

**POLICY: OPEB Funding Policy**

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**RESOLUTION NO.:** 65-23; **DATE:** June 27, 2023

**I. OPEB Funding Policy**

**A. Introduction**

The purpose of this Statement of Benefits Plan Funding Policy (“Policy”) is to establish a methodology for funding benefit obligations accruing under the City of Richmond Other Post Employment Benefit Plans (the “Plans”). It is anticipated that current assets plus future assets from employer contributions, employee contributions, and investment earnings should be sufficient to fund the Plans benefits. The Policy is intended to reflect a reasonable, conservative approach with each generation of ratepayers financing, to the greatest extent possible, the cost of retiree healthcare benefits being accrued. This Policy recognizes that there will be investment marketplace volatility and that actual economic and demographic experience will differ from assumed experience. Accordingly, this Policy is intended to provide flexibility to smooth such volatility and experience in a reasonable, systematic, and financially sound manner. Further, it is the intent that this Policy comply with all applicable laws, rules and regulations (collectively “Laws”). In the event that this Policy conflicts with any such Law, the applicable Law shall prevail.

**B. General Information**

The City of Richmond (the “City”) currently manages two separate trust accounts in regard to Other Post Employment Benefits (“OPEB”). As of January 17, 2017, the Richmond Police Officers Association (“RPOA”) and the City implemented a new contract to create a separate OPEB trust for RPOA members and future retirees. The City OPEB plan is administered by Public Agency Retirement Services (PARS) and the RPOA OPEB plan is administered by California Public Employees Retirement System (“CalPERS”).

**C. Policy Funding Objectives**

The primary funding objectives of this Policy, in order of importance, are to:

1. Provide sufficient assets to permit the payment of all benefits under the Plans.
2. Maintain equity among generations of ratepayers by:
  - a) Establishing improvement, on a projected basis, in the Plan’s Funded Ratio, as defined in the Glossary, such that it approaches 100% over a given period of time;

- b) Amortizing the Unfunded Actuarial Accrued Liability, as defined in the Glossary, over fixed periods, specified below.
- 3. Minimize the volatility of the employer's annual contributions by smoothing investment gains and losses over a period of years. Smoothing investment returns over a period of years recognizes that investment performance will fluctuate, and only by coincidence will it exactly equal the assumed rate of return for any given year. It is anticipated that this approach may reduce volatility within the calculation of the Unfunded Actuarial Accrued Liability and the actuarially determined contribution rate.

#### **D. Funding Guidelines**

This Policy establishes guidelines for setting the employer contribution rate.

##### **1. Actuarial Valuations**

The Plan's actuary shall conduct an actuarial valuation biennially, based on actual Plans data, to determine funding progress as well as employer contributions for the following two fiscal years.

##### **2. Actuarially Determined Contribution Rate**

- a) The actuarial valuation report shall include calculation of a recommended Actuarially Determined Contribution (ADC) rate. The ADC is intended to fund new OPEB liabilities as they are earned each year (the Normal Cost) plus an amortization of the existing Unfunded Actuarial Accrued Liability (UAAL).
- b) The UAAL amortization component shall consist of:
  - (1) The initial UAAL amortized as a level dollar amount over a fixed 20-year period.
  - (2) Future unexpected changes in plan liabilities or assets at each valuation date shall each be amortized in "layers" as level dollar amounts over separate, fixed 20-year periods.
- c) The ADC shall be reduced by the expected employee contributions to arrive at a net Actuarially Determined Employer Contribution (ADEC) rate. This target contribution rate may be expressed as a dollar amount or as a percent of payroll.
- d) The ADEC shall be further reduced by the amount of annual retiree benefits payments (Implicit Subsidy and/or Explicit Subsidy payments) which are paid from the City's general assets but not reimbursed by the OPEB trusts.

### 3. Funding Policy Contribution Rate

Coordination of the Plan's Funding and Investment Policies will attempt to minimize the volatility of the employer's contribution.

- a) The City shall seek to contribute the Actuarially Determined Contribution rate annually, though it maintains the flexibility to reduce contributions when fiscally necessary.
- b) The City shall place 10% of year-end operating surplus (Total Actual Revenues minus Total Actual Expenditures, including Transfers In and Transfers Out) in the General Fund in excess of the City's Cash Reserve Policy into the Trusts.
- c) For the purposes of the ADC calculation, investment return assumptions shall be evaluated by an independent investment advisor on a regular basis (at a minimum of every two years) and should reflect the nature of the investments held in the Plans, and the historical and projected return rates anticipated for the investments.

## **E. Assumption Guidelines**

1. The actuarial assumptions are adopted by the City in an effort to align the funding of the Plans with actual demographic, healthcare and economic experience, thus providing stability to the contribution rate over time. It is expected that actual experience will deviate from the actuarial assumptions and Experience Gains and Losses will occur. These gains (or losses) will reduce (or increase) future contributions.
2. Actuarial Assumptions are generally grouped into two major categories:
  - a) Demographic assumptions -- which include withdrawal (termination), retirement, disability, and mortality rates, as well as assumptions regarding beneficiaries.
  - b) Economic assumptions -- which include inflation, healthcare inflation and investment return.
3. As part of the annual OPEB valuation process, the actuary shall also provide advice to the City and recommend non-pension assumptions, such as increases in healthcare costs.

## **F. Transparency and Reporting**

Funding of the City's OPEB should be transparent to all parties including City employees, retirees, recognized employee organizations, the City Council and Richmond residents. In order to achieve this transparency, the following information shall be available:

- a) Copies of the actuarial valuations for the City's OPEB plans shall be made available to the City Council.
- b) The City's Annual Comprehensive Financial Report (ACFR) shall be published on its website. This report includes information on the City's OPEB plans, contributions to the OPEB Trusts, and the funded status of the plans.
- c) The City's annual operating budget shall include appropriations for contributions to the OPEB Trusts and pay-go costs.

**G. Review Funding Policy**

Funding OPEB requires a long-term plan. The City shall review this policy annually and make changes as necessary. Annually checking the actuarial valuations to determine if changes to this policy are necessary to ensure adequate resources are being accumulated to fund OPEB.

All aspects of this Policy and the individual factors in the calculation of the annual employer contribution rate which is the result of the above process are subject to the review and approval of the Board and are subject to change, in whole and in part, if deemed appropriate and in the best interests of the Plan sponsor and participants.

## Glossary

*Actuarial Cost Method:* The technique used to allocate costs to various time periods.

*Actuarial Accrued Liability (AAL):* The portion of the Present Value of Projected Benefits that is attributed to past years of service by the Actuarial Funding Method. The AAL serves as a funding target at any given point in time.

*Actuarial Value of Assets:* The smoothed value of assets used by the actuary in the actuarial valuation, for the purpose of reducing the impact of market fluctuations on the employer's contribution rate.

*Entry Age Method:* An Actuarial Cost (or Funding) Method that determines the plan's Normal Cost as a level percentage of pay over the working lifetimes of plan members.

*Experience Gains and Losses:* The difference between the experience anticipated by the actuarial assumptions and the plan's actual experience during the period between valuations. If actual experience is financially more favorable to the Plan, it is a Gain, (e.g., higher investment return than expected). If actual experience is financially less favorable to the Plan, it is a Loss, (e.g., lower investment return than expected).

*Funded Ratio:* A measure of the ratio of plan assets to the Actuarial Accrued Liability (funding target) of the Plan. Plan assets can be the Market Value of Assets or the Actuarial Value of Assets.

*Market Value of Assets:* The total fair value of fund assets as reported in the Plan's financial statements.

*Normal Cost:* The portion of the Present Value of Projected Benefits that is attributed to the current year by the Actuarial Funding Method. Also referred to as the *Annual Benefit Cost*.

*Unfunded Actuarial Accrued Liability (UAAL):* The portion of the Actuarial Accrued Liability not covered by plan assets. It is calculated by subtracting the Actuarial Value of Assets from the Actuarial Accrued Liability.