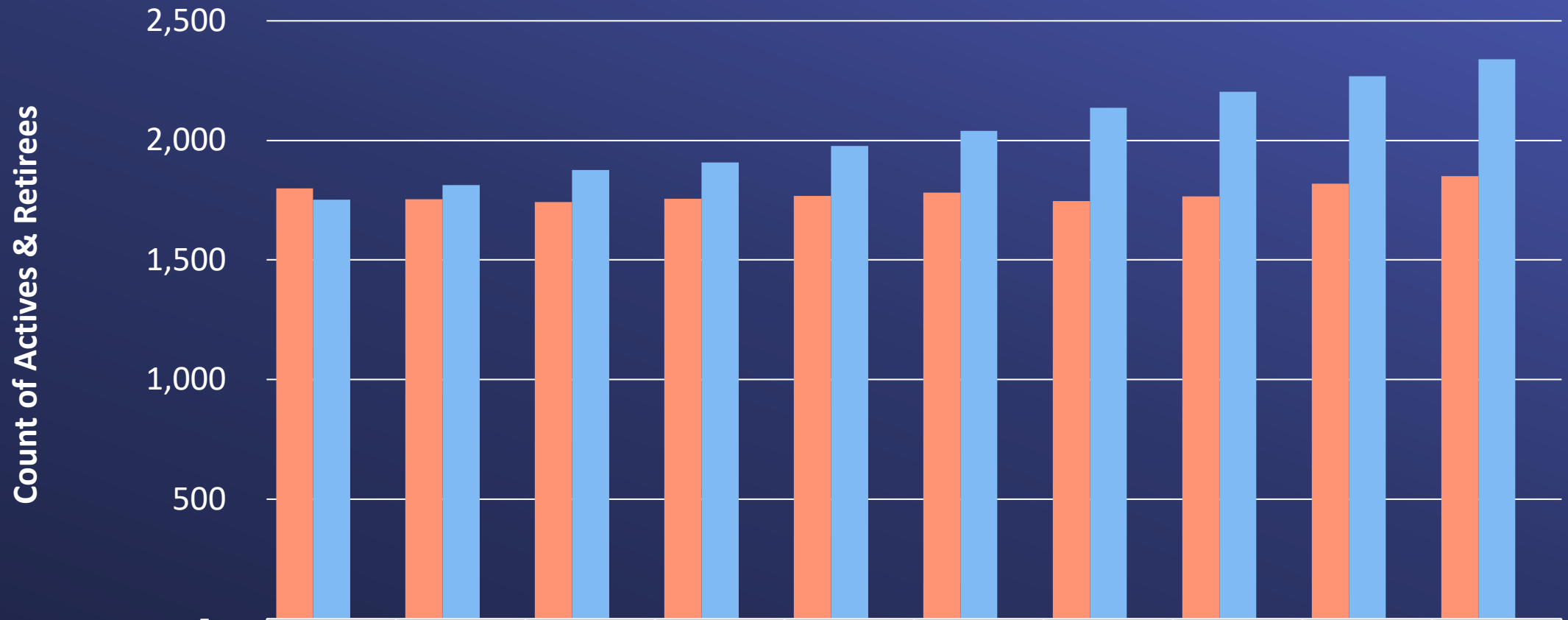
Metropolitan’s Benefit Structure, Funding Policy, and Key Assumption

Plan	Defined Benefit Pension	OPEB
Investment Administrator	CalPERS, a public pension system	CalPERS CERBT, a section 115 trust
Benefits Provided	Retirement, disability, COLA and death benefits to plan members and beneficiary	Medical insurance to retirees and qualified dependents
Contribution	Mandated by CalPERS law Contribution is required	Negotiated MOU with bargaining units Contribution to the trust is not required
Funding Policy	Annually funding full ADC	Annually funding full ADC
FY 2023/24 Discount Rate	6.80%	6.75%

ADC – Actuarial Determined Contribution
 CERBT – California Employers’ Retiree Benefit Trust
 COLA – Cost of Living Adjustment
 MOU – Memorandum of Understanding

Pension Background

Pension Historical Participant Data

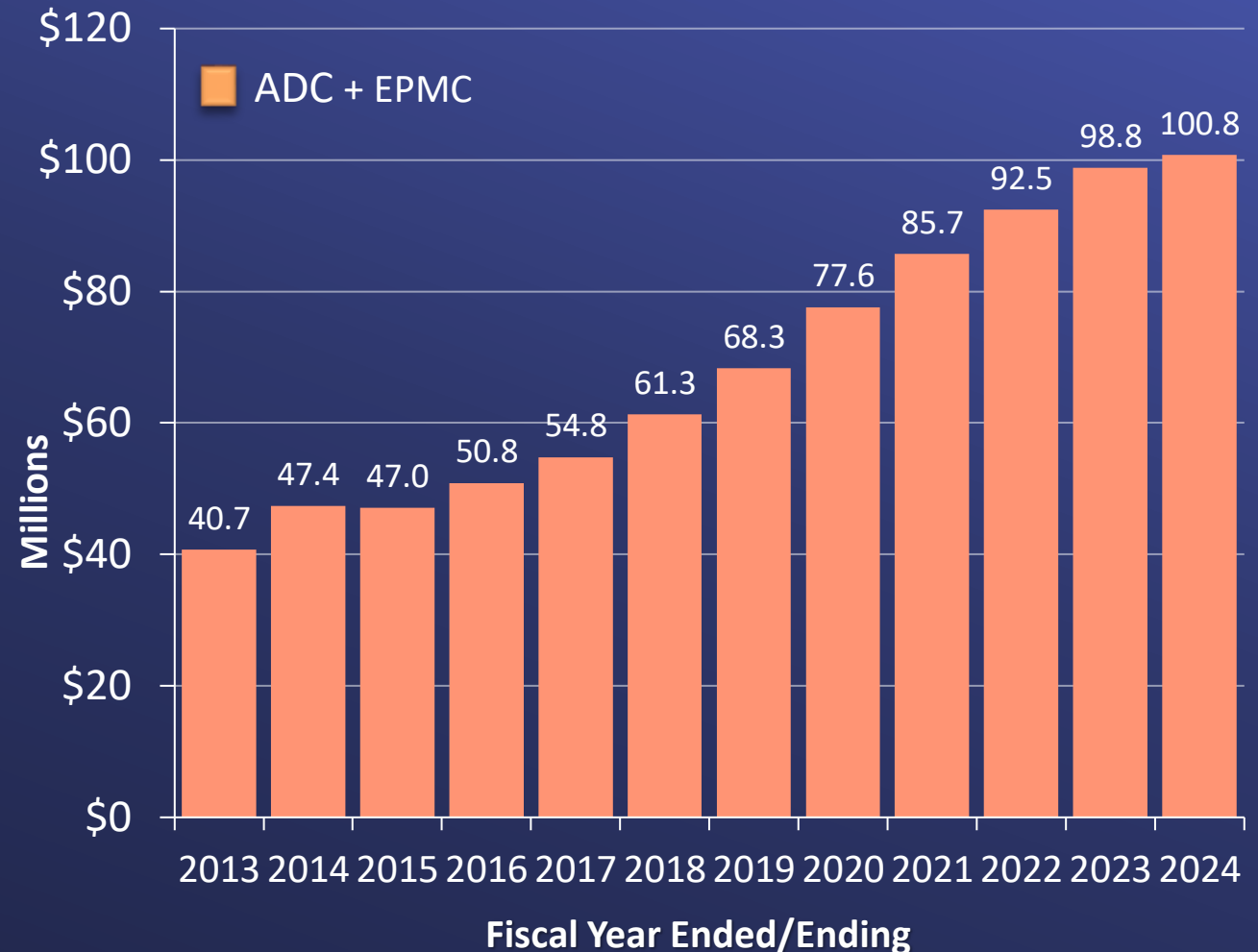


	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actives	1,799	1,753	1,743	1,756	1,767	1,782	1,746	1,766	1,818	1,850
Retirees & Beneficiaries	1,752	1,813	1,876	1,907	1,976	2,040	2,136	2,203	2,268	2,338
Ratio (Active/Ret)	1.03	0.97	0.93	0.92	0.89	0.87	0.82	0.80	0.80	0.79

Fiscal Year Ended

Pension Actuarially Determined Contribution (ADC)¹

- Factors contributing to increased costs:
 - Earlier retirement ages
 - Updates to mortality assumptions
 - Discount rate reductions (Funding Risk Mitigation Policy)
 - Wage inflation assumptions
 - Change in the Unfunded Accrued Liability amortization methodology
 - Market gains and losses

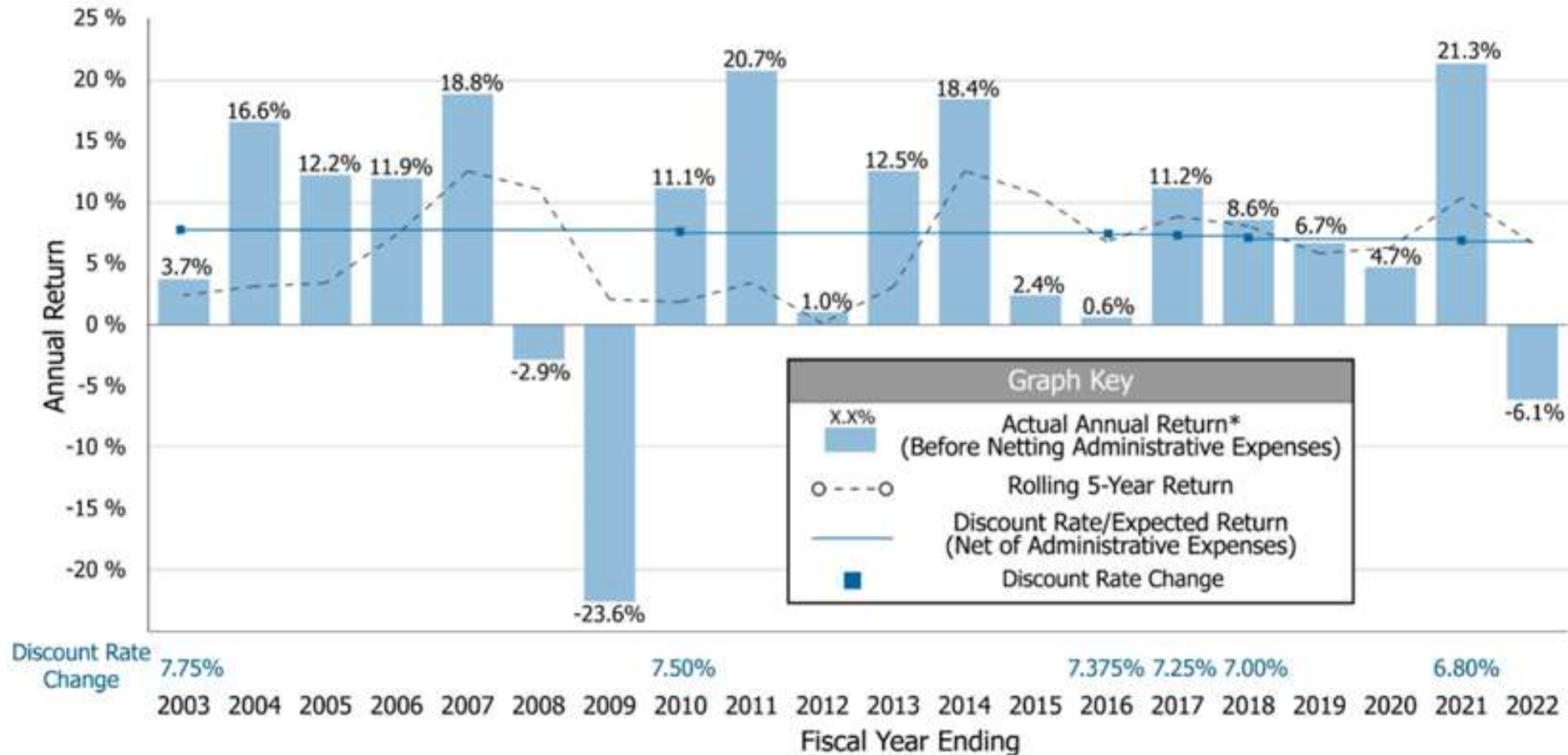


Source: California Public Employers' Retirement System (CalPERS) 2021 experience study and Circular 200-006-22

¹Annual Required Contribution in fiscal years 2014 through 2017
EPMC – Employer Paid Member Contribution

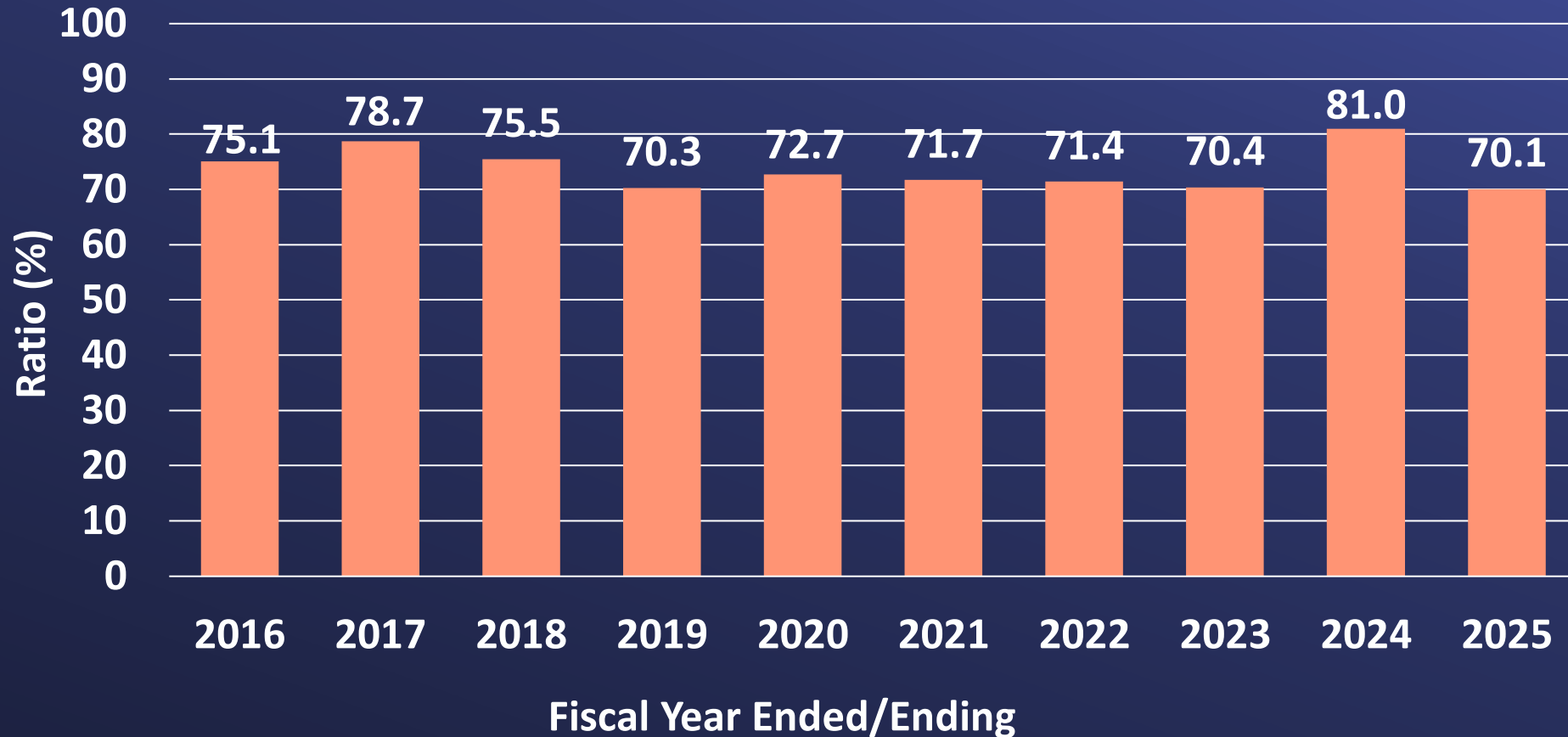
CalPERS History of Investment Returns

History of Investment Returns (2003 - 2022)



Pension Funded Ratio

Market Value Funded Ratio



FY 2024/25
(6/30/2022 Valuation Date)

Accrued Liability
\$2.88 billion

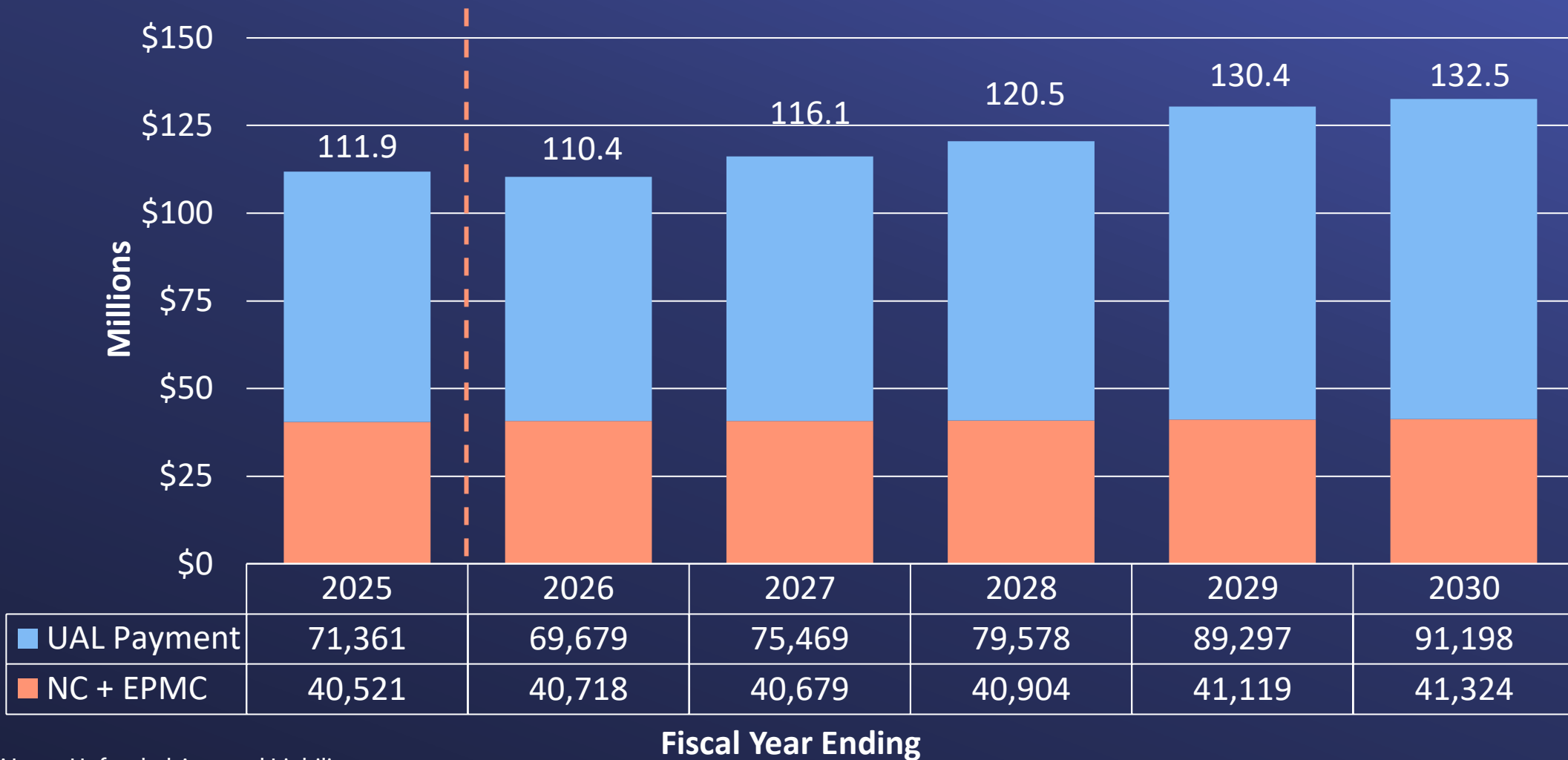
Market Value of Assets
\$2.02 billion

Unfunded Accrued Liability
\$859.24 million

MVA Funded Ratio
70.1%

Source: CalPERS Actuarial Report – Miscellaneous Plan

Pension Projected Future Employer Contribution



UAL – Unfunded Accrued Liability

NC – Normal Cost (Calculated based on projected payroll and does not include the 5.5% pay increase).

EPMC – Employer Paid Member Contribution (Assumed to be constant throughout the years)

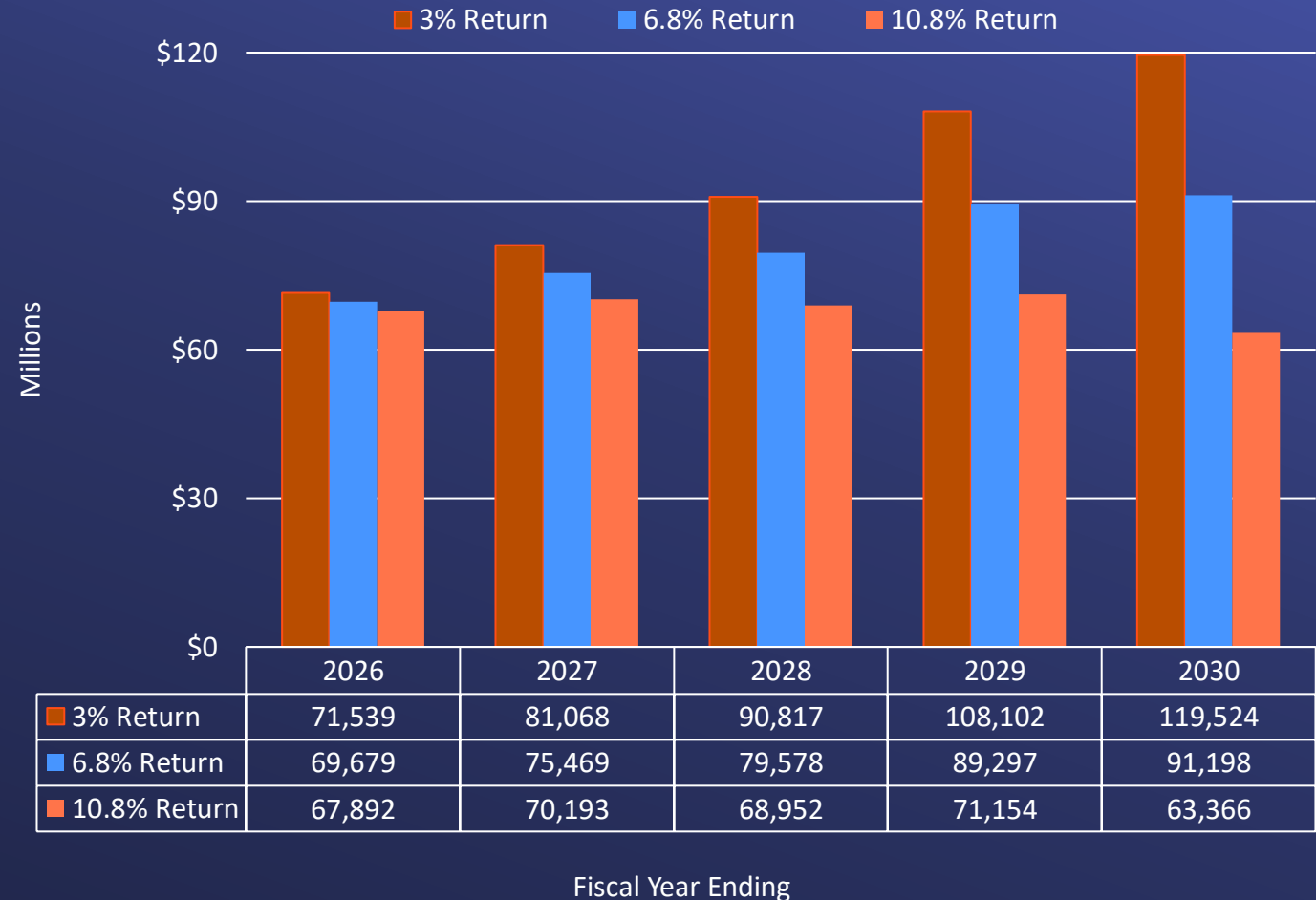
Pension Future Contribution Requirement Based on Various Investment Return Scenarios

Normal Cost & EPMC Requirement

Year	3.0% Return	6.8% Return (Expected)	10.8% Return[1]
2026	\$40.7M	\$40.7M	\$41.3M
2027	\$40.7M	\$40.7M	\$42.1M
2028	\$40.9M	\$40.9M	\$42.9M
2029	\$41.1M	\$41.1M	\$43.8M
2030	\$41.3M	\$41.3M	\$45.0M

[1] Impact on normal cost of the CalPERS Funding Risk Mitigation policy

Projected UAL Payment Under Alternative Return Scenarios



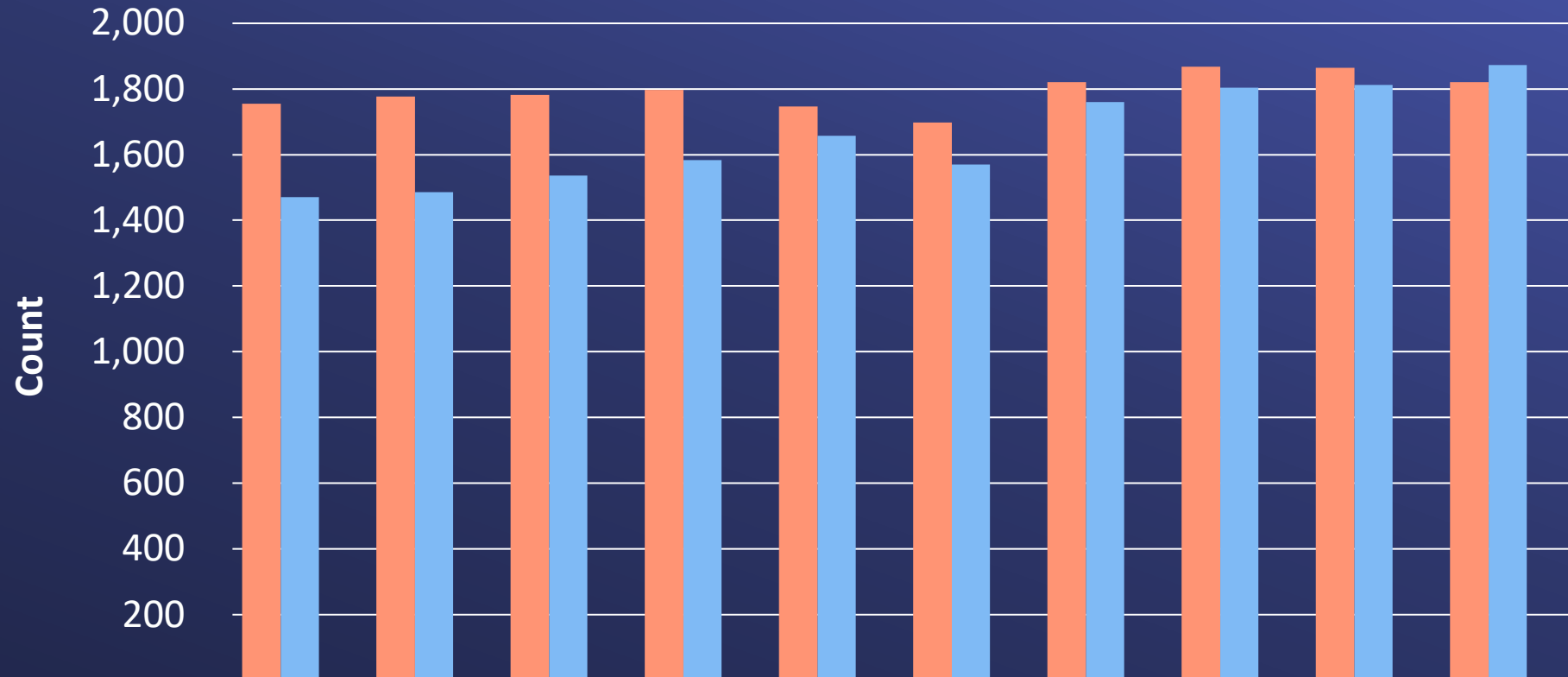
Pension UAL Sensitivity

Impact of Investment Losses on Fiscal Year 2026 UAL Contribution

Rate of Return	UAL
6.8% (Expected Return)	\$69.7M
-5.20% (1 Standard Deviation)	\$75.6M
-17.20% (2 Standard Deviation)	\$81.4M

OPEB Background

OPEB Historical Participant Count

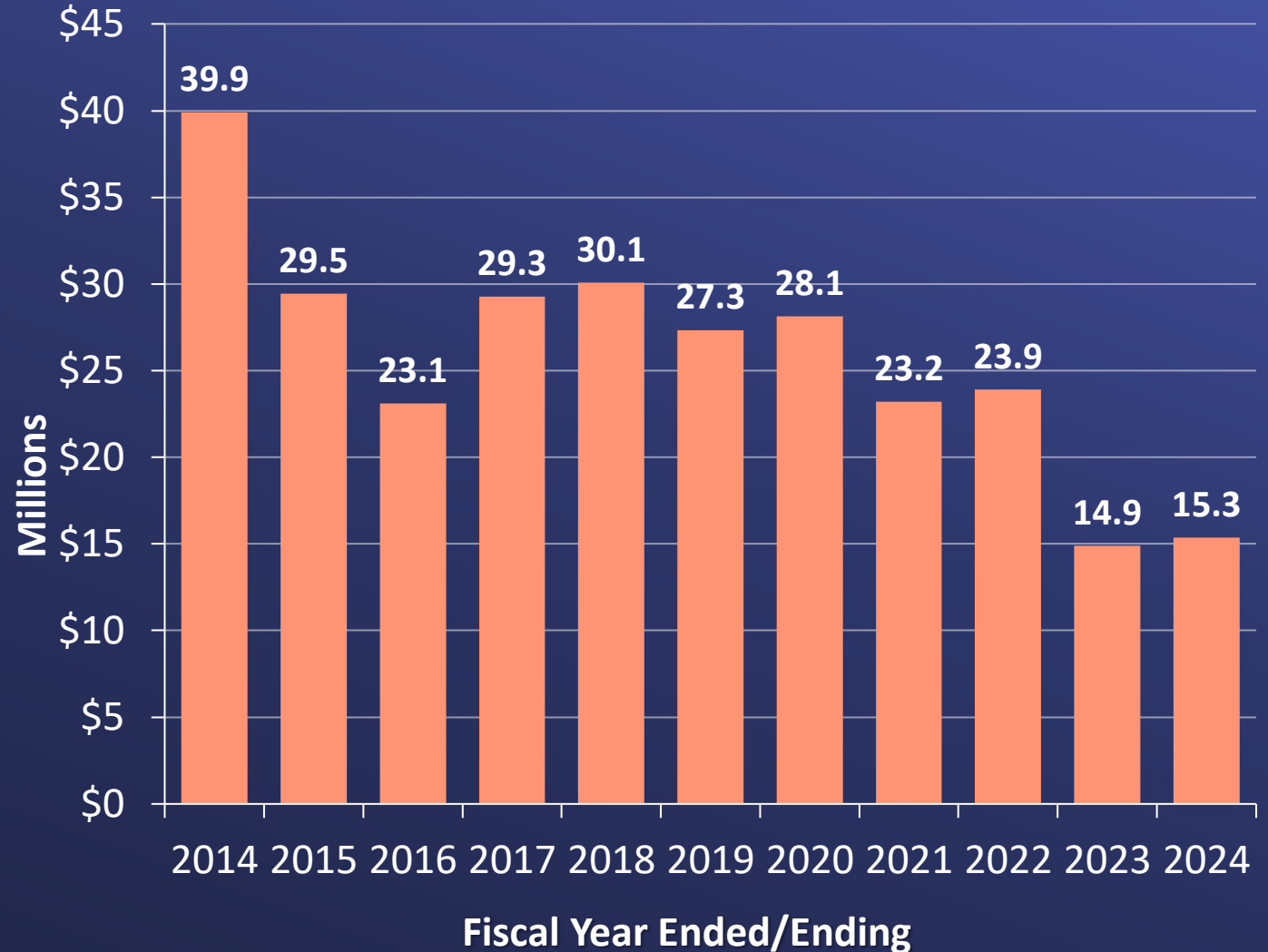


	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actives	1,755	1,777	1,782	1,796	1,747	1,698	1,820	1,867	1,864	1,821
Retirees	1,470	1,486	1,536	1,583	1,658	1,569	1,759	1,803	1,812	1,872
Ratio (Active/Ret)	1.19	1.20	1.16	1.13	1.05	1.08	1.03	1.04	1.03	0.97

Fiscal Year Ended

OPEB Actuarially Determined Contribution¹

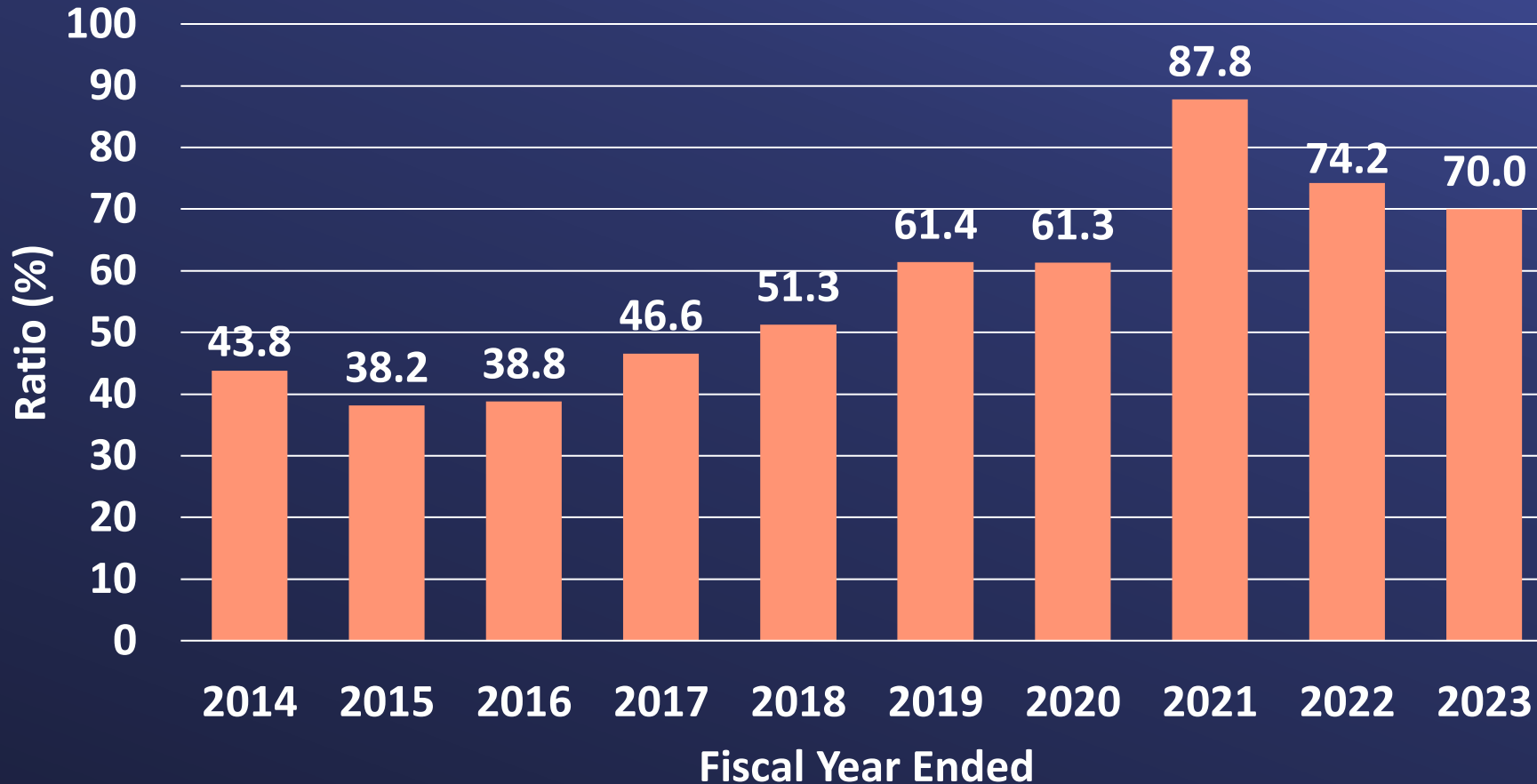
- In September 2013, Metropolitan established the OPEB Trust with an initial investment of \$40M in CalPERS California Employers' Retirement Benefit Trust (CERBT)
- In June and July of 2014 an additional \$50M each was contributed to the trust (**total of \$140 million**)
- The Board has approved to contribute the full ADC annually since fiscal year 2014 as part of the adopted budget



¹Annual Required Contribution in fiscal years 2013 through 2017

OPEB Funded Ratio

Market Value Funded Ratio



FY 2022/23
(6/30/2023 Valuation Date)

Accrued Liability
\$493.6 million

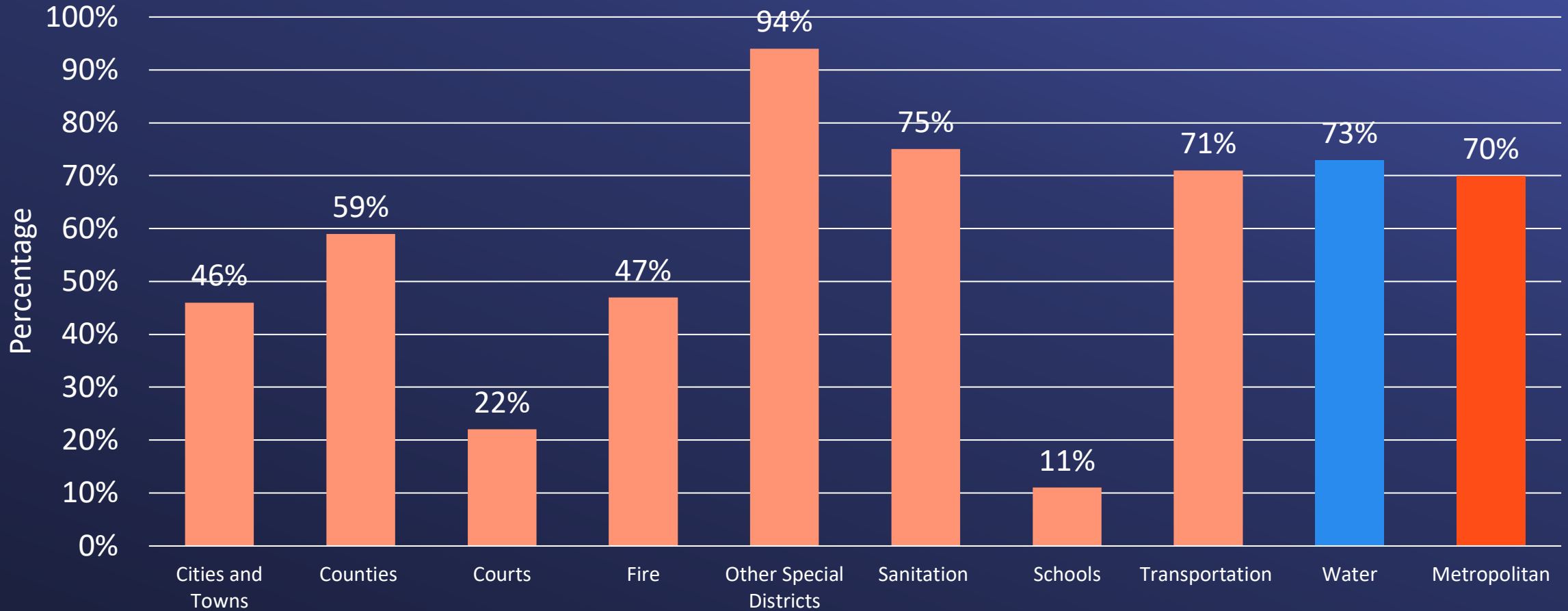
Market Value of Assets
\$345.29 million

Unfunded Accrued Liability
\$148.31 million

MVA Funded Ratio
70.0%

OPEB Funded Status - Benchmarking

Average OPEB Funding Level by Agency Type
(Among 600+ Participating Agencies in CERBT)



Source: CalPERS Data and is based on employer's most recent OPEB Cost Reports

Additional Funding Options

Tools To Proactively Manage Pension and OPEB

Additional Discretionary Payment (ADP) (for pension only)	Additional Section 115 Trust for Pension & OPEB
<ul style="list-style-type: none">• 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• Liquidity considerations• CalPERS maintains investment control	<ul style="list-style-type: none">• Agencies may establish trust funds in addition to and separate from CalPERS & CERBT that are funded with voluntary employer contributions• Section 115 Trusts can help to stabilize future cash flows & reduce volatility in budget• Can serve as a catch up, keep up, and level-out strategy• More direct investment control by employer, tailored to investment goals and risk tolerance• Higher investment income relative to traditional pooled cash (not limited by Govt Code)• Reduces UAL for OPEB, but not for pension• Liquidity considerations

Section 115 Trust Providers

- Several different fund managers/administrators exist (not an exhaustive list)
 - PARS – Public Agency Retirement Services
 - PFM Asset Management
 - Keenan
 - CalPERS
 - California Employers' Pension Prefunding Trust (CEPPT)
 - California Employers' Retirement Benefit Trust (CERBT)

Conclusion

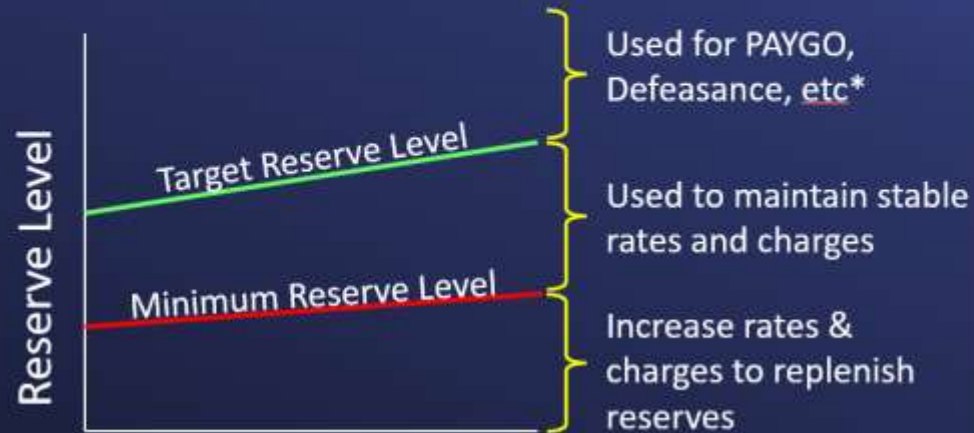
- Metropolitan's pension and OPEB plans are in a **healthy position with strong funding levels**
 - Metropolitan will benefit from future pension cost savings as classic members retire and new PEPRAs are hired due to statewide pension reforms
 - Nonetheless, broad market risks remain and employer UAL costs continue to escalate, particularly for pensions, in the near-term
- Metropolitan **fully funds the ADC** for both pension and OPEB, consistent with best practices
- Tools and options exist to help accelerate paydown of Metropolitan's pension and OPEB liabilities such as the ADP for pensions and a new Section 115 Trust for pension and OPEB

Conclusion (continued)

- Importantly, any additional funding to a Section 115 Trust or additional discretionary payments to CalPERS for pensions, must be considered against the backdrop of:
 - Metropolitan's limited resources
 - Prioritization of needs
 - Liquidity and unrestricted reserve levels

Reserve Policy – Admin Code § 5202

Reserve Fund Principle:
Provide stable & predictable water rates



* if fixed charge coverage ratio > 1.2x

The Reserve Policy was established in 1999 to help provide stable and predictable water rates by providing a cushion to buffer rate impacts from fluctuations in water demands.

The minimum reserve level provides 18 months of rate protection from a 20% reduction in water demands.

The target reserve level provides an additional 2 years of rate protection.

The FY 23/24 projected unrestricted reserve does not support this investment, nor is it practical over the term of the recently adopted biennial budget. Staff will continue to monitor financial conditions and report back to the Board as appropriate.

