

BELMONT WARRANT COMMITTEE MEETING MINUTES

**JANUARY 24, 2018, 7:30 P.M.
CHENERY COMMUNITY ROOM**

Present: Chair Epstein; Members Alcock, Crowley, Dionne, Fallon, Helgen, Libenson, Lisanke, Lubien, McLaughlin, Schreiber, Slap, Weis. Member Doyle arrived at 8:40pm.

Town Administrator Patrice Garvin

The meeting was called to order at 7:33 pm by Chair Epstein.

Chair Epstein began by reviewing the evening's agenda.

I. Approval of Minutes

The minutes of 11/1/17 were approved with 1 abstention. The minutes of 12/13/18 were unanimously approved.

II. Introduction of Town Administrator

Chair Epstein introduced the new Town Administrator, Patrice Garvin. Finance and budget are a key interest of Ms. Garvin. Ms. Garvin has been a member of a town finance committee previously and attended finance committee meetings as Town Administrator in Shirley, MA. She looks forward to working with and being a resource for the Warrant Committee.

III. Discussion of June 2017 OPEB Liability Estimation

Chair Epstein introduced Ralph Jones, chair of the temporary OPEB Funding Advisory Group. Mr. Jones was attending to present a summary of the December 2017 report prepared by town's actuarial consultant Segal Group. The report (attached) is titled "Review of June 30, 2017 Other Post-Employment Benefits (OPEB) Actuarial Valuation." Mr. Jones reviewed the background of the study team and stressed that previous estimates of the town's OPEB liability suffered from a lack of actual directly relevant data on which to base an estimate. He began with several high-level observations:

- 1) OPEB funding is not required by accounting standards or by federal or state statutes.
- 2) The Segal analysis is much more granular than previous estimates and the methodology is presumably more accurate.
- 3) It is important to ensure that Belmont continues to collect relevant actual data to update the estimates in the future.

Belmont's previous estimate of OPEB liabilities, which was prepared by a different firm, was \$186.3 million in June 2016. Segal's estimate for June 2017 is \$96.7 million, a reduction of 48%. Mr. Jones said that the sense of the committee was that combined with Segal's experience with other communities and an analysis that drilled deeper into Belmont's retiree data, Segal was able to provide a more discrete analysis that included actual claims experience and Belmont's experience with the percent of retirees actually taking health benefits from the town, among other factors.

In addition to favorable claims experience and plan changes that reduced the expected liability, changes in assumptions reduced the liability by \$78 million. These included changes in per capita costs, trend assumptions, a change in the discount rate, and other factors. Chair Epstein emphasized that assumptions that must be made about costs and other factors decades in the future lead to inherent uncertainty in the size of the liability.

Mr. Jones explained the current strategy of making an annual payment to the OPEB Trust Fund per the existing OPEB policy until the pension liability is paid off, which is scheduled to happen in 2029. The annual payments being made toward the pension liability would then become available to pay down the OPEB liability by 2041, which the pro forma analysis indicates could occur by 2041. He also indicated the BOS Chair's interest in options for paying down OPEB earlier and shared a schedule of payments with options. Chair Epstein indicated that the WC would be involved in any discussions about adopting an alternative strategy for paying down the OPEB liability.

A discussion followed with questions from the WC, focusing on issues such as what the ratings agencies pay attention to, differences in assumptions between Segal and the previous firm, and why is there a difference between pension and OPEB rates of return? Mr. Jones said that recent GASB changes require Belmont to show the OPEB liability on its financial statements, but the ratings agencies primarily seem to be concerned with whether a town has a plan to pay down the liability or not. Member Lubien said that the difference in pension and OPEB rates of return has to do with the GASB accounting rules for each.

Chair Epstein stated that the limited amount of data, e.g., claims by age, available just from the Belmont plan raises a further concern about reliability of a very granular analysis. Member Lubien stated that the current study was based on two years of Belmont data but more data should become available as time goes on.

Mr. Jones indicated that his committee's next task will be to identify options for better managing future retiree health care costs. He said that Segal will continue to work with the committee and use their expertise to try to focus on anything that might affect health care costs. He also mentioned the temporary nature of the OPEB committee, and discussion followed about how to maintain OPEB oversight after the OPEB committee disbands. Chair Epstein and other members suggested folding that responsibility into the work that the WC does if there is sufficient interest. Member Lubien indicated that the

Segal report may provide a good enough template that the town could collect the relevant data in the normal course.

IV. Update on the Development of the FY19 Budget

Chair Epstein asked Ms. Garvin to discuss FY19 budget preparations. Ms. Garvin said that she has been meeting with town department heads and the school superintendent and that budget development is progressing. She indicated that the Governor's budget has been released and, based on that, Belmont will see no extra state aid. She said that the town is on target to distribute the budget to the WC by Feb. 12th. Member Weis asked about where we are in terms of the process. Chairman Epstein said that there are some areas that are behind because of the time required to bring the new town administrator on board. Ms. Garvin mentioned that part of the delay has been negotiation of some union contracts. Member Helgen asked how new growth, including the electrical substation, were affecting the budget. Member Fallon suggested the need to even out the growth in the operating budget going forward because of big ticket capital items such as the new high school, which will be faced by the town.

Chairman Epstein said that the WC will have 2nd quarter results for the current budget to review at its Feb. 7th meeting.

V. Updates: Board of Selectmen, School Committee and Minuteman

The BOS Chair again did not attend or send an alternate to provide updates. There were no other updates.

VI. Public Contributions

None.

VII. Adjournment

Member McLaughlin moved to end the meeting at 8:50 pm.



Town of Belmont

REVIEW OF JUNE 30, 2017 OTHER POST-EMPLOYMENT BENEFITS (OPEB) ACTUARIAL VALUATION

December 18, 2017

Kathleen A. Riley, FSA, MAAA, EA
Senior Vice President and Actuary

 Segal Consulting

July 1, 2017 OPEB Valuation

- Will provide the Town with the disclosure information needed for the June 30, 2017 financial statements under GASB Statement No. 74.
- Will be adjusted to June 30, 2018 to provide the Town with the disclosure information needed for the June 30, 2018 financial statements under GASB Statements No. 74 and 75.
- Will provide the Town with information to measure progress toward funding retiree medical benefits.
- Note, funding is not required by the accounting standards or by federal or state statutes.
- However, the rating agencies are monitoring actions taken with respect to retiree health benefits.

Participant Data and Related Assumptions

➤ Retirees receiving medical benefits

- 510 as of July 1, 2016
- 696 as of July 1, 2017
- 2017 figures include spouses

➤ Active employees

- 814 active employees as of July 1, 2016 (90% or 733 are assumed to elect retiree coverage upon retirement)
- 589 active employees covered for medical benefits as of July 1, 2017 (125% or 736 are assumed to elect retiree coverage upon retirement)

Estimating retiree benefits

- Develop per capita claims costs and apply trend assumptions
- In prior valuation, per capita claims costs were based on working rates.
- In current valuation, per capita claims costs for self-funded plans were based on claims experience for the prior two year. Per capita claims costs for fully insured plans were based on working rates.
- Sample per capita claims costs:
 - Prior valuation (males):

	Medicare-Eligible
Ages 50-54	\$8,996
Ages 60-64	\$15,003
Ages 65-59	\$3,853
Ages 80-84	\$6,268

- Current valuation (males)

	Medical	Rx	Total
Age 50	\$9,553	\$2,134	\$11,687
Age 60	\$13,473	\$3,009	\$16,482
Age 65	\$1,788	\$2,077	\$3,865
Age 80	\$2,405	\$2,794	\$5,199

Estimating retiree benefits cont.

- Trend assumptions in prior valuation:
 - 8.0% decreasing by 0.5% each year to an ultimate level of 4.5% per year
- Trend assumptions in current valuation:
 - Non-Medicare (Medical) – 7.0% decreasing by 0.5% each year to an ultimate level of 4.5% per year
 - Medicare (Medical) – 4.5%
 - Prescription drug – 9.0% decreasing by 0.5% each year to an ultimate level of 4.5% per year
 - Medicare Advantage – 7.5% decreasing by 0.5% each year to an ultimate level of 4.5% per year

Plan change

- **Effective January 1, 2018, prescription drug coverage for retirees enrolled in Medicare Enhance plan is provided through Aetna as a stand-alone PDP on a fully insured basis.**

Development of the Discount Rate

- **In the prior valuation, the discount rate was determined in accordance with GASB Statement No. 45**
 - GASB 45 requires that the discount rate be based on the rate of return on assets dedicated to paying retiree medical benefits.
 - For accounting purposes, a rate of 4.25% was used to reflect the partial pre-funding of future payments.
 - The discount rate used to calculate liabilities on a full-funding basis was 7.5%
- **In the current valuation, the discount rate was determined in accordance with GASB Statement No. 74**
 - GASB 74 requires that a blended discount be used that is based on:
 - the assets in the OPEB Trust (\$3.1 million),
 - the Town's funding policy (a contribution of \$250,000 per year through fiscal 2029 and then redirect the \$12,000,000 paid toward the Retirement System's unfunded liability beginning in fiscal 2020 when the Retirement System is projected to be fully funded),
 - the long-term expected rate of return on OPEB Trust assets (6.5% based on a 60/40 allocation), and
 - a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rate of AA/Aa or higher (measured by the Bond Buyer's 20 bond index – 3.58% as of June 30, 2017).
 - The blending is based on the sufficiency of projected assets to make projected benefit payments.
- A blended discount rate of 5.90% as of June 30, 2017 was determined.

Impact of Changes

- The unfunded liability reported for accounting purposes decreased from \$186.3 million as of June 30, 2016 to \$96.7 million as of June 30, 2017.
- The unfunded liability was expected to increase by \$11.5 million due to normal operations (benefits earned plus interest, less benefits paid and contributions to the OPEB Trust).
- There was an experience gain of \$6.1 million.
- The plan change reduced the unfunded liability by \$17.0 million.
- Changes in assumptions reduce the unfunded liability by \$78.0 million. The key changes were as follows:
 - Changes in per capita costs - \$14.0 million
 - Changes in trend assumptions - \$15.7 million
 - Change in discount rate - \$24.1 million
 - Other changes - \$24.2 million

Valuation Results

- The Town's portion of the Net OPEB liability is \$92.8 million.
- The Town's Total OPEB liability is 2.99% funded.
- The Light Department's portion of the Net OPEB liability is \$3.9 million.
- The Light Department's Total OPEB liability is 5.83% funded.
- The unfunded liability determined for funding purposes, discounted at the expected return on assets of 6.5%, was \$90 million.
- Based on the Town's funding policy, the unfunded liability is projected to be eliminated by fiscal 2041 (24 years), if experience emerges as expected, and there are no assumption or plan changes.