

Finance Committee OPEB Subcommittee Minutes

July 26, 2011, 4 P.M.

The meeting was called to order at 4:15 p.m. in the first floor meeting room, Town Hall. Present were subcommittee members Kay Moran, Bob Saul and Doug Slaughter, and Finance Director Sanford Pooler.

Agenda

1. Review of OPEB Actuarial Study.
2. Review of Town's previous action to establish an OPEB trust.
3. Discussion of OPEB funding options, including review of options employed by other communities.
4. Discussion of future sub-committee work, scope of committee charge, and timelines.
5. Next meeting and agenda
6. Topics not reasonable anticipated by the chair 48 hours in advance of the meeting

Discussion and action

1. Review of OPEB Actuarial Study.
Pooler said this study was done for 2010 and another will be done in two years as required. The Town's total liability is now \$50 million to \$74 million, depending on assumed return on investment (7% vs. 4%). It's a big number that will grow if we do nothing. Health insurance costs will increase; a policy to simply limit the increase would mean shifting costs to employees and retirees. Have to earn over time more than cost inflation over time.
2. Review of Town's previous action to establish an OPEB trust.
Last fall Town Meeting adopted MGL that allowed the Town to set up the OPEB trust fund. New legislation this year changes requirements of such a fund. Pooler said we need to find out what if anything the Town must do to comply with the new legislation.
3. Discussion of OPEB funding options, including review of options employed by other communities
Saul said one policy recommendation might be to decide on an amortization schedule that we'll stick to. Choosing annually how much to contribute is no policy at all. Slaughter pointed out that funding the OPEB obligation is not yet mandated, so others will see it as discretionary. Possible negatives: it's too expensive, what's wrong with pay as you go, since it'll be a pain for 30 years. What's needed is national health care reform, but we can't count on that. In the private sector, companies coped by taking away retirement benefits for employees or making a one-time payment while transferring future health insurance responsibility to the employee unions; subcommittee members do not like that option for Amherst.

Pooler said that at a conference he attended someone suggested that the state should establish an OPEB trust fund every community can contribute to. There was also a suggestion that the state kick in some money. The town already gets state aid.

Saul wonders if the town might link an increase in health care costs, over which town has some control, to the rate of return on OPEB trust funds. Moran doesn't like that because there are too many variables. Slaughter says it could mean shifting costs to employees.

Pooler said it's important to maintain good relations with unions over health in benefit structure. This was not the case in Newton, Pooler said.

One suggestion made by the Town of Brookline's OPEB Task Force two years ago is to shift to a more efficient purchasing program for health care benefits, such as the state Group Insurance Commission, which has the advantage of size in negotiating contracts with health care providers, or offering plans that mimic GIC options. We could mitigate the change for employees if a quarter of the resulting savings is given back to employees, and the rest is put into a "pot" from which employees who have high costs can draw. Pooler thinks this is an option to consider.

Pooler said only Needham (because its health care costs are low) and Wellesley (maybe) pay their Annual Required Contribution (ARC) every year into their OPEB trust funds. Brookline is ramping up to that, putting in \$250,000 the first year, \$500,000 in second year, then increasing by \$250,000 increment each year. Equivalent for Amherst would be \$30,000-\$40,000. Town Meeting would have to approve each annual appropriation. No other community is currently paying their ARC. Pooler: we should ramp up. Saul: Should we set a goal, how much to put in to reach the goal of ARC in 10 years? Pooler: ramping up makes sense because the town will eventually pay off its pension liability and can redirect those funds to OPEB. This could take 30 years, however.

Another Brookline suggestion was to prorate health care benefits based on length of service. Pooler doesn't think this is legal. Currently, Amherst employees must have 10 year service to be eligible for retired health care benefits. Pooler: while pension benefits are apportioned among different communities somebody worked for, health insurance benefits are paid by the employees' final employer.

Other Brookline cost-containment suggestions included setting different contribution levels for current and future retirees, increasing eligibility from 20 to 24 hours a week (state law currently prohibits this), and prorating retirement creditable service for part-time employees (savings would be negligible). Brookline has not adopted these.

Besides a straight annual appropriation, Brookline funding suggestions also included transferring any surplus from each year's health insurance appropriation to OPEB fund, which is worth considering; extending debt-exclusion overrides beyond the date those debts are paid and using the money for OPEB, which would require special legislation and another town-wide override vote; apportioning OPEB fund payments to the enterprise funds, which already pay a percentage of overhead; and issuing benefits-obligation bonds with the hope of investing the money at a higher percentage than the debt payments, which we think is too speculative.

4. Discussion of future sub-committee work, scope of committee charge, and timelines.

Is our charge to frame the discussion for the full Finance Committee, or to make recommendations for steps to take? We're unsure.

For discussion at the next meeting, everyone will bring a ranked list of his or her top three of possible solutions discussed today, plus a new idea. Pooler will price some out.

5. Next meeting and agenda

Meet Tuesday, Aug. 23 at 4 p.m.

6. Topics not reasonably anticipated by the chair – None.

Adjournment

The meeting adjourned at 6 p.m.

Kay Moran, acting clerk

Documents used at the meeting

The Town of Amherst's actuarial valuation as of June 30, 2010.

Report of the Town of Brookline's Other Post Employment Benefit Committee, June 23, 2009.

A brief history of OPEBs in the Town of Brookline, March 29, 2010.

The section of the Mass. House-Senate Conference Committee report on H3535 that amends the standard state sanctioned OPEB trust fund.