

# IMPERIAL VALLEY COMMUNITY COLLEGE DISTRICT

## FUTURIS

Presented by  
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August 26, 2015

# Agenda

- Background on GASB standards
- Review changes from old to new statements
- Discuss impact of those changes
- Discuss how Futuris addresses public agency's OPEB issues in light of new statements

# What are Accounting Standards, and Why are They Important?

- They are the rules that all accountants follow in determining and reporting the financial facts about a company or public entity
- They allow investors to have faith that the “books” were done using a fair set of rules
- They allow apples-to-apples comparisons between companies and public agencies



# Earlier GASB Standards

- Statements 43 & 45 issued in 2004
- Established uniform standards for the measurement, recognition and display of OPEB expenses and liabilities in the financial reports of state and local governments
- Brought OPEB reporting in line with existing standards for pensions
- Required public agencies to report their OPEB liability (in the note disclosures of their financial statements)

# Political Background

**Detroit**



**Stockton**



**San Bernardino**



# Reasons for New Standards

- Bring OPEB accounting into line with most up-to-date standards for pensions (GASB 67 & 68)
- Greater transparency on OPEB liability
  - Balance sheet reporting of liability
  - More detailed note disclosures
- Allow for more apples-to-apples comparisons between public agencies
  - Less flexibility in determining certain key factors



# Major Changes

- Unfunded liability goes on balance sheet
- Discount rate based on how long dedicated assets will cover current plan members' future benefits
- Shorter time horizons for recognizing asset and liability changes in OPEB expense
- Standardized method for determining OPEB liability (as opposed to choice of 6)
- Actuarial valuation every 2 years

# GASB-Qualifying Trust

- 3 Features:
- Contributions are irrevocable
- OPEB plan assets are restricted to paying OPEB
- OPEB plan assets are beyond the reach of creditors



# Measuring OPEB Liability

## STEP 1:

- Project future benefit payments, including:
  - Projected salary increases, years of service and automatic COLAs
  - Under new standards, also incorporate ad hoc benefit changes and discretionary COLAs, to the extent that are done regularly

# Measuring OPEB Liability

## STEP 2:

- Discount those payments to their present value.

Plan assets in GASB-  
Qualifying Trust?

For current employees and  
their beneficiaries?

Projected to be sufficient to  
make projected benefit  
payments?

YES

Discount Rate  
=  
Long-Term  
Expected Rate of  
Return

NO

Discount Rate  
based on tax-  
exempt, AA or  
higher, 20-year GO  
muni bond yield or  
index rate

# Implications

- Increase in balance sheet OPEB liability
- Increase in volatility of OPEB expense
- Increased importance of setting aside assets
- Importance of GASB-qualifying trust



# Effective Dates

- GASB 74: Effective for plan years beginning after June 15, 2016 (FY 2016-2017)
- GASB 75: Effective for plan years beginning after June 15, 2017 (FY 2017-2018)

\*The GASB is encouraging earlier compliance\*



# Futuris

# Program Overview

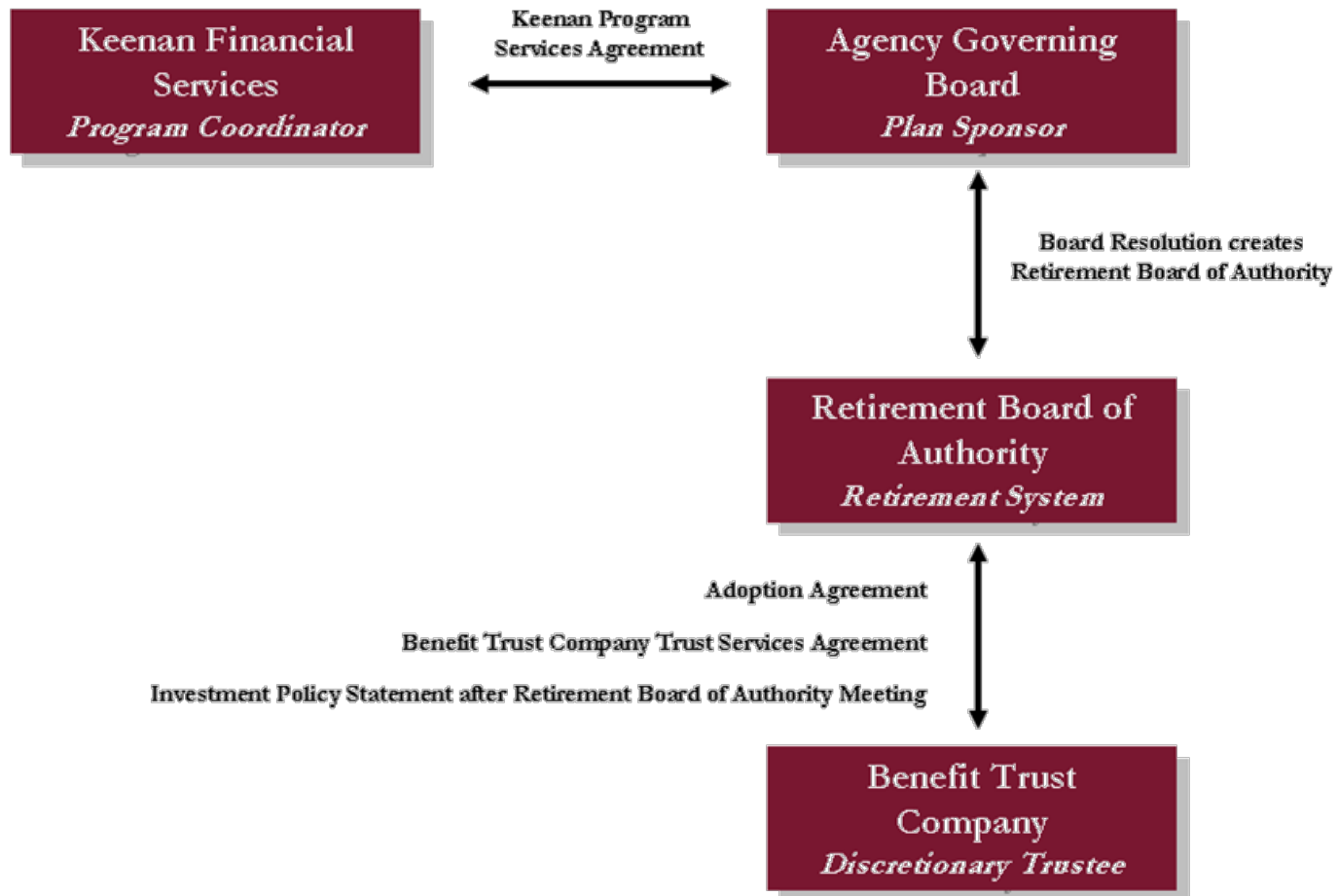
- GASB Qualifying Trust
- Creation of a Retirement System
- Creation of a Retirement Board of Authority
- Pure Fiduciary Protection/Discretionary Trustee
- Ongoing Education
- No Conflict of Interest
- Risk Assessment



# Program Overview

- \$600 Million in Assets
- Over 50 California OPEB Clients
- 18 Community Colleges
- 10 K12
- 22 California State University Auxiliaries
- 2 Cities

# Program Structure





# The Team

***Keenan***

*Financial Services*

- Program Coordinator / Administrator

**Benefit.Trust** A WEALTH OF KNOWLEDGE 

- Discretionary Trustee

**Morgan Stanley**

- Registered Investment Advisor



# Keenan

- Provides expertise in GASB 74 & 75 **and** employee benefits consulting
- Preparation of the Comprehensive Compliance Plan including the Substantive Plan
- Oversight of Futuris Program
- Staff to the Retirement Board
- Communication with the Actuary



# Keenan: Program Administration

- Assist with All Aspects of the “Retirement Board of Authority”
  - Conduct the Retirement Board of Authority Meetings, in a Manner Consistent With the Brown Act
  - Prepare Retirement Board of Authority Meeting Agendas and Cover Pages
  - Take Meeting Minutes and Provide to the Board Upon Completion
  - Assist with Communication to all Board Members as Necessary and Requested by the Board
  - Facilitate the Action Items Resulting From the Retirement Board of Authority Meetings

# Benefit Trust Company

- Discretionary Trustee
- Uses “Discretion” to Make Investment Decisions, Rather Than to Just Make “Recommendations”
- Retirement Board Provides High-level Oversight of the Program, Rather Than Directing the Trustee on Each Individual Investment Decision
- Plan Structure Designed to Mitigate Fiduciary Obligations by Delegating Constitutional Responsibilities to the Trustee

# Morgan Stanley

- Registered Investment Advisor
- Recommends asset allocation models to the Trustee for the portfolios
- Recommends specific investments to the Trustee for the portfolios
- Provides quarterly due diligence reports to the Trustee on the status of all current and recommended investments

# Portfolio Net Returns as of March 31, 2015

<i>Portfolio</i>	<i>3 Mo</i>	<i>1 Yr</i>	<i>3 Yr</i>	<i>5 Yr</i>
<b>Fixed Income</b> +/- Benchmark (Barclay's Aggregate)	1.54% -0.7%	4.92% -0.80%	4.57% +1.47%	5.64% +1.23%
<b>Conservative</b> +/- Benchmark (85% Barclay's Aggregate /15% All Country World Index)	1.63% -0.16%	4.53% -1.14%	5.27% +0.94%	6.01% +0.73%
<b>Moderate</b> +/- Benchmark (70% Barclay's Aggregate /30% ACWI)	1.89% -0.07%	5.03% -0.57%	6.44% +0.91%	6.69% +0.59%
<b>Moderate Growth</b> +/- Benchmark (55% Barclay's Aggregate /45% ACWI)	2.15% +0.04%	5.46% -0.05%	7.27% +0.55%	7.17% +0.30%
<b>Growth</b> +/- Benchmark (40% Barclay's Aggregate /60% ACWI)	2.37% +0.12%	5.74% +0.34%	8.28% +0.39%	7.71% +0.12%
<b>Aggressive Growth</b> +/- Benchmark (25% Barclay's Aggregate /75% ACWI)	2.48% +0.10%	5.84% +0.57%	9.27% +0.22%	8.29% +0.03%

**NOTE: The Futuris portfolios listed above are sample representations only and may be altered from time to time at the discretion of the Trustee**

# Fees – Community College

- Rates of Return are net of program Fees
- Keenan
  - First \$2.5 million – 54 basis points
- Benefit Trust
  - First \$10 million – 20 basis points
- Morgan Stanley
  - First \$10 Million – 20.5 basis points

# No Conflict of Interest

## Futuris: Structurally

- Program Coordinator, Trustee, and RIA roles are separate
- Creates built-in oversight of all parties
- Creates no conflict of interest as each has their own distinct responsibility



# No Conflict of Interest

- **Futuris - Investment Decision Making**
  - Morgan Stanley recommends Investment Managers through a nonbiased evaluation process
  - Uses only best of breed Investment Managers
  - Is free from outside influences
  - Morgan Stanley funds are not allowed
- **Futuris does not accept nor allow:**
  - Pay-to-play program fees
  - 12b-1 marketing fees
  - Sub-transfer agency fees
  - Shareholder service fees
  - Off-NAV Revenue Sharing
  - Proprietary Investment Funds

# The Fiscally Responsible Solution

- Comprehensive GASB Compliance Solution
- Pure Fiduciary Protection
- World Class Investment Management
- Transparency At All Levels
- Agency has Local Control
- The Substantive Plan Provided if requested
- Futuris Team – Day to Day Relationships

# QUESTIONS?

