



Auxiliaries Multiple Employer VEBA

VEBA Trust Update

2012 AOA Conference

January 9, 2012

Westin Hotel, San Francisco



Auxiliaries Multiple Employer VEBA

- FASB 158 requires OPEB amount & plan be reported & disclosed in financial & footnotes
- GASB 43 and 45 requires annual costs be reported in financial statements and OPEB plan disclosed in footnotes
- Recognized Auxiliaries in Good Standing with the CSU can participate
- Approximately 40 auxiliaries with OPEB



Auxiliaries Multiple Employer VEBA

- ❑ Similar to CSURMA and AORMA Programs and the pooling of insurance risk;
- ❑ Similar to AOUIT and the pooling of unemployment claims;
- ❑ Similar to CSU System wide Revenue Bonds and the pooling of bond issuances;
- ❑ Similar to AOA and the pooling of experience and knowledge

Auxiliaries Multiple Employer VEBA

- Voluntary Employee Beneficiary Association
- Section 501(c)(9) Organization
- Multiple Employer Association established in August 2010
- Purpose
 - Allow Auxiliaries to pre-fund their obligation
 - Share costs of forming and operating
 - Reduce investment risks and increase earnings



Auxiliaries Multiple Employer VEBA

- Why Contribute Assets to a VEBA Trust
 - Prefunding enables an auxiliary to make actuarially determined periodic contributions to partially or completely fund future obligations
 - Earnings on assets reduces auxiliary's annual expense and future contributions
 - Investment return assumptions, known as discount rate assumptions, will be higher, making the annual required contribution and unfunded liability lower



Auxiliaries Multiple Employer VEBA

- Why Join a Multiple vs. a Single VEBA
 - Reduced overhead costs of forming and operating
 - Greater earnings potential and reduced risk with larger diversified portfolio
 - Contributions Professionally Managed by Corporate Trustee and Investment Advisor
 - Save staff time and expertise necessary to operate as managed by Program Coordinator
 - Enhanced financial security for retirees

Actuarial Discount Rate Does Matter

	5% Rate	7% Rate	Liability Reduction	Reduction Percentage
Actuarial Present Value of Total Projected	\$32,711,497	\$21,829,042	\$10,882,455	33%
Normal Cost Year	\$1,374,230	\$844,657	\$529,573	39%
Actuarial Accrued Liability	\$19,435,622	\$15,741,533	\$4,694,069	25%
Annual Required Contribution (ARC)	\$2,235,094	\$1,685,144	\$549,950	25%

Represents results of an Actuarial Valuation prepared for a specific governmental agency.

Auxiliaries Multiple Employer VEBA

- Structure of the VEBA
 - Each Auxiliary has a unique Retiree Welfare Benefit Plan – eligibility, benefits, etc...
 - Separate VEBA Account for each Auxiliary
 - OPEB Obligation remains with each Auxiliary
 - In theory the VEBA is taxed on its income but contributions are not income and the VEBA can deduct additions to a reserve

Auxiliaries Multiple Employer VEBA

- Structure of the VEBA (continued)
 - Normal VEBA consists of a plan and a trust. This VEBA consists of one trust and multiple plans.
 - The VEBA files a Form 990 as a tax-exempt entity and a Form 990-T to report its net income (expected to be zero), but does not file Form 5500.
 - Each Auxiliary determines whether it needs to comply with ERISA for its own plan (Form 5500; ERISA plan audit; summary plan description).



Auxiliaries Multiple Employer VEBA

- Operating and Participation Costs
 - Operating costs include; Program Coordinator, Corporate Trustee, Registered Investment Advisor, Legal, Audit and Tax
 - Operating cost is approximately 1% annually
 - Currently \$5,000 one time initial fee to join VEBA
 - Gains/Losses, Interest, Dividends and Operating Costs allocated as they accrue



Auxiliaries Multiple Employer VEBA

- The VEBA Team
 - VEBA Board of Trustees
 - Keenan & Associates - Program Coordinator
 - Benefit Trust Company - Corporate Trustee
 - Morgan Stanley Smith Barney – Registered Investment Advisor
 - Nixon Peabody - Legal Counsel
 - McGladrey & Pullen - Audit & Tax



VEBA Highlights

- Fifteen Auxiliaries are participating
- Twelve Auxiliaries paid initial fee of \$5,000
- Assets of 12/31/2011- \$6,295,956
- IRS has provided a letter exempting the VEBA from Federal Income Taxes
- Applied for a State Exemption



VEBA Trust Participants

- ❑ 1. Cal Poly Pomona Foundation
- ❑ 2. ASI, CSU San Luis Obispo
- ❑ 3. Loker Student Union, CSU Dominguez Hills
- ❑ 4. ASI, CSU Dominguez Hills
- ❑ 5. ASI, CSU Long Beach
- ❑ 6. ASI, CSU San Bernardino
- ❑ 7. ASI, Cal Poly Pomona
- ❑ 8. University Student Union, CSU Los Angeles
- ❑ 9. Forty-Niner Shops, Inc., CSU Long Beach
- ❑ 10. University Enterprises, CSU Sacramento
- ❑ 11. The Student Union, San Jose State University
- ❑ 12. Tower Foundation, San Jose State University
- ❑ 13. ASI, CSU Los Angeles
- ❑ 14. CSU Fullerton Auxiliary Services Corporation
- ❑ 15. Humboldt State University Center Board of Directors

Auxiliaries Multiple Employer VEBA

- Fiduciary Liability Management
 - VEBA Trustees delegate investment decisions to Benefit Trust Company per investment policy
 - Morgan Stanley Smith Barney contracts with Benefit Trust Company as the registered investment advisor
 - Local control - no outside influences impacting the investment decisions
 - Documentation of all decision-making

- ❑ Discretionary Corporate Trustee = Benefit Trust
- ❑ Uses “Discretion” for investment decisions, rather than just making “Recommendations”.
- ❑ VEBA Trustees provide oversight per investment policy rather than directing the Corporate Trustee on each individual investment decision.
- ❑ VEBA Trustees set Investment Policy Return Objective as $3\% + \text{CPI} + \text{Custodian \& Investment Advisor Fees} = 6\% \text{ to } 7\%$ Total Return
- ❑ Designed to mitigate fiduciary obligations of VEBA Trustees by delegating investment decisions to the Corporate Trustee per investment policy



Morgan Stanley Smith Barney: Registered Investment Advisor

- Recommends asset allocation models to Benefit Trust for the target portfolios
- Recommends specific investments to Benefit Trust for the target portfolios
- Provides quarterly due diligence reports to Benefit Trust on the status of all current and recommended investments

Auxiliaries Multiple Employer VEBA

❑ Portfolio Options

- ❑ Access to large universe of mutual funds (institutional and no-load share classes)
- ❑ Access to all ETFs and index mutual funds
- ❑ Active managers are selected only if they add value over index net of fees
- ❑ Portfolio may include active management, passive management, or both
- ❑ Morgan Stanley Smith Barney continually monitors the marketplace for ways to lower investment expenses

Auxiliaries Multiple Employer VEBA

- Do **not** accept nor allow:
 - Pay-to-play program fees
 - 12b-1 marketing fees
 - Sub transfer agency fees
 - Shareholder service fees
 - Off-NAV Revenue Sharing
 - Proprietary Investment Funds

MODELS (USING CAPITAL MARKET ASSUMPTIONS AND EFFICIENT FRONTIER)

	Portfolio 4.5	Portfolio 5	Portfolio 6	Portfolio 7	Portfolio 8	Portfolio 9
Target Returns	4.5%	5%	6%	7%	8%	9%
EQUITIES						
Large Cap Growth	0%	1%	3%	5%	5%	7%
Large Cap Value	0%	4%	7%	8%	11%	14%
Small/Mid Growth	0%	0%	1%	2%	4%	6%
Small/Mid Value	0%	2%	3%	5%	8%	10%
	0%	7%	14%	20%	28%	37%
International	0%	6%	13%	18%	25%	32%
REITs	0%	1%	3%	4%	5%	7%
Total Equities	0%	14%	30%	42%	58%	76%
FIXED INCOME						
Domestic Intermediate	80%	60%	48%	40%	27%	14%
International Intermediate	<u>20%</u>	<u>26%</u>	<u>22%</u>	<u>18%</u>	<u>15%</u>	<u>10%</u>
Total Fixed Income	100%	86%	70%	58%	42%	24%
Grand Total	100%	100%	100%	100%	100%	100%
PORTFOLIO STATISTICS						
Avg Annual Return	4.61%	5.03%	6.09%	7.11%	8.01%	9.15%
Standard Deviation (Risk)	3.92%	3.89%	5.24%	6.84%	8.66%	11.33%
Sharpe Ratio	0.54	0.65	0.69	0.68	0.64	0.58
Nominal Benchmarks						
Standard & Poor's 500	0%	10%	25%	40%	60%	75%
Barclay's Aggregate Bond	100%	90%	75%	60%	40%	25%

NOTE: The Futuris portfolios listed above are sample representations only and may be altered from time to time at the discretion of the Trustee.

PORTFOLIOS									
EQUITIES	Style	Ticker	Expense	Portfolio 4.5 4.5% Target	Portfolio 5 5% Target	Portfolio 6 6% Target	Portfolio 7 7% Target	Portfolio 8 8% Target	Portfolio 9 9% Target
Domestic Equities									
Hartford Capital Appreciation	Large Growth	HCAVX	0.71%	0%	1%	3%	5%	5%	7%
Blackrock Equity Dividend	Large Value	MADVX	0.74%	0%	2%	3%	4%	5%	7%
John Hancock Classic Value	Large Value	JCVIX	0.88%	0%	2%	4%	4%	6%	2%
			Subtotal	0%	3%	10%	13%	16%	21%
Hartford Midcap	Mid Growth	HMDYX	0.75%	0%	0%	1%	2%	4%	6%
Navion Tradewinds Value Opportunity	Mid Blend	NVORX	1.17%	0%	1%	2%	3%	4%	5%
Royce Special Equity	Small Blend	RSEIX	1.05%	0%	1%	1%	2%	4%	5%
			Subtotal	0%	2%	4%	7%	12%	16%
Cohen & Steers Realty Shares	Real Estate	CSREX	0.75%	0%	1%	2%	3%	3%	5%
Prudential Global Real Estate	Real Estate	PURZX	1.07%	0%	0%	1%	1%	2%	2%
			Subtotal	0%	1%	3%	4%	5%	7%
International/Global Equities									
Royce Global Value	Small Blend	RGVIX	1.63%	0%	2%	3%	5%	7%	10%
Emeritus International Equity	Large Value	IEEX	1.13%	0%	1%	3%	4%	5%	6%
Navion Tradewinds Global All-Cap	Multi Value	NWGRX	1.08%	0%	1%	2%	3%	4%	5%
Thornberg International Value	Large Blend	TGVIX	0.85%	0%	1%	3%	3%	5%	6%
Thornberg Investment Income Builder	World Allocation	TIBIX	0.85%	0%	1%	2%	3%	4%	5%
			Subtotal	0%	6%	13%	18%	23%	32%
FIXED INCOME									
Domestic Fixed Income									
Metropolitan West Total Return Bond	Intermediate Term	MWTIX	0.45%	20%	15%	12%	10%	7%	3%
Delaware Diversified Income	Intermediate Term	DIFFX	0.72%	20%	15%	12%	10%	7%	4%
Prudential Total Return Bond Fund	Intermediate Term	PDRZX	0.72%	20%	15%	12%	10%	6%	3%
Western Asset Core Plus Bond	Intermediate Term	WACPX	0.46%	20%	15%	12%	10%	7%	4%
			Subtotal	80%	60%	48%	40%	27%	16%
International Fixed Income									
Brandywine Global Opportunities Bond	Global Bond	GOBSX	0.65%	5%	6%	5%	4%	3%	2%
Oppenheimer International Bond Inst	International Bond	OIBYX	0.54%	5%	7%	6%	5%	4%	3%
Templeton Global Bond Inst	Global Bond	TGBAX	0.67%	10%	13%	11%	8%	6%	5%
			Subtotal	20%	26%	22%	18%	13%	10%
SUMMARY									
Total Equities				0%	14%	30%	42%	58%	76%
Total Fixed Income				100%	86%	70%	58%	42%	24%
Grand Total				100%	100%	100%	100%	100%	100%
Blended Expense Ratio				0.59%	0.65%	0.71%	0.76%	0.83%	0.90%
STATISTICS									
Performance (as of 9/30/11)									
Qtr				0.17%	-2.80%	-5.81%	-7.78%	-10.68%	-13.70%
One Year				3.73%	2.32%	0.84%	0.04%	-1.32%	-2.66%
Three Year				11.58%	10.61%	9.31%	8.56%	7.34%	5.88%
Five Year				8.17%	7.46%	6.25%	5.60%	4.55%	3.52%

NOTE: The Private portfolios listed above are sample representations only and may be altered from time to time at the discretion of the Trustee.

Portfolio Returns

as of September 30, 2011

<i>Portfolio (target)</i>	<i>3 Mo</i>	<i>1 yr</i>	<i>3 yr</i>	<i>5 Yr</i>
□ Portfolio 4.5	0.17%	3.73%	11.58%	8.17%
□ Portfolio 5	-2.89%	2.32%	10.61%	7.46%
□ Portfolio 6	-5.81%	0.84%	9.31%	6.25%
□ Portfolio 7 (VEBA)	-7.78%	0.04%	8.56%	5.60%
□ Portfolio 8	-10.68%	-1.32%	7.34%	4.55%
□ Portfolio 9	-13.70%	-2.66%	5.88%	3.32%

Auxiliaries Multiple Employer VEBA

Information Access to Reports

- Trust Statement
- Investment Performance Report
- Miscellaneous correspondence
- Internet 24/7
- Email/Printed upon request

Keenan Financial Services: Program Coordinator

- Prepare and coordinate VEBA Trustee meetings, agendas and minutes
- Facilitate and communicate action items from VEBA Trustee meetings
- Coordinate marketing efforts with potential auxiliary
- Assist VEBA Trustees with oversight of program
- Depository for VEBA agreements and documents

Auxiliaries Multiple Employer VEBA

- Agreements/Documents to Participate:
 - Board Resolution
 - Participation Agreement
 - Loan Agreement – (Auxiliary reimbursed for paying Retiree Medical Premiums)
 - Retiree Welfare Benefit Plan – (Uniform Restatement of Auxiliary's Plan)
 - Trustee Agreement – (if Trustee of VEBA Board)

Auxiliaries Multiple Employer VEBA

□ Questions and Contact Information:

■ Program Coordinator:

Roslyn Washington, Account Manager

Keenan Financial Services

2355 Crenshaw Blvd, Suite 200

Torrance, Ca 90501

rwashington@keenan.com

(310) 212-0363 ext 3610