

M Management Committee
For the Metropolitan Council meeting of June 11, 2008

Item: 2008-142

ADVISORY INFORMATION

Date Prepared: May 21, 2008

Subject: Authorization for Post Employment Benefits Trust Agreement

Proposed Action:

That the Metropolitan Council authorize the Regional Administrator to negotiate a revocable trust agreement with the Public Employees Retirement Association in accordance with Minnesota Statutes 2008, Chapter 158, Article 10, Sec 18 to administer funds set aside to pay post employment benefits.

Summary of Committee Discussion / Questions:

The Council sets aside funds to pay the future benefit costs resulting from retiree health care provisions. This cost is often referred to as our OPEB (Other Post Employment Benefits) liability. Funds set aside are currently invested with the Minnesota State Board on Investment in investment vehicles similar to pension funds.

As of December 31, 2007 the Council had investments with a market value of \$69.4 million dollars for this purpose. This represents a funding ratio of 23% of the actuarial accrued liability which grew to \$301.2 million for 2008.

New state statutes provide the authority for the Council to establish a trust to protect funds set aside against potential diversion for other uses.

The committee discussed the results of the 2008 actuarial valuation and the benefits of protecting the funding commitment made by the Council by establishing a trust agreement as provided in the new statute.

M Management Committee

Business Item

Item: 2008-142

Meeting date: May 28, 2008

ADVISORY INFORMATION

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| Date: | May 19, 2008 |
| Subject: | Authorization for Post Employment Benefits Trust Agreement |
| District(s), Member(s): | All |
| Policy/Legal Reference: | Council Policy 3-1-3 – Funding Post Employment Benefits Laws of 2008, Chap 154, Art 10, Sec 18 |
| Staff Prepared/Presented: | Mary Bogie, 651-602-1359 |
| Division/Department: | Regional Administration |

Proposed Action

That the Metropolitan Council authorize the Regional Administrator to negotiate a revocable trust agreement with the Public Employees Retirement Association in accordance with Minnesota Statutes 2008, Chapter 158, Article 10, Sec 18 to administer funds set aside to pay post employment benefits

Background

Council policy establishes a funding approach for post employment benefits that requires annual funding of the normal cost (i.e. the future benefit costs resulting from employee services performed during the current year) and annual retiree premium costs for all eligible employees. In 2004, the Council received approval from the Minnesota Legislature to invest monies set aside for these benefits with the Minnesota State Board of Investment in investment vehicles similar to Minnesota pension funds.

The 2008 Minnesota Legislature gave local governments, including the Metropolitan Council, the authority to establish a trust for the purpose of administering funds set aside to pay post employment benefits.

Rationale

The Council has been committed to responsibly managing its post employment benefits and established a funding policy to ensure adequate resources are reserved to fund future benefits. This reserve has grown to \$68 million as of April 30, 2008. Establishing a trust for the administration of these funds protects the commitment the Council made in its funding policy. State statute allows for either a revocable or irrevocable trust arrangement. In both cases, funds are secured against potential diversion for other uses. Staff recommends a revocable trust because it allows the Council the flexibility to withdraw excess funds for any purpose if factors affecting the actuarially determined liability result in funding reserves above 100% of the liability. By contrast, funds in an irrevocable trust must remain in the trust until the last beneficiary is paid, regardless of whether the trust has been over-funded.

Funding

Council policy 3-1-3 establishes a funding plan to cover post employment benefits by division. Funds are available in the 2008 budget for this purpose

Known Support / Opposition

None