

Municipal Other Post Employment Benefits Trust (MOPEBT)



The growth in unfunded other post employment benefit (OPEB) costs is becoming a major financial problem for all governmental entities, whether local, state or federal. In 2004, the Governmental Accounting Standards Board (GASB) adopted GASB 44 and 45 that requires cities to record these liabilities which have been estimated to be in the billions of dollars for some governmental entities. Without a savings plan, these liabilities will continue to grow and ultimately jeopardize the financial stability of municipal governments.

In order for any savings to be accounted for as a reduction of a city's liability, it must be set aside specifically to fund OPEB costs and deposited to an independent trust fund. In order to be an effective long-term savings plan, a suitable investment strategy must be implemented and regularly monitored. Since most cities in Arkansas do not have staff with the necessary expertise, a qualified investment advisor should be engaged to perform this task.

The League has established the Municipal Other Post Employment Benefits Trust (MOPEBT) as a vehicle for cities (and city agencies) to implement a savings plan for OPEB costs. Stephens Inc. has been engaged to serve as investment advisor for the MOPEBT. Stephens Inc. also serves as investment advisor for other similar League investment programs and has been actively involved in the development and creation of the MOPEBT.

Cities (and city agencies) that use the MOPEBT will realize savings in time, expense and complication by avoiding the need to create their own OPEB savings trust. Also, as the result of having a consolidated program for multiple participating cities, the cost of investment services can be minimized for all participants.

The MOPEBT Board of Trustees is composed of municipal officials, active employees and retirees. It reports to the League's Executive Committee, which serves as the plan administrator, but does not supersede or replace investment decisions made by participating cities.

The MOPEBT program allows cities to retain primary control of their fund assets and benefit decisions.

Cities that join the MOPEBT are not locked in. If they later decide to use another vehicle to fund OPEB costs they may take their funds (with no withdrawal penalty) and move them at will.

For further information or to schedule a visit with the MOPEBT investment advisory team, contact Bo Brister with Stephens Inc. (501-377-2063, bo.brister@stephens.com) or Cindy Frizzell, Finance Director with the League (501-537-3780, cfrizzell@arml.org).

Questions & Answers

(1) What is the Municipal Other Post Employment Benefits Trust (MOPEBT)?

The MOPEBT is a legally constituted investment program, which is designed to consolidate the investment management of assets that are dedicated by a municipality to fund future payments of retiree health care coverage and other post retirement benefits (OPEB) earned by municipal employees during their working years. Growing unfunded liabilities are becoming a major financial problem for governmental entities, whether local, state or Federal. In 2004, the Governmental Accounting Standards Board (GASB) adopted GASB 44 and 45 that require cities to record these liabilities that have primarily been funded in the past on a “pay as you go” basis. These liabilities have been reported to be in the billions of dollars for some states and large municipalities, and millions of dollars for other local governments. Without a savings plan, these liabilities will continue to grow and ultimately jeopardize the financial stability of municipal governments.

(2) Why did the League decide to implement the MOPEBT service?

The purpose for the MOPEBT is to simplify the process for cities (and city agencies) to save for OPEB requirements, rather than incurring the time, expense and complication of establishing their own independent trust for that purpose. Also, as the result of having a consolidated program for multiple cities, the cost of investment services can be minimized. By making payments to a dedicated trust fund to fund these liabilities, a city is entitled to reduce the accounting liability by the amount of the dedicated funds. Future OPEB expenses can be withdrawn from the trust to fund the expenses as needed.

(3) Why should a city sign up and have the MOPEBT manage funds dedicated to satisfying its OPEB liability?

There are several benefits available for participating cities (and city agencies):

- a. The city receives independent investment advice, educational services and regular reporting from Stephens Inc. which serves as investment advisor for the MOPEBT. This service is monitored by the MOPEBT Board and League staff. The actual investment managers are not affiliated with Stephens Inc.
- b. The city's funds are invested in an investment program selected by the city that is designed to provide maximum returns with acceptable risks.

c. The funds are kept separately in the city's name by Stephens Inc.

d. The investment advisor will prepare quarterly reports of investment performance as well as confer with representatives of the city to evaluate and make recommendations about the investment of the MOPEBT funds.

(4) If a city signs up to have the MOPEBT manage its OPEB fund assets, is it locked in?

No. If a city (or city agency) joins the MOPEBT and later decides to utilize another investment arrangement, it may do so at will. There will be NO WITHDRAWAL PENALTY for reclaiming its funds.

(5) Just what "services" will a city receive if it signs on with the MOPEBT?

The city (or city agency) will receive a complete review and assessment of its current OPEB liability by the MOPEBT investment advisory team. The team will review actuarial reports and calculations that have been prepared to determine the city's OPEB liability. The team will work with the city to develop a specific investment strategy to maximize earnings on fund investments and accomplish other fund objectives. The city will receive specific quarterly reporting regarding investment performance with a comparison of results to designated benchmarks approved by the city.

(6) How much will it cost the city for MOPEBT investment services? How does that cost compare to what a city would otherwise pay for such services?

Most cities do not have expertise on staff to implement long-term investment strategies for the purpose of funding a growing liability. It is very likely that the city (or city agency) will obtain more service and lower fees from the MOPEBT when compared to another third party provider.

The MOPEBT costs will vary from plan to plan because of plan size and individual plan designs, but will generally not exceed 1% per year. An exact cost will be provided to each plan before it signs on.

(7) How should a city proceed if it wishes to consider membership in the MOPEBT?

The city (or city agency) should contact Stephens Inc. or League staff at the phone numbers or emails provided in the introduction to this pamphlet. A meeting will be arranged with the MOPEBT investment advisory team. If the city wishes to join the MOPEBT after reviewing information provided, the city must give its formal approval. The city then signs a simple joinder agreement, “joining” the Master Trust, and an investment advisory agreement with Stephens Inc. The MOPEBT investment advisory team will then work to transfer any existing plan assets and initiate the process of setting an approved plan of investment and administration in place.



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