

City of Los Angeles Department of Water and Power

**Actuarial Valuation and Review of Other
Postemployment Benefits (OPEB) as of
June 30, 2015 In accordance with GASB
Statements No. 43 and No. 45**



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October 30, 2015

*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, 2015 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, 2015, 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 Andy Yeung, FCA, ASA, MAAA.

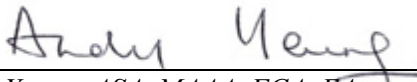
This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions used in this valuation and described 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*



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

TXB/bqb

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**SECTION 1: Executive Summary for City of Los Angeles Department of Water and Power June 30, 2015
Measurement Under GASB 43 and 45**

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, 2015. 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)** decreased from to 7.86% of payroll for the 2014/2015 fiscal year to 6.73% of payroll for the 2015/2016 fiscal year. The reasons for the decrease in ARC include (a) actual premiums, on average, increased less than the assumed 7.00% projected in our prior valuation and (b) the investment return on smoothed actuarial basis was 10.3% compared with the 7.50% assumption. The market value return was 4.1% but the actuarial return of 10.3% was higher after reflecting the recognition of the deferred gains from prior years.
- As of June 30, 2015, the ratio of assets, on an actuarial basis, to the Actuarial Accrued Liability (AAL), i.e., the funded ratio, is 83.71% compared to 76.24% in the prior valuation. These ratios if measured on a Market Value basis have increased to 85.79% from 82.75% during 2014/2015.
- **The Net OPEB Asset (NOA, or negative Net OPEB Obligation (NOO))** increased from \$1.013 billion in the June 30, 2014 valuation to \$1.027 billion in the June 30, 2015 valuation. Chart 7 shows the detailed derivation of the NOA (negative NOO) as of

June 30, 2015. An NOA exists when the cumulative actual employer contributions exceed the cumulative ARCs.

- In calculating the per capita health care costs, we have been following all the relevant and current Actuarial Standards of Practice (ASOP). As we pointed out in our letters recommending assumptions for the 2014 and 2015 valuations, ASOP No. 6, Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions, has been modified and the new requirements are effective with the June 30, 2015 valuation for LADWP. In particular, Section 3.7.7. includes a requirement that:

“...the actuary should use age-specific costs in the development of the initial per capita costs and in the projection of future benefit plan costs. In general, the development of the age-specific costs should be based on the demographics of the group being valued and the group's total expected claims or premiums. Any age ranges used should not be overly broad.”

For prior valuations, we had not adjusted the premiums for age. For the June 30, 2015 valuation, we have utilized age-adjusted per-capita costs using the adjustment factors shown on page 27 in Exhibit II. This change in methodology did not have a significant impact on the plan's liabilities.

**SECTION 1: Executive Summary for City of Los Angeles Department of Water and Power June 30, 2015
Measurement Under GASB 43 and 45**

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

SUMMARY OF VALUATION RESULTS

	June 30, 2015	June 30, 2014
Actuarial Accrued Liability (AAL)	\$1,956,230,463	\$1,947,912,233
Actuarial Value of Assets (AVA)	1,637,578,438	1,485,139,934
Unfunded Actuarial Accrued Liability on AVA Basis	318,652,025	462,772,299
Funded Ratio on AVA Basis	83.71%	76.24%
Market Value of Assets (MVA)	\$1,678,318,226	\$1,611,888,273
Unfunded Actuarial Accrued Liability on MVA Basis	277,912,237	336,023,960
Funded Ratio on MVA Basis	85.79%	82.75%
<hr/>		
Annual Required Contribution (ARC) for Fiscal Year Ending:	June 30, 2016	June 30, 2015
Normal cost (beginning of year)	\$38,342,912	\$38,160,476
Amortization of the unfunded actuarial accrued liability	21,427,361	30,075,368
Adjustment for timing	<u>2,200,865</u>	<u>2,512,585</u>
Total Annual Required Contribution, including adjustment for timing	\$61,971,138	\$70,748,429
Covered payroll	\$920,781,074	\$900,126,274
ARC as a percentage of pay	6.73%	7.86%
<hr/>		
Total Participants	16,792	16,491
<hr/>		
Annual OPEB Cost (AOC) for Fiscal Year Ending (payable throughout year):	June 30, 2016	June 30, 2015
Annual Required Contribution	\$61,971,138	\$70,748,429
Interest on Net OPEB Obligation	-74,288,462	-73,281,174
ARC Adjustment	<u>71,601,247</u>	<u>68,262,661</u>
Total Annual OPEB Cost	\$59,283,923	\$65,729,916
AOC as a percent of pay	6.44%	7.30%

**SECTION 1: Executive Summary for City of Los Angeles Department of Water and Power June 30, 2015
Measurement Under GASB 43 and 45**

October 30, 2015

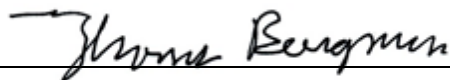
ACTUARIAL CERTIFICATION

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, 2015, 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.

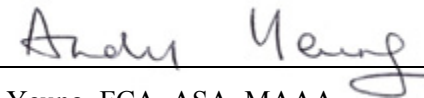
The actuarial valuation is based on the plan of benefits verified by the Employer and reliance on participant, premium, claims and expense data provided by the Employer or from vendors employed by the Employer. Segal Consulting does not audit the data provided. The accuracy and comprehensiveness of the 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
Associate Actuary



Andy Yeung, FCA, ASA, MAAA
Vice President and Actuary

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2015
Measurement Under GASB 43 and 45**

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

	Actuarial Present Value of Total Projected Benefits (APB)	
	June 30, 2015	June 30, 2014
Participant Category		
Current retirees, beneficiaries, and dependents	\$1,073,290,295	\$1,057,276,511
Current active members	<u>1,262,520,564</u>	<u>1,266,238,849</u>
Total	\$2,335,810,859	\$2,323,515,360
	June 30, 2015	June 30, 2014
Actuarial Balance Sheet		
The actuarial balance sheet as of the valuation date is as follows:		
Assets		
1. Actuarial value of assets	\$1,637,578,438	\$1,485,139,934
2. Present value of future normal costs	379,580,396	375,603,127
3. Unfunded actuarial accrued liability	<u>318,652,025</u>	<u>462,772,299</u>
4. Present value of current and future assets	\$2,335,810,859	\$2,323,515,360
Liabilities		
5. Actuarial Present Value of total Projected Benefits	\$2,335,810,859	\$2,323,515,360

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2015
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, 2015	June 30, 2014
Participant Category		
Current retirees, beneficiaries, and dependents	\$1,073,290,295	\$1,057,276,511
Current active members	<u>882,940,168</u>	<u>890,635,722</u>
Total actuarial accrued liability	\$1,956,230,463	\$1,947,912,233
Actuarial value of assets	<u>1,637,578,438</u>	<u>1,485,139,934</u>
Unfunded actuarial accrued liability	\$318,652,025	\$462,772,299
Development of Unfunded Actuarial Accrued Liability		
1. Unfunded actuarial accrued liability as of June 30, 2014		\$462,772,299
2. Employer normal cost at beginning of year		38,160,476
3. Total employer contributions		-79,160,430
4. Interest on 1, 2 and 3		\$34,655,107
5. Expected unfunded actuarial accrued liability (sum of 1 – 4)		<u>456,427,452</u>
6. Change due to investment gain		-40,783,254
7. Change due to the combined effect of non-investment experience gains, and favorable premium renewals		<u>-96,992,173</u>
8. Unfunded actuarial accrued liability as of June 30, 2015		\$318,652,025

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2015
Measurement Under GASB 43 and 45**

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 20 years remaining as of June 30, 2015.
- UAAL amortized as a level percent of payroll.

CHART 3

Table of Amortization Bases

Type	Date Established	Initial Year	Initial Amount	Annual Payment*	Years Remaining	Outstanding Balance
Total Unfunded Actuarial Accrued Liability	6/30/2015	20	\$318,652,025	\$21,427,361	20	\$318,652,025

* *Level percentage of pay*

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2015
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, 2015, 20 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, 2015 and Ending June 30, 2016		Fiscal Year Beginning July 1, 2014 and Ending June 30, 2015	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Normal cost	\$38,342,912	4.16%	\$38,160,476	4.24%
2. Amortization of the unfunded actuarial accrued liability (20 years as of June 30, 2015)	21,427,361	2.33%	30,075,368	3.34%
3. Adjustment for timing	<u>2,200,865</u>	<u>0.24%</u>	<u>2,512,585</u>	<u>0.28%</u>
4. Total Annual Required Contribution (ARC)	<u>\$61,971,138</u>	<u>6.73%</u>	<u>\$70,748,429</u>	<u>7.86%</u>
5. Total Compensation	\$920,781,074		\$900,126,274	

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2015
Measurement Under GASB 43 and 45**

CHART 4 (continued)

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

Cost Element	Fiscal Year Beginning July 1, 2015 and Ending June 30, 2016		Fiscal Year Beginning July 1, 2014 and Ending June 30, 2015	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Normal cost	\$36,443,379	4.21%	\$37,909,882	4.25%
2. Amortization of the unfunded actuarial accrued liability (20 years as of June 30, 2015)	20,124,468	2.33%	29,836,255	3.34%
3. Adjustment for timing	<u>2,082,945</u>	<u>0.24%</u>	<u>2,494,553</u>	<u>0.28%</u>
4. Total Annual Required Contribution (ARC)	<u>\$58,650,792</u>	<u>6.78%</u>	<u>\$70,240,690</u>	<u>7.87%</u>
5. Total Compensation	\$864,862,923		\$892,967,211	

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2015
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, 2015 and Ending June 30, 2016		Fiscal Year Beginning July 1, 2014 and Ending June 30, 2015	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Normal cost	\$1,899,533	3.40%	\$250,594	3.50%
2. Amortization of the unfunded actuarial accrued liability (20 years as of June 30, 2015)	1,302,893	2.33%	239,113	3.34%
3. Adjustment for timing	<u>117,920</u>	<u>0.21%</u>	<u>18,032</u>	<u>0.25%</u>
4. Total Annual Required Contribution (ARC)	<u>3,320,346</u>	<u>5.94%</u>	<u>\$507,739</u>	<u>7.09%</u>
5. Total Compensation	\$55,918,151		\$7,159,063	

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2015
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, 2015 and Ending June 30, 2016		Fiscal Year Beginning July 1, 2014 and Ending June 30, 2015	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Annual Required Contribution	\$ 61,971,138	6.73%	\$70,748,429	7.86%
2. Interest on Beginning of Year Net OPEB Assets (NOA), i.e. negative Net OPEB Obligation (NOO)	-74,288,462	-8.07%	-73,281,174	-8.14%
3. ARC adjustment	<u>71,601,247</u>	<u>7.78%</u>	<u>68,262,661</u>	<u>7.58%</u>
4. Annual OPEB Cost	<u>\$59,283,923</u>	<u>6.44%</u>	<u>\$65,729,916</u>	<u>7.30%</u>
5. Total Compensation	\$920,781,074		\$900,126,274	

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2015
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**

Fiscal Year Ended June 30	Annual Required Contributions ⁽¹⁾	Actual Contributions ⁽¹⁾⁽²⁾	Percentage Contributed
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	82,075,281	111.89%
2016	64,253,043	Not Made Yet	N/A

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

Fiscal Year Ended June 30	Annual OPEB Cost ⁽¹⁾	Actual Contributions ⁽¹⁾⁽²⁾	Percentage Contributed
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	82,075,281	120.43%
2016	61,466,878	Not Made Yet	N/A

⁽¹⁾ Includes an interest adjustment to the end of the year.

⁽²⁾ Contributions without interest were:
 \$140,758,013 for 2010-2011,
 \$102,353,408 for 2011-2012,
 \$68,234,175 for 2012-2013,
 \$74,714,782 for 2013-2014, and
 \$79,160,430 for 2014-2015

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2015
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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) – (a) / (c)]
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%
06/30/2015	1,637,578,438	1,956,230,463	318,652,025	83.71%	920,781,074	34.61%

**SECTION 2: Valuation Results for the City of Los Angeles Department of Water and Power June 30, 2015
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)

Actuarial Valuation Date	Fiscal Year End	Annual Required Contribution⁽¹⁾ (a)	Interest on Existing NOO (b)	ARC Adjustment⁽¹⁾ (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount⁽¹⁾⁽²⁾ (e)	Net Increase in NOO (d) – (e) (f)	NOO as of Fiscal Year (g)
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	82,075,281	-13,925,053	-1,026,985,560
06/30/2015	06/30/2016	64,253,043	-77,023,917	74,237,752	61,466,878	Not made yet	N/A	N/A

⁽¹⁾ Includes an interest adjustment to the end of the year.

⁽²⁾ Contributions without interest were:
 \$140,758,013 for 2010-2011,
 \$102,353,408 for 2011-2012,
 \$68,234,175 for 2012-2013,
 \$74,714,782 for 2013-2014, and
 \$79,160,430 for 2014-2015

**SECTION 3: Supplemental Valuation Details for the City of Los Angeles Department of Water and Power
June 30, 2015 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**

	June 30, 2015	June 30, 2014
Retirees		
Number*	6,340	6,277
Average age of retirees	72.6	72.7
Number of spouses	3,321	3,278
Average age of spouses	68.6	68.6
Surviving Spouses		
Number*	1,350	1,367
Average age	80.6	80.7
Active Participants		
Number	9,102	8,847
Average age	48.7	49.0
Average years of service	17.5	18.3
Average expected retirement age	62.8	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, 2015 Measurement Under GASB 43 and 45**

EXHIBIT A (continued)

Summary of Participant Data – Tier 1

	June 30, 2015	June 30, 2014
Retirees		
Number*	6,340	6,277
Average age of retirees	72.6	72.7
Number of spouses	3,321	3,278
Average age of spouses	68.6	68.6
Surviving Spouses		
Number*	1,350	1,367
Average age	80.6	80.7
Active Participants		
Number	8,371	8,746
Average age	49.6	49.2
Average years of service	19.0	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, 2015 Measurement Under GASB 43 and 45**

EXHIBIT A (continued)

Summary of Participant Data – Tier 2

	June 30, 2015	June 30, 2014
Retirees		
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
Surviving Spouses		
Number*	0	0
Average age	N/A	N/A
Active Participants		
Number	731	101
Average age	37.2	36.9
Average years of service	0.7	0.0**
Average expected retirement age	64.8	65.2

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

** Years of service were reported as integers. All Tier 2 participants had zero years of service reported as of June 30, 2014.

**SECTION 3: Supplemental Valuation Details for the City of Los Angeles Department of Water and Power
June 30, 2015 Measurement Under GASB 43 and 45**

EXHIBIT B

Cash Flow Projections

Initially, 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, which is expected in a well funded and more mature 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
2016	11,011	533	11,544	\$78,830,360	\$3,862,697	\$82,693,057
2017	10,655	1,062	11,717	81,399,732	8,276,872	89,676,604
2018	10,293	1,631	11,924	83,673,924	13,522,800	97,196,724
2019	9,932	2,210	12,142	86,234,691	19,864,539	106,099,230
2020	9,567	2,785	12,352	87,807,530	26,537,056	114,344,586
2021	9,203	3,377	12,580	89,162,786	33,952,272	123,115,058
2022	8,839	3,942	12,781	90,351,551	41,719,165	132,070,716
2023	8,475	4,483	12,958	90,903,284	49,746,517	140,649,801
2024	8,114	4,983	13,097	91,378,965	57,711,134	149,090,099
2025	7,752	5,445	13,197	91,773,641	65,421,392	157,195,033

* Includes spouses of retirees.

**SECTION 3: Supplemental Valuation Details for the City of Los Angeles Department of Water and Power
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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, 2015

1. Market value of assets				\$1,678,318,226
	<u>Original Amount</u>	<u>Percent Unrecognized</u>	<u>Unrecognized Amount</u>	
2. Calculation of unrecognized return*				
(a) Year ended June 30, 2015	-\$54,731,423	80%	-\$43,785,138	
(b) Year ended June 30, 2014	127,229,022	60%	76,337,412	
(c) Year ended June 30, 2013	58,417,148	40%	23,366,860	
(d) Year ended June 30, 2012	-75,896,730	20%	-15,179,346	
(e) Year ended June 30, 2011	101,367,622	0%	<u>0</u>	
3. Total unrecognized return**				\$40,739,788
4. Actuarial value: (1) - (3)				\$1,637,578,438
5. Actuarial value as a percentage of market value: (5) ÷ (1)				<u>97.57%</u>

* Total return minus expected return on a market value basis

** Deferred return as of June 30, 2015 recognized in each of the next 4 years:

(a) Amount recognized during 2015/2016:	\$11,003,603
(b) Amount recognized during 2016/2017:	26,182,950
(c) Amount recognized during 2017/2018:	14,499,520
(d) Amount recognized during 2018/2019:	<u>-10,946,285</u>
(e) Total	\$40,739,788

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2015
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EXHIBIT I

Summary of Required Supplementary Information

Valuation date	June 30, 2015
Actuarial cost method	Entry Age, Level Percent of Pay
Amortization method	30-Year Amortization Closed, Level Percent of Pay
Remaining amortization period	20 years as of June 30, 2015
Asset valuation method	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	6.75%, graded down to an ultimate rate of 5.00% over 7 years
Dental and Medicare Part B Premium costs trend rate	5.00%

Plan membership:	June 30, 2015	June 30, 2014
Current retirees* and beneficiaries receiving dental and/or medical subsidy	7,690	7,644
Current active participants	<u>9,102</u>	<u>8,847</u>
Total	16,792	16,491

* Excludes 3,321 and 3,278 spouses from the June 30, 2015 and 2014 valuations, respectively.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2015
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EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method

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

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

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, 2015
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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, 2015
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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, 2015
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EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Measurement Date: June 30, 2015

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.

<u>Years of Service</u>	<u>Increase</u>
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, 2015
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**EXHIBIT II
Actuarial Assumptions and Actuarial Cost Method (continued)**

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, 2015 were assumed as shown below:

Dental Premiums (For Single and Multi-Party)

Carrier	Election Percent	Premium
		Single Party
United Concordia DHMO	20%	\$18
United Concordia PPO	70%	\$37
IBEW Local 18	10%	\$127

The maximum monthly dental subsidy for Tier 1: \$37, except for Local 18 with a maximum of \$127.

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, 2015
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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, 2015.

Under Age 65			
Carrier	Assumed Election Percent*	Single Party Premium	Participant +1 Both Under 65
Kaiser	60.0	\$659	\$1,256
United Health Care Option A	5.0	\$1,356	\$2,712
Blue Cross HMO	15.0	\$1,423	\$1,685
United Health Care HMO	5.0	\$1,193	\$2,464
United Health Care Option B	5.0	\$1,177	\$2,353
Blue Cross PPO	5.0	\$1,608	\$2,039
United Health Care Option C	5.0	\$916	\$1,832

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

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2015
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EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Age 65 and Older			
Carrier	Assumed Election Percent*	Single Party Premium	Participant +1 Both Age 65+
Kaiser Senior Advantage	55.0	\$332	\$675
United Health Care Option A	25.0	\$532	\$1,063
United Health Care Medicare Advantage	10.0	\$441	\$882
Senior Dimensions	2.5	\$230	\$459
United Health Care Option B	2.5	\$391	\$782
Blue Cross HMO	5.0	\$901	\$1,460
Medicare Part B	100	\$105	\$209

* No members assumed to elect Blue Cross PPO or United Health Care Option C.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2015
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EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

The per capita costs were then adjusted for age and gender using the below factors:

Applied to Per Capita Costs for under age 65				
Age	Retiree		Spouse	
	Male	Female	Male	Female
55	0.9022	0.9315	0.7101	0.8042
60	1.0715	1.0040	0.9506	0.9328
64	1.2293	1.0651	1.2000	1.0498

Applied to Per Capita Costs for age 65 and older				
Age	Retiree		Spouse	
	Male	Female	Male	Female
65	0.9101	0.7736	0.9101	0.7736
70	1.0548	0.8337	1.0548	0.8337
75	1.1368	0.8974	1.1368	0.8974
80+	1.2241	0.9675	1.2241	0.9675

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2015
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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, 2016 through June 30, 2017 would be determined with the following formula:

$$[\$1,256 \times (1 + 6.75\%)] = \$1,341$$

Year Ending June 30	Medical				Dental
	Non-Medicare	Medicare	Medicare Part B		
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, 2015
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EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Marital Status	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.
Spouse Age Difference	Husbands are assumed to be 3 years older than wives.
Future Benefit Accruals:	1.0 year of service per year.
Other Government Service:	
<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.
Participation	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.
Asset Valuation Method	Any actual investment gains and losses that are above or below the annual return assumed in the valuation are recognized over 5-year periods.
Plan Design:	Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit III.
Administrative Expenses:	No administrative expenses were valued separately from the claim costs.
Implicit Subsidy:	None. Premiums paid by the retirees reflect rates underwritten for retirees only.

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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 (to whom the higher thresholds apply regardless of risk-type profession classification). 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.
- Updated medical insurance plan elections.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2015
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EXHIBIT III

Summary of Plan

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.

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.
<i>Tier 1</i>	All members hired before January 1, 2014.
<i>Tier 2</i>	All members hired on or after January 1, 2014.
<hr/>	
Age & Service Requirement:	
<i>Tier 1</i>	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.
<i>Tier 2</i>	Age 60 with 10 years of service; or Age 55 with 30 years of service; or Any age with 30 years of service.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2015
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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, 2015 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	\$251	\$502	\$753	\$1,005	\$1,256
56	256	511	767	1,023	1,256
57	260	521	781	1,041	1,256
58	265	530	795	1,059	1,256
59	269	539	808	1,078	1,256
60	274	548	822	1,096	1,256
61	279	557	836	1,114	1,256
62	283	566	849	1,132	1,256
63	288	575	863	1,151	1,256
64	292	584	877	1,169	1,256
65	297	594	890	1,187	1,256

Tier 2

Age at Retirement	Years of Service				
	10	15	20	25	30
55	\$126	\$251	\$377	\$502	\$628
56	128	256	384	511	628
57	130	260	390	521	628
58	132	265	397	530	628
59	135	269	404	539	628
60	137	274	411	548	628
61	139	279	418	557	628
62	142	283	425	566	628
63	144	288	432	575	628
64	146	292	438	584	628
65	148	297	445	594	628

As shown, the maximum possible subsidy is \$1,256 and \$628 for Tier 1 and 2, respectively. Subsidies may increase until age at retirement reaches 69.

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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.

**SECTION 4: Supporting Information for the City of Los Angeles Department of Water and Power June 30, 2015
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EXHIBIT IV

Definitions of Terms

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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Actuarial Value of Assets (AVA):	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.
Funded Ratio:	The ratio AVA/AAL.
Unfunded Actuarial Accrued Liability (UAAL):	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.
Amortization of the Unfunded Actuarial Accrued Liability:	Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.
Investment Return (discount rate):	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.
Covered Payroll:	Annual reported salaries for all active participants on the valuation date.
ARC as a Percentage of Covered Payroll:	The ratio of the annual required contribution to covered payroll.
Health Care Cost Trend Rates:	The annual rate of increase in net claims costs per individual benefiting from the Plan.
Annual Required Contribution (ARC):	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

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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