



Town of Wayland Massachusetts

OPEB Advisory Committee

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

Minutes of September 24, 2013 Committee Meeting

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

This meeting was recorded and is currently available on WayCAM at:
<http://waycamtv.pegcentral.com/player.php?video=5f2426a305140dc46482be299fa15217>

The meeting was called to order at 7:06pm at the Town Building in the Selectmen's Meeting Room. The following Agenda topics were addressed:

1. Review and Approve Minutes of August 26 and September 3, 2013 meetings

The Committee approved the minutes unanimously, incorporating some discussion by Jay about whether circulating our minutes to the other members via email before the meeting might be a violation of OML. It was agreed to circulate the minutes but without asking for comments or changes by email, only to hold those comments until the next meeting.

Jay volunteered to make a request of the Attorney General's office for its position on the question of how comments can be made by committee members to an email circulation of the minutes of a meeting. His point is to strictly try to get some improvements to public transparency of meeting minutes. Cliff would welcome such a review but which would not impact only our committee.

2. Review a new Segal Report generated using Town actual costs

Jay reviewed the new report from Segal that this committee requested to be done using our history of OPEB expenses as the basis of the actuarial projections which is quite different from the GASB 45 actuarial projections. The committee discussed the various differences in the reports over and above the base issue of the much lower annual contribution that the new calculations project in comparison to the GASB 45 projections. The reports have some different columns and they are not easily compared, for instance that it seems that the new report includes some different columns in the new report that are in addition to usual report format.

A further discussion evolved around the presentation of the different numbers if we recommend to the Town that we fund the lower amount not the GASB 45 amount. It became clear that there are at least two other interested parties to the discussion that need to be dealt with; the outside auditors footnoting the annual report, and the rating agencies such as Moody's which set our bond rating. David commented on his experience working with rating agencies to understand the basis for the bond rating. His thoughts surrounding the Wayland situation is that there is more to the rate settings beyond the OPEB liability. It was agreed that going forward we would have to work with Town financial officers and auditors, Melanson & Heath to help establish the appropriate wording both in the financial statement footnotes and the standard

Management Discussion and Analysis of Results. David commented that the debt rating is important to the Town going forward to try to maintain our current rating of “Aaa”, and the loss of our current high rating impacts debt issuances going forward by between 15 and 45 basis points of potential interest expense.

Cliff suggested that we go back to Segal with the questions we have raised about the numbers and particularly the presentation. Jay took the responsibility to go back and ask for more explanations or details that make this report more understanding to the committee so that we can make our presentation to the Town more comprehensible.

3. Report on the use and options to the use of a Trust Fund for the OPEB obligations

David reported on his research and understanding of the current and recent past of the management of the funds set aside for OPEB. He first referenced the vote of the 2008 Town Meeting under Article 10 that established the fund and designated the Town Treasurer and Finance Director to supervise and manage the fund. He then referenced the specific November 17, 2010 act under Chapter 372 that the Massachusetts State Legislature authorized the creation of the OPEB Trust Fund included language that it be used only to fund OPEB. The State Act set the Town Treasurer as the custodian of the funds.

David then discussed the options we could recommend to the Board of Selectmen to help or actually manage the investments in the OPEB trust. The Town has a Trust Fund Commission already that works with the Treasurer to help manage various funds that have been placed in Trusts. The Trust Fund Committee’s mission is to maximize preservation of capital while trying to earn income, which is completely opposite to the mission of the OPEB investments which should be maximized to generate income, at least to the extent of the actuarial assumption of 7%. It would seem to be appropriate at some point to recommend to the Board of Selectmen to seek to appoint (rather than be elected, it was thought) a small investment committee to assist the Treasurer with direction and management of the OPEB Trust. Parenthetically, Cliff noted that there is not any actual trust that has been set up despite the fact that term has been used by the Town and Segal to refer to the investments made for OPEB. There remains the question of whether the Trust should be created and with what terms if so. Kent and Jay discussed the fact that an irrevocable trust would not be appropriate for all sorts of reasons.

Discussion then surrounded the fund managers, whether active or index managers, what consideration should be met with regard to mix of investments from the perspective of stock, bonds, cash and whatever. Kent noted that Brian Keveny told him that when he was in Winchester that the Town pension fund was managed by two or three very experienced money managers who were resident volunteers. They did an amazingly good job of managing the fund to the benefit of the Town. Cliff noted that here in Wayland we have some of the best in the money management business living right here in Town and we could not find a better solution if the Town sought and got volunteers for this task.

4. Report by Cliff and Maryanne of discussions of future savings with the HR Director

Cliff and Maryanne met with the Town HR Director, John S. to attempt to lay out some scenarios to develop to try to reduce overall OPEB costs. This was a preliminary discussion to be continued over the next weeks to see what can be done to lower Town costs. They discussed some savings that included a reduction in Medicare premiums that are already scheduled to be implemented as of the first of the New Year. These savings will reduce the retirement costs of an individual plan from approximately \$400 a month per retired employee to approximately \$300 a month. Maryanne was still unsure (and neglected to ask John at the meeting) as to why this was happening but thought it had something to do with the reimbursement by federal funds of the Part D Prescription costs for three years, which ends this fiscal year. Jay noted that we also need to be sure that those reimbursed refunds go into the OPEB account this year instead, as they have in the recent past, into the free cash account.

They then discussed the possibility of providing a separate family plan for couples with no dependents on the plan. Currently they may buy two separate individual plans which would theoretically cost less than the

family plan when dependents are added. John said he would definitely attempt to implement that if possible. Maryanne continued that they are looking at possibly reducing the Town's percentage of the various policies to 50% from the current percentages that vary by plan from 50% to approximately 74%. She noted that John told them that some of the new plans coming on line this coming year are already down to the 50% level.

Cliff then discussed the cost reduction plans and presented a draft schedule that showed approximately \$450,000 in annual savings through the three elements of:

- Medicare savings
- Change to the two family with no dependents, and
- Percentage of funding

Cliff also noted that within these possible proposals would be added a hardship review board for retirees who feel that they cannot meet the costs for their plan. This is similar to the way the Town provides some assistance for property tax payers. David noted that he lauds this approach but would be concerned with the slippery slope that could set. Jay also indicated that he would favor some kind of a staging process over some number of years. Cliff reiterated that these are discussion points only at this stage and would certainly need more fleshing out and put an implementation plan in place within the program as well. Maryanne noted that we certainly would need legal counsel both to the changing contribution rates and the changes in state law that are being considered this fall by the legislature.

Cliff also noted that in order to ask employees to give up something we would have to give them something and it would be more of an assurance of the availability of the funding through the trust fund. Jay brought up the concept of what bargaining by the active employees may cost to ask them to increase their retirement portion of the premiums up to 50%. Cliff and Maryanne said the John did not address those issues directly but everyone knows that they are real and need to be addressed at some point.

5. Overall objectives for this committee going forward

Cliff opened discussion about what we think are the important committee objectives that we should be focusing on. Upon discussion it was agreed that there are at least three:

- Answer the question of whether we need a real trust fund and if so what are the elements of that trust;
- How to communicate to the public our recommendations;
- What kind of interim reports should we make to the Board of Selectmen/Finance Committee?

Jay questioned how the accountings of OPEB and pension costs are recorded by department. For instance he would like to think that when the Police Chief recommends adding a head count to the force he can calculate the downstream costs of OPEB and pension as well as other future costs into his budget for that hire. David noted that the Town just gets one bill from the Middlesex Pension Board for the lump sum of the actuarial costs of the next year's required contribution. Kent noted that he does not think that those costs are allocated at all, just put in the one line item. Maryanne noted that some companies provide each employee with an annual statement of benefits with all the costs that the employer provides.

Cliff wants to start developing plans to meet the objective above. Jay offered to start building a straw man public communication document. David offered that the Finance Committee for step one we really only needs a placeholder number for the next budget. Cliff thinks that we are getting closer to recommending a comprehensive proposal and that we have a lot of the information that we need to do that already.

A long discussion evolved over past funding issues, how OPEB costs are allocated to enterprise funds and school revolving funds and how a proposed catch up to the funding could be implemented. No conclusions were reached. Then discussions went to how to present and how many years of projections of savings to which we could point.

6. Next meeting

Schedules being checked it was agreed to meet Tuesday October 8, 2013 and then next for October 29, 2013.

Prior to adjourning a discussion came up as to what protocol should be used to accept and deal with public comment that may be sent in writing.

The meeting was adjourned at 9:03 PM.

Respectfully submitted,

Kent E. George