10940. RESOLUTION 15-08 - AUTHORIZES THE ADOPTION OF AN OPEB FUNDING POLICY FOR THE OTHER POST EMPLOYMENT BENEFITS ("OPEB") TRUST

WHEREAS, The Delaware River and Bay Authority (the "Authority") is a bi-state Authority created by Compact for the purposes of owning, operating and controlling both Crossing and Non-Crossing facilities; and

WHEREAS, the Authority has established and maintains certain employee benefit plans that provide post-employment benefits other than pensions (hereafter "other post employment benefits" or "OPEBs"), such as but not limited to medical, dental, vision and prescription drug coverage, to OPEB participants who are eligible for coverage thereunder; and

WHEREAS, pursuant to Resolution 09-60, the Authority established an irrevocable OPEB trust pursuant to Section 115 of the Internal Revenue Code for purposes of funding and pre-funding OPEBs provided under its retirement benefit plans in accordance with GASB 43 and GASB 45; and

WHEREAS, the Board of Commissioners ("the Board") is vested with the authority and fiduciary responsibility for the administration, management and operation of the OPEB Trust; and

WHEREAS, the Board has an obligation to provide reasonable assurance that the costs of benefits under the OPEB Trust will be funded in an equitable and sustainable manner; and

WHEREAS, a funding policy establishes guidelines for plan funding through actuarial valuations, regular contribution rates, contribution timing and actuarial assumptions; and

WHEREAS, the adoption of a OPEB Funding Policy is consistent with "best practices" and the Board's fiduciary oversight of the OPEB Trust; and

NOW, THEREFORE BE IT RESOLVED, that the Board adopted the attached OPEB Funding Policy for the Delaware River and Bay Authority Other Post-Employment Benefits Plan.

A motion to approve Resolution 15-08 was made by Commissioner Downes, seconded by Commissioner Wilson, and approved by a roll call vote of 11-0.

Resolution 15–08 Executive Summary Sheet

Resolution:	Authorizes the Adoption of an OPEB Funding Policy for the Other Post Employment Benefits ("OPEB") Trust
Committee:	Budget and Finance Committee
Committee Date:	March 17, 2015
Board Date:	March 17, 2015
Purpose of Resolution:	To establish a formal funding policy to ensure the systematic funding of future obligations of the OPEB Trust through maintaining adequate levels of assets, stability of employer contributions, intergenerational equity among ratepayers and promotes public accountability and transparency.
Background for Resolution:	In 2009, the Authority established an irrevocable OPEB Trust for the purpose to fund and pre-fund Other Post-Employment Benefits ('OPEB"). At inception, the Authority adopted a five year phase in approach to fully fund the Annual Required Contribution or "ARC". In 2012, the Authority reached its goal of contributing 100% of the ARC. To date, the Governmental Accounting Standards Board ("GASB") has not adopted new accounting and reporting standards for "OPEB" Plans as they have for Public Pension Plans. In 2014, the GASB issued Exposure Drafts which will likely require similar standards as GASB 67 and GASB 68 for OPEB Plans. It is the recommendation of both the Authority's Actuary and staff that the Board adopt an OPEB Funding Policy ahead of any new GASB standards.

THE DELAWARE RIVER AND BAY AUTHORITY

OTHER POST EMPLOYMENT BENEFITS

FUNDING POLICY

OPEB Funding Policy

A. Introduction

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

B. Policy Funding Objectives

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

1. Provide sufficient assets to permit the payment of all benefits under the Plan.
2. Maintain equity among generations of ratepayers by:
    a. Establishing improvement, on a projected basis, in the Plan’s Funded Ratio, as defined in Section E, such that it approaches 100% over a given period of time;
    b. Amortizing the Unfunded Actuarial Accrued Liability, as defined in Section E, over fixed periods, specified below.
3. Minimize the volatility of the employer’s annual contributions by smoothing investment gains and losses over a period of years. Smoothing investment returns over a period of years recognizes that investment performance will fluctuate, and only by coincidence will

it exactly equal the assumed rate of return for any given year. It is anticipated that this approach may reduce volatility within the calculation of the Unfunded Actuarial Accrued Liability.

C. Funding Guidelines

This Policy establishes guidelines for setting the employer contribution rate.

1. Actuarial Valuations
   The Plan's actuary shall conduct an actuarial valuation bi-annually, based on actual Plan data, to determine funding progress as well as employer contributions for the following two fiscal years.

2. Regular Contribution Rate
   Coordination of the Plan's Funding and Investment Policies will attempt to minimize the volatility of the employer's contribution from year to year. The employer contribution is the sum of the employer's Normal Cost and expenses, plus a payment to amortize the Unfunded Actuarial Accrued Liability as of the date of valuation:
   a. The Normal Cost and Actuarial Accrued Liability used for this purpose will be calculated using the Entry Age actuarial cost method.
   b. The Actuarial Value of Assets used for this purpose will be a smoothed value that recognizes realized and unrealized investment gains and losses gradually, but should not deviate by more than 120% or less than 80% of Market Value of Assets. The difference between the amount actually earned and the earnings assumption for a particular year shall be amortized in level amounts. The asset smoothing period shall be five years.
   c. The Unfunded Actuarial Accrued Liability will be amortized as a level dollar amount over a closed period (24 years as of January 1, 2014).

      To maintain consistency with actuarial best practices:
      - Any changes in plan provisions will be amortized over a maximum of 15 years,
      - Any early retirement incentive programs (ERIP) will be amortized over a maximum of 5 years.

   d. For the purposes of the calculation, investment return assumptions will be evaluated by an independent pension investment advisor on a regular basis (at a minimum of every two years), and should reflect the nature of the investments held in the Plan, and the historical and projected return rates anticipated for the investments.

3. Minimum Contribution Rate
   In order to maintain adequate funding and to control contribution volatility, if the Funded Ratio has increased to over 100% (all Unfunded Actuarial Accrued Liability has been fully amortized), the surplus will be amortized over 30 years.

4. Contribution Timing

After the Board of Commissioners (the "Board") has adopted a contribution or rate based on a given actuarial valuation, the funds will be contributed by the Authority on a regular basis (at least monthly) throughout the fiscal year.

D. Assumption Guidelines

1. The actuarial assumptions are adopted by the Board in an effort to align the funding of the Plan with actual demographic, healthcare and economic experience, thus providing stability to the contribution rate over time. It is expected that actual experience will deviate from the actuarial assumptions and Experience Gains and Losses will occur. These gains (or losses) will reduce (or increase) future contributions.

2. Actuarial Assumptions are generally grouped into two major categories:
   - Demographic assumptions -- which include withdrawal (termination), retirement, disability, and mortality rates, as well as assumptions regarding beneficiaries.
   - Economic assumptions -- which include inflation, healthcare inflation and investment return

3. The assumptions for OPEB funding are to maintain consistency, where appropriate as determined by the Board, with the assumptions and changes in such adopted for the Authority Employee's Retirement (Pension) Plan.

4. As part of the bi-annual OPEB valuation process, the actuary will also provide advice to the Board and recommend non-pension assumptions, such as increases in healthcare costs.

E. Glossary of Terms

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

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

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

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

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

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

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

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

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

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