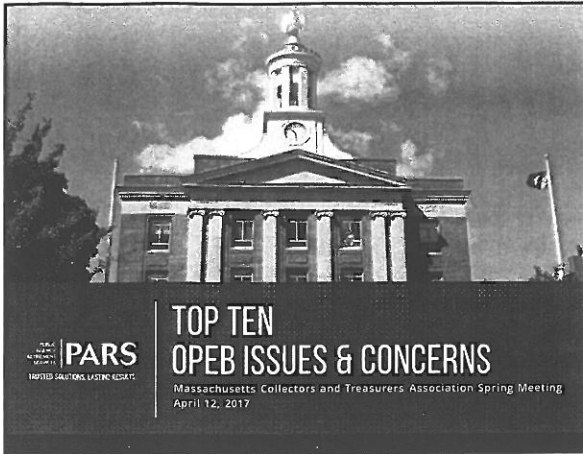


TOP TEN OPEB ISSUES & CONCERNS



1 LEARN ABOUT GASB 74 & 75 NOW

- Starts after fiscal year 6/15/17 for GASB 74 (funded) and 6/15/18 for GASB 75 (unfunded)
- Moves OPEB from footnote to balance sheet
- Discount rate now tied to 20 year municipal bond index for pay-go
- Blended discount rate applied for partial funding
- Everyone must now complete valuation every 2 years
- New valuation method mandated - Entry Age Normal method required
- New disclosures (similar to GASB 67-68 for pensions)

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2 FIGURE OUT HOW GASB 74 & 75 IMPACT YOU

IMPORTANT QUESTIONS TO THINK ABOUT:

- Will we need to rethink the current approach to funding?
- How will Total OPEB Liability be impacted by change to Entry Age Normal method?
- How will Net OPEB Liability on balance sheet impact credit ratings?
- How will the new blended discount rate compare to the current discount rate?
- How will municipal bond index compare to our current discount rate?
- Do we want the actuary to continue calculating Actuarially Determined Contribution?

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3 PICK REASON(S) TO PREFUND

- 1 Investing assets can result in a greater rate of return which leads to lower liabilities
- 2 Contributions into the trust are "assets" that counter liabilities on financial statements
- 3 Credit rating companies look more favorably on your city or town
- 4 GASB 75 impact if not pre-funding

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3 PICK REASON(S) TO PREFUND

- 5 Insulates employers from unexpected fluctuations in benefit costs, economic downturns, natural disasters, and diversion to other uses
- 6 Assets can be used as a budget stabilization tool so that in future years, rising OPEB costs will not impact key public services
- 7 In the long term, pay-as-you-go is the most expensive way of paying for benefits
- 8 For pensions, most assets are accumulated from investment returns not just contributions, as should be the case for OPEB

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4 UNDERSTAND WHAT A TRUST IS

- Trustee and Trust Agreement/Documents must legally validate the trust
- If no executed written document, then no trust exists
- Assets must be held separately from other city or town funds
- Exclusive benefit of employees, retirees, and beneficiaries (like pension)
- Dedicated solely for retiree healthcare
- Contributions must be irrevocable (except payouts for retiree healthcare)
- Free from creditors per GASB 45 and M.G.L. 32(b) 20
- Funds can revert back only when no beneficiaries of the plan remain
- Can't diversify investments without a proper trust

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TOP TEN OPEB ISSUES & CONCERNS

5 MITIGATE YOUR FIDUCIARY RISK

Your municipality is always a fiduciary, but can mitigate risk:

- Work with investment firm to delegate to investment fiduciary
- Make sure you have a discretionary trustee, investment advisor
- Use outside corporate trustee to give fiduciary protection
- Make sure trust agreement is complied with:
 - e.g. exclusive benefit, dedicated only for retiree healthcare
- Hire an outside trust administrator or counsel to monitor/maintain trust compliance
- Use OPEB trust and investment specialists

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6 UNDERSTAND SERVICES YOU NEED

Some important services include:

Trustee	Document Maintenance
Investment Management	Ongoing Compliance
Investment Fiduciary	Document Preparation
Actuarial	Consulting
Distribution & Contribution Processing	Custodial

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7 MAKE SURE YOUR TRUST STAYS COMPLIANT

- IRS has jurisdiction for governmental plans
- IRS Private Letter Ruling
- Mass General Law 3220
- New MA Municipal Modernization Act
- MA Prudent Investor Rule
- Ongoing compliance of plan documents
- Administering trust properly
- Multiple employer vs. single employer structures

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8 FOCUS ON INVESTMENT FEES

- Watch out for proprietary funds
- Best in class or index funds
- Watch out for hidden fees
- High embedded fund level fees
- Transactional fees
- Individual stocks and bonds not always appropriate
- Institutional vs. retail funds
- Evaluate active vs. index costs and performance
- What are you getting for fees – investment advisor/management, compliance, document management, trust administration

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9 DEVELOP INVESTMENT & FUNDING STRATEGY

- OPEB Funding Policy
- Investment Policy Statement
- Varied options to fit your funding/distribution needs and risk tolerance
- Evaluate carefully your investment provider options
- Investment strategy may need to change over time
- OPEB different than pension
- Long term time horizon – employee benefits/pension investing
- Discount rate target for investing
- Put in anything when you can vs. dedicated source
- Pay-as-you-go funding through a trust
- Employee participation in funding
- Minimum contribution or funding restrictions

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10 SUMMING IT UP

- Keep eye out for GASB 74-75 implementation guidelines, information from actuaries, seminars/workshops
- Important to consult with your actuary or auditor
- Properly set up trust and documents
- Compliance and fiduciary protections
- Funding policy and investment strategy needed
- Keeping the fees down – getting value for fees
- Keep up on OPEB issues: New combination trust concept for OPEB and pension, what others are doing
- Deal with benefits themselves separate from trust to reduce liabilities

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TOP TEN OPEB ISSUES & CONCERNS

QUESTIONS

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GASB 74/75 Educational Lunch

May 24, 2017 - 11:30AM - 1:30PM

Sheraton Framingham Hotel & Conference Center

Contact us, or go to Odyssey Advisors & Register at:

<http://go.odysseyadvisors.com/165092/2017-03-30/21657n>



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