

Minutes for 1/20/2015 OPEB TRUST MEETING

Minutes accepted on 7/28/2015

3 in favor, 2 abstention.

The meeting was called to order by Tim Harrison at 4:03 PM. In attendance were James Smith, Kenneth Stuart, Timothy Harrison, Christopher Woodruff and Lisa Troast. Susan Rothermich was absent.

The first order of business was to accept the minutes from the 1/21/2014 meeting. Christopher made the motion to accept the minutes, Tim seconded the motion. The minutes passed 2 in favor; Ken abstained as he was not present at the prior meeting.

The second order of business was to accept the minutes from the 8/5/14 meeting. Ken made the motion to accept the minutes, Lisa seconded the motion. The minutes passed 3 in favor; Christopher abstained as he was not present at the prior meeting.

Dory Huard from Bartholomew & Company gave an update on the funds for fiscal year 2015 through December 31, 2014. Dory noted that we experienced a return of 6% annualized since inception. So far, in FY15, we took a loss of .75% due to the volatile market, specifically noting a drop in bonds. She recommended that we strongly consider increasing our investment portfolio from Moderate to Moderate-Aggressive. This would enable us to ride the peaks and valleys of the market better, resulting in a larger return over time.

Next on the agenda, Tim invited Ed Echeverria from Danziger and Markoff, LLP to review our OPEB Valuation Report under GASB #45 for the FY14 time period. Ed went through the report pointing out that our overall OPEB obligation will continue to increase every year unless we prefund 100%. Our running obligation as of June 30, 2014 is \$5,795,418. Our annual OPEB cost for FY14 was \$1,368,694 which was down from our FY13 annual cost of \$1,717,851. Jim asked Ed why our annual OPEB cost dropped significantly. Ed explained that the lower liability was reflective of our new plan design, where we moved to the Medex II plan for retirees and experienced a drop in medical rates. Ed also stressed that any amount of pre-funding is helpful in lowering our liability. In response, Jim Smith asked Ed if he felt our prefunding deposits of \$130,000, on average, was a waste of time and perhaps better used elsewhere considering the growing OPEB liability each year. Ed, again, stressed that any level of prefunding is better than none. However, he recommended that we try to increase our pre-funding amount by the increased percentage of OPEB liability each year. Tim, then, pointed out that he had heard from other towns that rating agencies such as, Moody's and S&P, will rate you negatively if you are not pre-funding OPEB. Lisa asked Ed if he could give an example of what his other clients are doing to fund their OPEB. Ed said there are ultimately two ways to reduce the OPEB underfund: 1) Pre-fund with additional tax revenue of some sort or 2) change your plan design by lowering medical benefits. He noted that it is hard to cut plan designs with all the unions and contracts in the Towns.

Dory requested to speak on the topic of how other towns handle OPEB funding. She stated that she now works with 90 communities that are struggling with OPEB funding. One community passed the 2-1/2 override to fund their OPEB, but noted this would probably only work in *that* community. A few smaller communities are fully funded. Jim pointed out that it would take 1.3 million dollars to fund our ARC. Dory, then, noted that other communities use meals tax, or solar pilot funds, portions of free cash or even pension expenses once their retirement liability is paid off. Jim stated that our pension liability is now projected to be fully paid by 2035. That expense could then be used to fund our OPEB liability. Dory noted that would act as a type of OPEB funding plan. She clarified on Tim's earlier point that Moody's and S&P want to see a *plan* for funding, not necessarily prefunding for OPEB.

Next on the Agenda, was the discussion of our investment policy. Dory submitted copies of both a Moderate-Aggressive and Aggressive investment plan. She recommended that we adopt a Moderate Aggressive investment portfolio which would result in a 7% anticipated rate of return. Ken agreed that we should be more aggressive with our portfolio since it is a long term investment. He proposed that we gradually increase our portfolio to Moderate-Aggressive and eventually get to Aggressive over time. Chris Woodruff asked Dory how much more volatility on the downside swing will we experience if we move to a Moderate Aggressive model. She stressed that a Moderate-Aggressive model also has more upside potential than what we can currently experience. She noted that in general, Bartholomew is conservative and tries to keep their customers in between the highs and lows of the market swings, so even their Aggressive model is only 55% equity based. We'd be looking at a 50% equity base with a Moderate-Aggressive plan. Chris agreed that due to strict regulations OPEB investments can only be 'aggressive' in name. Chris agreed with Ken stating that the Town should be more aggressive with their OPEB investment.

Tim asked if anyone had anything further to add or discuss regarding making the change to a more aggressive plan. Jim and Lisa both declined further input. Ken made a motion to change the OPEB portfolio from Moderate to Moderate-Aggressive. Chris seconded the motion. The motion passed unanimously.

Discussion ensued that we needed to adopt the new investment policy that went along with the Moderate-Aggressive portfolio. Ken made the motion to adopt the new investment policy. Lisa seconded the motion. The motion passed unanimously.

Tim requested that we postpone the next agenda item to discuss long term funding goals. He requested that we gather more information on how other towns have set up their funding plan. Dory suggested posing the question on the Collector's listserv and also suggested contacting Salem or Foxborough who have recently adopted a funding plan. Tim stated that we will postpone this item until the next meeting.

Final Agenda item was new business/old business. Tim stated his only other item of business was to set a time for the next meeting. Jim asked Ed when Danziger and Markoff would be doing their next OPEB Actuarial Valuation for us. Ed stated he would do an interim valuation in September. Tim stated our next meeting would be at the end of July or early August.

Ken made a motion to adjourn. Lisa seconded the motion.

The meeting was adjourned at 5:22 PM.

Respectively submitted

Lisa M. Troast

Secretary, OPEB Trustees