Plan and Liability

Retiree Medical Plan
- Self-funded medical plan paid from District’s General assets on a pay-as-you-go basis.
- District pays 75% of retiree medical and prescription drug coverage for retirees and their dependents.
- Retiree pays 25% of cost.
- Approximately 2,000 active employees and 1,900 retirees are covered.

Liability
- Actuarial Accrued Liability at 1/1/07 is $443 million.
Timeline

**ACTION**

- Hired Consulting firm to estimate unfunded retiree medical liability.  
- Reviewed cost containment strategies.  
- Preliminary GASB45 valuation completed.  
- Developed partial funding strategy.  
- Statutory approval required to establish Trust.

**RESPONSE**

- Began to review possibility of establishing a VEBA or similar vehicle for funding plan.  
- Increased employee and retiree co-pays for coverage and prescription drugs.  
- Management response: Request funding of the liability.  
- OPEB Advance Funding Policy approved by BOC.  
- OPEB Advance Funding Policy approved by BOC.  
- Statutory approval required to establish Trust.  
- Developed Retiree Health Care Plan and Trust documents.  
- Initial funding of $25 million approved by the BOC.

**Timeline Details**

- 12/2003: Began to review possibility of establishing a VEBA or similar vehicle for funding plan.  
- 12/2005: Increased employee and retiree co-pays for coverage and prescription drugs.  
- 7/2006: OPEB Advance Funding Policy approved by BOC.  
- 12/2007: Initial funding of $25 million approved by the BOC.

**Important Dates**

- 6/2006: OPEB Advance Funding Policy approved by BOC.
- 12/2007: Initial funding of $25 million approved by the BOC.

**Legal References**

- Public Act 095-0394 IL Code 70 ILCS 2605/9.6d.
- Established IRS Code Section 115 Integral Trust.
OPEB Advance Funding Policy

- Target Funding Level: 50%
- Funding Period: 50 years
- Funding Amount: $10 Million each year for first 5 years
- Basis for Funding: Percentage of Payroll for each year after 5 years
- Investment Mix: Initial 50% equity/50% bond mix with a maximum of 65% equity
- Funding Policy is cautious by design and will provide ample opportunity for adjustment as experience is gained.
Governance & Operations

District

Board of Commissioners

Personnel Department
- Retains all benefit plan-related duties.
- Provides all monitoring and cost-control of health benefits.

APPOINTS
Executive Committee
- Comprised of Treasurer, Director of Finance, and Chairperson of the Finance Committee.
- Recommends appointment of Investment Advisor with BOC approval.
- Accepts/rejects investment recommendations from the Investment Advisor.

ESTABLISHES
MWRD Health Care Plan
- Holds title to assets.
- Separate legal entity.

OVERSEES
OPEB Trust

OVERSEES
Investment Advisor
Cash Contributions

*Contributions to the Trust are irrevocable.
Investments

District Treasurer to manage Investments.

Investment Consultant

• RFP to be issued shortly.
• Duties include assistance in:
  o Development of Investment Policy;
  o Asset Allocation Strategy;
  o Recommendation of investments to meet investment objectives;
  o Reporting;
  o Trustee Training.
OPEB vs. Pension Fund Assets

• Manage separately.
• Initially, Trust assets will be relatively small.
• Establish portfolio that keeps administrative expenses low.
  o In accordance with Investment Policy.
  o Comprised of Mutual Funds or Exchange Traded Funds.

Anticipate minimal activity each year.

• Annual contributions as approved by the Board of Commissioners.
• Projected First Withdrawal Year to Fund Claim Benefits: 2023.
Funding Benefits

• Make progress towards reducing large unfunded liability.
• Capture long-term investment returns by using the Trust only as funding vehicle.
• Estimate actuarial liabilities to comply with GASB’s accounting requirements.
• Reduce future GASB45 expense and cash funding requirements.
• Assume that funding plan will reflect favorably on District’s AAA bond rating.
Contact Information

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