

EXHIBIT 3-C

Pension and Other Post-Employment Benefit Policy

This policy analyzes how the District will meet the future costs of employee pensions and Other Post-Employment Benefit (OPEB) obligations and proposes target funding ratios and strategies to meet and reduce these long-term liabilities.

Definitions:

- **Unfunded Accrued Liability (UAL):** The UAL obligation represents the market value of the assets minus the discounted value of the future liabilities. When a plan or pool's Market Value of Assets is less than the Actuarial Accrued Liability, the difference is the plan or pool's UAL.
- **Actuarially or Annual Determined Contribution (ARC):** The ARC to fund pension and OPEB, as determined by the actuarial valuation, reflects the normal cost-plus amortization of the UAL, until the UAL is fully amortized.

Background:

Public employers are required to recognize the cost of pension benefits as employees earn them, and the Governmental Accounting Standards Board (GASB) extends this same requirement to OPEB. While pensions have long been funded on an actuarial basis in most cases, OPEB plans have typically not, as is the case with the District. Staff has identified the District's retiree healthcare liabilities as an area of long-term concern that needs adequate assignment of assets or reserves. While the District's pension plan is administered by the California Public Employees' Retirement System as a cost-sharing multiple-employer defined benefit pension plan, the District self-administers its OPEB liabilities arising from healthcare retiree expenses using a pay-as-you-go basis.

The District recognizes that the effects of poorly funded pension or OPEB plans include plan sponsors (employers) being required to make larger future contributions to the fund, potential benefit cuts for participants, a decline in service levels, or situations where current pension benefits must be paid by future ratepayers. To mitigate these scenarios, this policy proposes the following:

1. Target Funded Ratios:

A pension or OPEB funding ratio is a measure that indicates the financial health of a pension plan. It is calculated by dividing the value of a pension plan's assets by its liabilities. A ratio of 100% means that the plan has enough assets to cover its liabilities.

While the District strives to maintain a 100% funded ratio for its pension and OPEB plan over time, factors such as fluctuating asset values, benefit increases, volatile interest rates, and contributions being potentially less than needed could affect short-term funded

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ratios. Hence, the policy targets a reduced funded ratio of 80% for pension and OPEB plans. The target funded ratio for Pension and OPEB liability may be met by any combination of assets in the CalPERS or OPEB trust funds, including Section 115 trusts and District reserves. When plan assets fall below the target funded ratio, the District will generally strive to achieve the targeted funded ratio over a multi-year period as established by the District Committee or Board.

2. Section 115 Trust:

The District may elect to establish an Internal Revenue Service Code Section 115-approved irrevocable trust to achieve a higher rate of return on investments than that earned on the pooled investment portfolio or Local Agency Investment Fund (LAIF) or California Cooperative Liquid Assets Securities System (CLASS). Once the District transfers funds into such a trust, they can only be utilized for payment of employee Pension or OPEB costs.

3. Additional Strategies:

In the future, the District may implement additional strategies to reduce Pension and OPEB liabilities, such as the use of one-time or accelerated payments to CalPERS and/or issuing Pension/OPEB obligation bonds at very low interest rates. Such decisions will be generally proposed during budget development or review.