

SISC GASB 45 TRUST

FREQUENTLY ASKED QUESTIONS

Question: Who is eligible and how do we join the SISC GASB 45 Trust as a participating employer?

Answer:

The SISC GASB 45 Trust is available to public schools, colleges or education agencies in the State of California, or any other political subdivision or instrumentality thereof...such as cities and counties.

1. Request a GASB 45 packet from the SISC office, (661) 636-4411, or mehanson@kern.org
2. Adopt a Board Resolution to authorize participation in the SISC GASB 45 TRUST
3. Submit Board Resolution along with a signed Participation Agreement to SISC
4. Submit a copy of your agency's actuarial valuation before fiscal year end (June 30)

Question: What fees apply to participating employers?

Answer:

Costs 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%

All-inclusive low fee structure

Our goal is to keep it simple & cost effective. Returns are reported net of all fees and expenses. There are no extra setup fees, disbursement or transaction fees to the participating employer.

Annual fee example, based on \$2 million account value:

Trustee fee – All members:	5 basis pts	0.05%	= \$1,000/year
Admin fee -			
SISC member school districts:	5 basis pts	0.05%	= \$1,000/year
Non-SISC school districts:	10 basis pts	0.10%	= \$2,000/year
Non-school agencies:	15 basis pts	0.15%	= \$3,000/year

Question: How can I make contributions to the Trust?

Answer:

Participating Employers must submit a completed and signed Contribution Form to SISC. Forms are available at the SISC website: <http://sisc.kern.org> All employer contributions shall be paid to the Trustee for deposit into the Trust Fund in accordance with the terms of the Trust Agreement. Assets shall be invested in accordance with the Investment Policy, consistent with prudent investment policies and legal requirements.

Question: How do I know how much to contribute?

Answer:

Once every two Plan Years, or as otherwise required under GASB 45, each Participating Employer's actuary will determine the Participating Employer's Annual Required Contributions (ARC) and Net OPEB Obligation (NOO). Participating Employers may contribute to the Trust Fund an amount equal to the ARC or NOO, or any portion thereof, as determined from time to time by the Participating Employer in its sole discretion, or any other additional amounts for the purpose of funding the payment of Health Insurance for Participants in accordance with this Plan. Contributions of a Participating Employer shall be credited to the Employer Account of such Participating Employers and will be reflected in the quarterly report provided by the Plan Administrator. The method of determining the amount of contributions shall be established solely by each Participating Employer. The Investment Policy requires a \$50,000 minimum balance.

Question: Does the Trust comply with the California Constitution regarding investment in equities, and the Uniform Fiduciary Standards of Care?

Answer:

Yes.

Question: Do you have a Private Lettering Ruling?

Answer:

Yes. The Private Letter Ruling issued by the IRS confirms:

- Income earnings are tax-exempt, and
- Contributions to the Trust, and payments from the Trust, are tax exempt

Question: Can you describe the trust and organizational structure?

Answer:

It is an irrevocable trust under California State law, and IRC Section 115. However, the Trust Agreement does allow for assets in excess of OPEB liabilities to be return to the employer.

The Trust is organized primarily as a JPA, since that is the type of arrangement that permits SISC to exercise trust powers on behalf of its participating employers. The SISC GASB 45 Trust program is organized as a multiple employer trust for purposes of GASB 45 OPEB rules. The participating employers have their own individual accounts under the trust and do not cost share.

This is considered a Directed Trust. Union Bank of California serves as the Trustee for the SISC GASB 45 Trust, but does not exercise discretionary authority.

Question: Why should I pre-fund my OPEB obligation, and why use an irrevocable trust?

Answer:

Being pro-active allows you to be in control – now and in the future.

Pre-funding allows you to:

- Reduce future budget obligations by accumulating assets earlier;
- Put your money work for you (earnings will help offset liability);
- Plan ahead - It is less disruptive to your budget (salaries/benefits/services) if you deposit funds over time;
- Avoid interference of possible future legislation; and
- Address concerns such as credit rating (bonds)

An irrevocable trust provides the following benefits:

- Offsets the liability on balance sheet;
- Provides a secure benefit for employees;
- Earnings are tax-exempt;
- Assets protected from creditors;
- Greater investment flexibility, potential for higher returns (utilizing equities)

Question: What services will SISC provide?

Answer:

Administration of the Trust is provided by SISC:

- Receive and process contributions/distributions
- Recordkeeping & reporting of gains/losses for individual agencies
- Quarterly & Annual Statements w/ROI, asset allocation, and activity
- Cover letter (reviews performance, market conditions/economy, comparison to benchmark, future outlook)
- Information reviewed by auditors, and full audit conducted annually
- Appoint a Trustee (Union Bank), and direct Trustee, in conjunction with Wachovia Securities, with respect to investments of the Trust
- Maintain all necessary records for administration of the Trust
- Monitor and document activities of other partners (Investment Consultant, Managers, Trustee, etc.)

Question: Do you take investment direction for the execution of trades, or are you providing the investment decision making?

Answer:

The Administrator (SISC) and the investment consultant (Wachovia Securities LLC) select investments based on the Investment Policy. Therefore, the employer is not required to provide any guidance or direction with respect to the selection of the portfolio allocations or individual investments.

Question: How are my contributions invested?

Answer:

The Trust will follow a formal Investment Policy, written to comply with the prudent investor standard. Diversification of assets plays an important role in prudent managing of the portfolio as well as managing risk in various market conditions. The portfolio will be well diversified and flexible enough with respect to asset classes to avoid over-concentration in any single economic or industry sector or market segment. By actively managing the assets in suitable vehicles, the portfolio will focus on moderate growth and income through a balanced asset allocation approach comprised of equities, fixed income, cash and other prudent asset classes to provide a competitive investment return while maintaining a moderate risk profile. 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 goal will be to maintain an approximate balance of 60% equity and 40% fixed income, but will remain flexible as market conditions change. The Plan Administrator has a long-standing relationship with our advisor at Wachovia Securities LLC (Wells Fargo Advisors), and they will perform the investment management consulting on the SISC GASB 45 Trust portfolio. SISC maintains individual employer accounts; however funds are pooled for investment purposes only.

The SISC GASB 45 Trust uses and selects best-of-breed investment managers in each of the various asset classes. Our investment consultant, Fredric S. Bayles III, Senior Vice President-Investments, Wachovia Securities, performs the due diligence and monitoring on all our asset managers. SISC has had a long, established and successful relationship with Mr. Bayles and his team. Various stringent criteria are used to evaluate and select each manager in its various asset class. **Sample Asset Allocation (Mutual Funds):** Large Cap Growth/Value; Mid Cap Growth/Value; Small Cap Growth/Value; International; Intermediate US Fixed Income; Emerging Market Debt/Equity; Convertible Bonds; Global Bonds; Natural Resources; High Yield Bonds; Real Estate Investment Trusts. Flexibility to move among these asset classes is crucial to investment performance.

Best-of-Breed Asset Managers for each asset class: Not every manager can handle all asset classes effectively. The SISC platform uses the best managers for each class. Not a “one manager fits all” platform.

Sample Managers: American Funds; Goldman Sachs; Merrill Lynch; JP Morgan; Alliance; PIMCO; Western Asset Management; Lord Abbett; Calamos Investments; Jennison Dryden Associates; The Hartford Funds; Legg Mason Partners; Franklin Templeton Asset Management; AIM Funds; Thornburg Asset Management; Davis Funds; John Hancock; Oppenheimer

Question: How do I know what assets I have invested in the Trust?

Answer:

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. Within 60 days from the end of a quarter, the SISC office will provide an un-audited account statement to each Participating Employer. A statement will follow from the accounting firm selected to perform the quarterly review. A full audit will be conducted annually.

Question: What benefits are payable from the Trust?

Answer:

Benefits under this Plan shall be limited to payment of the cost of Health Insurance for a Participant, or other eligible retiree costs. The Plan Administrator may require evidence that eligible retiree costs have been incurred before benefit payment under this Plan may be made to any post-employment health plan of a Participating Employer or reimbursed to a Participant. The Participating Employer determines who is eligible for retiree health benefits.

Question: How do I get money out of the Trust to pay for those benefits?

Answer:

Participating Employers must submit a Disbursement Request to SISC for payment of eligible retiree benefits. Payments 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 Plan Administrator and/or Trustee may inspect any documentation or circumstances surrounding any distribution. Refer to the Investment Guidelines for various disbursement scenarios and required support documentation.

Question: What if the employer unintentionally pays more to the Trust than is needed to cover benefits, or Federal or State law implements a single-payer system??

Answer:

Although this is an irrevocable trust, the Trust Agreement has addressed the potential of assets in excess of liabilities. 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 (including but not limited to the adoption and implementation of a single-payer system under state or federal law, pursuant to which a Participating employer no longer has any obligation to provide healthcare to, for, or on behalf of its retirees), 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.

Question: What experience does SISC have with the management and custodian of assets for public entities?

Answer:

SISC was established in 1978 and currently serves more than 370 education agencies throughout the state offering programs for:

Workers' Compensation	Property & Liability	Health Benefits
IRC Section 125 Flex Plan	Defined Benefit Plan	SISC GASB 45 Trust

SISC has extensive experience with custodian of assets for public agencies. We have been managing public funds since our inception in 1978-79.

- ▶ Current combined program budgets are over \$1 billion
- ▶ Currently manage over \$237 million of public fund investments:
 - \$169 million, Fixed Income Portfolios
 - \$ 68 million, Equity/Fixed Income Portfolios

Pooling resources provides agencies with a more stable, long-term solution. SISC has an excellent reputation and is well-respected statewide. We strive to provide the best coverage, programs and service to our members while keeping costs affordable and stable.

Question: What if my agency no longer wants to participate in the Plan?

Answer:

It is the intention that this Plan and Trust Fund shall be maintained indefinitely. However, Participating Employers reserve the right to discontinue employer contributions to any extent in their sole judgment. The Participating Employer's failure to contribute to the Trust Fund in any Plan Year will not discontinue the Plan or Trust Fund. Participating Employers may obtain the transfer of assets from this Trust Fund only in accordance with the Trust Agreement. The plan requires a three-year participation period before a transfer of assets may be requested.

In addition, the Trustee shall retain such assets for the Participants of said Participating Employer pursuant to the provisions of this Trust Agreement until such time that the Participating Employer provides evidence of direct transfer of the Participating Employer's assets into another tax-exempt vehicle wherein the transferred assets are dedicated solely to the payment of Health Insurance to or on behalf of Participants. No assets of the Trust Fund shall be distributed to the Participating Employer or to any person or entity under the control of such Participating Employer; and the assets must remain dedicated to the payment of Health Insurance for Participants in another tax-exempt vehicle.