



# Town of Wayland Massachusetts

## **OPEB Advisory Committee**

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

### **Minutes of September 3 2013 Committee Meeting (Draft of Sept 16)**

In Attendance were: David Gutschenritter, Cliff Lewis, Maryanne Peabody, Jay Sherry  
Absent: Kent George

This meeting was recorded and is currently available on WayCAM at:  
<http://waycamtv.pegcentral.com/player.php?video=22ea60381b46bc5cac5424a2af2cc900>

The meeting was called to order at 7:10pm at the Town Building in the Selectmen's Meeting Room. The following Agenda topics were addressed:

#### **1. Review and Approve Minutes of August 13 2013 meeting**

The Committee approved the minutes unanimously, incorporating some final amendments suggested by Dave Gutschenritter.

#### **2. Review proposed letter to Segal Company and funding options**

*(WayCAM video on this topic starts at 1:09)*

Jay reviewed his second draft of the letter to Segal Company requesting a proposal for a non-GASB 45 valuation of the OPEB liability, with different assumptions about initial healthcare costs and healthcare inflation rates. The letter also requests three different options for OPEB funding schedules. The Committee hopes that this different valuation will be more helpful in determining the correct OPEB funding requirement. The Committee suggested several final edits to the letter and asked that all Committee members be copied on the correspondence with Segal. Jay also shared the several comments from John Senchyshyn's and Brian Keveny's review of the letter. Brian's view is that the target cost of the revised valuation is likely containable within the FY2014 appropriation for 32B expenses. The Committee voted 4 – 0 to authorize Jay to send the letter. The final version of the letter to Segal Company is attached to these minutes as Exhibit A.

#### **3. Review of other priority Committee objectives**

*(WayCAM video on this topic starts at 25:44)*

Cliff Lewis outlined several ideas to reduce the cost of OPEB. They include moving all Wayland retirees to 50% cost sharing, consistent with the 50% cost sharing by today's Wayland retirees on our four Medicare Supplement plans. Currently, retirees on non-Medicare plans contribute 26% of the cost of individual healthcare plans, and 36% of the cost of family healthcare plans. The Town pays 74% and 64%, respectively, of the cost of these plans.

Cliff suggested that Wayland could also save money by putting married couples who don't have dependent children on two individual non-Medicare plans, rather than permitting the retired couple to select a family non-Medicare plan.

Finally, Cliff suggested that Wayland via West Suburban Health Group offer its Medicare-eligible retirees a \$300 per month Medicare Supplement plan similar to those commonly available to individuals.

The combined effect of these three plan changes are summarized in Cliff's spreadsheet, attached as Exhibit B. Cliff estimates that the combined annual saving to the Town is potentially over \$389,000, over 31% of the total OPEB cost.

An extended discussion of these ideas followed, which included the following questions and comments by various committee members:

- Can Harvard Pilgrim and the other insurer be persuaded to offer three plans, and be compelled to offer individual non-Medicare plan coverage to eligible spouses vs. family plans? Cliff noted that they do this now for eligible spouses married to Medicare-eligible retirees so this should not pose a problem.
- Cliff indicated that the Committee will need to report to citizens that the Committee looked hard at cost savings in retiree healthcare.
- Dave questioned Maryann on the process steps we would need to take to implement some of these changes.
- Maryanne indicated that she will bring these ideas up at this Thursday's Personnel Board meeting.
- Jay said we would need to include some staging or grandfathering provisions to transition from today's OPEB plans to any future plans.
- Cliff said it's now about time to engage with labor counsel to review some of these plans.
- Jay mentioned the arbitration provisions in certain of Wayland's collective bargaining agreements that might be triggered by the Selectmen changing the cost sharing percentages to 50%.
- Cliff noted that Wayland's retiree healthcare is far better than that typically offered in the private sector, noting UPS's recent decision to cancel coverage of spouses of non-union UPS employees that have an option to secure healthcare from the spouse's employer.
- Cliff suggested that Wayland will need some form of a "Hardship Review Board" to review individual cases of retiree hardship should these cost savings be adopted. This would be akin to what happens now in Wayland for property tax relief.
- Cliff said that by putting Wayland OPEB funds into a true trust, that it would essentially eliminate counter-party risk and that would be a real peace of mind benefit to retirees.
- Dave reported that he had heard Town Counsel voice the opinion that the current OPEB account arrangement has no counter-party risk, because spending the OPEB money on anything but OPEB would be a violation of the Special Act of the legislature that established the account.
- Dave expressed concern on how these changes might impact future labor contract negotiations, making them potentially more protracted and contentious. Unions might demand higher current period salary, since their future OPEB would be somewhat less.
- Cliff said we need to be sure to take some money from the Enterprise Funds to contribute to OPEB for active employees working for the Water Department, for example.

Jay offered his list of remaining Committee work items, which is attached to these minutes as Exhibit C.

#### **4. Discussion of next steps and meeting schedule**

*(WayCAM video on this topic starts at 1:25:15)*

The next two Committee meetings are September 19 (for Open Meeting Law training) and September 24 at 7:00 PM.

Cliff Lewis and Maryanne Peabody agreed that they would meet with John Senchyshyn (and perhaps labor counsel) about some of the additional ideas to reduce OPEB cost (revising cost sharing formulas, etc). They agreed to report on this dialog with John at the Committee's September 24 meeting.

Dave Gutschenritter agreed to make his recommendations for the oversight of the investment management of OPEB funds at the Committee's September 24 meeting.

Pending the Segal Company proposal, Jay hopes to have the revised Segal Company OPEB valuation in time for the Committee's September 24 meeting.

Dave noted that the Committee will need to approve his draft minutes of the August 28 meeting.

Maryanne will continue to track the progress of the new state statute on OPEB. Public hearings on it are planned for October and November.

Cliff Lewis also said that he would meet with Tony Boschetto, the OPEB Committee's liaison to the Board of Selectmen, offline as necessary in the coming weeks to review the Committee's progress.

## **5. Public Comment**

*(WayCAM video on this topic starts at 1:40:50)*

Cliff Lewis said that in the interest of time he had had to cut short Don Bustin's public comments in the previous OPEB Committee meeting. Cliff has now offered to meet offline with Don to hear his comments in full.

Carol Martin (resident of Lake Road in Wayland, and member of the Finance Committee) shared three items with the Committee:

- a) An informal email survey dated 9/9/2012 by Fred Turkington, Wayland's Town Administrator at the time. The survey reported the OPEB budget approval and OPEB contribution practices of several peer communities, such as Weston, Sharon, Carlisle, Concord, Bedford, Medfield, Scituate, Lexington, Wellesley, and Needham. Carol particularly noted that Wellesley has been putting \$3M per year into their OPEB account, some of which comes from borrowing.
- b) Carol reported that the towns of Dover, Weston, Wayland, Needham and Wellesley have all made contributions to their respective OPEB accounts, such that their funding percentage exceeds 10% of their OPEB liability. Discussion by the Committee followed about what our ultimate funding target ought to be.
- c) For the Committee's information, Carol distributed copies of an article entitled "The Massachusetts Experiment" by Amanda Gengler and published in the June 2013 issue of CNNMoney.com. The article can be found at: <http://money.cnn.com/2013/06/01/pf/massachusetts-health-care.moneymag/index.html>

Carol also voiced concern about the negative impact that the federal Affordable Care Act may have on many Massachusetts health insurance plans.

The meeting was adjourned at 9:03 PM.

Respectfully submitted,

Jay Sherry

# EXHIBIT A

OPEB Advisory Committee, Town of Wayland  
 41 Cochituate Road  
 Wayland, MA 01778-2614  
 September 4, 2013

Mr. Daniel Rhodes  
 Consulting Actuary  
 Segal Company  
 116 Huntington Avenue, 8<sup>th</sup> Floor  
 Boston, MA 02116

Dear Mr. Rhodes:

The Town of Wayland’s OPEB Advisory Committee has the responsibility to recommend a funding strategy to address Wayland’s OPEB liability. As you may know, our Committee has spent a great deal of time since our start in early July understanding the details of Segal Company’s last actuarial valuation of that liability under GASB 45 and the associated Funding Schedules.

We note that in Segal Company’s Executive Summary of the Actuarial Valuation of December 31 2012 you say “[Actuarial determinations] for purposes other than meeting the financial accounting requirements of GASB may differ significantly from the results reported here,” and that “actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future.”

Our fundamental issue is that the projected benefit payments under GASB 45 consistently and significantly over-estimate the actual OPEB amounts that Wayland pays for retiree healthcare. GASB 45 projections aren’t helpful enough for our purposes of adopting an OPEB funding strategy. Note the over-estimates in this table:

Fiscal Year	GASB 45 Projection	Valuation Date of	Actual Retiree WSHG Expenditure	Projection vs. Actual	
				\$	%
2009	\$1,923,845	12/31/2008	\$1,350,187	\$573,658	42%
2010	\$2,133,951	12/31/2008	\$1,455,740	\$678,211	47%
2011	\$2,085,998	12/31/2010	\$1,558,184	\$527,814	34%
2012	\$2,293,966	12/31/2010	\$1,547,661	\$746,305	48%
2013	\$1,978,306	12/31/2012	\$1,526,422	\$451,884	30%
2014	\$2,110,447	12/31/2012	\$1,493,289	\$617,158	41%

\* Estimated WSHG expenditure for FY2014 based on August 2013 retiree enrolled headcount, non-Medicare plan premiums effective 7/1/2013 and Medicare plan premiums effective 1/1/2013. Medicare plan premiums will likely increase 1/1/2014, increasing the WSHG estimate. Retiree headcount could also increase through 6/30/2014.

These over-estimates are very significant: 30 – 48% within only six to eighteen months after each GASB 45 projection is issued. The over-estimates get larger in percentage terms a few years into the future.

We suspect that the over-estimates happen because of two effects: the assumed Per Capita Health Costs are too high, and Health Care Cost Trend Rates are too high. There may be other contributing factors.

**GASB 45 Per Capita Health Costs are Too High:**

Our understanding from you is that GASB 45 mandates the use of an “aging curve” shown on page 21 of your 2012 valuation report to adjust for the implicit subsidy of older costlier retirees by younger healthier active employees. The mandated table differentiates healthcare costs by Age and Gender. You have indicated to us that this table is Segal Company-proprietary and based on health claims data from millions of people. We don’t dispute the existence of the implicit subsidy. Our issue is that the “Per Capita Health Costs” table is not based upon Wayland’s actual health claims data, nor that of the West Suburban Health Group (WSHG). You have indicated to us that Generally Accepted Actuarial Principles or GASB 45 guidelines would not permit you to build a specific aging curve table for Wayland’s use, as the enrolled population of Wayland or WSHG is not large enough to be statistically valid.

Even if it were possible and statistically valid to create such a revised table, Per Capita Health Costs that vary by Age and Gender are not how Wayland budgets and pays for its healthcare, nor how premiums are billed to Wayland by WSHG.

**GASB 45 Health Care Cost Trend Rates are Too High:**

We acknowledge that it’s very difficult to forecast inflation, especially healthcare inflation, over long periods. But all of the GASB 45 valuations consistently over-estimate how much the Per Capita Health Costs are rising, even in the very short-term, as shown in this table:

<b>Healthcare Cost Inflation</b>				
<b>Calendar Year</b>	<b>GASB 45 Projection</b>	<b>Valuation Date of</b>	<b>Wayland Actual* (Fiscal Year)</b>	<b>Variance %</b>
2009	9.00%	12/31/2008	2.5%	6.50%
2010	8.25%	12/31/2008	2.9%	5.35%
2011	10.00%	12/31/2010	4.3%	5.70%
2012	9.25%	12/31/2010	-4.9%	14.15%
2013	8.00%	12/31/2012	-5.1%	13.10%

\* Year over year growth in Wayland's per capita spending on retiree healthcare. This adjusts for the increasing number of Wayland retirees receiving OPEB. Wayland years are fiscal years ending June 30, so they are closely but not directly comparable to corresponding calendar year projections in Segal Company reports.

For these two reasons we believe that the four actuarial valuations, while perfectly correct under GASB 45 guidelines, aren’t helpful to Wayland in estimating our retiree healthcare expenditures and formulating a funding strategy that we can explain to Wayland citizens. Referring to the Funding Schedules on page 8 of your latest valuation, since the Projected Benefit Payments are too high relative to our actual expenditure, we strongly suspect that both the Normal Cost and the Actuarial Accrued Liability (AAL) are also too high. As a consequence, there is a knock-on effect on the UAAL, the Amortization of the UAAL, and thus the ARC.

In combination, these effects would cause Wayland to over-fund our OPEB account in the short-term and ask relatively too much of Wayland’s current taxpayers, if Wayland merely accepted and funded the ARC as shown under GASB 45.

We don't propose to re-do the existing GASB 45 valuation. But we do need an actuarial assessment of what our WSHG bills for retiree healthcare will be in the future. We suspect that this is a different purpose than GASB 45, and thus merits a different actuarial analysis, as you suggest in your Executive Summary.

On behalf of the OPEB Advisory Committee, I am requesting from Segal Company a proposed cost and schedule to deliver a revised actuarial assessment that is not constrained by GASB 45 guidelines in order to provide us a better forecast of our funding requirements for retiree healthcare. We would like to preserve most of the actuarial assumptions used in the last valuation to minimize the impact of this change. As part of this new assessment, we would also like you to model some revised funding scenarios for us.

Specifically, we ask that Segal Company:

1. Use all the same actuarial assumptions used previously as outlined on pages 14 to 27, except for the Per Capita Health Costs, Medicare Advantage Plan cost and Health Care Cost Trend Rates shown on page 21.
2. Substitute Wayland's actual plan costs from pages 26 & 27 as the starting point for calendar 2013's per capita health costs, as weighted by the employee & retiree census of 12/31/2012 already provided to you. Use these for non-Medicare, Medicare Supplement and Medicare Advantage plans.
3. Substitute a Health Care Cost Trend rate of the following:

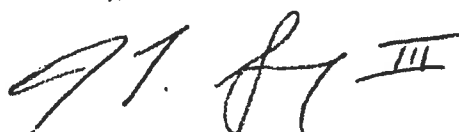
Year Ending Dec 31	Medical/Drug	Medicare Part B
2014	4%	6%
2015	4.5%	6%
2016 & later	5%	6%

4. Preserve the 3.5% annual inflation rate assumed for amortization of the UAAL.
5. Preserve the 7% discount rate/investment rate of return assumption.
6. Prepare a different version of the page 8 Funding Schedule that recalculates all the columns accordingly. This will not be GASB 45 compliant, and should be labeled as such.
7. In addition to the page 8 forecast to 2039, prepare two other versions that amortize the UAAL over 30 years (to 2043) and over 40 years (to 2053).
8. Prepare another table for calendar years 2014 – 2053, which projects the:
  - a. Number of retirees and eligible surviving spouses of retirees selecting an Individual non-Medicare plan
  - b. Number of retirees and eligible surviving spouses of retirees selecting a Family non-Medicare plan (*but don't double-count the family plans from a retired couple*)
  - c. Number of retirees and eligible surviving spouses selecting an individual Medicare Supplement plan
  - d. Number of retirees and eligible surviving spouses selecting an individual Medicare Advantage plan

It would be most helpful for this analysis to be complete in September to allow us to complete our recommendations to Wayland's Board of Selectmen in October and to provide an OPEB funding recommendation for our fiscal 2015 budget.

Please let us know your response to this request, copying John Senchyshyn on your response.

Sincerely,



Jay Sherry, Member, OPEB Advisory Committee

Cc: John Senchyshyn, Interim Town Administrator, Town of Wayland  
Brian Keveny, Finance Director, Town of Wayland  
Clifford Lewis, Chair, OPEB Advisory Committee  
David Gutschenritter, Member, OPEB Advisory Committee  
Kent George, Member, OPEB Advisory Committee  
Maryanne Peabody, Member, OPEB Advisory Committee

# Exhibit B

Non-Medical  
 Medical  
 Total Health Care  
 Total Health Care

Line Item	Quantity	Present Costs				Proposed Costs				Annual Dollars	Percent
		Unit Cost	Subtotal	Per Capita	Per Family	Unit Cost	Subtotal	Per Capita	Per Family		
1. Medical	100	100.00	10,000.00	100.00	100.00	10,000.00	100.00	100.00	10,000.00	100.00%	100.00%
2. Non-Medical	100	50.00	5,000.00	50.00	50.00	5,000.00	50.00	50.00	5,000.00	50.00%	50.00%
<b>Total Health Care</b>	<b>200</b>	<b>150.00</b>	<b>15,000.00</b>	<b>150.00</b>	<b>150.00</b>	<b>15,000.00</b>	<b>150.00</b>	<b>150.00</b>	<b>15,000.00</b>	<b>100.00%</b>	<b>100.00%</b>

Line Item	Quantity	Present Costs				Proposed Costs				Annual Dollars	Percent
		Unit Cost	Subtotal	Per Capita	Per Family	Unit Cost	Subtotal	Per Capita	Per Family		
1. Medical	100	100.00	10,000.00	100.00	100.00	10,000.00	100.00	100.00	10,000.00	100.00%	100.00%
2. Non-Medical	100	50.00	5,000.00	50.00	50.00	5,000.00	50.00	50.00	5,000.00	50.00%	50.00%
<b>Total Health Care</b>	<b>200</b>	<b>150.00</b>	<b>15,000.00</b>	<b>150.00</b>	<b>150.00</b>	<b>15,000.00</b>	<b>150.00</b>	<b>150.00</b>	<b>15,000.00</b>	<b>100.00%</b>	<b>100.00%</b>

Line Item	Quantity	Present Costs				Proposed Costs				Annual Dollars	Percent
		Unit Cost	Subtotal	Per Capita	Per Family	Unit Cost	Subtotal	Per Capita	Per Family		
1. Medical	100	100.00	10,000.00	100.00	100.00	10,000.00	100.00	100.00	10,000.00	100.00%	100.00%
2. Non-Medical	100	50.00	5,000.00	50.00	50.00	5,000.00	50.00	50.00	5,000.00	50.00%	50.00%
<b>Total Health Care</b>	<b>200</b>	<b>150.00</b>	<b>15,000.00</b>	<b>150.00</b>	<b>150.00</b>	<b>15,000.00</b>	<b>150.00</b>	<b>150.00</b>	<b>15,000.00</b>	<b>100.00%</b>	<b>100.00%</b>

Line Item	Quantity	Present Costs				Proposed Costs				Annual Dollars	Percent
		Unit Cost	Subtotal	Per Capita	Per Family	Unit Cost	Subtotal	Per Capita	Per Family		
1. Medical	100	100.00	10,000.00	100.00	100.00	10,000.00	100.00	100.00	10,000.00	100.00%	100.00%
2. Non-Medical	100	50.00	5,000.00	50.00	50.00	5,000.00	50.00	50.00	5,000.00	50.00%	50.00%
<b>Total Health Care</b>	<b>200</b>	<b>150.00</b>	<b>15,000.00</b>	<b>150.00</b>	<b>150.00</b>	<b>15,000.00</b>	<b>150.00</b>	<b>150.00</b>	<b>15,000.00</b>	<b>100.00%</b>	<b>100.00%</b>



# Exhibit C

## Other OPEB Committee Objectives

### Decisions on Funding & Amortization of Liability

- Amortization schedule: 26 years? 30years? 40 years? Other?
- Specific Recommendation for FY2015 budget
- Funding options:
  - Taxation
  - Free cash
  - Borrowing
  - Other?

### Identify Other Potential Sources of OPEB Account Funds

- Recapture of Medicare Part D subsidies from Free Cash
- Retiree Portion of WSHG surpluses
- Billing of state and municipalities for their portion of Wayland retirees' creditable service

### Healthcare Cost Reductions (general)

- New classes of plans e.g. married couple no children
- "Rate Saver Plans 2.0"

### Healthcare Cost Reductions (retiree specific)

- Lower cost Medicare offerings
- Putting retired couples who are married on two individual plans
- Cost sharing changes on non-Medicare plans
- Grandfathering provisions: over what timeframe do we introduce these changes?

### OPEB Trust Agreement vs. Dedicated OPEB Account

### OPEB Fund Investment manager oversight & Governance

### Communications plan for OPEB Committee's Recommendations

- Selectmen
- Other Town Committees e.g. FinCom, Personnel, etc
- Public hearing to explain recommendation
- Letters/blog postings to Town Crier, Wayland eNews, Wayland Patch, etc.
- Warrant Article hearings
- Town Meeting April 2014

### Recommendations for next GASB 45 valuation

- Cost assumptions
- Fiscal year vs. calendar year basis will require it 6/30/2014 vs. 12/31/2014
- Better presentation of Page 8 data
- Better nomenclature for laypeople
- Assess impact of Affordable Care Act