

## **Memorandum**

To: CRA Board

From: Ellen Shore, Operations Director

RE: OPEB Trust Fund

Date: May 10, 2019

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At the December 21, 2016 CRA Board meeting, the CRA Board approved to adopt MGL Chapter 32B, Section 20, which was amended on August 4, 2016, and became effective on November 7, 2016. The amendment added redevelopment authorities to the list of entities that are allowed to govern the formal creation of a single employer OPEB trust account.

Using the recommendation of the GASB 45 Actuarial Valuation report prepared by Odyssey Advisors and the CRA's auditor Roselli Clark and Associates, an annual contribution of \$7000 has been made to the fund in 2016, 2017, and 2018. Preceding a Q4 2019 \$7000 contribution, the market value of this account as of April 30, 2019 is \$24,173.68.

In February 2019, CRA staff was notified that Morgan Stanley was changing the way they conduct government business in Massachusetts. Morgan Stanley has decided to no longer manage OPEB accounts of this size.

In the past two months, CRA staff has had conversations with several investment entities. Based on their extensive OPEB knowledge and experience with other municipalities, as well as lower investment fees, staff is recommending that the OPEB funds with Morgan Stanley be transferred to be managed by the OPEB trust advisor, Public Agency Retirement Services (PARS). PARS is a trust administrator with 35 years of experience in governmental retirement plan consulting and administration (see attached). They have over 900 public agency clients. PARS uses US Bank as the custodian and Vanguard as their investment manager.

## OVERVIEW OF THE PARS OPEB TRUST PROGRAM

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**Public Agency Retirement Services (PARS)** proposes the PARS OPEB Trust Program, a comprehensive, low cost, and legally compliant solution to takeover the OPEB Trust needs of Cambridge Redevelopment Authority (CRA). Our “turn-key” irrevocable trust will provide the Authority with economies of scale for investment, administrative, and trustee services while reducing costs and staff buens.

In partnership with U.S. Bank and Vanguard, PARS has grown into one of the largest providers of OPEB trust services in the nation, with over 300 clients, and \$1.8 billion in assets. We offer services in 9 states from coast to coast and are the fastest growing provider in New England with 70+ agencies joining our program in the last three years.

### WHO ARE THE PROVIDERS OF THE PARS OPEB TRUST PROGRAM?

Designed as a comprehensive, full-service solution that combines trust administration, trustee, and investment management services in one turn-key approach, the program operates as a collaboration of the following 3 industry leaders:

1. **PARS - Trust Administrator** - Dedicated to the retirement plan and trust needs of public agencies since 1984, PARS administers over 1,400 plans for 900+ client agencies. With 20+ years of experience in retirement healthcare trust administration and over 300 OPEB Trust clients, PARS will handle all recordkeeping, reporting, servicing, asset transfer, compliance monitoring and program coordination for CRA’s OPEB trust account.
2. **U.S. Bank - Trustee/Custodian** – The largest trustee for OPEB pre-funding in the nation, U.S. Bank will serve as trustee and custodian for CRA. The Bank, which serves all of PARS’ 900+ public agency clients, has over \$3 billion in Section 115 trust assets under administration, and will act in a fiduciary role to safeguard your assets.
3. **Vanguard - Investment Manager** – PARS has an established relationship with Vanguard to provide investment management services for PARS OPEB Trust client accounts. Through this approach, CRA can select from 4 portfolios of varying risk tolerance that have very strong historical returns using Vanguard’s disciplined investment philosophy.

### WHY IS THE PARS OPEB TRUST PROGRAM THE BEST SOLUTION FOR CRA?

By transferring your assets to the PARS OPEB Trust Program, CRA will benefit from the following key advantages:

- **Ready-to-use, simply-organized** irrevocable multiple employer trust and investment program that is compliant with state and federal laws as well as GASB rules
- **Trust documents developed and maintained for compliance** in conjunction with PARS attorneys Pillsbury Winthrop Shaw Pittman LLP
- **IRS-approved** trust (with an exclusive Private Letter Ruling) that provides immediate tax-exempt status on the income earned on the trust to client agencies
- **Streamlined implementation process** with signature ready documents
- **No start-up costs, minimum fees, contribution requirements or transaction/trading fees**

- **No red tape** to enter or leave the trust in addition to no-cost 30-day termination option
- **Robust, well-established investment structure** that aims to minimize downside market risk while providing strong investment performance long-term
- **Flexible investment options** designed specifically for OPEB prefunding
- **Some of the lowest investment advisory expenses available** in the OPEB trust marketplace – now only 0.04% and will continue to reduce as total assets in the four Vanguard portfolios grow
- **Fees that decrease** as assets accumulate – trustee and investment fees decrease as total assets in each investment pool grows
- Significant savings from **economies of scale**
- Simple and financially **sound process for disbursement of assets**
- Regular reporting that includes **monthly statements, quarterly investment reports and periodic onsite reviews**
- **Local support and individualized attention** from Lead Consultant and Client Services Coordinator
- **Local control** that allows CRA to determine its own assumptions, methods, and valuation timing
- **Security** from one of the largest federally chartered banks and largest OPEB trustees in the nation, U.S. Bank
- **Experience of PARS**, a 35 year veteran in the administration of retirement plans and trusts for public agencies

## OUR APPROACH TO OPEB TRUST ADMINISTRATION

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PARS is a full-service leader of OPEB trust services. Established for the benefit of public agencies nationwide, the PARS OPEB Trust Program was designed with the following characteristics:

- **Multiple employer** - PARS designed its innovative trust to bring economies of scale and administrative efficiencies for public agencies. The trust is based on the same proprietary multiple employer concept and model that PARS has used successfully since 1990.
- **Separate Accounts** - The trust has been formulated as an aggregation of individual employer plans with centralized administration and pooled investments. With this structure, separate accounts are maintained for each employer, and assets are segregated by individual agency.
- **No Joint Liabilities** - Employer contributions provide benefits **only** for employees of that employer meaning that there is **no** cross-liability or joint liability among participating public agencies.
- **Master Trust Documents** - The Trust program uses plan and trust documents that are the result of a two-year legal document development process. Our signature-ready documents have been reviewed by numerous law firms nationwide.
- **IRC Section 115** - This basic governmental trust structure was designed specifically for retiree health care funding, and is regulated on a federal level by the IRS.
- **IRS Protections** - PARS obtained the first Private Letter Ruling given on a multiple employer Section 115 trust for post-retirement health care funding. This means that by selecting PARS, you have the security

of an **IRS approval that protects all employees and retirees** from adverse tax consequences on day one of funding.

- **GASB 45 compliance** - The trust was developed by PARS legal counsel and national law firm, Pillsbury Winthrop Shaw Pittman LLP, to comply with GASB Statement 45. It is an **irrevocable, exclusive benefit trust dedicated solely for the payment of OPEB benefits**.
- **GASB 75** - The trust is **compliant with the new GASB Statement 75** which went into effect on June 17, 2017 and requires that CRA's OPEB liability move from its CAFR footnotes to a line item on the balance sheet.

## PARS OPEB TRUST PROGRAM SERVICES

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The following is a list of standard services that PARS, as trust administrator, U.S. Bank, as trustee, and Vanguard, as investment manager, provide as part of the PARS OPEB Trust Program.

### TRUST ADMINISTRATION (PARS)

- Initial meeting(s) with CRA staff to establish comprehensive trust, determine implementation schedule, review investment goals, and finalize specific plan and funding provisions
- Signature-ready implementation documents which enable assets to be transferred from your current trust quickly and easily
- Maintenance of detailed accounting records, including any sub-accounting, which includes individual recordkeeping of CRA's contributions, earnings, and assets
- Reconciliation of contributions to the trust account
- Coordination of distributions from CRA's trust account, which includes receiving distribution documentation and directing the trustee to make distributions
- Monthly and annual statements as well as any customized reports as requested
- All necessary forms, handbooks, training, and technical support
- Administrative training meeting at implementation as well as ongoing training as necessary
- Onsite client service reviews to ensure CRA's ongoing satisfaction with the trust program
- Participation at meetings and assistance in education/presentation preparation for Board, staff, or employee groups, if requested
- Coordination of annual trust-wide audit
- Preparation and submission of documents as required by CRA's auditors based on GASB 74/75 reporting
- Periodic publications and resources on legislative regulatory developments related to OPEB prefunding
- Ongoing consulting/analytical services as needed

### TRUSTEE (U.S. BANK)

- Safeguarding of assets for the exclusive benefit of CRA employees, retirees, and beneficiaries
- Receipt and investment of CRA's contributions according to selected investment strategy
- Electronic interface and reporting to the trust administrator
- Reimbursements for OPEB related costs

## INVESTMENT MANAGEMENT (VANGUARD)

- Professional investment advisory and/or management services
- Development and ongoing management of four (4) low cost model portfolios
- Investment fiduciary protection
- Quarterly investment reports that include detailed portfolio analysis and performance comparisons
- Detailed investment guidelines and parameters provided to clients in Vanguard's Discretionary Investment Management Agreement
- Monitoring and assessment of investment funds within CRA's selected portfolio
- Periodic program-wide investment update meetings led by Vanguard Portfolio Manager

## ABOUT PARS

Established in 1984, PARS is a privately held corporation which specializes in the design, installation and administration of retirement plans and trusts exclusively for public agencies. Serving over 900 public agencies, 1,400 plans, and approximately 500,000 plan participants, PARS offers a powerful combination of strength in numbers, as well as flexibility and local control. We focus on providing comprehensive, efficient, secure, flexible, and individualized service, while at the same time making sure that no legal, compliance, recordkeeping, accounting, reporting, and other administrative costs/burdens are shifted on to our clients.

OPEB trust administration and prefunding is currently the fastest growing business line for PARS. However, we are not new to this business area – we first began administering post-retirement health care trusts in 1996, and now have one of the largest private OPEB trust programs in the nation, managing over \$1.8 billion in assets for over 300 client agencies that include special districts, municipalities, townships, towns, cities, counties, school districts, and college districts.

## INVESTMENT OPTIONS

PARS offers a low cost approach through Vanguard, one of the world's largest and most respected investment managers. Under this option, CRA has the ability to select from 4 pre-established portfolios that have been developed exclusively for the PARS program. These portfolios use Vanguard's institutional class, index-based, mutual funds and have very low weighted expense ratios (0.07-0.09% of assets).

The asset allocations for each of these portfolios as of March 31, 2019 are as follows:

Portfolio	Equity (%)	Fixed Income (%)	Cash (%)	Other (%)
<b>Fixed Income</b>	--	96.9%	2.5%	0.6%
<b>Conservative</b>	42.3%	55.7%	1.6%	0.4%
<b>Balanced</b>	59.9%	38.3%	1.5%	0.3%
<b>Growth</b>	75.7%	22.4%	1.5%	0.3%

The concept of these portfolios is to build up large economies of scale for pricing whereby the investment management fees decrease as the combined assets of all participating agencies within the 4 portfolios increase. As a result of program growth over the past 3 years, the investment management fee for all member entities has already dropped to 0.04% of assets, and will continue to decrease as the total assets grow.

## PROGRAM FEES

Fees for the PARS OPEB Trust Program are comprised of annual asset based trust administration, trustee and investment management fees which are paid separately to each provider. Please note there are no minimum fees, no start-up or termination costs associated with our program, in addition to no transaction, trading, hourly or asset transfer fees. A full breakdown of all program fees are listed below:

### TRUST ADMINISTRATION FEES

The following fees are comprehensive and paid to PARS through the trust. These fees provide for administration, including compliance, document management legal, recordkeeping, funding analysis, and reporting.

Company	Annual Fee
<b>PARS</b> Trust Administrator	0.25% for assets under \$10 million 0.20% for assets \$10-15 million 0.15% for assets \$15-50 million 0.10% for assets over \$50 million

### TRUSTEE/INVESTMENT MANAGEMENT FEES

Trustee and investment management fees are comprehensive and include all investment/asset management services as well as all custodial services.

Company	Annual Fee
<b>Vanguard</b> Investment Manager	0.07% for assets under \$50 million* 0.04% for assets \$50-\$150 million* 0.03% for assets \$150-\$250 million* 0.01% for assets \$250-\$500 million* 0.005% for assets over \$500 million*
<b>U.S. Bank</b> Trustee	0.05% first \$25 million** 0.04% next \$25 million** 0.03% over \$50 million**

*\*Please note that Vanguard's fees are based on the combined assets of all agencies within the 4 Vanguard portfolio options. As a result of this, the current blended investment management fee for all members (as of 3/31/19) is 0.04%.*

*\*\*U.S. Bank's trustee fees are based on the combined assets of all agencies within each selected investment portfolio.*

EMBEDDED FUND FEES

The only additional fees not listed above are the embedded fund fees which are charged on the funds within each portfolio. Listed below are the embedded fund fees for the Vanguard portfolio options as of March 31, 2019. **Please note that these fund level fees are already netted out of reported performance returns and are not additional fees charged on top of the asset based fees listed above.**

Portfolio	Expense Ratio
Fixed Income	0.09%
Conservative	0.08%
Balanced	0.08%
Growth	0.07%