



INDIAN WELLS CITY COUNCIL

September 7, 2023

To: City Council
From: Finance Department
Prepared by: Kevin McCarthy, City Finance Director
Subject: **Adoption of Other Post Employment Benefits (OPEB)/Pension 115 Trust Program**

RECOMMENDED ACTIONS:

Council **APPROVES** the adoption of the Multiple Employer Other Post Employment Benefits (OPEB)/Pension 115 Trust administered by Shuster Advisory Group; and,

FINDS the project to be exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to Section 15060.

BACKGROUND:

Shuster Advisory Group (Shuster) has served as the City's fiduciary advisor since August 2019. Shuster has fiduciary responsibilities for the City's 457 deferred compensation and 401 (a) account(s). Since the implementation, employees in the Plan have saved approximately \$150,000 from the reduction in recordkeeping fees.

Shuster offers Section 115 Trust investment options similar to the City's Section 115 Trust agreements with CalPERS and Public Agency Retirement Services (PARS). The City's Section 115 Trust program is part of an overall good governance strategy of matching long-term investment returns to long-term pension liabilities to generate taxpayer savings. This is the same strategy employed by the City years ago to pay off the unfunded portion of the pension liability, saving taxpayers \$6.0 million.

In April 2023, the Finance Committee met to consider onboarding Shuster to the City's Section 115 Trust program to offset Other Post Employment Benefits (OPEB) and Employee Pension costs. Based on a comprehensive analysis of all three Section 115 Trust Advisors, significant savings in administration costs are available from the Shuster Trust.

After discussion and review, the Finance Committee approved the addition of the Shuster Section 115 Trust to foster additional competition and diversification among Section 115 Trust Advisors. No additional funds are requested now; assets will be transferred from

the CalPERS Trust to the Shuster Trust to drive the competition. With the onboarding of Shuster, the Finance Committee now requires an annual comparison of financial performance between Section 115 Trust Advisors.

Assets in a 115 Trust are irrevocably committed to the government function specified in the applicable trust agreement. Additionally, monies held in such trusts can be invested in accordance with the rules governing those trusts, which are different from the investment rules for the City's pooled investments. Investment restrictions that apply to the City (CA Government Code 53601) do not apply to the assets held in an Irrevocable Section 115 Trust, thus allowing for more flexibility in the investment strategy. Setting aside funds in a Section 115 Trust can potentially earn a higher rate of return than funds invested within 53601 guidelines. These potentially higher returns are used to reduce taxpayer costs.

Shuster Advisory Group, LLC

Shuster is an independent investment advisory firm and fiduciary. Shuster provides governmental and institutional retirement plan consulting services and private wealth management. Shuster is an SEC-Registered Investment Advisor with over \$5 billion in assets under management, focusing on serving the unique needs of governmental agencies and special districts serving over 80 cities, agencies, and public entities. Shuster serves as fiduciary to plan investments and provides investment selection, monitoring, and management.

Shuster currently serves as the City's fiduciary investment advisor and plan consultant for our 457(b) and 401(a) plans. The services provided by Shuster offer a low-cost, transparent structure and approach. Acquiring Shuster for these services resulted in an 83% reduction in plan record-keeping and administration costs and an overall total plan cost reduction of approximately 50% for the 457(b) and 401(a) plans, in addition to an improvement in the quality of the investments available in the retirement plan. With Shuster's ongoing oversight, Staff expects similar results with the Section 115 Trust as experienced with the 457(b) and 401(a) plans.

FISCAL IMPACT:

After a review of the current fee structure and investment portfolios, it was determined that significant savings (up to a 50% reduction from the current PARS), in addition to improved investment flexibility, customization, transparency, and service. Staff's valuation process concluded that the program offered by Shuster provides the greatest flexibility of investment options and competitive fees for the comprehensive services the City will receive, including but not limited to fiduciary services, consolidated full fee transparency, fully customizable investment options, individual accounts (providing daily valuation and account access), a blend of active and passive investment options with optional private equity/debt, GASB compliant reporting, and a dedicated local service

team. To the extent that cost savings for administering the trust can be achieved, that is additional money that will stay in the trust and earn interest over time.

Shuster will provide multiple investment strategies that combine active and passive (index) investment solutions to take advantage of the optimum mix of investments from both an investment return and cost perspective. If the City desires, Shuster will also provide a custom portfolio at no additional cost.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA)

This action has been reviewed per the authority and criteria contained in the California Environmental Quality Act (CEQA), the State and local CEQA Guidelines, and the City's environmental regulations. The City, acting as the Lead Agency, determined that the ordinance is not subject to CEQA pursuant to Sections 15060(c)(2), 15060(c)(3), and 15061(b)(3) of the State CEQA Guidelines, because it will not result in a direct or reasonably foreseeable indirect physical change to the environment as there is no possibility that the action would result in a significant environmental impact, and because it does not constitute a "project" as defined in Section 15378 of the State CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3.

ATTACHMENTS:

1. Resolution
2. Multiple Employer OPEB/Pension 115 Trust
3. Trust Administrative Services Agreement
4. Investment Advisor Agreement