

Approved 3/5/15

Amherst Finance Committee meeting
Saturday, February 28, 2015
Amherst-Pelham Regional Middle School Library

This session, beginning at 10:55 a.m., was a continuation of the joint meeting of representatives from the four Amherst-Pelham Regional towns of Amherst, Leverett, Pelham, and Shutesbury.

MEMBERS PRESENT: Bernie Kubiak, Kay Moran (chair), Janice Ratner, Doug Slaughter.

OTHERS PRESENT: Amherst Finance Director Sandy Pooler; Amherst Town Manager John Musante; School Superintendant Maria Geryk; School Finance Director Sean Mangano; Amherst Select Board members Alisa Brewer, Connie Kruger, and Andy Steinberg; members of the Amherst-Pelham Regional School Committee; representatives from Leverett, Pelham, and Shutesbury; and Daniel Sherman, Director and Consulting Actuary, Sherman Actuarial Services, LLC.

AGENDA

Sherman presented explanations of the actuarial valuation reports that he did of other post-retirement benefit plans for the Towns of Amherst and Pelham and for the Amherst-Pelham Regional School District. All were current as of June 30, 2014.

Most communities had been paying retirees' health benefits as they came up (pay-as-you-go) and not pre-funding them until the Government Accountings Standards Board a few years ago issued Standards 43 and 45. These mandate that communities report their long-term liabilities for such benefits, just as they must report pension liabilities. While Massachusetts communities must make progress towards pre-funding pension liabilities, there is no such requirement yet for retiree health benefits. Rating agencies look at these liabilities and progress (or lack thereof) toward funding them, which affect a community's balance sheet and the interest rate that community might have to pay when borrowing.

Sherman said most communities have, like Amherst and Pelham, begun putting funds aside into an Other Post Employment Benefits (OPEB) trust fund. While Amherst's contributions so far have been small, they mitigated the increase in total liability. Amherst's liability was \$94,113,695, up just \$405,334 from two years earlier. Pelham has been even more aggressive, with a long-term plan for pre-funding retiree health benefits. The Region has not yet begun setting money aside. As of June 30, 2014, the Region's liability was \$66,693,647, nearly \$5 million more than two years earlier.

Advantages to pre-funding: More economical over time, as investment returns on OPEB fund supplement employer and employee contributions; helps maintain a good bond

rating; OPEB fund assets act like a reserve to smooth large increases in medical costs or high numbers of people under 65 retiring at once (retirees under 65 being more expensive to the town than those 65 and over, who are on Medicare); helps control the growth of a liability. Disadvantages: Higher short-term cash outlay; higher administrative costs; more complex.

Advantages to pay-as-you go: Lower current cash outlay; no administrative costs for a new, separate trust fund; easier to understand. Disadvantages: No investment earnings to offset costs; potential reduction in credit rating; large net OPEB obligation on balance sheet; shifts costs to next generation of taxpayers, who will be paying for services provided to earlier generations.

The meeting adjourned at 11:45 a.m.

Kay Moran, acting clerk

DOCUMENTS USED AT THE MEETING

Town of Amherst Post Retirement Benefits Plan Actuarial Valuation Report, June 30, 2014

Town of Pelham Post Retirement Benefits Plan Actuarial Valuation Report, June 30, 2014
Amherst-Pelham Regional School District Post Retirement Benefits Plan Actuarial Valuation Report, June 30, 2014

Lists of advantages and disadvantages of pre-funding vs. pay-as-you go health benefits for retirees