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|  | <b>PENSION AND OTHER POST-EMPLOYMENT BENEFITS<br/>FUNDING POLICY</b> |             |
|                                                                                   | Effective: October 6, 2026<br>Approved by Board: October 6, 2026     | Page 1 of 4 |

## POLICY

The purpose of this Policy is to establish a prudent and systematic approach for funding LVMWD pension and Other Post-Employment Benefits (OPEB) obligations.

The District's objective is to maintain adequate funding for obligated retiree healthcare benefits while strategically allocating available resources between OPEB and pension obligations based upon their respective funded status.

This Policy:

- Promotes the long-term financial sustainability of the District's retirement benefit obligations;
- Reduces unfunded pension and OPEB liabilities;
- Takes advantage of long-term investment earnings available through prefunding;
- Reduces volatility in future District retirement benefit costs; and
- Provides a consistent framework for allocating resources between OPEB and pension obligations.

## OPEB FUNDING

The District participates in the California Employers' Retiree Benefit Trust ("CERBT") administered by CalPERS for the purpose of prefunding eligible OPEB obligations.

The District's long-term goal is to maintain the OPEB plan at or near full actuarial funding.

Each year, as part of the annual budget process, staff shall review the most recent actuarial valuation of the District's OPEB plan and determine the appropriate contribution to the CERBT based upon the following guidelines:

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### OPEB Funded Ratio Below 95 Percent

When the OPEB funded ratio is below 95 percent, the District shall prioritize improvement of the OPEB funded status. The District shall make its normal budgeted contribution to the CERBT and shall evaluate whether additional contributions are appropriate based upon available financial resources.

### OPEB Funded Ratio of 95 Percent or Greater

When the OPEB funded ratio is 95 percent or greater, the District may reduce or suspend additional prefunding contributions to the CERBT.

The District may also request reimbursement from the CERBT for eligible OPEB expenditures, including retiree medical benefit costs, in accordance with CERBT requirements, as long as the funded status of the CERBT trust is not reduced below 95 percent.

To the extent that use of CERBT assets reduces the amount of District operating funds otherwise required to pay OPEB benefits, the District should generally redirect an equivalent amount toward reducing its unfunded pension obligation, subject to the pension funding provisions of this Policy.

## **PENSION FUNDING**

The District participates in the California Public Employees' Retirement System ("CalPERS") for employee pension benefits.

The District shall make all actuarially required employer contributions to CalPERS.

In addition to required contributions, the District's objective is to systematically reduce its pension unfunded accrued liability through supplemental funding when financially prudent.

When the OPEB funded ratio is at least 95 percent and the pension plan remains less than 100 percent funded, amounts made available through reduced OPEB prefunding or reimbursement of eligible OPEB expenditures from CERBT will be used to reduce the District's unfunded pension liability.

Supplemental pension funding may include:

- Additional Discretionary Payments directly to CalPERS
- Contributions to a District-established Section 115 pension prefunding trust

The method of supplemental pension funding shall be determined based upon liquidity requirements, expected investment returns, and pension funding risks.

## **ANNUAL FUNDING DETERMINATION**

As part of the annual budget process, staff shall report to the Board of Directors:

1. The most recent OPEB funded ratio;
2. The most recent pension funded ratio;
3. The balance and investment performance of the CERBT;
4. Projected OPEB benefit payments for the upcoming fiscal year;
5. Required pension contributions for the upcoming fiscal year;
6. Recommended OPEB contributions and/or CERBT reimbursements; and
7. Recommended supplemental pension contributions, if applicable.

Funding recommendations shall consider the District's overall financial condition, reserve requirements, capital funding requirements, debt obligations, actuarial assumptions, investment performance, and other relevant financial considerations.

## **USE OF OPEB TRUST ASSETS**

Assets held in the CERBT shall be used solely for purposes permitted under the CERBT agreement and applicable law.

Nothing in this Policy authorizes the direct transfer of CERBT assets to CalPERS for pension purposes.

When authorized under this Policy, CERBT assets may be used to reimburse the District for eligible OPEB expenditures. District funds that otherwise would have been used to pay those expenditures may then be appropriated for supplemental pension funding.

## **FUNDING GOALS**

The District establishes the following long-term funding objectives:

- **OPEB:** Maintain a funded ratio of at least 95 percent and not more than 105 percent

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- **Pension:** Progressively reduce the District's unfunded pension liability with a long-term objective of achieving at least 95 percent funding.

The District recognizes that funded ratios will fluctuate from year to year due to investment performance, actuarial assumption changes, demographic experience, benefit payments, and other factors. Temporary fluctuations shall not, by themselves, require immediate changes in funding strategy.

### **POLICY FLEXIBILITY**

This Policy establishes guidelines rather than an irrevocable funding commitment.

The Board of Directors retains discretion to modify annual OPEB or pension contributions based upon extraordinary financial circumstances, significant changes in actuarial assumptions, investment market conditions, changes in District revenues or expenditures, or other factors affecting the District's financial condition.

Any material deviation from this Policy should be identified and explained as part of the annual budget or other action presented to the Board.

### **REVIEW OF POLICY**

This Policy shall be reviewed annually as part of the budget process.