

# **SISC GASB 45 TRUST**

## **INSTRUCTIONS & GUIDELINES**

The SISC GASB 45 TRUST ("Trust") is designed to provide a mechanism for pre-funding Other Post-Employment Benefits (OPEB) liabilities reported in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 45. The Trust Fund established under this Plan and the assets thereunder will not be used for, or diverted to, purposes other than the exclusive benefit of Participants. The Trust Fund shall be divided into individual Employer Accounts for each Participating Employer, which collectively may be pooled for investment purposes. Each Participating Employer shall be required to use the same Trustee.

**A. Board Resolution**

The governing body of the Participating Employer must adopt a resolution authorizing participation and contribution of funds into the SISC GASB 45 TRUST. Sample resolutions are available on the SISC website at: <http://sisc.kern.org>

**B. Participation Agreement**

The governing body of the Participating Employer shall execute a Participation Agreement to approve the Trust Agreement, and specifically acknowledge and approve the role of SISC and the Trustee as set forth in the Trust Agreement.

**C. Deposits/Contributions**

Deposits are allowed at any time. The Participating Employer must provide notice of intent to deposit funds. Notice can be made by submitting the Contribution Form to the SISC office via fax (661-636-4063), mail (PO Box 1808, Bakersfield, CA 93303-1808), or email ([mehanson@kern.org](mailto:mehanson@kern.org) or [kisloan@kern.org](mailto:kisloan@kern.org)). Forms are available on the SISC website at: <http://sisc.kern.org>. To expedite the process, employers may also wire funds directly to the Trustee; however you must still submit the Contribution Form to SISC.

All contributions shall be invested in the SISC GASB 45 TRUST. The Plan Administrator or Trustee shall be permitted to rely on the written direction of the Participating Employer. The Participating Employer represents, warrants and understands that any irrevocable contribution shall be made solely for purposes of post-employment Health Insurance benefits as described in the SISC GASB 45 TRUST. The Participating Employer shall indemnify and hold SISC and the Trustee harmless from any use of Trust funds contrary to such purposes.

All investments shall conform to applicable Government Code Sections 53620-53622 governing investment of funds designated for payment of eligible retiree costs.

**D. Fees**

Costs and expenses incurred by the Trust will be deducted each quarter based on portfolio value.

Annual fees include:

a. Trustee fees – All members	0.05%
b. Administrative fees – SISC member school districts	0.05%
c. Administrative fees – Non-SISC school districts	0.10%
d. Administrative fees – All other non-school agencies	0.15%

**E. Minimum Balances**

Participating Employers must maintain a minimum balance of \$50,000.

**F. Investment Earnings**

Each quarter the net gain or loss of earnings shall be allocated to each Employer Account as a proportionate share of the balance of the whole. Net earnings will be re-invested in the Trust. A complete audit will be performed annually.

**G. Reports**

SISC will provide quarterly and annual reports to Participating Employers indicating the value of the assets of the individual Employer Account for each Participating Employer, including investment income of such assets, account activity, and all fees. SISC will also provide a cover letter with a review of performance, market conditions and economy, a comparison to our benchmark, and future outlook and strategy. Within 60 days from the end of a quarter, the SISC office will provide an un-audited account statement to each Participating Employer. At the end of each fiscal year, a full audit will be conducted by an independent accounting firm. A copy of the report will be provided to each Participating Employer. Additionally, by adopting an irrevocable trust, your office will greatly reduce the audit disclosures required. The SISC annual audited financial statements provided by the SISC GASB 45 Trust program should meet many of the reporting requirements for our Participating Employers.

**H. Disbursement/Eligible Retiree Costs**

Payments under this Plan shall be made only for eligible retiree costs on behalf of Plan Participants. The Plan Administrator and Trustee shall be permitted to rely on the written direction of the Participating Employer. The Participating Employer represents, warrants and understands that any disbursement shall be made solely for purposes of post-employment Health Insurance benefits as described in the SISC GASB 45 TRUST. The Participating Employer shall indemnify and hold SISC and the Trustee harmless from any use of Trust funds contrary to such purposes. The Plan Administrator and/or Trustee may, in its sole discretion, inspect any documentation and/or circumstances surrounding any such distribution.

Disbursement Requests to pay eligible retiree costs must be received by the SISC office five business days prior to the requested date of disbursement. Forms are available at: <http://sisc.kern.org>. Please submit disbursement requests via fax (661-636-4063), mail (PO Box 1808, Bakersfield, CA 93303-1808), or email ([mehanson@kern.org](mailto:mehanson@kern.org) or [kisloan@kern.org](mailto:kisloan@kern.org)).

Disbursement Scenarios & Supporting Documentation:

*Scenario 1: Participating Employer is requesting disbursement from the trust to pay the same amount shown as due for retirees on the monthly billing/invoice from the insurer.*

No evidence required by Plan Administrator. However, the Participating Employer must keep all backup and supporting evidence for annual audit and/or inspection by Plan Administrator or Trustee. Payments will be made directly to the Health insurer.

*Scenario 2: Participating Employer is requesting disbursement from the trust to pay the amount shown on the insurer's invoice as due for retirees, PLUS an amount to be paid to the insurer as subsidy on behalf of the retirees.*

This request requires an annual actuarial certification of expected retiree claims allowed. The amount to be disbursed should be based on expected retiree claims, not actual retiree claims. The expected retiree claims are calculated by the actuary as part of your most recent GASB 45 valuation. If you are requesting a disbursement greater than the amount shown on the insurer's invoice (premium) due for retirees, you should ask your actuary to prepare a brief letter stating the amount of expected claims for the period to which the disbursement applies. It can be stated as a monthly amount, annual amount, or for a certain period (e.g. \$1 million from July 1, 2009 through June 30, 2010). **NOTE:** If your actuary has not recognized an implicit subsidy in the GASB 45 valuation, then the amount of disbursement must be equal to the premiums billed by the insurer.

*Scenario 3: Individual retiree incurs an eligible expense/cost (i.e. Medicare premium, medical expense while on vacation in another state, etc.), and requests reimbursement from the trust (through the Participating Employer).*

This request will require evidence of expense (invoice/statement) and payment to provider before reimbursement can be issued.

*Scenario 4: An individual retiree incurs an eligible expense and requests reimbursement from the Participating Employer. The employer pays the retiree and requests reimbursement from the trust.*

The Trust is allowed to reimburse the Participating Employer provided that the retiree documents an assignment of the claim for reimbursement to the employer.

*Scenario 5: The Participating Employer makes payments for retiree costs directly to their insurance provider, and then requests reimbursement from the Trust.*

The Trust is allowed to reimburse the Participating Employer for retiree expenses/premiums provided adequate documentation is received to support the reimbursement (e.g. insurance provider's statement or invoice).

## **I. Investment Platform**

The SISC GASB 45 Trust investment platform has a proven track record and consists of a balanced portfolio of equities, fixed income and liquid investments. The Plan Administrator has a long-standing, successful relationship with Fred Bayles, Wells Fargo Advisors, LLC. Mr. Bayles is the broker of record, and will perform the investment management consulting for the SISC GASB 45 Trust portfolio.

The SISC GASB 45 Trust portfolio will consist of a balanced approach and blend of fixed income securities and equities. The goal will be to maintain an approximate balance of 60% equity and 40% fixed income. The portfolio will have the discretion to move outside these boundaries when market conditions dictate a prudent move, and may change the percentages slightly. It is the goal of the portfolio to never be more than 75% equity at any one time.

This portfolio utilizes best-of-breed fund managers in their respective asset classes through an extensive search and due diligence process that only identifies top tier managers and funds in their particular investment spaces with respect to performance, manager longevity and assets under management. The majority of the portfolio will consist of mutual fund share classes which typically have lower internal expense ratios, and are purchased at NAV (net asset value) at no direct cost to the portfolio or Trust. Additionally, a sufficient cash reserve will be maintained in money market funds with 24 hour liquidity to facilitate cash flow needs of the Participating Employers.

The portfolio is built for maximum flexibility and liquidity in terms of investment vehicles and all prudent asset classes will be reviewed and possibly be utilized to achieve competitive performance, increase diversification and manage risk. Following is an example of asset classes currently being used:

Large Cap Growth and Value	Natural Resources	Low Duration Fixed Income
Small Cap Growth and Value	High Yield Bonds	Emerging Market Debt and Equity
Mid Cap Growth and Value	Technology	International Growth and Value
Intermediate Duration Fixed Income	Convertible Bonds	Real Estate Investment Trusts (REIT)
Commodity Index Funds	Treasury Indexed Protected Securities (TIPS)	
Money Market Funds	Sector Funds & Country Specific Funds	

All asset classes are professionally managed by independent money managers who are deemed in the top quartile of their asset class in terms of performance. No proprietary products or platforms from the

broker of record are used, as this platform is 100% open architecture and is based on being independent, objective and unbiased. The asset allocation is based on independent research and recommendations from the following firms:

Prudential Equity Group Research	Standard and Poors	Credit Suisse
Mobius Research      Morningstar	Sanford Bernstein	Merrill Lynch

As you can see, the process is fairly detailed and independent. Objective and unbiased research is the standard. The asset allocation is based on this data and adjusts as necessary over a complete market cycle. This has proven to be a successful strategy. We believe this is the best platform available for our Participating Employers to use for investment purposes to meet their GASB 45 obligations for the following reasons:

- Proven track record under other SISC plans (the SISC Defined Benefit Plan)
- Investment performance and proven asset allocation model
- Low fee structure
- Strong GASB 45 Trust team in place
- Experience with public schools, government agencies, and Government Codes
- Administration by Self-Insured Schools of California
- Relatively turn-key program for Participating Employers
- Irrevocable trust to offset GASB 45 liabilities

Investments are made according to the Investment Policy utilizing a balanced approach of fixed income securities and equities. To ensure compliance, the portfolio will be reviewed quarterly at a minimum. A full audit will be conducted each year by an independent firm. SISC staff will monitor performance versus the benchmark, and continually review the investment management team for satisfactory performance.

**J. Termination of Plan or Trust Fund**

Upon termination of the Plan and Trust Fund, the Administrator and Trustee shall take steps as determined to be necessary or desirable to comply with applicable laws, and such steps as necessary to ensure:

- a. No assets of the Trust Fund are distributed to the Participating Employer, or to any person or entity under the control of such Participating Employer; and
- b. That the assets remain dedicated to the payment of Health Insurance for Participants in another tax-exempt vehicle.

If, after satisfaction of all liabilities with respect to a Participating Employer's OPEB Liabilities for the provision of Health Insurance for the benefit of Participants, there is any balance remaining in the individual Employer Account of such Participating Employer within the Trust Fund, such balance shall be refunded to the relevant Participating Employer if not otherwise prohibited by law and provided that the right of such Participating Employer to receive such refund shall not jeopardize the Trust Fund's status as a vehicle for the contributions to which offset OPEB Liabilities of Participating Employers.

*Rev. 6-2015*