



Update on Pension Trusts

February 10, 2016

Administrative Team

Agenda

- **Background**
- **Objectives**
- **Barriers**
- **Options**
- **How & When**
- **Action**

Background

- A. Closed the City's pension plans to new members –
 - All employees hired on or after July 1, 2013, become members of the South Dakota Retirement System (SDRS).
- B. Closed access to the City's self-insured health plan –
 - Access closed as of January 1, 2014.
 - Pension stipend created for employees hired prior to July 1, 2013.

Need for the proposed changes

In addition to creating substantial savings in the future, the changes shifted the liability from one trust to another:

- The **Retiree Health Care Trust** became over-funded due to closing the Plan.
- The **Pension Trust** is under-funded some of which is due to the assumption of the liability for the stipend.

Trust funding status

December 31, 2014

	General	Police	Fire	Total
UAL - Pension	\$ 46.4	\$ 20.0	\$ 26.7	\$ 93.0
UAL (surplus) - Health	<u>(15.4)</u>	<u>(5.0)</u>	<u>(4.7)</u>	<u>(25.1)</u>
Net UAL	\$ 31.0	\$ 15.0	\$ 22.0	\$ 67.9

Objective of the recommendations

To move the excess dollars in one trust (Retiree Health Care) to the other trust (Pension) to match the liabilities.

Barriers to simply moving the money from trust to trust

Federal law prohibits transferring money from a retiree health care trust established under IRC 401(h) prior to the payment of all liabilities.

- Projections are for the Retiree Health Care 401(h) Trust to remain open until 2032.
- All assets of the trust must revert to the “City,” cannot simply move to the Pension Trust.

Options considered

1. Do nothing...
 - Assets must remain in the Retiree Health Care Trust until all liabilities satisfied.
 - Liability in pension fund requires additional funding.
2. Convert to Health Reimbursement Accounts (HRA):
 - Liabilities would be satisfied but what if amount set aside in individual accounts is not enough to pay medical claims.
3. Annuitize:
 - Significant plan design and cost barriers.

Recommended option

4. Create a replacement IRC 115 trust for retiree health benefits:
 - ✓ Same benefits.
 - ✓ Closes 401(h) trust.
 - ✓ Move excess assets through the City to the pension trusts.
 - ✓ Administrative challenges but not insurmountable.

How will changes be implemented

1. Request new determination letter for continued qualified status of the pension plan under IRC 401(a) and formalize the retiree health care plan as an IRC 401(h) trust. Board approved in November of 2015.
2. Create replacement IRC 115 trust and close 401(h) trust – no change to benefit structure (ordinance).
3. Move excess assets from the Retiree Health Care 401(h) Trust through the City to the Pension 401(a) Trust (ordinance).

When will changes be implemented

- ✓ Determination letters for both 401(a) and 401(h) plans were submitted to IRS on January 27, 2016.
- Draft IRC 115 trust documents for Board approval (May/August).
- Draft ordinance language for Board approval (May/August).
- Submit ordinance revisions to City Council for approval.
- Submit trust documentation to the IRS for approval.
- Fund the 115 trust and move excess 401(h) assets through the City to the Pension Trust.

Required ordinance changes

- Update for current IRC regulations for the Pension 401(a) Trust.
- Formally recognize that the retiree health care trust is a 401(h) qualified plan.
- Create successor 115 trust.
- Close 401(h) trust and transfer necessary funds to the 115 trust.
- Move the excess assets through the City to the pension trust.
- Update language for pension accounting to comply with GASB standards (GAAP accounting).

Requested Board action

Authorize the administration to work with legal counsel to update City ordinances to the current Internal Revenue Code and to restructure the current retiree medical plan as a 115 trust, maintaining the same benefits as currently provided. Updates to be submitted to the Board for approval.