



Town of Wayland Massachusetts

OPEB Advisory Committee

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

MINUTES OF THE AD HOC OPEB ADVISORY COMMITTEE MEETING

Held on Tuesday, August 13, 2013 at 7 pm

Location: Selectmen's Meeting Room, Wayland Town Building

Members present were: Clifford Lewis, Chair, Kent George, David Gutschenritter, Maryanne Peabody and Jay Sherry.

Present from the Public: Don Bustin, Gordon Cliff

Chair Cliff Lewis called the meeting to order at 7 pm.

This meeting can be viewed on:

<http://waycamtv.pegcentral.com/player.php?video=444140a7ac41e96afc7b254798f2e289>

Jay Sherry led the discussion on Review of the Segal Report, Part II. There was discussion on why the projected cost of OPEB benefits for 2013 and 2014 appeared to be overestimated. There were questions and discussion on the actuarial assumptions used (i.e., the aging curve, health care trends). Jay provided his working document, Questions and Answers about the Segal Company Valuation Report (attached).

Kent George offered to report on the work he had done at this juncture. He reported on his review of Wayland's actual data and health care costs. Kent met with both Donna LeMoyné, Wayland's Benefits Coordinator and John Senchyshyn, the Town's Personnel Director. They provided actual data that is kept current for each retiree on each plan. The cost of the Town's retiree health care premium is \$1,493,289 which represents 60.2% of the total cost for premiums. Kent said the data tracks the costs for retirees from 2010-2014. It can track hire date, gender of retirees and how long each individual is or has been on OPEB. The costs of OPEB have increased by 2% annually over the past 4 years for a total of

10% over the past four (4) years which is less than the projections used in the Segal Report that recommends projected funding. Kent reported that John Senchyshyn will compile the cost data for the budgets from 2008 - 2011. Kent cautioned that the head count just represents a particular point in time for each year.

Jay Sherry then pointed out that by using Kent's actual data, the Town might ask for a re-work of the actuarial analysis based on the Town's actual numbers. Dave Gutschenritter asked, "Better predictions mean what?" There was further discussion regarding use of overstated numbers that do not reflect Wayland's actual experience and how that impacts the projected payment, the additional suggested assumed contribution projected in 2014 of \$ 744,202. There was discussion about the assumptions behind the Segal projections. Is the data pool that Segal was using global US data and is that reflective of Wayland's own data and/or the West Suburban experience data pool in which we are pooled in determining premium costs? Jay said the challenge is to determine if Segal is using the best estimates to guide the Town. There were questions regarding how much of the outcome in the Segal work product was due to GASB 43 and 45 regulations and how much was due to the assumptions Segal used in its actuarial analysis.

The Committee returned to page 8 of the Segal Report and Jay Sherry continued walking the Committee through a tutorial to better understand the meaning and significance of each column of data resulting in the calculations of unfunded liabilities by 2039.

Dave Gutschenritter turned the discussion to his corporate experience where companies try to drive employees to cost effective plans. The Town of Wayland took significant steps over a short period of time to decrease health insurance costs. Jay Sherry asked when that occurred. Maryanne Peabody responded that it was during the last labor contract negotiations within the last three years that Rate Saver Plans were introduced and adopted. Cliff Lewis asked what rate saver plans meant. Maryanne responded that there were usually increases in deductibles or co-pays and that most employees preferred paying those small increases because their health care premiums went down and they increased their take home pay.

Jay Sherry asked the Committee to review the Executive Summary of the Segal Report (pages 1-5) and to review the funding schedules chart on page 8 prior to the next Committee meeting.

Jay suggested that since the data is difficult for the Committee to understand, the challenge for the Committee is to be able to describe the issues to the public. Success for the Committee would be to be able to make a recommendation to the public regarding funding that the public will be able to understand and act upon.

Dave Gutschenritter said that he thinks it is the purview of the Personnel Board and the Town Administration to drive future cost savings rather than this Committee.

Jay Sherry suggested that the Town should pursue billing (if we are not already doing so) other towns for their percentage of OPEB costs for retirees who have spent part of their employment in other towns or government agencies. Jay pointed out that the \$38,000,000 (column 7) represent "sins of the past" when OPEB was paid out on a "pay-as-you-go basis" out of current budget and no money was set aside

for future OPEB costs. It represents the liability that should have been accrued from 1968 – 2013. Dave Gutschenritter and Maryanne Peabody pointed out that in the past these OPEB costs were considered small amounts and were paid as they were incurred. Longevity was not what it is now and people usually died soon after retiring. Dave Gutschenritter wondered whether if there are a lot more improvements that can be made in columns 1 and 2, i.e., Projected Benefit Payments (1) and Normal Costs (2).

In light of a request made at the last meeting, Maryanne Peabody shared the list of comparable towns that Wayland Personnel Board uses for compensation data or when comparables are sought for anything in the Personnel area. (attached) Maryanne also shared the one page report from the Massachusetts Municipal Association on the Retiree Health Benefits Survey results. John Senchyshyn had added Wayland's data to compare it with the state wide data. (attached)

Next tasks for Committee members:

Cliff Lewis and Maryanne Peabody will further look at what the Town pays through West Suburban for Medicare Supplemental plans vs. what the average individual citizen pays. Maryanne will compare several similar plans first. Dependent on findings, Cliff and Maryanne will meet with John Senchyshyn who has said he would follow up with West Suburban if there are issues. Maryanne asked Cliff Lewis and Kent George what their Prescription benefit cost monthly as a benchmark figure.

Jay Sherry – will develop a proposed list of questions for the Segal Company in order for the Committee to determine if there are projected costs more realistic to Wayland's experience.

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Cliff Lewis opened the floor for public comment. Don Bustin was questioning some of the data on page 8 of the Segal Report. The Committee members did their best to respond to Don's questions.

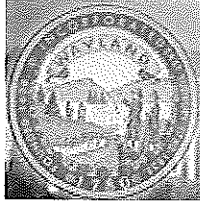
Dave Gutschenritter returned to the challenge of explaining the OPEB issues to the public and suggested the approach of a "one act play" – a vignette citing examples of people who comprise the retired and active employee population and how different scenarios could occur culminating with the costs incurred for each example.

There being no further business, a motion was made to adjourn the meeting at 9:25 pm.

Respectfully submitted,

Maryanne Peabody

Member, OPEB Advisory Committee



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Questions and Answers About the Segal Company Valuation Report

Introduction

These questions are based on the Segal Company's Report of the Actuarial Valuation and Review of OPEB of the Town of Wayland, as of December 31, 2012. The Segal Company Report to Wayland is dated March 15, 2013, and can be found here:

http://www.wayland.ma.us/Pages/WaylandMA_Selectmen/OPEBDec2012.pdf

The questions were compiled by Jay Sherry, member of the Town of Wayland's OPEB Advisory Committee to provide information to the other members of the Committee. The objective is to thoroughly understand the Segal Report to assist the Committee in developing policy and funding recommendations to the Board of Selectmen and other town officials, consistent with the Committee's charge.

Answers (*shown in boldface italics below the questions*) were gathered from several phone calls in July 2013 between Jay Sherry and Daniel J. Rhodes, the Consulting Actuary of Segal Company who was the principal author of the March 15 report. Answers have been prepared from Jay Sherry's notes from those conversations, and have been reviewed for accuracy by Danny Rhodes.

John Senchyshyn, Assistant Town Administrator and HR Director of the Town of Wayland participated in several of the calls and provided very helpful context and history, particularly about Wayland's benefits and its membership in the West Suburban Health Group. John also reviewed the answers.

Kent George of the OPEB Advisory Committee also participated in one of these phone calls.

Page number references in the questions are to the Segal Report

General Questions about the Segal Company Valuation Report

- A. The March 15 2013 cover letter from Segal refers to GASB Statements 43 and 45. Do these statements merely force us to show the OPEB liability on the town's balance sheet? Or are there income statement impacts as well? Do the GASB 43 & 45 Statements force us to use assumptions in the Segal analysis that are wrong or inaccurate for Wayland from a true economic or cash flow point of view? How would these assumptions compare if the analysis were done for a corporation or other private entity bound by FASB guidelines?

These two GASB Statements require Wayland to show the liability in its annual financial statements, but not on the actual balance sheet. Instead it is shown in the "Notes" section at the back of the financial statements, with some Required Supplementary Information. For example, see Wayland's Annual Financial Statements for the Year Ended June 30, 2012, Note 16, pages 43 – 46, and the Required Supplementary Information on pages 49 & 50. (Note that the 6/30/2012 Financial Statements used data from the prior Segal Company Valuation 2010, as the 2012 valuation was completed several months later).

The GASB Statements will also have an impact on Wayland's income statement if Wayland's funding falls below the ARC (Annual Required Contribution).

Note that GASB does not currently require any funding of a municipality's OPEB liability, despite the term "Annual Required Contribution". What is required is an actuarial sizing of the OPEB liability every two years, and the preparation of a 30 year pro forma funding schedule.

Further context provided by Danny Rhodes: GASB is just now completing the process to get unfunded pension liabilities to be reflected directly on the balance sheets of states and municipalities. Once that process is complete, GASB can be expected to then focus on the unfunded OPEB. Danny Rhodes expectation is that in the "medium term" of five years or so this will become a mandate.

The Segal projections for OPEB expenses are reasonably close to the anticipated cash flow expenses for healthcare in the near term, except for the "uplift" made by Segal using the "aging curve" described on Segal page 21 that estimates the actual healthcare expenses for retirees, vs. the blended cost of healthcare. The other assumption that may be suspect is the near-term assumption of 7 – 8% inflation in Wayland's healthcare cost, shown on page 21.

There are very similar FASB reporting requirements that govern corporations' OPEB expense for those companies that pay for retiree healthcare. Like GASB, the FASB statements on OPEB don't actually mandate the pre-funding for OPEB. The big difference is in the discount rate assumption. A corporation would use a discount rate comparable to the rate on the long-term corporate bonds that it issues.

- B. What does it mean for the Town's OPEB liability to be fully 100% funded with \$103M in assets on 12/31/2038? By definition, this means we'll have investment accounts with balances that match our projected OPEB liability on the balance sheet on that date. But does it practically mean that

we'll then be able to pay OPEB out of our Trust Fund for the succeeding 30 years for the all the retirees AND EMPLOYEES at that time, if the actuarial assumptions hold and we achieve the assumed 7% investment return?

It merely means that Wayland's unfunded OPEB liability will then be zero, and if it achieves the investment return objectives, Wayland will then have a big \$103M OPEB trust fund throwing off ~\$7M+ per year that can be used to pay for 2039 retiree healthcare benefits. But Wayland will still be making "Normal Cost" accruals each year even after 2039, to estimate and account for the projected retirement healthcare costs of the active employees who will be working for Wayland in 2039.

- C. Does the Town self-insure, or can we use the "Town Cost" on the health plans as the actual cost the Town incurs?

Wayland effectively self-insures, so the Town of Wayland can't use the "Town Cost" on the health plans shown on Segal page 26 to project the cost it will incur. Instead, Segal builds a Per Capita Health Cost table shown on page 21 as the basis for its forecast of future healthcare cost.

Wayland is part of the West Suburban Health Group which is a collection of ~17 Metrowest towns and education institutions which have banded together to increase their bargaining power with health insurance companies. The Group self-insures on behalf of the ~9000 healthcare subscribers covered by the towns in the Group. The Group negotiates with the insurance companies (Harvard Pilgrim, Blue Cross, Tufts, Fallon, etc) for the lowest possible cost for administering the healthcare benefit plans. Wayland has about 526 people participating currently in non-Medicare plans, counting both its employees and retirees. Dependent family members of participants (spouses & children under 26) are also covered. If the overall actual healthcare expense of the Group in a particular year is lower or higher than expected, Wayland will get its pro rata share of the benefit or the additional expense, generally on the succeeding year's premiums, based on its headcount share of the total West Suburban headcount.

Once a Medicare eligible retiree from Wayland now reaches the Medicare-eligible age of 65, they no longer choose from one of the Group's seven health plans. Retirees are then on Medicare for their primary health insurance and can choose from one of several Medicare Supplement / Medicare Advantage plans that West Suburban offers. See the Medicare subscriber table on page 27.

The only exceptions to this Medicare-mandatory policy are for former Wayland employees who were hired prior to 1986 and who never contributed to Medicare. These 23 retirees are among the 526, shown on page 26. They continue to choose one of the non-Medicare plans.

- D. Investment returns change quite a bit from valuation to valuation, with enormous impact on the unfunded OPEB liability. For example the 12/31/2007 OPEB valuation by Segal assumed a return of 8.5%, 12/31/2008 was 7.5%, and 12/31/2010 was 7.0%. Given the 30 year planning horizon, why these big moves in such a short span of time?

Per Danny Rhodes: To get started in 2007, Segal's assumption was to simply use the Middlesex County pension discount rate of 8.5%. In 2008, the lower 7.5% discount rate was an assumption provided by Mike DiPietro, Wayland's Finance Director at the time. The 2010 rate of 7.0% was used based on the expected return on the asset allocation in Wayland's investment portfolio, and was carried over to 2012, despite the fact that 7% annual investment return has never been achieved by the OPEB account.

If Wayland had not established the OPEB Trust Fund and started to contribute to it, under GASB rules Segal Company would have insisted on a discount rate assumption of 4.0 – 4.5%, resulting in a much larger valuation of the OPEB liability.

Specific Questions about the Segal Company Valuation Report

Segal Page 1, Executive Summary

- A. When did Wayland start to accrue OPEB expenses and stop with “pay as you go”? Do we do both?
Since the GASB rules went into effect 2009, Wayland began to accrue for OPEB in FY2008 and also started to make contributions to an account earmarked for OPEB purposes. Wayland now accrues OPEB expense for active employees and is still doing “pay as you go” for retirees.
- B. The report notes that \$1.978M in OPEB payments are estimated in FY13, and that this is less than the ARC of \$2.7M. What is the significance of this statement?
This is merely a standard mention in the Segal report that compares the two figures, noting that the benefit spending on today's retirees is significantly less than the Annual Required Contribution needed to both pre-fund OPEB for today's actives as well as pay down the OPEB liability that built up over the last 45 years, after Wayland voted in April 1968 to pay for healthcare for its retirees. Danny Rhodes indicates that “Wayland is not falling behind”.
- C. How does the 7% investment return assumption compare to Wayland's actual history over the last 20 years?
Per Cliff Lewis' OPEB History and his analysis presented in the OPEB Committee meeting of July 17, investment return on Wayland's OPEB Fund contributions from FY07 to FY12 has been zero or nearly so.
- D. Why does the report assert that an OPEB trust has been established? We know that enabling legislation has been passed, but has Segal seen the trust agreement, or was this reported to Segal by the Town? Who are the trustees?
Segal relied upon assertions from the Town of Wayland that a trust fund has actually been established. Segal did not independently verify it.
- E. How can the Wayland OPEB Committee learn more about the State Retiree Benefits Trust Fund as a possible investment manager for Wayland's OPEB funds?
The OPEB Committee should refer to the Massachusetts Pension Reserves Investment Management website at www.mapension.com, or contact Paul Tedesco.

- F. What does it mean that GASB guidelines prohibit the offset of OPEB obligation by the future value of Medicare Part D? Wouldn't that decrease the future liability? Wayland has been eligible to receive these since 2006 – have we been?

As the insurer and plan sponsor, the West Suburban Health Group receives Medicare Part D subsidy payments from the federal government. The Group has released two subsidy payments to its member communities. Wayland has received two pro-rated subsidy payments in the amounts of \$95K – \$100K, according to John Senchyshyn. Since they are paid to the Town's general fund, rather than being returned to the OPEB account, Segal does not credit these payments to the OPEB account or reduce the OPEB liability by the amount of the subsidy payment.

The West Suburban Health Group has three more pending distributions to member communities.

The OPEB Committee should investigate how this money can be properly credited back to the OPEB fund, irrespective of the GASB accounting treatment.

- G. How does the choice of actuarial cost method affect the magnitude of the OPEB obligation? Are there alternative methods that might be more accurate?

Generally Accepted Actuarial Principles permit six different cost methods. Four of them are quite uncommon. The one Wayland uses results in the lowest possible ARC and is the one most typically selected. This is also the cost method required under FASB in the private sector.

Segal Page 2, Key Valuation Results

- A. What does "interest on the total actuarial accrued liability" mean? Why is it charged?

Per Danny Rhodes: "Just as you get the benefit of discounting future values by 7% compounded back to the present, you must correspondingly charge 7% interest, compounded, on the present value of a liability into the future."

- B. Do we have the spreadsheet that shows a schedule of the liability for 30 – 75 years into the future? How are we allowing for the OPEB accrual for a 20 year old employee, who might be drawing OPEB benefits until he or she is age 95?

Segal estimates the OPEB expense for every active employee or retiree out to age 120. For GASB reporting purposes, however, the various OPEB values are only shown to 2038. Segal could provide the schedule for later years if required.

- C. "Assets of \$10.2M" – is this the "fair market value" of the assets on 12/31/12, in the conventional sense, or some other "actuarial value of plan assets"?

Segal uses the actual fair market value of the assets in the trust fund in this valuation, as reported by Wayland. There may be a need to replace it with an "actuarial value" at some point in the future, and GASB rules would permit Wayland to make this change.

This might be helpful in smoothing out the effects of “ups and downs” in the financial markets to avoid their “down and up” impact on Wayland’s unfunded liability.

- D. “Future valuations will analyze the difference between actual and expected UAAL”
The OPEB Committee needs to analyze Segal’s batting average since 2007 at the short-term forecasting of the healthcare expense over the prior three valuations. Note that John Senchyshyn suspects that changes to voluntary, then mandated Rate Saver Plans will skew that batting average.
- E. How does the funded ratio of 26.3% compare to other state and municipal governments that Segal does similar work for?
Danny Rhodes of Segal indicates that Wayland is “way ahead of the pack” on this measure.
- F. Annual Required Contribution (ARC) of \$2.7M for FY13. Does a legal authority “require” the ARC? Is this GASB terminology? Actuarial terminology? Or does this simply represent the figure needed for the funded ratio to get to 100% by 2038?
No, the ARC is not required by any legal or accounting authority, it is merely GASB terminology to represent a possible funding plan to get the unfunded liability down to zero by some assumed point in the future. Wayland can pick any point up to 30 years in the future with each valuation, and recalculate the ARC accordingly.
- G. Why 26 remaining years? Does GASB permit us to re-start the 30 year clock? Are these periods dictated by GASB? Or was this mandated by the Town of Wayland?
When Wayland began valuing its OPEB liability in 2007, it picked a 30 year plan to get fully funded by 2038, consistent with the 30 year planning horizon of GASB. This has been carried over for consistency into the 2008, 2010 and 2012 valuations. Current GASB rules would permit Wayland to re-start the 30 year clock at any time in the future.
- H. Why such a big \$17.4M decrease in the unfunded liability in only 2 years? Please show the individual components adding up to the \$17.4M.
Three component effects are in play here:
- *Expected decrease of \$1.654M due to new OPEB contribution less continued Normal Cost accruals for today’s employees.*
 - *Increase of \$1.954M in “actuarial experience loss” described below.*
 - *Decrease of \$17.7M due to “valuation assumption changes” described below.*
- I. Please describe the reasons behind the “actuarial experience loss” that increased obligations by \$1.954M.
Per Danny Rhodes, the principal reason for this increase is due to Wayland’s investment return not meeting the 7% target. In addition, there were more retirees, spouses and dependents getting healthcare. Headcount grew from 424 to 457 (see page 14). These

increases were offset somewhat by tightened retirement eligibility criteria for new hires after 4/2/2012, described on page 24.

- J. Please show the details on "valuation assumption changes".
Per Danny Rhodes, this is principally due to getting nearly all Wayland actives and retirees onto healthcare Rate Saver Plans, offset somewhat by people retiring earlier and living longer.
- K. What are some other models for the Amortization of the UAAL beside the 3.5%/year increase that could smooth it out over future years?
3.5% was arbitrarily chosen so that the Amortization of the UAAL (column 3 on Segal page 8) grew roughly proportional to the growth in Wayland's payroll through time, which was assumed to be 3.5%.
- Other approaches are certainly possible, since funding of the ARC (defined as "Normal Cost", plus the Amortization) is not mandated currently by GASB.*

Segal Page 3, Accounting Requirements

- A. Why are there two separate GASB statements dealing with the very same OPEB issue?
GASB 45 details the reporting requirements of employers like the Town of Wayland. GASB 43 details the reporting requirements of OPEB plans that separately report.
- B. How many years into the future does Segal project the OPEB cost, to calculate the APB? 70 years? Is this accurate enough?
Calculations are made out to age 120 for every active employee and retiree. Only figures out to 2039 are shown in this valuation.
- C. Please provide a better definition of the AAL.
The Actuarial Accrued Liability (AAL) is a laborious calculation that conceptually looks like this:
- 1. First project all the OPEB costs out to age 120 for all current retirees and employees, of all ages, using all the assumptions about demographics, turnover, retirement, healthcare cost inflation, mortality etc.*
 - 2. Discount all those future costs to the present at 7% to come up with what the Segal report terms the APB, or "actuarial present value of the total projected benefits".*
 - 3. Then for each person, allocate their share of the APB to their years of employment, in this case prior to 12/31/2012. For young people at the start of their careers, it will be a small fraction of the PV of their future OPEB costs. For retirees, it will be 100%.*
 - 4. Add up all these figures for each employee and retiree and you've got the AAL, \$38.5M for 12/31/2012.*

D. Definition of the ARC, the NOO and the RSI.

- *ARC is the accrual amount each year that would pay for both the Normal Cost, as well as pay down the UAAL. Page 8 column 4 shows the ARCs for each fiscal year 2013 – 2039.*
- *The NOO (Net OPEB Obligation) represents the cumulative difference over several years between the ARC for each year, and the actual contributions made for each year. A cumulative shortfall results in a NOO, a surplus results in a NOA (Net OPEB Asset). NOO and NOA are shown on page 12.*
- *RSI is Required Supplementary Information, meaning the tables which must be shown in the Notes to Wayland's Financial Statements. In the Segal report, the RSI tables are shown on pages 10 – 13.*

E. Explain the "Hypothetical Cost Curve" graph.

The graph attempts to illustrate that younger people are healthier and are less costly to Wayland than older people. For example, the actual healthcare costs to Wayland of a 25 year old single employee are typically less than those of a 60 year old single employee (the dotted blue line), even though they pay the same monthly premium for their healthcare and we implicitly assume they have the same cost to Wayland. The dotted red line represents the blended average of these lower and higher costs to Wayland for people of all ages, up to 64. Once the employee/retiree reaches Medicare eligibility age of 65, the cost (to Wayland) drops dramatically, but the same phenomenon occurs at the lower expense level. Healthcare costs to Wayland for providing healthcare benefits rise with age.

Segal's actuarial projections try to correct for this effect on OPEB expenses by uplifting the blended average cost to an estimate of the actual healthcare cost. Segal uses an "aging curve" of its own design to adjust for this effect. It is not based on Wayland's actual healthcare cost data. This GASB requirement attempts to adjust for this "implicit subsidy" of older sicker people by younger healthier people.

The projected calendar year 2013 costs incurred by Wayland to cover OPEB healthcare claims are shown on Segal page 21 as "Per Capita Health Costs". These are the net costs to Wayland after the retirees pay their co-pays and their share of the insurance premiums. This table shows how the costs rise with age and vary by gender.

Segal Page 4, GASB 43/45 Measurement

A. Please explain the bar chart.

The chart has no scale, so it's merely representative of how the APB is split up.

- *The light blue portion of the bar chart represents the Actuarial Accrued Liability. For Wayland this is \$38.537M on 12/31/2012 and represents all the accrued liabilities for active employees, current retirees & survivors for all their past service, right up to 12/31/2012. This would pay for the OPEB that has been promised to them to that date, under our current contracts and actuarial assumptions.*

- *The brown portion represents the current year's "Normal Cost" that is accrued for OPEB expenses this year. It will eventually pay for the OPEB to current active employees for just the current year of service employment. This is the \$1.098M shown on Segal Page 8, column 2 for FY2013. Again, this is estimated under our current contracts & actuarial assumptions.*
- *The yellow portion represents Future Accruals for years 2014 to 2039. Think of it as taking all the Normal Costs for 2014 through 2039 on Segal Page 8, column 2, discounting them all at 7% per year, and coming up with a single Present Value.*

Segal Page 5, Executive Summary continued

- A. "Determinations for [other] purposes...may differ significantly": So merely conforming to GASB 43/45 reporting requirements may not properly forecast our true economic obligations. Does Segal have experience re-running the numbers for this alternative purpose?

Segal does mostly GASB work. But their valuation model could be used as the basis for modeling other scenarios.

- B. Since "actuarially determined amounts are subject to continual revision as actual results are compared to past expectations", how have we done in this comparison recently, in the three prior valuations?

This is additional analysis the OPEB Committee needs to do.

Segal Page 7, Department Results

- A. Previous valuation reports had versions of this table showing a breakout for the Septage unit. What happened with this in 2012? Are we now putting Septage in with Water, or with "All Other"?

OPEB costs for what was the Septage unit are now shown under All Other. John Senchyshyn notes that Septage has not been included in Water for any fee-based calculations.

Segal Page 8, Funding Schedules

General Comments on Page 8:

- *"26 Years Closed" in the heading is just GASB terminology meaning that Wayland achieves full funding by driving down its UAAL to zero within 26 years in this illustration of a particular funding model.*
- *"Payments increasing at 3.5%" refers to the yearly increase in the column 3 payments agreed to by Wayland in this illustration. Wayland could make it more or less, resulting in a different illustration.*
- *Column 4 values represent each year's Annual Required Contribution, or ARC. It is the sum of "Normal Cost" column 2, plus the "Amortization of UAAL" column 3.*
- *"Projected Benefit Payments" in column 1 represent the ongoing "pay as you go" payments for OPEB for the retirees in a given year. Note that FY2013 of \$1,978K has been*

uplifted approximately 25% over the actual value of \$1,531K, per John Senchyshyn. Per Danny Rhodes, this 25% uplift is carried through to all subsequent years.

- **Segal's Formula used to calculate a particular year's AAL:**
 - *Start with prior year's AAL*
 - *Add 7% interest on the prior year's AAL*
 - *Add Normal Cost for the particular year, plus 7% interest on the Normal Cost*
 - *Subtract Projected Benefit Payments for the particular year, less 7% interest on them*
 - *Equals the current year's AAL*

- A. Does it look like the Projected Benefit Payment for 2013 will be on target?

Column 1 Projected Benefit Payments represent the "pay as you go" values effectively paid to retirees getting OPEB in the given year. But note that they are uplifted approximately 25% over Wayland's actual OPEB costs, based on Segal's estimates of how younger, healthier actives effectively subsidize older, sicker actives or retirees that consume more healthcare.

Per Danny Rhodes, Segal could avoid making this adjustment if Wayland were to provide the actual OPEB expenses incurred by each retiree.

- B. What does "Normal Cost" in column 2 represent?

"Normal Cost" is the 1 year accrual of the Future Value for the subsequent 30 years' worth of estimated OPEB payments made to the Active Employees for that particular year, discounted back at 7% to get its Present Value. For example, the 2013 value of \$1,098K is the future value of OPEB payments for the 436 active employees who are healthcare subscribers on board as of 12/31/2012, in exchange for one year of their service as employees.

- C. I thought column 3, Amortization of UAAL, was to grow at 3.5% per year to put us on the funding path?

Segal made a one-time adjustment between the 2013 and 2014 values in column 3 that exceeded 3.5%. But for years 2015 and beyond there is a steady growth of 3.5% each year in the column 3 values.

- D. Why is column 5 zero for 2013?

No OPEB Trust Fund contribution was made by Wayland in FY2013, because Wayland had paid so much in prior years.

- E. Since projected benefit payments continue beyond 2039, is this analysis simply ignoring them for simplicity? Will the next valuation as of 12/31/2014 simply incorporate figures for 2040 and 2041?

Yes, unless Wayland wants to use some different funding assumptions.

- F. Is column 7 the AAL for both Actives and Retirees? Or just Retirees?

AAL values will always reflect OPEB liabilities for both Actives and Retirees.

Segal Page 10, Chart 1 of Required Supplementary Information, Employer Contributions

- A. Are Annual OPEB Costs for 2013 and 2014 estimates? Why don't they match amounts shown on page 8?

See Chart 3 on page 12 which adjusts ARC on page 8 to Annual OPEB Costs on page 10.

- B. Since we've been doing pay as you go, in addition to Contributions, why don't we have \$19M in assets on hand, the sum of the Annual Contributions column? Instead we have only \$10M.

"Actual Contributions" are defined as the actual cost paid by Wayland for OPEB to current retirees on Wayland's general ledger, uplifted by Segal, plus the addition to the OPEB fund. So of the \$19M for FY09 – FY13, \$9M was paid out to retirees, leaving \$10M in the OPEB fund.

Segal Page 11, Chart 2 of RSI, Funding Progress

- A. Have the baseline assumptions behind AAL column b been fairly consistent over time, other than the investment return assumption? Why is this liability bouncing up and down so dramatically?

The changes are due to principally two effects: getting nearly all participants onto Rate Saver Plans, plus the change to the investment return assumptions.

- B. Why does the report show UAAL as percent of covered payroll calculation? What is the significance of this?

This is a way of normalizing UAAL for small vs. large towns and cities by relating it to the size of the covered payroll. Per Danny Rhodes, some towns and cities in Massachusetts have figures of 300% or more. Wayland's 72% is on the low end of the spectrum, which is good news. A lower trend over time means that the municipality is doing a better job at managing its UAAL.

Because this percentage is part of the Required Supplementary Information included in the town's financial statements, it is visible to bond analysts who are comparing Wayland's financial strength to that of other municipalities. Refer to page 49 of Wayland's Financial Statements for 6/30/2012 to see how this looks.

Segal Page 12, NOO/NOA

- A. Explain the columns and the math on this chart.

a) ARC has been explained previously: it is this year's Normal Cost accrual, plus amortization of the UAAL. The ARC numbers are drawn from the 2008, 2010 and 2012 valuations by Segal.

b) Interest on Existing NOO (NOA) is calculated on the prior year's NOO or NOA in column g. 7.5% interest was used in 2009 and 2010, and 7% for 2011 and later.

- c) *ARC Adjustment represents an accounting adjustment to reflect the recognition of the overfunding or underfunding of the ARC in prior accounting periods.*
- d) *Annual OPEB Cost is the sum of columns a, b and c.*
- e) *Actual Contributions has been carried over from Segal page 10. OPEB paid to retirees, plus additions to the OPEB fund.*
- f) *Net Increase in NOO/NOA is column d minus e.*
- g) *This adds column f to the prior year's column g for the new value of the NOO/NOA.*

Segal Page 13, Summary of RSI

- A. Does the inflation rate of 3.5% apply to all projected costs and projected payments by actives & retirees?
No, it is the assumed rate of payroll inflation. Healthcare expenses have their own inflation rates, 8% declining to 5% over time.

- B. Why do we count retirees and include their dependents, but not do so for "active participants", e.g. employees on a family health plan
GASB rules say we need to include dependents but only for those who are already in retirement and drawing OPEB benefits.

Segal Page 14, Summary of Participant Data

- A. Can Segal fix the table to correct the typos in Retired employees? What do 39 and 41 mean?
Data in columns under 1/1/13 and 1/1/11 should be moved down one line to line up properly with the row labels on the left.

Thus, for "Retired employees, spouses and beneficiaries covered for medical benefits" the number of individuals is 457 (on 1/1/13) and 424 (on 1/1/11). Their average age is 71.6 and 70.8, respectively.

39 represents the number of current retirees who enrolled late in Medicare as of 1/1/2013. 41 is the corresponding number for 1/1/2011.

Some history: when Wayland voted in April 2006 to compel all current and future retirees to join Medicare, some were already beyond age 65. Medicare assessed a fee for this late enrollment, which Wayland is required to pay on behalf of these retirees. This annual late enrollment fee (currently at \$29,964 for FY2014) will decline and eventually disappear as these late enrollees die.

- B. What is the definition of "retired employees, spouses and beneficiaries covered for medical benefits"?

This is the headcount of every person getting OPEB from Wayland: retirees plus their spouses, plus eligible dependents if any. People covered by either Medicare or non-Medicare plans are counted.

- C. Why do we track those with life insurance, or life insurance only? Is there a cost to Wayland for life insurance?

Wayland pays \$1.28 per person per month for basic \$5000 of life insurance coverage. The Town's annual cost is approximately \$4,500. Costs for dependent life or optional life are solely the responsibility of the retiree. This small cost must be included in Segal's OPEB valuation under GASB rules.

Segal Page 15, Actuarial Assumptions and Actuarial Cost Method

- A. What is the detailed census data used by Segal?

It is an Excel spreadsheet, prepared by Donna LeMoyné (Wayland's Benefits Coordinator), detailing all the demographics for all active employees eligible for healthcare, plus all retirees. Segal pulled this census data into Microsoft Access for input to their model. Wayland's data was supplemented by some additional data on retirees from the Middlesex County Retirement plan. Segal then did some modest data cleanup.

- B. What are "plans that are not community rated"?

"Community rating" refers to healthcare insurance plans that charge the same premium to all participants, regardless of criteria such as age or gender.

- C. Is the Discount Rate of 7% used consistently to calculate all Present Values?

Yes.

- D. What are all these RP-2000 Tables? "Projected 13, 2, 10 years?" Why the distinctions among Teachers and Non-Teachers?

Per Danny Rhodes: Segal's objective is to use the same set of mortality tables used by the pension plans (Middlesex County and MTRS) for consistency. RP-2000 is the "gold standard" of mortality tables, prepared in 2000 by the Society of Actuaries. "Projected 13 years" is the standard way of adjusting from the year 2000 to 2013 to allow for increased longevity in the past 13 years. The mortality tables make distinctions between "pre-retirement" for active employees, "healthy" for non-disabled retirees, and "disabled" for disabled retirees.

Some distinctions are made between Teachers and Non-Teachers so as to match the distinctions used for pension purposes.

- E. Does "Healthy" mean "Retired but not disabled"?

Yes.

- F. Does "Disabled" only apply to retirees?

Yes.

Segal Page 16, Actuarial Assumptions, continued

- A. "Accrued liability and service cost were increased by 1.25%". Why and how significant? What does it mean?

Danny Rhodes: This is an adjustment made by the PERAC (Public Employee Retirement Administration Commission) actuary for the accrued liability for teachers.

- B. Termination Rates before Retirement: how to interpret this table? Are we talking about Terminating Employment with Wayland, or Mortality?

This table shows the assumptions for the likelihood that a person dies or becomes disabled while still employed with Wayland but before retirement. It's shown as the percentage per year. Death or disability, particularly if it occurs on the job, will typically trigger higher pension and healthcare benefits paid to the employee or their surviving spouse, under our current employee benefit plans.

- C. How are Groups 1 and 2 defined?

Groups are defined by state law. Group 1 refers to regular municipal employees working in office locations. Group 2 refers to municipal employees working in somewhat higher risk occupations, e.g. electricians.

- D. What do "Current" and "Previous" mean?

Current is the table used in this 2012 valuation. Previous is the corresponding table used in 2010.

- E. What is this 55% disability in the fine print?

55% of the time that death or disability occurs, it is accidental, and triggers higher pension and OPEB costs to the surviving dependents.

Segal Page 17, Group 4 and Teacher Mortality & Disability

- A. How is Group 4 defined?

Group 4 refers to public safety employees, e.g. police, fire, EMT. Note the higher disability rate assumptions compared to Groups 1 and 2, or to Teachers, including the rate of accidental disability and death.

- B. Are Teachers everyone employed by Wayland Public Schools, or just those in the MTRS pension system, i.e. certified teachers?

No, just those in MTRS. All other school personnel are deemed Group 1.

Segal Page 18, Withdrawal Rates

- A. How are “Withdrawal Rates” defined? If this means the percentage of those who terminate employment, does this accurately describe our experience?

This shows the rate at which people quit their jobs at Wayland.

- B. Are employees from Fee-based Programs included in one or more of these Groups?

Yes. Per John Senchyshyn, Fee-base Program headcount includes:

Water: 7 employees

Recreation: 2.5

Transfer Station: 3

School-based program data needs to come from Reid Lyons, HR director for the School Department.

The OPEB Committee should obtain the School-based data and confirm that all Fee-based Programs are being appropriately charged for their OPEB expense which Wayland must now accrue and eventually pay for.

Segal Page 19, Teacher Withdrawal & Retirement Rates Groups 1, 2 and 4

- A. Does Segal interpolate for the various ages, or does “Age 20” really mean “Ages 20 – 29”, etc?

Yes, Segal interpolates values for each age.

Segal Page 20, Teacher Retirement Rates

- A. Dependents: how did Segal adjust for actives or retirees who may currently be using their spouse’s employer’s health insurance, but might opt in to Wayland health insurance in the future?

No answer to this question. This is very difficult to track.

- B. Why did we make an assumption about ages of husbands vs. wives? Don’t we have ages for all dependent spouses?

For future retirees, Segal does not assume that active employees who are married will have the same spouse at retirement. Instead, they project that 55% of all retirees will be married, and that the husband will always be three years older than the wife. Once a person is actually retired, Segal uses the actual age and gender of their spouse as reflected on the census.

Segal Page 21, Per Capital Health Costs & Trends

- A. How is the Per Capital Health Cost table derived?

Segal starts with the actual Wayland cost data from the West Suburban Health Group’s various plans, both Medicare and non-Medicare. A weighted average cost is calculated from all the various plans based on enrollment data in the census. Segal then applies an “aging curve” it has developed to reduce the average annual cost for younger retirees, and increase the average annual cost for older retirees. Ages 45 to 80 are represented in the table.

- B. Shouldn’t we look out to age 90 and beyond?

Segal's experience is that healthcare costs are fairly level at age 80 and beyond.

- C. Are these total costs per capita, or are these the "net cost" to the Town?
Net cost to the town, after employee/retiree contributions, co-pays and deductibles.

- D. Please explain Medicare Supplement vs. Medicare Advantage?
Medicare Supplement plans (also called Medi-gap plans) provide insurance for services not covered by Medicare. A retiree must first enroll in Medicare Part A and Part B, and the Supplement plan fills in coverage gaps, such as covering Medicare deductibles, coinsurance and may include prescription drugs. To the retiree, these plans are like traditional indemnity plans except that costs are coordinated with Medicare. West Suburban offers Wayland's retirees four kinds of Supplement plans, shown on page 27.

Medicare Advantage plans are offered by managed care organizations, who have contracted with the federal government's Center for Medicare and Medicaid Services to arrange for comprehensive health services to retirees who have Medicare Part A and Part B. Medicare no longer pays. Instead the Medicare Advantage plan pays. The subscriber agrees to receive all health care from the plan's participating medical providers and facilities, as in an HMO plan. West Suburban offers Wayland's retirees two Advantage plans, shown on page 27.

Segal Page 22, Other Assumptions

- A. 70% Medicare Supplement, vs. 20% Medicare Advantage, 10% non-Medicare: is this our current experience?
Per John Senchyshyn, at the end of FY2013 the distribution was 63% Medicare Supplement, 16% Medicare Advantage and 22% Non-Medicare.
- B. Why should their 1986 hiring date affect this?
Because all employees hired after 1986 were required to participate in Medicare, by federal law.
- C. Why do we mention that 80% of future retirees have life insurance coverage, if there's no cost to Wayland?
There is a small cost to Wayland, \$1.28 per retiree per month. See prior answer provided on Segal Page 14.
- D. Missing Participant Data: how many of the census records were incomplete?
Danny Rhodes: "very few of the census records were incomplete"

Segal Page 23, Healthcare Reform & Assumption Changes

- A. Are any of Wayland's plans regarded as "high-cost health plans" under PPACA?
Danny Rhodes was uncertain about this and its cost impact. John Senchyshyn commented that it is likely that only the Harvard Pilgrim PPO plan will be considered a "high-cost

plan.” The current enrollment in that plan is 2 individuals and 1 family plan. He would not be surprised to see the plans phased out or significantly changed prior to 2018, when Wayland would be subject to the excise tax for “Cadillac health plans.”

- B. We’ve made several changes to Mortality Assumptions, Service cost, etc since the previous Valuation. What is the net impact of these, compared to the 2010 valuation?
These were made to match similar changes to pension mortality assumptions.
- C. 8% annual increase in healthcare costs for CY2013 seems high. Is this what is happening now?
This overstates our recent cost trend. Recent annual increases for Rate Saver Plans:
- *0% increase for FY2013*
 - *4% increase for FY2014.*

Segal Page 24, Retirement Eligibility Criteria

- A. Do Wayland, MTRS and Middlesex define and measure “creditable service” the same way?
Yes.
- B. Are retirement eligibility criteria the same across Groups, other than creditable service and age? All employees working more than 20 hours per week regularly will qualify?
Yes. Per John Senchyshyn, the 2011 pension reform changes mandate that employees working 20 or more hours per week are pension-eligible, and thus entitled to OPEB.
- C. Why was age for Group 4 retirement dropped from 55 to 50, for hire dates after 4/2/2012?
Per John Senchyshyn, this data may be incorrect.

Segal Page 25, Benefit Types

- A. How significant is the cost of the Medicare Part B penalty for 39 retirees & spouses?
FY2011: \$41,588. FY2013: 31,737. Projection for FY2014: \$29,964.
- B. What is the significance of MGL Chapter 32B, section 18?
This made retiree participation in Medicare mandatory for all state and municipal retirees. Previously it had been optional.

Segal Page 26, Health Plan Enrollment by Actives & Retirees, non-Medicare

- A. Are the 23 “Retirees 65 and over” who have a non-Medicare plan already counted in the 90 “Retirees”?
Yes.

Towns Surveyed for Comparables to Wayland
that Personnel Board uses:

Acton
Carlisle
Concord
Duxbury
Hingham
Hopkinton

Lincoln
Marblehead
Medfield
Sharon
Sherborn
Southborough

Sudbury
Wellesley
Weston
Westwood
Winchester