



Town of Wayland Massachusetts

OPEB Advisory Committee

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

Minutes of February 10, 2015 Committee Meeting

In attendance were Cliff Lewis, Kent George, Jay Sherry, Maryanne Peabody and David Gutschenritter. The meeting was videotaped and is currently available on WayCAM On Demand at:

<http://waycamtv.pegcentral.com/player.php?video=28d347559782911705bc400216e45252>

The meeting was called to order at 7:01 PM by Chair Cliff Lewis in the Small Conference Room on the second floor of the Wayland Town Building. The following Agenda topics were addressed:

- 1. Public Comment:** There were no members of the public present at this meeting.
- 2. Discussion of Warrant Article and OPEB expectations**

The Committee discussed several elements of expectations for eventual success in attaining the goals for OPEB funding.

It was noted that Cliff and Maryanne met with the Town Administrator to discuss potential cost reductions for retiree plans and what could be done there.

- 3. Accept Revision D of Managing Wayland's OPEB Investment Account**

The Committee reviewed and agreed to accept the attached Investment Management of OPEB Investments document.

- 4. Date of next meeting and adjournment**

The next meeting was set for February 25, 2015.

The meeting adjourned at 9:33 PM.

Respectfully submitted,

Kent E. George

Attached: Managing Wayland's OPEB Investment Account

Managing Wayland's OPEB Investment Account

Revision: D

January 7, 2015

Introduction:

In 1968, the Town of Wayland, by a vote at Town Meeting, approved Other Post-Employment Benefits (OPEB) for its employees. This obligation is principally to cover the employer portion of the cost of healthcare insurance for retired employees. There were no funds set aside to cover this future obligation from 1968 to 2007.

In 2007, the Town began setting money aside to cover the future obligations. This money is in a separate account, which we will refer to as the OPEB Investment Account, where it is intended to earn an investment return. The projected returns on the OPEB Investment Account, along with annual contributions from the Town, are expected to cover the future expected liabilities.

Determining the future liability is a required part of an actuarial valuation performed by an independent actuary for the Town every two years. The future liability is large – in the range of \$100 million. While the OPEB Investment Account today is less than \$13 million, as it grows, the need to achieve the investment return becomes critically important.

Legislation:

In 2010, the Massachusetts General Court (State Legislature) enacted Chapter 372 of the Acts of 2010 (Wayland's Special Act) authorizing the Town of Wayland to establish a fund to meet its future OPEB obligations. Wayland's Special Act takes precedence over a more encompassing Act passed by the State Legislature that is applicable to most towns in the Commonwealth.

Wayland's Special Act specifies that the fund shall be under the supervision and management of the Town Administrator and the Finance Director and that the Town Treasurer shall be the custodian of the funds, with the ultimate responsibility to invest the funds prudently.

Wayland's OPEB Committee:

Recognizing that both actuarial judgment and investment management are critical skills to establish and manage the OPEB Investment Account, and that neither are core competencies of any employees of the Town, the Town Selectmen established the Temporary OPEB Advisory Committee in 2013 to chart a path going forward. Critical to that path is the management of the OPEB Investment Account. This document charts the course for oversight of that account.

Investment Policy:

Many tomes have been written on investment policy, but the policy of the Wayland OPEB Investment Account is simply to invest the funds of the OPEB Investment Account in a manner consistent with a Prudent Investor, such that those funds, along with annual contributions from the Town, will be sufficient to meet the Town's future OPEB obligations. The initial goal of the fund is to reach a fully funded status by year-end 2038. The fully funded status is the amount determined by an actuarial review of the OPEB Investment Account asset balance compared

to the actuarial accrued liability. Wayland's policy is to fund the actuarial accrued liability on a premium-based forecast of Wayland's actual cash expenditure on OPEB and not on a GASB45-based forecast. After achieving fully funded status, the OPEB Investment Account will be targeted to supplement any annual Town contributions to maintain a fully funded status as actuarially determined.

Implementing the Investment Policy:

On a long-term basis, the Town will need investment management guidance commensurate with the management of a \$100 million investment account. The Town will also need guidance, on a long-term basis, to determine appropriate assumptions used in the periodic actuarial studies. The OPEB Advisory Committee believes that the best source for this specialized expertise will come from a few of the Town's public-spirited citizens. We believe this can be done under the existing legislation, so long as the Town Treasurer is comfortable with such an arrangement and so long as it is universally recognized that the ultimate responsibility for the Town's OPEB Investment Account resides with the Town Treasurer.

Investment Advisory:

We, the OPEB Advisory Committee, propose establishing an Investment Advisory group to advise on investment decisions. The group would consist of three volunteer investment professionals, who customarily manage funds of the magnitude of the OPEB Investment Account on a professional basis. For the first three years, to ensure a smooth transition from today's OPEB Advisory Committee, a representative from the current OPEB Advisory Committee would also be part of the Investment Advisory group. The OPEB Investment Advisory Group would be informally organized by the Town Treasurer, to serve at his/her pleasure. It would meet at least quarterly, or more frequently, on an ad-hoc basis to advise on investment decisions. The principal goals of the Investment Advisory Group would be:

- 1) To periodically review the Investment Program Alternatives noted below
- 2) To periodically offer advice on investment allocation such as those noted in Table A below and to offer advice on revisions to Table A as appropriate
- 3) To advise on actuarial assumptions noted above
- 4) To advise on revisions to investment account reporting criteria
- 5) To review funding status of the OPEB Investment Account and advise on modifications to the Investment Policy and investment allocation targets as required
- 6) To advise on any impact that future legislation may have on the OPEB Investment Account

Investment Program Alternatives:

There are three basic alternative investment approaches that need to be considered. These are:

- 1) Investing with the Pension Reserves Investment Trust, commonly known as PRIT managed by the Commonwealth's Pension Reserves Investment Management Board.
- 2) Self-directed Investing
- 3) Other Professional Investment Management

Each of these three are to be considered periodically.

Asset Allocation Decisions:

Should an Investment Program of self-directed or professionally managed funds be selected, the Town Treasurer, with assistance from the Investment Advisory Group will issue an asset allocation table, similar to Table A below. This table will be periodically revised as conditions warrant.

Reporting:

With assistance from the OPEB Investment Advisory Group, the Town Treasurer will report the following information on a calendar quarterly basis. The report will be publically available on the Treasurer’s website not more than two weeks after the close of each calendar quarter and will include the following:

- 1) Investment Policy and rate of return goals
- 2) Current asset allocation goals, (Table A)
- 3) Funding Status of the OPEB Investment Account
- 4) Quarterly, YTD Return, overall and by investment Manager, before and after any applicable accrued management fees
- 5) Detailed quarterly holdings by each investment manager

Table A

Town’s **OPEB Investment Account Asset Allocations:** December 2014

Asset Class	Target Range	Central Tendency*
Cash	0 – 5%	~2%
Fixed Income	15 – 25%	~20%
Equities	70 – 80%	~75 – 78%
Alternatives	0 – 5%	~0 – 3%

Investment Return Goal: December 2014

The rate of return required on the OPEB Investment Account as of December 2014 to meet the actuarial goals is 7%.

* We use the term “central tendency” to generally describe the mean value or the typical annual return we would expect over a long period of time.