

FCR 2

Office of the President
December 11, 2007

Members, Board of Trustees:

ESTABLISHMENT OF UNIVERSITY OF KENTUCKY OTHER POSTEMPLOYMENT
BENEFITS (OPEB) TRUST QUASI ENDOWMENT FUND

Recommendation: that the Board of Trustees authorize the establishment of the University of Kentucky Other Postemployment Benefits (OPEB) Trust Quasi Endowment Fund. The quasi endowment will consist of university funds transferred to and invested by U.S. Bank, as trustee, under the University of Kentucky Other Postemployment Benefits (OPEB) Trust, for the payment of postemployment benefits, primarily retiree health insurance credits.

Background: Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" became effective for the university July 1, 2007. This statement requires the university to record, as a current expense, the actuarially determined cost of providing future benefits to employees during their postemployment period.

The standard allows this expense to be reduced by estimated future earnings on funds set aside specifically for these purposes. The university has established, and will begin to fund, the University of Kentucky Other Postemployment Benefits (OPEB) Trust which will be administered by U.S. Bank. U.S. Bank will invest the funds at the university's direction.

Given the time horizon for the future payment of these benefits, investment strategies such as those used for the university's pooled endowment fund are appropriate. In addition, investing these funds as a quasi endowment within the university's pooled endowment funds will greatly reduce the administrative costs that would be incurred if the trust funds were invested separately.

Action taken: Approved Disapproved Other_____