

# City of Los Angeles Department of Water and Power

**Actuarial Valuation and Review of Other  
Postemployment Benefits (OPEB) as of  
June 30, 2014 In accordance with GASB  
Statements No. 43 and No. 45**



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*October 14, 2014*

*Ms. Ann Santilli  
Assistant Chief Financial Officer and Controller  
City of Los Angeles Department of Water and Power  
111 N. Hope Street, Room 450  
Los Angeles, CA 90011*

*Dear Ann:*

*We are pleased to submit this Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2014 under Governmental Accounting Standards Board Statements 43 and 45. The report summarizes the actuarial data used in the valuation, discloses the Net OPEB obligation (NOO) as of June 30, 2014, establishes the Annual Required Contribution (ARC) for the coming year, and analyzes the preceding year's experience. This report was based on the census and financial data provided by DWP, and the terms of the Plan as communicated to us by DWP. The actuarial calculations were completed under the supervision of Thomas Bergman, ASA, MAAA and Dave Bergerson, FCA, ASA, MAAA.*

*This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions used in this valuation and described in Exhibit II are reasonably related to the experience of and the expectations for the Plan. The actuarial projections are based on these assumptions and the plan of benefits as summarized in Exhibit III.*

*Sincerely,*

*Segal Consulting, a Member of The Segal Group, Inc.*

*By:*

*Paul Angelo, FSA, MAAA, FCA, EA  
Senior Vice President and Actuary*

*TXB/hy*

*Andy Yeung, ASA, MAAA, FCA, EA  
Vice President and Associate Actuary*

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**SECTION 1: Executive Summary for City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

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**PURPOSE**

This report presents the results of our actuarial valuation of the City of Los Angeles Department of Water and Power (DWP) postretirement medical and dental benefits plan as of June 30, 2014. The results are in accordance with the current Governmental Accounting Standards, which prescribe an accrual methodology for accumulating the value of other postemployment benefits (OPEB) over participants' active working lifetimes.

**HIGHLIGHTS OF THE VALUATION**

- **The Annual Required Contribution (ARC)** increased from 6.49% of payroll for the 2013/2014 fiscal year to 7.86% of payroll for the 2014/2015 fiscal year. The reasons for the increase in ARC include:
  - The new actuarial assumptions recommended in the triennial experience study for the Water and Power Employees' Retirement Plan (WPERP) were adopted by the Board of Retirement and have been reflected for the first time in this valuation. The main assumption changes that increased the ARC were lower mortality and turnover rates and a reduction in the investment return assumption from 7.75% to 7.50%.
  - The covered payroll has stayed almost unchanged between the 2013 and the 2014 valuation. As the contribution rate to amortize the Unfunded Actuarial Accrued Liability (UAAL) in the 2013 valuation was calculated to remain level as a percent of payroll, assuming payroll would grow in the future at an annual rate of 4.25%, there is an increase in the UAAL contribution rate in the 2014 valuation

because of the lack of growth in payroll from 2013 to 2014.

- As of June 30, 2014, the ratio of assets to the Actuarial Accrued Liability (AAL), i.e., the funded ratio, is 76.24% which is about the same as in the prior valuation. The favorable investment experience (11.6% return compared to the 7.75% assumption) was offset by the increase in AAL due to assumption changes.
- **The Net OPEB Asset (NOA, or negative Net OPEB Obligation (NOO))** increased from \$987 million in the June 30, 2013 valuation to \$1,013 million in the June 30, 2014 valuation. Chart 7 shows the detailed derivation of the NOA (negative NOO) as of June 30, 2014. An NOA exists when the cumulative actual employer contributions exceed the cumulative ARCs.
- A new tier of benefits for employees hired on or after January 1, 2014 was established since the prior valuation. The subsidy levels for the new tier are about one-half that of the level for employees hired before January 1, 2014. Chart 4 shows the ARC separately for Tier 1 and Tier 2.
- In the prior actuarial valuation as of June 30, 2013, we reflected the impact of the projected excise tax on certain high cost medical plans as prescribed by the Affordable Care Act (ACA) and related statutes. We understand that this is consistent with a proposed statement currently under review by the Governmental Accounting Standards Board (GASB) for financial reporting purposes. We have continued to reflect the projected excise tax liability in the June 30, 2014 valuation.

**SECTION 1: Executive Summary for City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

*The key valuation results for the current and prior years are shown.*

**SUMMARY OF VALUATION RESULTS**

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>Actuarial Accrued Liability (AAL)</b>	\$1,947,912,233	\$1,743,726,715
<b>Actuarial Value of Assets</b>	1,485,139,934	1,332,135,662
<b>Unfunded Actuarial Accrued Liability</b>	462,772,299	411,591,053
<b>Funded Ratio</b>	76.24%	76.40%
<b>Market Value of Assets</b>	\$1,611,888,273	\$1,379,333,002
<b>Annual Required Contribution (ARC) for Fiscal Year Ending:</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Normal cost (beginning of year)	\$38,160,476	\$30,421,552
Amortization of the unfunded actuarial accrued liability	30,075,368	25,890,294
Adjustment for timing	<u>2,512,585</u>	<u>2,141,369</u>
Total Annual Required Contribution, including adjustment for timing	\$70,748,429	\$58,453,215
Covered payroll	\$900,126,274	\$900,254,454
ARC as a percentage of pay	7.86%	6.49%
<b>Total Participants</b>	16,491	16,319
<b>Annual OPEB Cost (AOC) for Fiscal Year Ending (payable throughout year):</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Annual Required Contributions	\$70,748,429	\$58,453,215
Interest on Net OPEB Obligations	-73,281,174	-73,659,587
ARC Adjustments	<u>68,262,661</u>	<u>64,419,288</u>
Total Annual OPEB Cost	\$65,729,916	\$49,212,916
AOC as a percent of pay	7.30%	5.47%

**SECTION 1: Executive Summary for City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

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October 14, 2014

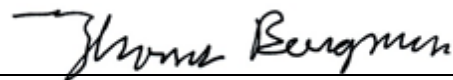
**ACTUARIAL CERTIFICATION**

This is to certify that Segal Consulting, a Member of The Segal Group, Inc. has conducted an actuarial valuation of certain benefit obligations of City of Los Angeles Department of Water and Power's other postemployment benefit programs as of June 30, 2014, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB Statements 43 and 45 for the determination of the liability for postemployment benefits other than pensions.

The actuarial valuation is based on the plan of benefits verified by the Employer and reliance on participant, premium, claims and expense data provided by the Employer or from vendors employed by the Employer. Segal Consulting does not audit the data provided. The accuracy and comprehensiveness of the data is the responsibility of those supplying the data. Segal, however, does review the data for reasonableness and consistency.

The actuarial computations made are for purposes of fulfilling plan accounting requirements. Determinations for purposes other than meeting financial accounting requirements may be significantly different from the results reported here. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security at termination of the plan, or determining short-term cash flow requirements.

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statements 43 and 45 with respect to the benefit obligations addressed. The signing actuaries are members of the Society of Actuaries, the American Academy of Actuaries, and other professional actuarial organizations and collectively meet their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein.



*Thomas Bergman, ASA, MAAA  
Assistant Actuary*



*Dave Bergerson, FCA, ASA, MAAA  
Vice President and Actuary*

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2014  
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The actuarial present value of total projected benefits uses the actuarial assumptions disclosed in Section 4 to calculate the value today of all benefits expected to be paid to current actives and retired plan members. The actuarial balance sheet shows the expected breakdown of how these benefits will be financed.

**CHART 1**

**Actuarial Present Value of Total Projected Benefits (APB) and Actuarial Balance Sheet**

	<b>Actuarial Present Value of Total Projected Benefits (APB)</b>	
	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>Participant Category</b>		
Current retirees, beneficiaries, and dependents	\$1,057,276,511	\$949,000,064
Current active members	<u>1,266,238,849</u>	<u>1,076,721,226</u>
Total	\$2,323,515,360	\$2,025,721,290
	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>Actuarial Balance Sheet</b>		
The actuarial balance sheet as of the valuation date is as follows:		
<b>Assets</b>		
1. Actuarial value of assets	\$1,485,139,934	\$1,332,135,662
2. Present value of future normal costs	375,603,127	281,994,575
3. Unfunded actuarial accrued liability	<u>462,772,299</u>	<u>411,591,053</u>
4. Present value of current and future assets	\$2,323,515,360	\$2,025,721,290
<b>Liabilities</b>		
5. Actuarial Present Value of total Projected Benefits	\$2,323,515,360	\$2,025,721,290

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

The actuarial accrued liability shows that portion of the APB (Chart 1) allocated to periods prior to the valuation date by the actuarial cost method. The chart below shows the portion covered by accumulated plan assets, and reconciles the unfunded actuarial accrued liability from last year to this year.

**CHART 2**

**Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL)**

	June 30, 2014	June 30, 2013
<b>Participant Category</b>		
Current retirees, beneficiaries, and dependents	\$1,057,276,511	\$949,000,064
Current active members	<u>890,635,722</u>	<u>794,726,651</u>
Total actuarial accrued liability	\$1,947,912,233	\$1,743,726,715
Actuarial value of assets	<u>1,485,139,934</u>	<u>1,332,135,662</u>
Unfunded actuarial accrued liability	\$462,772,299	\$411,591,053
<b>Development of Unfunded Actuarial Accrued Liability</b>		
1. Unfunded actuarial accrued liability as of June 30, 2013		\$411,591,053
2. Employer normal cost at beginning of year		30,421,552
3. Total employer contributions		-74,714,782
4. Interest on 1, 2 and 3		<u>31,414,800</u>
5. Expected unfunded actuarial accrued liability (sum of 1 – 4)		\$398,712,623
6. Change due to the combined effect of experience gains, updated assumptions and methods		<u>64,059,676</u>
7. Unfunded actuarial accrued liability as of June 30, 2014		\$462,772,299



**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

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The unfunded actuarial accrued liability may be amortized over periods of up to 30 years. Amortization payments may be calculated as level dollar amounts or as amounts designed to remain level as a percent of a growing payroll base. City of Los Angeles Department of Water and Power has elected to amortize unfunded actuarial accrued liability using the following rules:

- Declining 30-year amortization with 21 years remaining as of June 30, 2014.
- UAAL amortized as a level percent of payroll.

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**CHART 3**

**Table of Amortization Bases**

<b>Type</b>	<b>Date Established</b>	<b>Initial Year</b>	<b>Initial Amount</b>	<b>Annual Payment*</b>	<b>Years Remaining</b>	<b>Outstanding Balance</b>
Total Unfunded Actuarial Accrued Liability	6/30/2014	21	\$462,772,299	\$30,075,368	21	\$462,772,299

\* *Level percentage of pay*

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

The Annual Required Contribution (ARC) is the amount calculated to determine the annual cost of the OPEB plan for accounting purposes *as if* the plan were being funded through contributions to a trust fund. The GASB standards cannot require the contributions actually be made to a trust fund. The ARC is simply a device used to measure annual plan costs on an accrual basis. The calculation consists of adding the Normal Cost of the plan to an amortization payment. The resulting sum is then adjusted to the start of the accounting period and adjusted as if the annual cost were to be contributed throughout the fiscal year.

The amortization payment is based on a 30-year declining amortization of the Unfunded Actuarial Accrued Liability on a level percent of payroll basis. As of June 30, 2014, 21 years remained on the schedule.

**CHART 4**

**Determination of Annual Required Contribution (ARC) – Payable Throughout Fiscal Year  
Total**

Cost Element	Fiscal Year Beginning July 1, 2014 and Ending June 30, 2015		Fiscal Year Beginning July 1, 2013 and Ending June 30, 2014	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Normal cost	\$38,160,476	4.24%	\$30,421,552	3.38%
2. Amortization of the unfunded actuarial accrued liability (21 years as of June 30, 2014)	30,075,368	3.34%	25,890,294	2.88%
3. Adjustment for timing	<u>2,512,585</u>	<u>0.28%</u>	<u>2,141,369</u>	<u>0.23%</u>
4. Total Annual Required Contribution (ARC)	<u>\$70,748,429</u>	<u>7.86%</u>	<u>\$58,453,215</u>	<u>6.49%</u>
5. Total Compensation	\$900,126,274		\$900,254,454	

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

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**CHART 4 (continued)**

**Determination of Annual Required Contribution (ARC) – Payable Throughout Fiscal Year  
Tier 1**

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Cost Element	Fiscal Year Beginning July 1, 2014 and Ending June 30, 2015		Fiscal Year Beginning July 1, 2013 and Ending June 30, 2014	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Normal cost	\$37,909,882	4.25%	\$30,421,552	3.38%
2. Amortization of the unfunded actuarial accrued liability (21 years as of June 30, 2014)	\$29,836,255	3.34%	25,890,294	2.88%
3. Adjustment for timing	<u>\$2,494,553</u>	<u>0.28%</u>	<u>2,141,369</u>	<u>0.23%</u>
4. Total Annual Required Contribution (ARC)	<u>\$70,240,690</u>	<u>7.87%</u>	<u>\$58,453,215</u>	<u>6.49%</u>
5. Total Compensation	\$892,967,211		\$900,254,454	

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**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

**CHART 4 (continued)**

**Determination of Annual Required Contribution (ARC) – Payable Throughout Fiscal Year  
Tier 2**

Cost Element	Fiscal Year Beginning July 1, 2014 and Ending June 30, 2015		Fiscal Year Beginning July 1, 2013 and Ending June 30, 2014	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Normal cost	\$250,594	3.50%	\$0	N/A
2. Amortization of the unfunded actuarial accrued liability (21 years as of June 30, 2014)	239,113	3.34%	0	N/A
3. Adjustment for timing	<u>18,032</u>	<u>0.25%</u>	<u>0</u>	<u>N/A</u>
4. Total Annual Required Contribution (ARC)	<u>507,739</u>	<u>7.09%</u>	<u>0</u>	<u>N/A</u>
5. Total Compensation	\$7,159,063		\$0	

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

The Annual OPEB Cost (AOC) adjusts the ARC for timing differences between the ARC and contributions in relation to the ARC. The AOC is the cost of OPEB actually booked as an expense for the Fiscal Year under GASB 45.

**CHART 4 (continued)**

**Determination of Annual OPEB Cost (AOC) – Payable Throughout Fiscal Year**

Cost Element	Fiscal Year Beginning July 1, 2014 and Ending June 30, 2015		Fiscal Year Beginning July 1, 2013 and Ending June 30, 2014	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Annual Required Contribution	\$70,748,429	7.86%	\$58,453,215	6.49%
2. Interest on Beginning of Year Net OPEB Assets (NOA), i.e. negative Net OPEB Obligation (NOO)	-73,281,174	-8.14%	-73,659,587	-8.18%
3. ARC adjustment	<u>68,262,661</u>	<u>7.58%</u>	<u>64,419,288</u>	<u>7.16%</u>
4. Annual OPEB Cost	<u>\$65,729,916</u>	<u>7.30%</u>	<u>\$49,212,916</u>	<u>5.47%</u>
5. Total Compensation	<u>\$900,126,274</u>		<u>\$900,254,454</u>	

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

For GASB 43 (plan reporting) purposes, the schedule of employer contributions compares actual contributions to the ARC. For GASB 45 (employer reporting) purposes, the

schedule of employer contributions compares actual contributions to the AOC.

**CHART 5**

**Required Supplementary Information – Schedule of Employer Contributions  
GASB 43**

<b>Fiscal Year Ended June 30</b>	<b>Annual Required Contributions <sup>(1)</sup></b>	<b>Actual Contributions <sup>(1)(2)</sup></b>	<b>Percentage Contributed</b>
2010	\$58,502,789	\$163,103,076	278.80%
2011	68,705,252	143,234,806	208.48%
2012	53,691,399	104,795,523	195.18%
2013	49,496,185	70,796,216	143.03%
2014	60,676,014	77,555,959	127.82%
2015	73,353,532	Not made yet	N/A

\* Includes an interest adjustment to the end of the year.

**Required Supplementary Information – Schedule of Employer Contributions  
GASB 45**

<b>Fiscal Year Ended June 30</b>	<b>Annual OPEB Cost <sup>(1)</sup></b>	<b>Actual Contributions <sup>(1)(2)</sup></b>	<b>Percentage Contributed</b>
2010	\$46,400,013	\$163,103,076	351.52%
2011	56,463,635	143,234,806	253.68%
2012	41,619,631	104,795,523	251.79%
2013	38,311,203	70,796,216	184.79%
2014	51,084,335	77,555,959	151.82%
2015	68,150,228	Not made yet	N/A

<sup>(1)</sup> Includes an interest adjustment to the end of the year.

<sup>(2)</sup> Contributions without interest were:  
 \$160,739,954 for 2009-2010,  
 \$140,758,013 for 2010-2011,  
 \$102,353,408 for 2011-2012,  
 \$68,234,175 for 2012-2013, and  
 \$74,714,782 for 2013-2014

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CHART 6**

**Required Supplementary Information – Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b) – (a)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b) – (a) / (c)]</b>
06/30/2009	\$849,955,427	\$1,390,810,591	\$540,855,164	61.11%	\$805,137,795	67.18%
06/30/2010	987,475,976	1,631,916,204	644,440,228	60.51%	856,089,559	75.28%
06/30/2011	1,132,928,966	1,520,418,745	387,489,779	74.51%	870,203,423	44.53%
06/30/2012	1,244,039,107	1,566,059,276	322,020,169	79.44%	886,539,366	36.32%
06/30/2013	1,332,135,662	1,743,726,715	411,591,053	76.40%	900,254,454	45.72%
06/30/2014	1,485,139,934	1,947,912,233	462,772,299	76.24%	900,126,274	51.41%

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2014  
Measurement Under GASB 43 and 45**

The Net OPEB Obligation (NOO) measures the accumulated differences between the annual OPEB cost and the actual contributions in relation to the ARC. A negative NOO is sometimes called a Net OPEB Asset (NOA).

**CHART 7**

**Required Supplementary Information – Net OPEB Obligation (NOO)**

<b>Actuarial Valuation Date</b>	<b>Fiscal Year End</b>	<b>Annual Required Contribution<sup>(1)</sup> (a)</b>	<b>Interest on Existing NOO (b)</b>	<b>ARC Adjustment<sup>(1)</sup> (c)</b>	<b>Annual OPEB Cost (a) + (b) + (c) (d)</b>	<b>Actual Contribution Amount<sup>(1)(2)</sup> (e)</b>	<b>Net Increase in NOO (d) – (e) (f)</b>	<b>NOO as of Fiscal Year (g)</b>
06/30/2009	06/30/2010	\$58,502,789	\$-54,996,300	\$42,893,524	\$46,400,013	\$163,103,076	-\$116,703,063	-\$804,156,807
06/30/2010	06/30/2011	68,705,252	-62,322,153	50,080,536	56,463,635	143,234,806	-86,771,171	-890,927,978
06/30/2011	06/30/2012	53,691,399	-69,046,918	56,975,150	41,619,631	104,795,523	-63,175,892	-954,103,870
06/30/2012	06/30/2013	49,496,185	-73,943,050	62,758,068	38,311,203	70,796,216	-32,485,013	-986,588,883
06/30/2013	06/30/2014	60,676,014	-76,460,638	66,868,959	51,084,335	77,555,959	-26,471,624	-1,013,060,507
06/30/2014	06/30/2015	73,353,532	-75,979,538	70,776,234	68,150,228	Not made yet	N/A	N/A

<sup>(1)</sup> Includes an interest adjustment to the end of the year.

<sup>(2)</sup> Contributions without interest were:  
 \$160,739,954 for 2009-2010,  
 \$140,758,013 for 2010-2011,  
 \$102,353,408 for 2011-2012,  
 \$68,234,175 for 2012-2013, and  
 \$74,714,782 for 2013-2014



**SECTION 3: Supplemental Valuation Details for the City of Los Angeles Department of Water and Power June 30, 2014 Measurement Under GASB 43 and 45**

*This exhibit summarizes the participant data used for the current and prior valuations.*

**EXHIBIT A  
Summary of Participant Data - Total**

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>Retirees</b>		
Number*	6,277	6,161
Average age of retirees	72.7	72.6
Number of spouses	3,278	3,252
Average age of spouses	68.6	68.6
<b>Surviving Spouses</b>		
Number*	1,367	1,393
Average age	80.7	80.5
<b>Active Participants</b>		
Number	8,847	8,765
Average age	49.0	49.1
Average years of service	18.3	18.5
Average expected retirement age	62.6	62.6

*\*A retiree or surviving spouse is only counted if receiving a medical and/or dental benefit.*

**SECTION 3: Supplemental Valuation Details for the City of Los Angeles Department of Water and Power June 30, 2014 Measurement Under GASB 43 and 45**

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**EXHIBIT A (continued)**

**Summary of Participant Data – Tier 1**

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>Retirees</b>		
Number*	6,277	6,161
Average age of retirees	72.7	72.6
Number of spouses	3,278	3,252
Average age of spouses	68.6	68.6
<b>Surviving Spouses</b>		
Number*	1,367	1,393
Average age	80.7	80.5
<b>Active Participants</b>		
Number	8,746	8,765
Average age	49.2	49.1
Average years of service	18.5	18.5
Average expected retirement age	62.6	62.6

*\*A retiree or surviving spouse is only counted if receiving a medical and/or dental benefit.*

**SECTION 3: Supplemental Valuation Details for the City of Los Angeles Department of Water and Power June 30, 2014 Measurement Under GASB 43 and 45**

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**EXHIBIT A (continued)**

**Summary of Participant Data – Tier 2**

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
<b>Retirees</b>		
Number*	0	0
Average age of retirees	N/A	N/A
Number of spouses	N/A	N/A
Average age of spouses	N/A	N/A
<b>Surviving Spouses</b>		
Number*	0	0
Average age	N/A	N/A
<b>Active Participants</b>		
Number	101	0
Average age	36.9	N/A
Average years of service	0.0	N/A
Average expected retirement age	65.2	N/A

*\*A retiree or surviving spouse is only counted if receiving a medical and/or dental benefit.*

**SECTION 3: Supplemental Valuation Details for the City of Los Angeles Department of Water and Power June 30, 2014 Measurement Under GASB 43 and 45**

**EXHIBIT B**

**Cash Flow Projections**

The ARC generally exceeds the current pay-as-you-go (“paygo”) cost of an OPEB plan. Over time the paygo cost has grown and now exceeds the ARC in a well funded plan such as this one. The following table projects the paygo cost as the projected net fund payment over the next ten years.

Year Ending June 30	Projected Number of Retirees*			Projected Benefit Payments		
	Current	Future	Total	Current	Future	Total
2015	10,922	492	11,414	\$78,292,137	\$3,641,381	\$81,933,518
2016	10,567	994	11,561	79,962,080	7,885,333	87,847,413
2017	10,205	1,522	11,727	81,634,196	12,882,158	94,516,354
2018	9,842	2,086	11,928	83,225,309	18,736,241	101,961,550
2019	9,478	2,662	12,140	85,950,849	26,137,294	112,088,143
2020	9,113	3,233	12,346	87,423,573	33,389,923	120,813,496
2021	8,749	3,820	12,569	88,712,646	41,415,464	130,128,110
2022	8,386	4,390	12,776	89,655,134	49,910,464	139,565,598
2023	8,024	4,916	12,940	90,210,067	58,330,794	148,540,861
2024	7,660	5,400	13,060	90,638,841	66,619,046	157,257,887

\* Includes spouses of retirees.

**SECTION 3: Supplemental Valuation Details for the City of Los Angeles Department of Water and Power June 30, 2014 Measurement Under GASB 43 and 45**

**EXHIBIT C**

**Actuarial Value of Assets**

To minimize volatility in the calculation of the annual required contribution, the Employer may choose to smooth out short-term changes in the market value of plan assets by use of an actuarial value of assets method. City of Los Angeles Department of Water and Power adopted the following method that smoothes such changes over a five-year period.

**Determination of Actuarial Value of Assets as of June 30, 2014**

1. Market value of assets				\$1,611,888,273
	<b>Original Amount</b>	<b>Percent Unrecognized</b>	<b>Unrecognized Amount</b>	
2. Calculation of unrecognized return*				
(a) Year ended June 30, 2014	\$127,229,022	80.00%	\$101,783,218	
(b) Year ended June 30, 2013	58,417,148	60.00%	35,050,289	
(c) Year ended June 30, 2012	-75,896,730	40.00%	-30,358,692	
(d) Year ended June 30, 2011	101,367,622	20.00%	20,273,524	
(e) Year ended June 30, 2010	27,273,055	0.00%	<u>0</u>	
3. Total unrecognized return**				126,748,339
4. Actuarial value: (1) - (3)				1,485,139,934
5. Actuarial value as a percentage of market value: (5) ÷ (1)				<u>92.14%</u>

\* Total return minus expected return on a market value basis

\*\* Deferred return as of June 30, 2014 recognized in each of the next 4 years:

(a) Amount recognized during 2014/2015:	\$42,223,412
(b) Amount recognized during 2015/2016:	\$21,949,888
(c) Amount recognized during 2016/2017:	\$37,129,234
(d) Amount recognized during 2017/2018:	<u>\$25,445,805</u>
(e) Total	\$126,748,339

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**EXHIBIT I**

**Summary of Required Supplementary Information**

<b>Valuation date</b>	June 30, 2014
<b>Actuarial cost method</b>	Entry Age, Level Percent of Pay
<b>Amortization method</b>	30-Year Amortization Closed, Level Percent of Pay
<b>Remaining amortization period</b>	21 years as of June 30, 2014
<b>Asset valuation method</b>	The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market returns and the expected returns on a market value basis, and is recognized over a five-year period.

**Actuarial assumptions:**

Investment rate of return	7.50%
Inflation rate	3.25%
Projected salary increases	4.00%
Medical cost trend rate	7.00%, graded down to an ultimate rate of 5.00% over 8 years
Dental and Medicare Part B Premium costs trend rate	5.00%

<b>Plan membership:</b>	June 30, 2014	June 30, 2013
Current retirees* and beneficiaries receiving dental and/or medical subsidy	7,644	7,554
Current active participants	<u>8,847</u>	<u>8,765</u>
Total	16,491	16,319

\* Excludes 3,278 and 3,252 spouses from the June 30, 2014 and 2013 valuations, respectively.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method**

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**Data:** Detailed census data and financial data for postemployment benefits were provided by DWP. Where known, actual subsidies were valued.

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**Actuarial Cost Method:** Entry age, level percent of pay.

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Unless otherwise noted, all actuarial assumptions and methods shown below apply to both Tier 1 and Tier 2 employees.

**Mortality Rates:**

*After Service Retirement  
and Pre-retirement:*

RP-2000 Combined Healthy Mortality Table with ages set back one year, projected to 2030 with Scale AA.

*After Disability Retirement*

RP-2000 Combined Healthy Mortality Table with ages set back one year, projected to 2030 with Scale AA.

The RP-2000 mortality tables projected with Scale AA to 2020 and adjusted by the applicable set back shown above reasonably reflects the projected mortality experience as of the measurement date. The additional projection to 2030 is a provision for future mortality improvement.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

**Termination Rates Before Retirement:**

Age	Rate (%)			
	Mortality		Disability	
	Male	Female	Male	Female
25	0.028	0.013	0.006	0.000
30	0.036	0.018	0.012	0.006
35	0.060	0.031	0.012	0.036
40	0.080	0.041	0.018	0.072
45	0.094	0.063	0.030	0.102
50	0.116	0.093	0.054	0.138
55	0.180	0.191	0.126	0.168
60	0.367	0.382	0.240	0.000
65	0.739	0.742	0.000	0.000

**Withdrawal Rates:**

Years of Service	Total Withdrawal*
Less than 1	9.00%
1	4.00
2	3.50
3	3.00
4	2.75
5	2.50
6	2.25
7	2.00
8	1.75
9	1.50
10	1.25
11 & over	1.00

\* No withdrawal is assumed after a member is first eligible to retire



**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

**Retirement Rates:**

Age	Rate (%)			
	Tier 1		Tier 2	
	Under 30 Years of Service	30 or More Years of Service	Under 30 Years of Service	30 or More Years of Service
55	5.0%	25.0%	0.0%	25.0%
56	3.0	18.0	0.0	12.5
57	3.0	15.0	0.0	10.0
58	3.0	15.0	0.0	10.0
59	3.0	15.0	0.0	10.0
60	5.0	20.0	5.0	17.5
61	6.0	15.0	2.5	5.0
62	6.0	15.0	0.0	5.0
63	6.0	25.0	20.0	25.0
64	7.0	20.0	15.0	20.0
65	12.0	25.0	15.0	25.0
66	12.0	25.0	15.0	25.0
67	12.0	25.0	15.0	25.0
68	12.0	25.0	15.0	25.0
69	15.0	25.0	15.0	25.0
70	30.0	30.0	100.0	100.0
71	30.0	30.0	100.0	100.0
72	30.0	30.0	100.0	100.0
73	30.0	30.0	100.0	100.0
74	30.0	30.0	100.0	100.0
75	100.0	100.0	100.0	100.0

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

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**Measurement Date:** June 30, 2014

**Discount Rate:** 7.50%, net of investment expenses.

**Salary Increases:** Annual Rate of Compensation Increase

Inflation: 3.25% per year, plus “across the board” salary increases of 0.75% per year, plus the following merit and promotional increases.

Years of Service	Increase
Less than 1	6.00%
1	5.50%
2	5.00%
3	4.00%
4	2.50%
5	1.50%
6	1.10%
7	1.00%
8	0.90%
9	0.80%
10 & over	0.75%

The merit and promotional increases are added to the sum of the inflationary and “across the board” salary increases.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

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**Per Capita Cost Development:**

The assumed per capita claims cost by age (and other demographic factors such as sex and family status) is the future per capita cost of providing postretirement health care benefits at each age. To determine the assumed per capita claims cost, historical premiums are reviewed, and adjusted for increases in the cost of health care services.

*Medical and Dental Annual  
Subsidy*

Where known, actual subsidies provided in the data were used. For periods where subsidy is unknown, the average monthly retiree subsidies effective July 1, 2014 were assumed as shown below:

**Dental Premiums (For Single and Multi-Party)**

<b>Carrier</b>	<b>Election Percent</b>	<b>Premium</b>
		<b>Single Party</b>
United Concordia DHMO	20	\$19
United Concordia PPO	70	39
IBEW Local 18	10	133

The maximum monthly dental subsidy for Tier 1: \$39, except for Local 18 with a maximum of \$133.

The maximum monthly dental subsidy for Tier 2: \$43

Eligible spouses and survivors are not eligible for DWP dental subsidy.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

For retirees in pay status, we use the relevant premiums provided on participant records. In cases where the carrier elections are unknown, we will assume the participant elects carriers in the same proportion as current retirees in that group. The table below shows the assumed distribution of medical insurance carriers for retirees and the monthly premiums as of July 1, 2014.

**Under Age 65**

<b>Carrier</b>	<b>Assumed Election Percent*</b>	<b>Single Party Premium</b>	<b>Participant +1 Both Under 65</b>
Kaiser	60.0	\$659	\$1,319
United HealthCare Option A	10.0	1,385	2,770
Blue Cross HMO	15.0	1,026	1,591
United HealthCare HMO	10.0	1,126	2,325
United HealthCare Option B	5.0	1,202	2,404

\* No members assumed to elect Health Plan of Nevada, United HealthCare Option C or Blue Cross PPO or Owens Valley.

**Age 65 and Older**

<b>Carrier</b>	<b>Assumed Election Percent*</b>	<b>Single Party Premium</b>	<b>Participant +1 Both Age 65+</b>
Senior Advantage	55.0	\$332	\$663
United Health Care Option A	25.0	547	1,095
United Health Care Medicare Advantage	10.0	420	840
Senior Dimensions	2.5	141	282
United Health Care Option B	2.5	405	809
Blue Cross HMO	5.0	701	1,379
Medicare Part B	100	\$105	\$210

\* No members assumed to elect Blue Cross PPO or United HealthCare Option C.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

**Health Care Cost Subsidy Trend Rates:**

Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. Trend rates are used to increase the premiums and the stated subsidies into the future. For example, the expected monthly medical subsidy for a Tier 1 retiree age 65 with 30 years of service in the year July 1, 2015 through June 30, 2016 would be determined with the following formula:

$$[\$1,319 \times (1 + 7.00\%)] = \$1,411$$

Year Ending June 30	Medical			
	Non-Medicare	Medicare	Medicare Part B	Dental
2015	7.00%	7.00%	5.0%	5.0%
2016	6.75	6.75	5.0	5.0
2017	6.50	6.50	5.0	5.0
2018	6.25	6.25	5.0	5.0
2019	6.00	6.00	5.0	5.0
2020	5.75	5.75	5.0	5.0
2021	5.50	5.50	5.0	5.0
2022	5.25	5.25	5.0	5.0
2023 & Later	5.00	5.00	5.0	5.0

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**EXHIBIT II**

**Actuarial Assumptions and Actuarial Cost Method (continued)**

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<i>Marital Status</i>	Actives at the time of retirement: 75% of male employees and 40% of female employees assumed to be married with coverage for spouse. Retirees at the time of retirement: Actual data included in census.
<i>Spouse Age Difference</i>	Husbands are assumed to be 3 years older than wives.
<i>Future Benefit Accruals:</i>	1.0 year of service per year.
<i>Other Government Service:</i>	
<i>Tier 1</i>	Members are assumed to purchase an additional 0.15 years of service per year.
<i>Tier 2</i>	Members are assumed to purchase an additional 0.03 years of service per year.
<i>Participation</i>	97% of the current actives are assumed to continue medical coverage at retirement. 95% of the current actives are assumed to continue dental coverage at retirement.
<i>Asset valuation method</i>	Any actual investment gains and losses that are above or below the annual return assumed in the valuation are recognized over 5-year periods.
<b>Plan Design:</b>	Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit III.
<b>Administrative Expenses:</b>	No administrative expenses were valued separately from the claim costs.
<b>Implicit Subsidy:</b>	None. Premiums paid by the retirees reflect rates underwritten for retirees only.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**Impact of Affordable Care Act:**

As directed by DWP, we have reflected in the current valuation the impact of potential excise tax imposed by the Affordable Care Act (ACA), and related statutes.

In particular, it is our understanding that beginning in 2018, the legislation will impose a 40 percent excise tax on the cost of health plans above a certain threshold. It is our further understanding that the thresholds in 2018 for non-Medicare retirees aged 55 through 64 are \$11,850 for single coverage and \$30,950 for family coverage as specified in the Health Care Reform. For all other retirees the thresholds in 2018 are \$10,200 for single coverage and \$27,500 for family coverage. ACA allows the higher thresholds also to be used for any member “who participates in a plan sponsored by an employer the majority of whose employees covered by the plan are engaged in a high-risk profession or employed to repair or install electrical or telecommunication lines.” We did not have the data available to identify such members in the current valuation, and so have not applied these higher thresholds except for members aged 55 through 64. If such data is provided by DWP, we can reflect this lower the excise tax calculation in our future valuations.

The thresholds in 2019 are indexed and for the purpose of this valuation, they are assumed to increase by 4.25% (i.e., 1% over the assumed 3.25% CPI assumption used in the retirement valuation) over those in 2018. After 2019, the thresholds are assumed to increase by 3.25% (assumed CPI inflation) per year. In this valuation, we have allocated the excise tax between the Plan and the retiree, based on the proportion of the health care cost expected to be paid by each party.

**Assumption Changes Since Prior Valuation:**

The following assumptions were changed since the prior valuation:

- Updated per capita costs and trends on such costs,
- Updated medical insurance plan elections.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**Changes in Actuarial Assumptions (continued):**

The Water and Power Employees' Retirement Plan of Los Angeles (WPERP) adopted the assumption changes recommended in the most recent triennial experience study. This valuation reflects these assumptions for the first time. The previous assumptions are as follows:

**Mortality Rates:**

*After Service Retirement  
and Pre-retirement:*

RP-2000 Combined Healthy Mortality Table with ages set back two years for males and one year for females.

*After Disability Retirement*

RP-2000 Combined Healthy Mortality Table with ages set back two years for males and one year for females.

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**Termination Rates before Retirement:**

Age	Rate (%)			
	Mortality		Total Withdrawal*	
	Male	Female	Male	Female
25	0.037	0.020	6.550	9.200
30	0.039	0.025	4.350	7.250
35	0.063	0.044	3.060	5.550
40	0.096	0.065	2.180	4.150
45	0.130	0.103	1.660	3.150
50	0.186	0.155	1.260	2.450
55	0.292	0.242	0.980	2.100
60	0.527	0.444	0.720	1.100
65	1.001	0.862	0.420	0.350

\* No withdrawal is assumed after a member is first eligible to retire.



**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**Changes in Actuarial Assumptions (continued):**

Retirement Rates:	Age	Tier 1	
		Under 30 Years of Service	Over 30 Years of Service
	50	0.00%	0.00%
	51	0.00	0.00
	52	0.00	0.00
	53	0.00	0.00
	54	0.00	0.00
	55	4.00	25.00
	56	3.00	15.00
	57	3.00	12.50
	58	3.00	12.50
	59	4.00	12.50
	60	5.00	20.00
	61	5.00	10.00
	62	5.00	10.00
	63	5.00	25.00
	64	5.00	20.00
	65	15.00	25.00
	66	15.00	25.00
	67	15.00	25.00
	68	15.00	25.00
	69	15.00	25.00
	70	100.00	100.00

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**Changes in Actuarial Assumptions (continued):**

**Inflation Rate:** Increase of 3.50% per year.

**Discount Rate:** 7.75%, net of investment expenses.

**Salary Increases:** Inflation: 3.50% per year, plus “across the board” salary increases of 0.75% per year, plus the following merit and promotional increases.

<u>Years of Service</u>	<u>Increase</u>
0	6.25%
1	5.25%
2	4.75%
3	3.50%
4	2.00%
5 & Over	1.10%

The merit and promotional increases are added to the sum of the inflationary and “across the board” salary increases.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**EXHIBIT III**

**Summary of Plan**

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This exhibit summarizes the major benefit provisions as included in the valuation. To the best of our knowledge, the summary represents the substantive plans as of the measurement date. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

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**Eligibility:**

A retiree who was an employee of DWP immediately prior to retirement and is receiving a monthly allowance under DWP's retirement plan is eligible for the subsidy.

*Tier 1*

All members hired before January 1, 2014.

*Tier 2*

All members hired on or after January 1, 2014.

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**Age & Service Requirement:**

*Tier 1*

Age 60 with 5 years of service; or  
Age 55 with 10 years of service in the last 12 years; or  
Any age with 30 years of service; or  
Receiving permanent total disability benefits from the Plan.

Note: To be eligible, the employee must have worked or been paid disability four of the last five years immediately preceding eligibility to retire, or while eligible to retire.

*Tier 2*

Age 60 with 10 years of service; or  
Age 55 with 30 years of service; or  
Any age with 30 years of service.

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**Benefit Types:**

The DWP subsidy is computed by a formula related to years of service and age at retirement. Sample monthly subsidies effective July 1, 2014 by age and service are as follows.

The subsidy limit is applied to the combined medical carrier and Medicare Part B premium, but not the dental premium.

*Tier 1*

Age at Retirement	Years of Service				
	10	15	20	25	30
55	\$264	\$528	\$791	\$1,055	\$1,319
56	269	537	806	1,074	1,319
57	273	547	820	1,093	1,319
58	278	556	834	1,113	1,319
59	283	566	849	1,132	1,319
60	288	576	863	1,151	1,319
61	293	585	878	1,170	1,319
62	297	595	892	1,189	1,319
63	302	604	906	1,209	1,319
64	307	614	921	1,228	1,319
65	312	623	935	1,247	1,319

*Tier 2*

Age at Retirement	Years of Service				
	10	15	20	25	30
55	\$132	\$264	\$396	\$528	\$659
56	135	269	403	537	659
57	137	273	410	547	659
58	139	278	417	556	659
59	141	283	424	566	659
60	144	288	432	576	659
61	146	293	439	585	659
62	149	297	446	595	659
63	151	302	453	604	659
64	153	307	460	614	659
65	156	312	468	623	659

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- Dependent Coverage:** Dependent spouses are eligible for the DWP medical subsidy coverage. Surviving spouses are eligible to receive the DWP medical subsidy that would have been given to the deceased employee or retiree if still living, and only if the surviving spouse was enrolled in the deceased members' plan at the time of the members' death. Surviving spouses and dependent spouses are not eligible for the dental subsidy.
- Retiree Contributions:** To the extent the DWP subsidies are less than the medical or dental premiums, the retiree contributes the cost difference.
- Changes in Plan Provisions:** A new Tier 2 was established for employees on or after January 1, 2014.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2014  
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**EXHIBIT IV**

**Definitions of Terms**

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The following list defines certain technical terms for the convenience of the reader:

**Assumptions or Actuarial**

**Assumptions:**

The estimates on which the cost of the Plan is calculated including:

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age;
- (d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

**Actuarial Present Value of Total  
Projected Benefits (APB):**

Present value of all future benefit payments for current retirees and active employees taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

**Normal Cost:**

The amount of contributions required to fund the benefit allocated to the current year of service.

**Actuarial Accrued Liability  
For Actives:**

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

**Actuarial Accrued Liability  
For Retirees:**

The single sum value of lifetime benefits to existing retirees. This sum takes account of life expectancies appropriate to the ages of the retirees and of the interest which the sum is expected to earn before it is entirely paid out in benefits.

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<b>Actuarial Value of Assets (AVA):</b>	The value of assets used by the actuary in the valuation. These may be at market value or some other method used to smooth variations in market value from one valuation to the next.
<b>Funded Ratio:</b>	The ratio AVA/AAL.
<b>Unfunded Actuarial Accrued Liability (UAAL):</b>	The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.
<b>Amortization of the Unfunded Actuarial Accrued Liability:</b>	Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.
<b>Investment Return (discount rate):</b>	The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next. If the plan is funded on a pay-as-you-go basis, the discount rate is tied to the expected rate of return on day-to-day employer funds.
<b>Covered Payroll:</b>	Annual reported salaries for all active participants on the valuation date.
<b>ARC as a Percentage of Covered Payroll:</b>	The ratio of the annual required contribution to covered payroll.
<b>Health Care Cost Trend Rates:</b>	The annual rate of increase in net claims costs per individual benefiting from the Plan.
<b>Annual Required Contribution (ARC):</b>	The ARC is equal to the sum of the normal cost and the amortization of the unfunded actuarial accrued liability.

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**Net OPEB Obligation (NOO):**

The NOO is the cumulative difference between the ARC and actual contributions made. If the plan is not pre-funded, the actual contribution would be equal to the annual benefit payments less retiree contributions. There are additional adjustments in the NOO calculations to adjust for timing differences between cash and accrual accounting, and to prevent double counting of OPEB plan costs.



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**EXHIBIT V**

**Accounting Requirements**

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The Governmental Accounting Standards Board (GASB) issued Statement Number 43 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement Number 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Under these statements, all state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements. The accounting standards supplement cash accounting, under which the expense for postemployment benefits is equal to benefit and administrative costs paid on behalf of retirees and their dependents (*i.e.*, a pay-as-you-go basis).

The statements cover postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are *not* offered as part of a pension plan; and long-term disability insurance for employees. The benefits valued in this report are limited to those described in Exhibit III of Section 4, which are based on those provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits is not limited by legal or contractual limits on funding the plan unless those limits clearly translate into benefit limits on the substantive plan being valued.

The new standards introduce an accrual-basis accounting requirement, thereby recognizing the employer cost of postemployment benefits over an employee’s career. The standards also introduce a consistent accounting requirement for both pension and non-pension benefits.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. These assumptions are summarized in Exhibit II of Section 4. This amount is then discounted to determine the actuarial present value of the total projected benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

Once the UAAL is determined, the Annual Required Contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made and any difference is reported as the Net OPEB Obligation (NOO). In addition, Required Supplementary Information (RSI) must be reported, including historical information about the UAAL and the progress in funding the Plan. Exhibit IV of Section 4

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contain a definition of terms as well as more information about GASB 43/45 concepts.

The calculation of an accounting obligation does not, in and of itself, imply that there is any legal liability to provide the benefits valued, nor is there any implication that the Employer is required to implement a funding policy to satisfy the projected expense.

Actuarial calculations reflect a long-term perspective, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets, if any.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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