

APR 14 1992

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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

EXECUTIVE SECRETARY

March 20, 1992

(Finance & Insurance Committee--Action)  
Board of Directors (Organization & Personnel Committee--Information)

General Manager

Use of Contribution Credits in the Public Employees' Retirement  
System

Report

Last August, we presented information to you concerning Assembly Bill 702, which became effective on June 30, 1991. The legislation, among other things, repealed two supplemental cost-of-living provisions for retirees under the Public Employees' Retirement System (PERS). The new law required PERS to credit each employer with its pro-rata share of the two repealed funds. Assembly Bill 702 requires that these credits be used to pay employer contributions currently due. During the time that PERS was implementing provisions of AB 702, Metropolitan continued to remit its monthly payments to PERS for participation in the retirement system. In December 1991, we were notified to cease making employer contributions until the credits are depleted. Since that date, we have been applying \$8,184,146.66 as AB 702 contribution credits against bi-weekly contributions due PERS. We were informed that we could request a refund of the employer contribution payments already made from the date AB 702 became effective (July 1991) to December 1991. Metropolitan's total contribution credits for the period from July 1, 1991 to December 1, 1991, amount to \$3,447,613.34.

It is recommended that PERS be instructed to apply the available funds to reduce Metropolitan's unfunded liability. The unfunded liability for the 1991-92 fiscal year is approximately \$7.7 million. The unfunded liability represents the amount by which an employer's assets fall short of funding the total liability for benefits. This "lien" is amortized over a fixed period of years; in the case of Metropolitan, the funding period is through June 30, 2000. The employer contribution rate for Metropolitan for the 1991-92 fiscal year is 8.745 percent of payroll. Payment of \$3,447,613.34 toward the unfunded liability would reduce this percentage to approximately 8.205 percent, resulting in an annual savings to Metropolitan of \$533,520 until June 30, 2000.

The \$3.4 million applied toward the unfunded liability would earn rates of return which are likely to exceed returns available on Metropolitan's investments due to the size of PERS' investment portfolio (\$68 billion) and its ability to invest in long-term bonds, equities, and real estate; whereas Metropolitan's investments are generally limited to short-term money market securities authorized by Sections 53601 and 53635 of the Government Code. Higher net earnings in PERS investments, which have averaged about 11.43 percent over the past five years, would further reduce Metropolitan's future required contributions. In addition, PERS has indicated that they will calculate the actuarial value of the payment at an adjusted market value rate, which will result in an additional 10 percent credit for the payment.

Some of the provisions of AB 702 are currently being challenged in the Third District Court of Appeal. Should the repeal of the cost-of-living provisions be overturned by the court, all PERS employers would be required to replace the contribution credits. If Metropolitan's contribution credits were already transferred to the unfunded liability, it is probable that PERS could not transfer the funds back to the asset account. It has not yet been determined whether PERS would require these funds to be paid in a lump sum or over a period of time; however, Metropolitan would have already experienced a cost savings for the period of time during which its employer contribution rate was reduced.

This action is exempt from compliance with the provisions of the California Environmental Quality Act because there is no possibility that it may have an effect on the environment.

#### Board Committee Assignment

This letter is referred to:

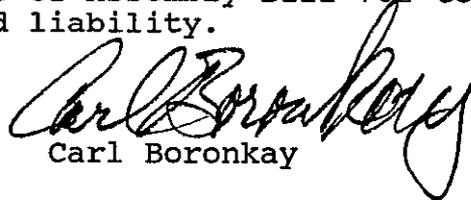
The Finance and Insurance Committee because of its responsibilities under Section 2441(c) of the Administrative Code to study, advise and make recommendations with regard to disposition and investment of funds; and,

The Organization and Personnel Committee because of its responsibilities under Section 2471 of the Administrative Code to study, advise and make recommendations with regard to all matters affecting pension plans.

Recommendation

**FINANCE AND INSURANCE COMMITTEE FOR ACTION.**

It is recommended that the Board authorize the General Manager to request that PERS apply \$3,447,613.34 in contribution credits resulting from the passage of Assembly Bill 702 toward the payment of Metropolitan's unfunded liability.

  
Carl Boronkay

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