



OPEB TRUSTS

To Fund or Not to Fund?

Elements of an OPEB Trust

- Contributions and earnings are irrevocable
- Assets must be used for OPEB
- Assets are protected from creditors
 - If assets are held in a trust that does not meet these requirements, they may not be counted in your GASB 75 valuation

If/when all plan obligations have been satisfied, assets may be returned to the employer/plan sponsor

To Fund?

- Discount rate under GASB 75
 - ✓ Based on 20-year municipal bond index for “pay-as-you-go” plans
 - ✓ Plans who are not funding may need to decrease their discount rate
 - ✓ “fully funded” plans will use a “long-term” rate of return based on real rates of return by asset class plus an assumed rate of inflation
 - ✓ Partially funded plans will use a blended rate
- Viewed positively by rating agencies
 - ✓ Rating agencies have increased focus on OPEB
 - ✓ Funding shows you are trying to address the problem
 - ✓ Funding should be material

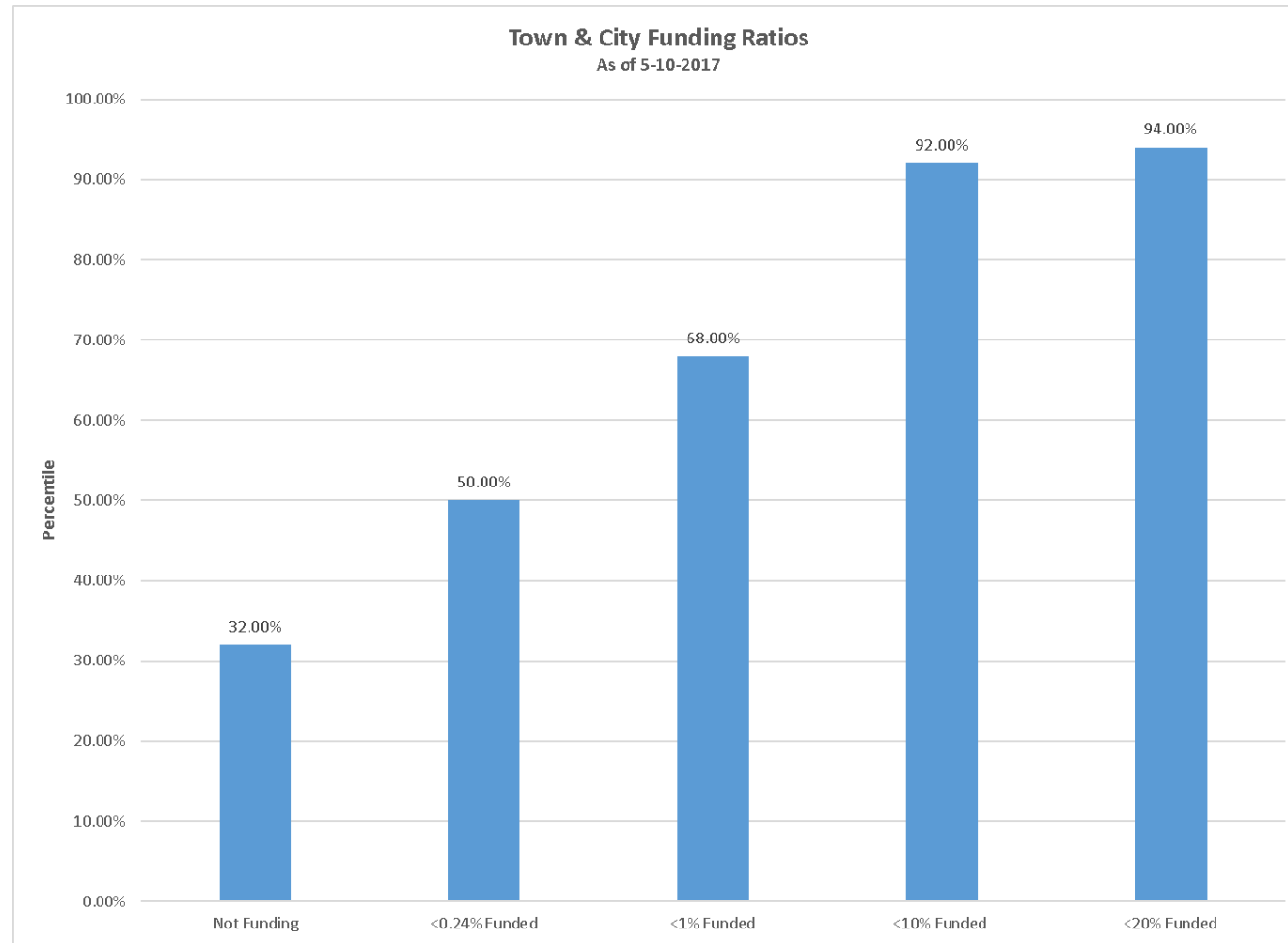
Not to Fund?

- Consider your financial needs
 - ✓ Lack of liquidity
 - ✓ Funds may be better used elsewhere
- Costs to implement and maintain a trust
 - ✓ Do you have enough assets for it to be worthwhile?

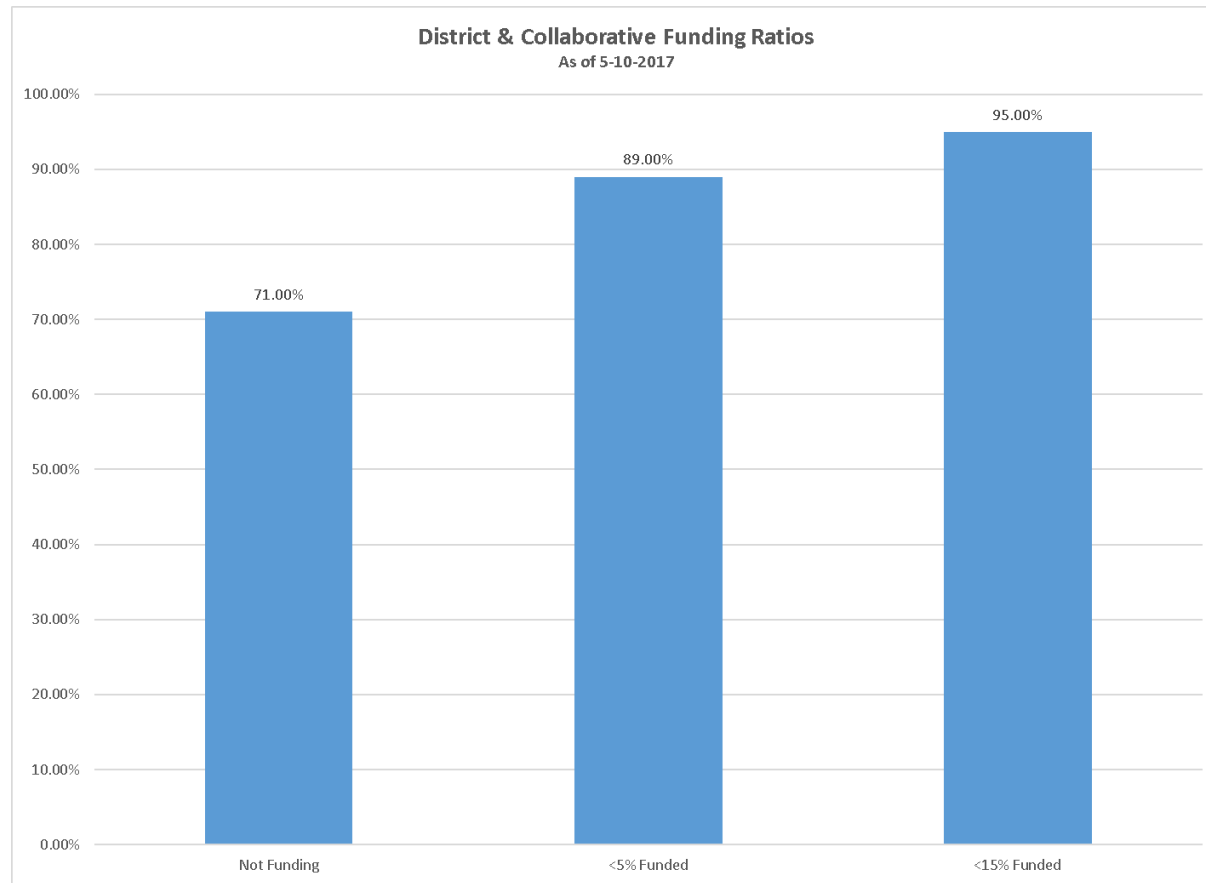
What's Happening With OPEB funding?

- ✓ Most Towns & School Districts have not done any material OPEB funding to date
 - ✓ Those who are funding use various sources
 - ✓ General Fund – annual Town Meeting appropriation
 - ✓ Dedication Source – meals tax is a common one
 - ✓ Free Cash – some portion each year. May adopt a fixed % as a policy.
 - ✓ % of Salary – benefits are effectively deferred compensation so fund via payroll
 - ✓ Pension Appropriation – use a portion of the pension appropriation after system is funded in 2032-2040
- ✓ Enterprise Funds such as Light Departments, Water, Sewer, etc. have moved to fund aggressively by building funding into their “rate base”

Town & City OPEB Funding Ratios



School District OPEB Funding Ratios



Funding Policy

- What is it?
 - ✓ A policy that states the amounts to be contributed each year
- What is a good one?
 - ✓ One that you are able to follow
 - ✓ You are not locked in to a policy, but determine a policy that you can follow for at least the next few years
- Example
 - ✓ 1% of payroll each year
 - ✓ 25% of “free cash” beyond a threshold each year
 - ✓ \$50,000 each year
 - ✓ \$500k each year beginning 20 years from now (often after settlement of an obligation such as a bond or pension obligation)
 - ✓ Or, it may be a combination of all or some of the above

Investment Policy

- What is an Investment Policy Statement (“IPS”)?
 - ✓ Provides guidance to the investment professionals as to what assets classes may be purchased, target allocations and describes the objectives
- As an example, the IPS might set targets such as:
 - ✓ 45% to Equities (30% to 70% range)
 - ✓ 50% to Fixed Income (35% to 65% range)
 - ✓ 5% to Cash (0% to 10% range)
- Make sure your IPS aligns with your goals (preservation of capital, high returns, liquidity, etc.)

Resources

- We've published white papers at www.gasb75.com
- Sample OPEB Investment Policy Statement at <http://go.odysseyadvisors.com/OPEB-IPS>
- OPEB Funding – Pros & Cons case study - <http://go.odysseyadvisors.com/OPEB-Funding-Casestudy>
- We've published white papers at www.gasb75.com
- Talk to your actuary, auditors, investment professionals, as well as your ratings agency contacts