

# Metropolitan Council OPEB Trust Update

Presenting to Management Committee June 13, 2018



# OPEB Trust Set-Up

- The funding for the Council's Other Post Employment Benefits (OPEB) liability began in 2000
- A Revocable Trust with PERA and Investment Agreement with State Board of Investment (SBI) was set-up in October 2008
- OPEB Funds by State Statute are allowed to be invested in Equities
- Fully Funded is considered 100%, we like the range of 115-120% to account for market fluctuations
- Total Funding level as 3/31/18: 140%

# OPEB Rate of Return

➤ Rate of Return for the last five years:

2017 -	19.61%
2016 -	10.68%
2015 -	1.64%
2014 -	13.72%
2013 -	32.21%

# Asset Allocation

- From the inception of the investment account with SBI, 100% equities
- In November 2015 shifted \$24m in the equity fund to fixed income. Brought allocation to 90/10
- With the OPEB fund fully funded, a more conservative allocation of 60/40 is desirable
- In March 2018 sold \$85m in equity fund
- In May 2018 purchased \$50m in four fixed income securities (US Treasuries / Federal Farm Credit)
- Remaining \$35m is in cash fund. These transaction's put the allocation at 60/40
- Investments are laddered from 2018-2023 to cover annual OPEB costs.

# OPEB Cash Withdrawals

- From SBI Cash account, \$15m will be moved back to the Council to cover 2018 OPEB costs
- OPEB policy allows the fund to be used for non-OPEB purposes with a Resolution passed by the Council
- Proposing cash back for ES to be held in an internal escrow account earning interest and used to help ES pay it's debt service costs
- Pulling cash for ES brings its funding ratio into the desired 115-120% range
- The Health Partners New Freedom Plan is increasing 19.6%. The new Actuarial Study taking this into account puts total Funding level at 126%

# ES Proposed Use of OPEB Funds

- MCES faces material debt service increases for the next 5 years; often referred to as the debt bubble:

Year	Debt Service	Increase to LY(\$)	MWC Increase from DS (%)
2018	131.0	7.0	3.3
2019	139.0	8.0	3.6
2020	147.0	8.0	3.5
2021	156.5	9.5	4.0
2022	165.0	10.5	4.3
2023	170.0	5.0	2.0

- MCES has committed to keep the regional rate increase below 4% through 2022, and below inflation after that
- The OPEB Withdrawals will be used to reduce the debt service expense; allowing MCES to meet its <4% goal

# GASB 75 changes for OPEB Funds

- Change created a Change in Accounting Principle – reducing beginning Fund balances
- Record the full OPEB liability, not just the Net OPEB Obligation
- More Schedules and footnotes to the CAFR
- Assets held in a revocable trust must use a discount rate based on the index rate for 20 year exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher
- Assets can not be used to offset the OPEB liability

# GASB 75 changes for OPEB Funds

	Funding Strategy 12/31/2017	GASB 75 – CAFR Presentation 12/31/2017
Present Value Of Projected Benefits	215,248	291,749
Present Value of Future Normal Costs	(9,504)	12,678
Actuarial Accrued Liability (AAL)	205,744	304,427
Market Value of Assets	272,182	-
Unfunded Actuarial Accrued Liability (UAAL)	(66,438)	304,427
Discount Rate	7.00%	3.44%