



Town of Wayland Massachusetts

OPEB Advisory Committee

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

Minutes of July 17, 2013 Committee Meeting (As approved August 7, 2013)

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=b3ec27a00fdd71bd778a45698164f17e>

The meeting was called to order at 7:04 pm at the Town Building in the Selectmen's Meeting Room. The following Agenda topics were addressed:

1. Review and Approve Minutes of 6/26/2013 meeting

The Committee unanimously approved the Minutes. Two process suggestions were made for the Committee's work:

- Kent George asked to be routinely seated at the left hand side of the conference room table at all meetings to facilitate his ability to hear the proceedings clearly.
- Maryanne Peabody suggested that any documents to be reviewed at any Committee meeting should be circulated by the close of business on the Friday prior to the meetings, to allow sufficient time for review.

2. Evaluation of Request for Further Information – Kent George

Since Kent was absent from the June 26 meeting, Cliff Lewis asked if Kent had any major points to add about the charge of the Committee. Kent replied that his principal issue was to restore the public's trust about OPEB. He had no disagreement with any of the issues raised by other Committee members.

3. Public Comment

Gordon Cliff (member of the Audit Committee, but representing his own views) asked that the Committee focus on four areas:

- The Committee should determine whether Wayland can "un-do" or reverse the excess contributions that have been made in the past.
- A focus on the costs of Wayland's healthcare benefits plan is more important than the details of OPEB accounting.

- The Committee should not assume that the establishment of a formal Trust is necessary to restore the public's trust. In Gordon's view, this is illogical. He indicated that Wayland's Town Counsel has recommended against the formation of such a Trust.
- The Committee should recognize the strong representation of people on the Committee who have been negative on OPEB (in Gordon's view). Despite this representation, the Committee should endeavor to consider all points of view in a balanced way.

Gordon then asked that his letter to the Town Crier on these points be made part of the public record. It is appended to these minutes as Exhibit A.

4. Discussion of OPEB History in Wayland by Cliff Lewis

Cliff Lewis reviewed many past Town Meeting warrants to compile the history of OPEB in Wayland. This history is appended to these minutes as Exhibit B.

Cliff noted his concern that in FY2004 – FY2007 Wayland's budget for healthcare expenses rose 15% per year, despite general healthcare expense growing only 8%, which should have been a red flag.

Cliff noted the existence of the MMDT OPEB Fund Account. Cliff believes that Wayland's OPEB contributions were segregated from other towns' monies by the MMDT. Wayland's OPEB account balance at MMDT was \$5.7M in November 2010.

Cliff opined that the Town had no legal authority to appropriate money prior to the 11/17/2010 Special Act enabling the OPEB Trust Fund. In his view the money before the Act should have been transferred back to the Town's Free Cash.

Jay Sherry observed that the MMDT seems to have several of the functional benefits of a Trust Agreement, in terms of segregation, dedication for a particular purpose, etc.

Cliff asked Kent if the excess healthcare funds accumulated in FY2010 – FY2012 were properly accounted for as an "expense" or a transfer to the MMDT fund.

Dave Gutschenritter and Cliff said that all of the fund balances were transferred by April 2012 from the MMDT to the two current Investment Fund Managers, Bartholomew and Rockland Trust.

Cliff noted that investment returns earned on Wayland's OPEB funds from 2007 to 2012 was zero or virtually zero. The fund should have doubled over this period, per Cliff. Jay asked if this was MMDT's fault as a poor investment manager. Cliff replied that MMDT got no direction from the Town of Wayland, so they did nothing with the money. Cliff said we should talk to the Town Treasurer on this point.

Dave is to provide Kent George with the list of ledger entries on OPEB in order to reconcile the accounting of flows to and from the MMDT, "account 83" and "account 84" on the Town's chart of accounts.

Public comment on this OPEB history was solicited by Cliff. Gordon Cliff challenged Cliff Lewis' assertion that the investments in the OPEB fund should have doubled from 2007 to now.

WayCAM video on this section ends at 26:30

5. Discussion of Dave Gutschenritter's OPEB Questions for Follow Up

Dave Gutschenritter prepared a page of questions for the Committee to consider regarding the oversight and control of OPEB funds that have been appropriated by Town Meeting. This page is attached to these minutes as Exhibit C. Among the items discussed at this meeting:

- Who provides the oversight function on the investments, a town employee or a town Committee?
- How are investment managers chosen?
- Do we need an actual Trust fund, particularly if its value is to help restore the public's trust?

Dave solicited additions to this list.

Jay provided a tentative answer to Dave's question bullet #3 on Exhibit C based on discussions with the Segal Company actuary, that we do not get an itemized bill for each covered retiree. Rather the actuaries use an average for all participants

Kent believes that Donna LeMoyné (Benefits Coordinator for the Town of Wayland) reconciles each of the monthly bills she receives (from West Suburban Health Group, Unum, etc) back to each individual employee & retiree.

Jay described the cost sharing by Wayland with other members of the West Suburban Health Group.

Jay agreed to get the precise cost sharing formula used by West Suburban Health Group to bill Wayland for its exact healthcare costs.

Dave & Kent reminded the Committee of the importance of not accessing personally identifiable information regarding healthcare.

Dave noted that Wayland Treasurer Paul Keating (not the Finance Committee) selected Bartholomew and Rockland Trust.

WayCAM video on this section ends at 40:30

6. Discussion of Current Personnel Policies, Town Contracts, State Statutes & Town Votes regarding Healthcare Benefits & OPEB by Maryanne Peabody

Maryanne Peabody researched the contracts and laws that require Wayland to pay OPEB.

All union labor contracts (except contracts negotiated by School Committee) define healthcare benefits and the associated cost sharing between active employees and Wayland. These appear on the Town website under the Personnel Department section "For Employees". Changing these benefits would require re-negotiation when the contracts expire and are renegotiated.

Jay shared with the Committee the "New Health Insurance Rates – FY14 for Retirees" chart shown on Wayland's website by clicking on "For Retirees only", then "Insurance Information, then "Retiree Health Insurance Rates CY14"". This chart is shown at:
http://www.wayland.ma.us/Pages/WaylandMA_Retirees/benefits/retinsrates14.pdf

Kent is going to look into those retirees who may not be eligible for Medicare, even though they are over 65.

MGL Chapter 32B governs OPEB healthcare and life insurance benefits for active employees of “governmental units” (towns, cities or other political subdivisions of the Commonwealth), retirees and dependents.

Wayland first voted in a ballot election on 3/5/1958 to accept MGL Chapter 32B sections 1 – 12 & 14. This requires Wayland to contribute at least 50% of healthcare insurance premiums to **active employees** who regularly work 20 hours per week or more.

Wayland then voted in a ballot election on 3/4/1968 to accept MGL 32B section 9A which requires Wayland to pay 50% of the healthcare & life insurance premiums of **retirees**.

Wayland next voted in a ballot election on 3/2/1970 to accept MGL 32B section 9D which requires Wayland to pay 50% of the healthcare premiums of **surviving spouses** of employees and retirees.

Wayland next voted in a ballot election on 3/5/1973 to accept MGL 32B section 11B which requires Wayland to extend contributory group medical insurance to retirees. (Jay asked how this was different from section 9A. Maryanne commented that she had the same question but this is how the ballot question was voted even though it seems to have duplicated a previous ballot vote)

Wayland voted at Town Meeting of 4/27/2006 to accept MGL 32B section 18 which provides for the mandatory transfer of all Medicare-eligible retirees to Medicare and to various Medicare Extension Plans. The text of this provision was in effect until July 1, 2011 when Chapter 32B – section 18 A provided text that clarified situations permitting Medicare eligible retirees who have spouses and benefits-eligible dependents who do not qualify for Medicare to remain on family plans.

MGL Chapter 4 section 4B outlines the procedure for towns to use for rescission of Massachusetts General Laws previously voted and accepted. The restriction that relates to OPEB is the following: Paragraph c states that “this chapter shall not apply to any action taken under chapter thirty-two or thirty-two B.”

MGL 32B section 9A ½ provides a procedure for towns like Wayland to get reimbursement for OPEB payments made to retirees who worked for multiple towns or governmental units during their careers. Thus an employee who started working for Sudbury but retired from Wayland would get paid his full OPEB by Wayland, but Wayland could bill Sudbury for Sudbury’s pro rata share. The reverse is also true: Wayland could receive bills from other towns for creditable service earned by former Wayland employees but who retire from those cities and towns. In practice, according to John Senchyshyn, Wayland Personnel Director, in these instances the town bills for the pro rata amount. Some towns pay and some towns don’t. MGL Chapter 32B section 9A1/2 provides that “in default of such payment, the governmental unit may maintain an action of contract to recover the amount due.” The Committee commented that these provisions go two ways in that Wayland can be billed as well.

Maryanne concludes that the Town is legally obligated to pay at least 50% of the healthcare insurance premiums for its retirees and their dependents. There are both Medicare-eligible retirees and retirees who are not yet Medicare-eligible on plans with current town cost-sharing formulas of 74% (individual plans) and 64% (family plans). Decreasing the town’s percentage contribution rate is a decision that can be made by the Selectmen. Maryanne recommends that if this is what the Committee recommends that this potential change be made in conjunction with

the Personnel Director, the Personnel Board, the Finance Committee and the Benefits Coordinator at a time prior to the next open enrollment period so that retirees can learn about the changes, make informed decisions about plan costs and make changes if they wish. Maryanne suggested that the Committee needs to research MGL 32 and 32A to see if there are any restrictions on the Town vis a vis the laws relating to retirement and any specific laws or contracts relating to retirement of teachers.

Other changes that might reduce Wayland's OPEB expense include potential changes the Commonwealth makes to increase the minimum retirement ages for employees and/or increase the number of years required to receive benefits, which presumably would keep employees active longer but reduce their retirement periods and the associated OPEB expense. It would also decrease replacement costs for new employees.

Maryanne noted that the Massachusetts Municipal Association's representative to the OPEB Commission voted against the proposed OPEB legislation specifically because it freezes OPEB cost-sharing between retirees and municipalities at current levels.

Maryanne read a comparison of Wayland's cost-sharing to that of other MMA members. In general, Wayland is paying slightly more for individuals but less for family costs than other Massachusetts towns.

Cliff asked Kent George for the financial impact of moving all OPEB contribution rates to 50%.

Kent asked Maryanne about the Commonwealth's law which enables towns to compel their employees to join the GIC health plan, independent of the collective bargaining process. Maryanne replied that with Wayland's work so far, all new employees receive rate saver plans and nearly all of our current employees have moved to Rate Saver Plans. This means that there are probably little or no additional savings to be had by moving to the state (GIC) plan. In addition, we lose some flexibility in that we would have to accept whatever the state negotiates rather than having the flexibility that we have as active members of the West Suburban Health Group. The Personnel Committee looks at this every year.

Jay asked why the union labor contract with the Wayland Teachers Association is silent on healthcare cost-sharing, instead of being explicit like other union contracts. Dave suggested that Barb Fletcher (chair of Wayland's School Committee) be contacted on this point.

Public comment: Carol Martin noted that every US citizen is entitled to Medicare Part A (insurance for hospital stays), but they must work 40 quarters to qualify for Medicare Part B (insurance for physician services)

WayCAM video on this section ends at 1:26:30

7. Follow up on Jay Sherry's Conflict of Interest disclosure discussed in June 26 meeting

Jay said that the Board of Selectmen had received his Disclosure regarding his conflict. Jay's wife is a Wayland teacher who will qualify for OPEB benefits in the next two years. The Board subsequently determined that the financial interest is not so substantial as to be deemed likely to affect the integrity of the services that Wayland can expect from Jay. This determination was filed with the Town Clerk on July 9, 2013.

8. Discussion of Segal Company Report and Legislative Contacts - Jay Sherry

Page number references are to the Segal Company Valuation Report as of 12/31/2012, found at: http://www.wayland.ma.us/Pages/WaylandMA_Selectmen/OPEBDec2012.pdf

Page 8, column 6 for 2038: Segal believes \$103.3M is needed by 12/31/2038 to fully fund Wayland's OPEB liability based on Wayland's current healthcare plans and Segal's actuarial projections of how the expense will grow. Jay noted that this number has changed dramatically over the past several years, from as little as \$102M in 2008, up to \$132M in 2010, based on prior Segal valuations. Jay noted that these changes were due to investment return assumptions, healthcare costs increasing somewhat less, offset by earlier than projected retirements.

Jay observed that it will be very difficult for townspeople to rationalize an aggressive OPEB funding plan of \$100M+ whose chief benefit is to drive an actuarial value in a footnote to Wayland's financial reports down to zero. He compared it to the many years of discussion around the building of the new high school, a smaller funding project with far more tangible benefits to the town.

Page 8, column 1 for FY2013: Jay discussed the difference between the actuarial expense of \$1.978M shown in the report, and the \$1.531 expense recorded on the town's ledger for the same period. Dave Gutschenritter explained that the \$1.531M is a per capita average actual expense for FY13 (for all participants, active or retired) multiplied by the number of retirees. Segal increases this number using an actuarial table to estimate the cost impact of older participants using more healthcare than this per capita average. (See the Hypothetical Cost Curve chart on Page 3 of the Segal Report for another explanation of this effect)

Cliff expressed a lot of concern about the quality of the inputs given to Segal. He asked to see the inputs from Donna LeMoynes census spreadsheet that go into Segal's actuarial model. If the inputs are incorrect, the valuation report will be incorrect. Kent believes the census data input quality is quite good, but somewhat dated by using data that is a year or more old.

Cliff is skeptical about Wayland's healthcare costs generally, because the actual expenses have been reported for FY11 variously as \$7.5M but also as \$5.5M. Per Cliff, if we don't know the actual expense from two years ago, how can we make solid projections into the future?

Jay asked why the OPEB liability (the UAAL of \$28.3M on page 8, column 8, for 12/31/2012) is not shown in the blue "Town of Wayland Annual Report for 2012". Kent replied that according to GASB rules, the OPEB liability is shown as an off-balance sheet item disclosed in the footnotes to the financial statements, not in the balance sheet proper. Cliff noted that in this respect the FASB treatment of OPEB for corporations is the same as GASB: by an off balance sheet footnote.

Dave indicated it will be very difficult to explain the actuarial science to laypeople in only 20 minutes, and that we will need a more complete information and education session for the public.

Jay said he'd made no progress at reaching Tom Conroy re the OPEB Commission, so Maryanne agreed to pursue the MMA representative on the Commission.

WayCAM video on this section ends at 2:03:00

9. Discussion of OPEB Accounting Activities -Kent George

- We have a good database of actual costs for healthcare going back multiple years. Kent noted particularly the care that Donna LeMoynes takes in reconciling each month's bill from West Suburban Health Group.
- But Melanson Heath & Company (Town of Wayland's independent auditing firm) needs to better explain how they get the Segal report figures properly moved over to the audited financial statements, including footnotes.

WayCAM video on this section ends at 2:06:30

10. Next Steps for Next Meeting (Scheduled for August 7 2013 7:00 PM)

Dave:

1. How are the investment managers chosen?
2. Who oversees them? Who should oversee them?
3. 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?

Jay:

1. Get input assumptions
2. Continue evaluation of Segal Company report

Maryanne:

1. Establish contact with the Commonwealth's OPEB Commission via Tom Conroy or MMA representative to track progress of the new OPEB legislation.
2. Maryanne and Cliff: to look at potential cost savings to the town in changing contribution rates based on the detail that Kent provided.

Kent:

1. Collaborate with Jay to ensure that the data from the Segal Reports ties to Wayland's financial statements prepared by Melanson Heath & Company.

WayCAM video on this section ends at 2:23

11. Further Public Comment at end of Meeting

There was extended discussion between Don Bustin and the Committee regarding the nature of on-balance sheet liabilities vs. off-balance sheet liabilities shown in a footnote.

WayCAM video on this section ends at 2:30:00

12. Adjournment: the meeting was adjourned at 9:41 PM

Exhibit A
Letter of Gordon Cliff to Town Crier

Next steps on OPEB

Given the many discussions and considerable progress we've made in the past several years on OPEB, it seems to me that we have three major remaining issues to address:

1. How should we effectively "undo" the excess contributions that were made?
2. Other than that, what more do we need to do to "restore trust" and develop a majority-supported game plan for moving forward?
3. What steps should we be taking to make OPEB less expensive?

On the first issue, I think the vast majority of citizens agree that we need to restart taxpayer funding of OPEB at a significant level at some point, but a majority that were at Annual Town Meeting decided that we should not contribute this year in order to help undo the excess contributions of the past. Fine. Hopefully our new OPEB Temporary Advisory Study Committee ("OTASC"?) will propose an approach that a majority can agree undoes the excess and gets us back on an appropriate funding schedule.

On the second issue, we need more clarity on what the real concerns are. Yes there are many uncertainties, but my sense is that retiree health care is actually relatively "settled territory" at this point from a methodology, assumptions to use, accounting, legal, and administrative standpoint. Most importantly, I believe we should commit to an overall game plan that is based on the principle of taxpayer funding each year at the amount our actuaries recommend (absent the "undo the excess" point noted above). Pay what we owe - it's that simple. Anything less would be just pushing our costs onto future taxpayers. On communication, the information that was included in Article 4 of the 2013 Annual Town Meeting Warrant was plenty detailed but seemed understandable. What more, if anything, is needed?

On the third issue, we need to determine what flexibility we have to negotiate with our employees to reduce our OPEB costs. Few non-government employers provide retiree health coverage anymore. Most that do still provide it have significantly tightened eligibility criteria (e.g., only employees who have 15 years of service after the age of 40 qualify for the benefit). We should be actively considering that and other cost-reduction actions. (Likely this issue should belong to the Personnel Board and other bodies rather than the OTASC.)

The Board of Selectmen has established the OTASC with strong representation (some might argue overrepresentation) from residents who have been critical of positions that our town officials have taken on OPEB in the past. It will be interesting to see what path forward the OTASC recommends given the many considerations involved.

Gordon Cliff
Highfields Road
(While I am a member of the Audit Committee, the views expressed in this letter are my own.)

Exhibit B

OPEB Advisory Committee Meeting 7-17-2013

OPEB History for Wayland: Draft, prepared by Clifford Lewis 7-17-2013

- From FY 2004 to FY 2007, Wayland budgeted an increase in Health Care expenses greater than 15% per year compounded annual growth.
- By FY 2007 a surplus of \$750,000 had accumulated which was transferred to the Massachusetts Municipal Deposit Trust (MMDT, a State entity). The account is labeled "MMDT OPEB Fund Account".
- Continued surpluses accumulated throughout FY 2008 and further through November 2010. These funds totaled \$5,659,632.06. All were transferred to the MMDT.
- November 17, 2010 the Massachusetts General Court (Legislature) approved Special Act Chapter 372 authorizing the Town of Wayland to establish a fund to provide postemployment benefits other than pensions (OPEB). The Special Act had been previously approved by the Wayland Town Meeting on November 12, 2008, but had no force of law until passed by the General Court two years later. Until passed by the General Court, the Town of Wayland had no basis upon which to set aside OPEB funds.
- Excess health care funds continued to accumulate throughout FY 2010, 2011 and 2012. It is very unclear if these excess funds were accounted for as an "expense", but in any event, healthcare funds that were not actually spent were never returned to the Town's General Fund (free cash).
- A total of approximately \$10,000,000 of money had accumulated in this fashion from 2004 through September 2012.
- Virtually zero interest or return on investment was earned on the OPEB funds from 2007 through 2012.
- Beginning in April 2012, the management of the Town's OPEB funds was transferred equally to Commonwealth Financial Network (Bartholomew) and to Rockland Trust. It is not clear how these managers were selected and how they are supervised.

Exhibit C

OPEB Advisory Committee Meeting 7-17-2013

OPEB Questions for follow-up: Draft, prepared by David Gutschenritter 7-17-2013

- What controls are in place to insure that any unspent monies that were appropriated for OPEB as part of the Annual Budget are returned to Free Cash?
- What role does the Town Auditor play in the control framework? The Audit Committee?
- Does the Town get an itemized bill for each covered retiree for OPEB? Should the Town get such an itemized bill?
- How were the Investment Managers (Bartholomew and Rockland Trust) chosen?
- Who oversees the investment managers? Who should oversee them?
- Can Wayland pass a warrant article to establish oversight of the treasurer in his role as the administrator of the Trust Fund? If yes;
- What should the oversight function look like
 - An existing Committee
 - Trust Fund Commission
 - Finance Committee
 - Board of Selectmen
 - Special purpose Committee
 - A Town employee
 - Town Administrator
 - Treasurer
 - Finance Director
 - Other
- What have the actual expenses been versus the approved appropriation since fiscal year 2008?
- Do we need an actual trust fund?
 - What are the pro's and con's