Minutes for 1/30/2018 OPEB TRUST MEETING

Minutes accepted on 10/02/2018

3 in favor, 1 abstention

The meeting was called to order by Tim Harrison at 3:25 PM. In attendance were James Smith, David Hall, Timothy Harrison and Lisa Troast. Chris Woodruff and Nancy Konisky were absent.

The first order of business was to accept the minutes from the 09/26/2017 meeting. Lisa made the motion to accept the minutes, David seconded the motion. The minutes passed 3 in favor, 1 abstained.

Chuck Patterson and Brian Jamros from Bartholomew then gave an update on the annual performance of the Town’s OPEB funds as of December 31, 2017. Our OPEB portfolio ended with a balance of $1,024,036.85. Chuck noted that our portfolio since inception has a time weighted return of 5.88%. Chuck explained that we started with a Conservative portfolio in 2013, moved to a Moderate portfolio and eventually a Moderate-Aggressive in January 2015. Our yield has reflected this change in portfolio design by keeping with the benchmarks. On a risk vs. return analysis we are trending with the higher return benchmarks and showing less loss on the stock market falls.

Tim asked when this stock market ride will end. Chuck noted that stocks were down today and interest rates are rising. Brian and Chuck both mentioned the 10 year Treasury and the indication that bond rates are going up. Discussion ensued on the local store closings and Amazon’s recent growth suggesting changes in technology forcing a market change. Jim agreed it was the nature of business, but stressed that our portfolio is right on track and he was very happy with our 5.88% weighted return. Chuck mentioned how other towns sometimes watch the market and spread out their OPEB Contributions based on market timing. Jim stated that since we invest twice a year he was pleased with how we do the investing based on dollar cost average since the investment is such a small part of our overall portfolio. Tim suggested we contact Bartholomew prior to our July investment and check how the market looks in case we want to withhold investment for better timing within the month. Chuck and Brian stressed that they will always be available as a resource, but noted our current investment plan was working well.

Tim moved onto the next agenda item – GASB45 Valuation Summary. He handed out the GASB45 update as of July 1, 2016. Our Accrued OPEB Liability is $17,417,141 with GASB45, but our discount rate was lower than what we are currently experiencing. Tim announced that we have entered into an agreement with a new Actuary. Our first question for them would be to clarify our discount rate. Jim also would like to focus on funding the Normal Cost which is $834,198 as of July 1, 2016. This will enable us to lower our overall OPEB liability.

Dave requested a clarification on what Normal Cost entails. Tim explained that normal cost is simply funding only the current employee’s active and future retirement health benefits. Dave illustrated that it is essentially a bank account for each employee showing what the town will have to pay for retiree insurance for that individual in the future. Jim stated that health insurance is a $2.7 Million dollar liability for us and that equates to 9% of the town’s overall annual budget. Jim would like our new actuary to help us come up with a funding strategy to cover our Normal Cost which is a much more attainable number than the overall unfunded liability.

Tim moved onto agenda item #5 Old Business/New Business and presented us with our current OPEB Funding Policy. Tim suggested including some verbiage to say the town would appropriate $15,000 a year per new employee hired. Jim liked this fund as you go idea, but was worried about all the variables. Discussion ensued about possible variables such as rising health insurance cost, employee death, employee separation of service, etc. Jim agreed that we need the new actuary to help us figure out a reasonable OPEB dollar amount to put aside for each new employee hired. Everyone agreed that funding the Normal Cost was a good start to chipping away at the overall unfunded OPEB liability. Dave stressed that we would keep current funding sources going alongside the Normal Cost funding for each new hire. Tim reminded us that we can’t totally ignore the unfunded piece, but this was a good plan.

David threw out the hope that if we started funding Normal Cost with all new hires, eventually we’d have enough in our annual budget to completely fund Normal Cost alone. Jim cautioned that rising health insurance rates may force that time frame out. He stressed that many towns are dealing with this OPEB liability and it has come into the spotlight. He is hoping that the State will be pushed into doing something to combat the rising costs of health insurance and its effects on OPEB liability.

Jim announced that the Board of Selectmen will be voting on a proposal to change retiree health insurance contributions to 50% if they are 65 years of age or older - no matter what health plan they are on. Currently a small number of retirees over the age of 65 are on the active plan and only contribute 30%. Tim suggested going a step further and making all retirees, no matter what age or what plan, contribute 50%. He noted that we could grandfather current employees and start this policy for all new hires. This idea sparked much interest and Jim made a note to discuss further. Tim noted that the new GASB74 increases our unfunded OPEB liability from $17M to $27M, so we really need to get creative with funding ideas.

Tim asked for any further questions. David requested that copies of the handouts be available to the absent members.

Tim made a motion to adjourn, David moved the motion and Lisa seconded that motion. All in favor of this motion.

Tim adjourned the meeting at 4:15 PM.

Respectively submitted

Lisa M Troast

Secretary, OPEB Trustees