



Town of Wayland Massachusetts

OPEB Advisory Committee

Kent George
David Gutschenritter
Cliff Lewis(Chair)
Maryanne Peabody
Jay Sherry

Minutes of August 7, 2013 Committee Meeting

In Attendance were: Kent George, David Gutschenritter, Cliff Lewis, Maryanne Peabody, Jay Sherry
Absent: None

This meeting was recorded and is currently available on WayCAM at:
<http://waycamtv.pegcentral.com/player.php?video=bcf7cbc314e4303493ca4c0820e20e94>

The meeting was called to order at 7:03pm at the Town Building in the Selectmen's Meeting Room. The following Agenda topics were addressed:

1. Review and Approve Minutes of 7/17/2013 meeting

The Committee unanimously approved the Minutes.

2. Public Comment

Don Bustin had sent an email to the Committee Chair, Cliff Lewis, which was also forwarded to the rest of the Committee questioning how a future expense such as OPEB can truly become a liability when other future expenses such as wages and salaries are not treated as liabilities. Don also wanted to know why we are pre-funding this liability.

Don asked that his memo be answered and Cliff took that responsibility. He explained that OPEB is a contractual obligation set up by the collective bargaining process for employees and that GASB forces all cities and towns to treat this contractual obligation as a footnoted liability. As for why are we pre-funding, Cliff noted that Don is way ahead of the Committee with that thought and that is one of the issues with which we intend to deal in the near future.

David added that starting in 1968 the Town of Wayland voted to add this benefit to employees and obligated the Town to pay for retiree's health insurance and other retirement obligations. So the liability has accumulated for 45 years without the Town taking any serious actions to pay down the accrued liability until recently.

Jay added that OPEB and other long term employee liabilities were starting to be recognized by the accountants as really large liabilities in cities like Detroit and Chicago and realized that they were not being accounted for so they created these rules to bring visibility to these obligations. The rating agencies are now taking into account the huge liabilities that must be borne by the taxpayers.

Carol Martin wanted to clarify a discussion we had at the last meeting about how people qualify for Medicare. She brought documentation that shows that generally an employee can qualify by working 40 quarters before reaching retirement age.

3. Cliff asked David to report on his review of the three questions we raised at the last meeting regarding the manner in which the OPEB funds have been invested.

The questions were:

How are the investment managers chosen?

David reported that the Town Treasurer, Paul Keating, chose them. He chose them based on work they had done for the Town in other capacities. David remarked that perhaps a more rigorous process could have been used.

Who oversees them? Who should oversee them?

David reported that the statute (the special act approved by the State Legislature allowing Wayland to adopt an OPEB trust) provides that the Town Treasurer provide the oversight but that the question of who should be that party is a question that we as a Committee can look into and should we find that we think more oversight is needed, we can then provide a recommendation the Board of Selectmen to that point.

Jay asked if the statute required that the Town Treasurer be the only overseer. David replied that the statute is silent as to whether additional oversight of the Treasurer may be provided by a manager or a committee.

What have the actual OPEB expenses been vs. the approved appropriation by fiscal year, for FY2008 to FY2012? Are these actual expenditures vs. accrued expenses?

David reported that he got a note from the Town Finance Director, Brian Kevany that essentially stated that what we see is what we got, and that is contained in a four page or so report on the website written by the Town Administrator, Fred Turkington, that listed numbers for four years or so on the expenses. David said that as best as he can understand at this time that Mr. Turkington's is the only trail of the documentation for details of the expenses and appropriations to OPEB out of account 32b. We may be stymied at this point in trying to get more information.

Kent spoke up to say that as he understood the investment trail the original OPEB set asides were put in Town account 83, which accounts for all the other "trust" funds that the Treasurer manages and invested in the MMDT (which is the Massachusetts Municipal Depository Trust, managed by the State Treasurer) which is a safe investment site used by the Town. Once the State passed the statute the OPEB monies were transferred out of account 83 to account 84 which was set up as the OPEB investment account. It seems that the Treasurer then moved the OPEB investments to the managers he had chosen.

4. Cliff then asked Maryanne to report on her investigation of what the state has done on its work on the OPEB liabilities.

Maryanne reported that she more closely read the Final Report issued by the **Special Commission to Study Retiree Health and Other Non-Pension Benefits and the Legislation H-59** to better understand its implications for the Town. She then spoke with the Mass Municipal Association Legislative Liaison

While there are some good recommendations in the report with regard to controlling future costs, there are some things that are not so positive for the Town. The study seems Commonwealth-centric but also binds towns to the recommendations.

The Special Commission recommended changes to eligibility for retirement:

Current retirees and those within 5 years of retirement (with 20 years of service) would be exempted from these changes. Future disability retirees would also be exempt from these changes.

1. They started by adding **5 years of service** to each of the Groups – Group 1 moves to age 60; Group 2 moves to age 55 and Group 4 moves to age 50. I am reading Chap 32 – (not in our Committee’s mandate) in order to understand where this legislation might bind the Town to these same numbers since we seem to follow the current commonwealth retirement standards.
2. Then they proposed increasing the **minimum years of service** required to be eligible for the benefit from **10 years to 20 years**
3. There would be a “continuing service requirement” and that employees would have to go directly from government service to retirement (or, “within a reasonable time”).
4. Part time employees get time credited for retirement on a pro-rata basis (the state is looking at having an individual work 40 years part time to equal 20 years of service. The Committee has recommended that municipalities adopt a policy of prorating health benefits for part time workers. According to John Senchyshyn, since 2009, Wayland provides health benefits to retirees who have worked 20 hours or more as part time employees a benefit with a 50/50 contribution rate split. Prior to that time, the Town did not distinguish and provided the same health premium benefit as to a retiree who has worked full time. Maryanne does not know how many people there are in that category.
5. State laws would be changed so that surviving spouses get 50% premium contribution.
6. The health premium contribution rate would be prorated with years of service (50% after 20 years then the sliding scales moves up until the contribution rate is 80% after 30 years of service.) This language is Commonwealth-centric. **Currently, towns that have accepted Chap 32B have to cover at least 50% of premiums.** In Wayland, for non-Medicare retirees the Town pays 64 - 74% of the premium depending on the plan and not based on the employee’s length of service. Medicare eligible retirees have plans where the Town pays 50% - 74% of the Medicare Supplemental Plan Premium depending on the plan.

Right now, towns have the flexibility to change future contribution rates so long as they are at least 50% or develop a pro-rated system of their own

7. There is a provision that was added to the proposed bill that **all contribution rates be frozen** at levels of 1/01/13 for 3 years **unless towns changed the contribution rate prior to January 1, 2013.** After that time, towns can change the contribution rate but must grandfather contribution rates at the time of implementation.

Cities and towns that did **not** accept Chapter 32B would be required to contribute at least 50% of health care premiums to retirees. There are 18 towns in the Commonwealth that have not adopted Chapter 32B.

Dan Morgado, the MMA representative on the Committee (Shrewsbury Town Manager) voted against the report and recommendations due to the provisions that took away the municipalities’ current autonomy on these issues.

Maryanne then spoke with Katie McCue, MMA Legislative Analyst. They discussed the provisions above. Maryanne asked Katie how, if the legislation hasn't passed yet, could there be a provision stating towns would have had to change their contribution rates prior to January 1, 2013. She said several towns are seeking advice from their Town Counsel whether to go ahead and change the contribution rates prior to the passage of the legislation.

She also said that hearings before the Joint Committee on Public Services will begin in the fall, possibly November. She does not think that the legislation can pass in its current form as it is controversial. It is also thought that since next year is an election year for both Governor and the Legislature that nothing will happen with the bill in an election year. Maryanne thinks that the Selectmen should be involved in voicing the Town's opinion. Fred Turkington is on the Board of the MMA and could provide assistance in this.

Maryanne then noted the Kent had asked her if the rates under the GIC (the State run insurance program for municipal employees) were favorable to the rates that Wayland gets under the WSHG. She commented that her view is that the GIC wouldn't give the Town better rates and we would lose a lot of flexibility by joining that group. She also noted that she also asked John S. about the other plan (the MIAA plan) the Town looked at during the time we were choosing again to stay with WSHG and that plan was more expensive as well.

Maryanne noted that Cliff has asked her why he pays about half as much for his Medicare drug supplement than what the Town has negotiated with WSHG and he is right, despite the fact that these rates are supposedly negotiated for the best price. Maryanne has asked John to help her look into the Town's plan to see if it is more comprehensive than an individual plan that could be purchased. She will follow up on that.

Maryanne also said that when we discussed doing a "what if" scenario to study what savings could be made by the Town going to the minimum 50% participation rate Cliff had noted that we had the 2011 data only at that time and we should try to get more current rating information.

Kent responded that he and Jay had talked with John S. and he is going to provide us with a similar report to the 2011 summary that would include the most current rating data. John told him he would try to deliver that report within another week or two.

Maryanne then noted that with any thoughts to move ahead with any participation ratio changes that we should get some legal help as to what can and cannot be done and how. We also should talk with the Personnel Board and probably the Finance Committee as well. She also noted that we should understand what the "Teachers Retirement Plus" is and how it may bind us in the future for OPEB costs. This came about when there was a proactive plan put in place with the approval of the state to fund an early retirement plan for teachers. There may be some legal ramifications that bind the Town to changing the OPEB rate sharing under that program that we should understand.

Maryanne also noted that with any proposed plan to change participation rates that we should also review what other towns are doing in the same area because we are all drawing from the same pool of applicants for jobs and we need to be sure we do not cause problems in that area.

Jay asked if there is any work being done to further improve the healthcare plan costs such as a "rate saver 2.0" plan. Maryanne noted that this is always going on when different offerings from the providers come up at renewal time.

Cliff asked what a “rate saver” plan is. Maryanne responded that they are plans that cost less but as a result there are other changes in the plan such as an increase in the deductible amount or the copay amount for an office visit and such.

Jay spoke up in concern to any “grandfather” clauses that the State may impose on us as a result of the Commission proposals. Cliff noted that this is still a proposal and that what we heard is that it will not likely be voted on by the Legislature even in this coming year so we should not focus on those recommendations now. Maryanne noted that we should be sure that someone is monitoring the progress of the proposal so Town officials can react appropriately at the time it seems to be progressing. Jay noted that the biggest cost of OPEB is for employees that have not reached Medicare eligibility age. He noted that most of our employees are in group one and that a change in the retirement age to 60 would help to cut down on the number of years of OPEB costs to that group. Cliff further noted that we should make recommendations to the Board of Selectmen based on the current legislation not the proposed future legislation. Jay said that we should also provide some kind of a handicap of what the future legislation might be in those recommendations.

Jay asked Maryanne if he was right in understanding that the Board of Selectmen have the authority to make changes to the participation rates down to the minimum of 50%. Maryanne confirmed that to be the law. Jay further wants an answer to the question of how the teachers’ retirement plans may differ for OPEB, if at all because it may be the case that the Board of Selectmen may need some approval from the School Committee to make those changes. Maryanne agreed that we need to learn that and we have to get more information on that.

Maryanne then noted that Cliff had asked her to review a request by the Town of Swampscott to the State Legislature that was sent to the committee. The Swampscott Town Meeting voted to have the town present a home rule petition to the State Legislature for approval to exempt new employees of the town subject to the approval date of the petition to be exempt from rule 32B. David, reading the petition thinks that it was done mainly for the purpose of changing pension rules, not OPEB. Cliff indicated that we should pay attention to this as we may be recommending something akin to this ourselves.

5. Cliff turned to Jay to help the Committee unravel and understand the Segal report of January 2012.

Jay provided the Committee with a document listing questions and answers (or proposed answers to the questions as understood now) that he generated while reading and trying to understand the Segal report. He suggested that we take a small bite of the report, particularly pages one through five and possibly page eight to start to learn and unravel the entire report.

David thinks that this “Q&A” document should possibly be put on the website for interested citizens to try to follow along with the understandings that we come up with. Kent, noting that it is a very good document; it is a beginning document and may cause more confusion than understanding. Jay noted that his questions and answers to the 27 page Segal report is currently at 17 pages and that is too much. He believes that we should be able to get down to a simple Q&A by the time we are done as a Committee that would be appropriate to publish.

Jay then proceeded to describe the reason for the Segal report:

- GASB (the Government Accounting Standards Board) issued two promulgations concerning OPEB
 - GASB 43 for standalone plans, and
 - GASB 45 for municipalities (why there are two is for reasons we don’t know)

- GASB 45, under which Wayland is required to act, requires an independent actuarial valuation to be done every two years to determine the amount of money the Town owes under the retiree health plan over the next 30 years and how much money would be needed annually to fund the liability in order to reduce our OPEB obligation to zero at that point in time;
- What is not required is that the Annual Required Contribution in a GASB 45 valuation actually be paid, just footnoted in the financial statements of the Town so that the obligation is made clear to citizens and the rating agencies.
- Jay noted that Wayland had initially chosen to use 30 years to 2038 as the basis for the first actuarial study and this end date has been retained in later studies, resulting in the current repayment schedule at 26 years in the 2012 report.
- Jay noted, and David agreed that there seems to be no reason that the 30 year time frame cannot be reset.
- Maryanne questioned why there is no requirement to pay the amount. Kent noted that the plan for GASB is to demand that it be put on balance sheet in future years. They are planning to require the pension liability be put on the balance sheet in one or two years.
- Maryanne asked why it is called a required amount if it is not required. Jay noted that it is defined in the report as the ARC, meaning “Annual Required Contribution” and not called a “required payment”. David noted that the State requires that towns fund their pension liability, but not the OPEB at this time.

Jay then proceeded to further discuss the Segal analytical process beyond the discussion of the last meeting:

- First, Segal gets a detailed Excel file from Wayland (by Donna Lemoyne in the offices of the Finance Director) compiled by taking the data from each monthly bill received from WSHG to approve its payment. This analysis breaks the bill down by subscriber to create a complete census of all Town active employees and retirees with all the information about the person (date of birth, hire date, sex, age of children and spouse if there is one) and his/her health plan choices including whether they are active or retired employees, either on Medicare or not.
- Jay went through the subscriber census as of December 31, 2012 in the Segal report (pages 26 and 27) which reported a total of 436 active and 90 retirees under the Non-Medicare plans and 204 retirees on Medicare plans. The Non-Medicare retirees are those that are not eligible for Medicare because Medicare was not made mandatory until 1986, along with those retirees that have not reached the age of 65. There are 23 retirees over the age of 65 are not eligible for the Medicare plans.
- Also shown on pages 26 and 27 are the plan costs for each plan broken down into retiree costs and Town costs.
- Cliff asked if there was a plan for married couples with no children, in addition to individual and family plans. Kent noted that he had talked with John S. about this very issue and was told that a plan of that nature has been looked at in years past by WSHG and found them to be too expensive.
- Jay then described how Segal adjusts insurance premiums to reflect differing costs by Age and Gender. Jay noted that the premium charged by WSHG for a particular non-Medicare plan is no different for a male or female, active or retired person, whether the person is age 25 or 60. Under GASB 45 rules, Segal takes the WSHG premium, as weighted by the census data, and adjusts for Age and Gender as shown on page 21. This has the effect of increasing the total OPEB projections about 25% to “uplift” costs for older retirees. Adjusting for this “implicit subsidy” of older, more expensive retirees by younger healthier active employees is briefly described by Segal on page 3 of the report.

- Jay thinks that this may be a soft spot in the Segal analysis because it does not compare well at all with the actual costs from our monthly WSHG payment experience. Jay indicated that we may want to have Segal come before this Committee to try to explain better how these projections differ from the actual costs the Town is paying which are substantially less than projected.
- Cliff asked how they do this and Jay told him that this is a Segal based private formula they have developed and use.
- Cliff asked if Segal was the only provider of these reports and Jay replied that there are few choices but that Segal is highly considered and has done a lot of work for the state as well as many other cities and towns. Further he noted that there are only two other firms doing this work but Segal seems to lead the way.

Jay then led a long discussion with the whole Committee to understand our actual retiree cost experience. Kent and David spent time discussing how our budget is prepared by John S. and what the numbers mean related to the Segal projections of prior years. Kent explained that the Donna Lemoyne spreadsheet is the closest we have to actuals because it is the breakdown of every month's bill from WSHG by employee, with retirees broken out separately. It is a "point-in-time" balance sheet representation of those actual costs. The large differences between the Segal "accrual" proposed for each year is significantly higher the further out those costs were projected to the actual later "point-in-time" costs. For an example, the January 2010 Segal report projected that the OPEB retiree costs in 2012 would be \$2,293,000 and when the "point-in-time" actual was developed in March of 2012 the total retiree expenses was approximately \$1,531,000, obviously a significant difference. Later Segal projections came in for the same year of 2012 at slightly over \$1,941,000, still a significant difference.

This led to a further long discussion about why Segal cannot or does not use our historical actual expenses in doing the projections. Jay was clear that GASB makes the rules that Segal has to use, but maybe we could get them to do more of a cash flow projection for planning our funding of the OPEB liability.

Jay then returned to explaining to the Committee his understanding of the analysis of the other major assumptions that Segal uses in their projection of future OPEB costs, which are;

- Health care inflation in general, which they call Medical/Drug on page 21 has nothing to do with Wayland or WSHG, but is based on regional/national healthcare inflation trends from Segal's own database of information, and;
- Medicare Part B Premium inflation (the monthly payment each Medicare enrollee pays)
- Payroll inflation in general with which they use a 3.5% annual inflation. (payroll inflation is used to project the future amortization schedule, not the OPEB costs.)

Segal, in the 2012 actuarial report (page 21) used healthcare inflation expectations of 8% for 2013 and decreased that by 0.5% each year for the next five years and then used the resulting 5% guideline going forward. In fact general healthcare costs for Wayland through WSHG rose 0% and 4% the last two years according to information provided by the Town.

Segal also used a 6.0% inflator on the Medicare Part B premiums.

So, Jay noted, Segal takes this OPEB forecast for every active and retired employee out to the age of 120 (multiplied by the probability the retiree is still alive, from a standard mortality table) and then rolls this all up and then discounts it at 7% to come up with the currently actuarially projected number for the total costs for OPEB over the next 26 years and then come back to the number we need to fund the plan each year going forward to eventually bring the total liability to zero.

A key assumption here is that the assets in our trust fund will grow over time at an average of 7% compounded. David indicated that this assumption then gets applied to the needed cost to meet yearly payments.

Cliff had some questions about how this all works done into the various columns on page 8 of the Segal report and Jay explained how that worked. Working across the columns on page 8, the first column is the projected cost of the current year of retiree healthcare premiums.....despite the fact that this number shows the 2013 projected costs of \$1,978,000 and we know are actual cost is approximately \$1,531,000.

The next column, two, is the projected one year cost of all the 436 active employees to cover their future OPEB liability using all the projection inflation factors noted before. This column could be considered the annual accrual to pay for all the one year investment by active employees in work and the subsequent one year present value of the cost the Town is obligated to eventually pay for their future OPEB liability.

Column three (amortization of UAAL) is a plugged figure, assuming that the OPEB liability in column 7, at approximately \$38 million, is going to grow to \$103 million in 26 years. The starting figure \$1,600,046 is assumed to grow by 3.5% a year consistent with general payroll growth and will completely amortize the unfunded liability by 2038.

Column four then is the sum of columns two and three which if we pay column one annually and invest column four and we get the expected 7% return from our investment managers we could assure that by the end of the 26 years we would have a zero unfunded liability for OPEB.

Column five is the investment addition to the OPEB fund needed each year.

There commenced a long discussion about the assumed interest rates, both for investment returns, present value of the liabilities and future value.

Cliff then asked the Committee members if we all have the same understanding of the actuarial report and the issues we think are inherent in that report. All said yes, some conditionally because we have not finished examining the details.

Cliff asked David if the 7% annual return on our investment is reasonable and he indicated that one could make an argument that a long term obligation could take more risks, but that is the nature of the market. This discussion continued without any conclusions yet as to the mix of investments that would be appropriate going forward.

Kent raised a point of interest as to the fact that Wayland has had unfunded OPEB liability essentially for 45 years since the 1968 ballot vote approved providing health insurance to Town employees as part of their retirement benefits. The Town ignored this rising liability for at least the next 40 years until it was required by GASB to account for it. Now, the current taxpayers are being asked to pick up the tab for all the past taxpayers who were not asked to pay for it. The question now is how much current taxpayers must be made to make up for those who are no longer here.

David added that if we were now in 1969 and looking at this obligation the amount in column 8, the long term liability would be something less than \$1 million and the amount in column two would be something like \$35,000 which looks like chump change today but was ignored.

Cliff asked if we have action items for the next meeting and the following were agreed:

- Jay will start to analyze the Segal “batting average” of their projections of actual costs, column one on page 8;
- Kent will provide the actual year on year growth back to FY08 which John S. has committed to provide in the next two weeks;
- Jay will continue with the “teaching” to the Committee of the Segal report.

The next meeting was agreed to be held on August 13, 2013.

Respectfully submitted

Kent E. George