

Call to Order

The meeting was called to order by Chairman Morris at 7:30 a.m. in the Third Floor Selectmen's Conference Room A. The meeting was taped but not live cablecast.

In attendance were Chairman Michael Morris, Vice-Chairman Mark Baldwin, Steve Caron and Thomas Hartwell. Also in attendance was Finance Director Donna Walsh, Finance Committee Liaison John Barry and Selectman Liaison Robert Landry. Absent was School Committee Liaison Paula Colby-Clements.

Approval of Minutes – November 9, 2015

Upon motion duly made by Mr. Baldwin and seconded by Mr. Hartwell, it was unanimously voted to approve the above minutes. Motion passed 4-0.

Preliminary Recommendations Discussion

Mr. Morris began the discussion on the preliminary recommendations submitted by Mr. Hartwell with regard to the causative relationship between the Retirement Board's decisions and OPEB. He asked him to summarize key points. He did so as follows:

- a) at the local level the town has pension control of town employees and non-teacher school personnel, but teachers are controlled by the Massachusetts Teacher Retirement System;
- b) upon retirement, however, teachers *are eligible* for the town OPEB;
- c) Retirement Board sets rules of eligibility, i.e. 20+ hours/week part-time eligibility for pension, which translates to after ten years vesting, lifetime OPEB healthcare coverage;
- d) many town retirement boards are changing this eligibility to full-time, i.e. Reading;
- e) he is recommending to Retirement Board to change eligibility to full-time, but has asked Retirement Board not to vote on latter until this Committee could make final recommendation to Board of Selectmen and then to Retirement Board;
- f) at last meeting of the Retirement Board Mr. Sacco, Retirement Board attorney, reviewed each of his recommendations for new employees and determined most were within the framework of applicable law;
- g) however, a grandfathering clause recommending no change of eligibility for part-timers at age 50+, he is not sure is allowable, as well as under 50 change 20+ hours going forward to count as one-year of service, as this may be discriminatory;
- h) town's own attorney's opinion should be sought in writing. Mr. Bucuzzo added that this is a specific area of the law and we may want to get referral from town counsel. He also added that these changes would not affect current unfunded liability but would have an impact going forward.

With regard to buyback provisions, Mr. Sacco said the Retirement Board has discretion to set parameters with regard to buyback credit. An employee who goes from ten/hours week to twenty hours/week can buyback that time in order to qualify for pension and OPEB. Mr. Hartwell added that one part-time hiree could affect lifetime OPEB in the area of \$200-300K/close to \$1M for six retirees. He further added that the pension decisions made by the Retirement Board directly affect the OPEB liability.

Employee Ms. Cleary commented that the population of teachers is greater than town employees and asked what is being done to address this problem in order not to lay the burden on the town employees. Mr. Morris responded that the town has no control over teachers, but he has asked our legislators to refile House Bill 59 which would bring reform, but he has found that there is little interest at the state level in addressing this problem. Mr. Baldwin added that the Committee recognizes that the problem needs to be addressed holistically for both teachers and town employees. Efforts are being made by Rep. Lyons to meet directly with representatives of the Governor's office to bring this issue front and center. Mr. Morris reiterated his appreciation for the town's employees and the sensitivities involved in addressing this problem.

Presentation by Katie McCue – Massachusetts Municipal Association (MMA)

Mr. Morris welcomed Ms. McCue, personnel and labor management specialist. The following are highlights of her presentation to the Committee:

Failed House Bill59 sought to make significant reforms both on the state and municipal levels with regard to OPEB:

- a) increase years of service, age etc.
- b) permanently freeze retiree contribution to healthcare benefits which would take away management prerogative to change premium contribution, not favored by MMA;
- c) grandfathering clause would hold current employees harmless while making significant changes for future employees; this issue was paramount and the great "sticking point" among legislators;
- d) all surviving spouses would continue to receive a benefit. However, not all communities adopted Section 32B with retirees of 12 communities receiving no benefit and retirees of 40 communities with no spousal coverage;

Political realities did not make for a positive climate for the passage of this bill. Representative Lyons has refiled this bill which is on the docket without a number assigned and will not be heard in this legislative session without intervention.

Biggest challenge for municipalities:

- a) towns own liability for teachers (\$32B) and this more than doubles liability over state (\$16B) employees;

- b) state has put aside tobacco money to pay for OPEB but has not shared these monies with municipalities;
- c) new GASB regulations require liability to be shown on balance sheet;
- d) bond rating agencies noting communities addressing this liability;
- d) health insurance contributions 65-70% higher than state minimum; larger communities paying higher contribution leading to higher total liability;
- e) most communities putting aside monies, but nominal at best to satisfy bond rating agencies, but everyone waiting to see what the state does.
- e) Massachusetts is committed to providing benefits but must be fiscally responsible and make sure that this program is sustainable; no longer considered a fringe benefit and allowances must be made to continue to provide at a fair, reasonable and equitable rate.
- f) Mr. Hartwell *reiterated his recommendations noted above in the second paragraph*. With regard to pro-ration of hours, Ms. McCue noted that the state does in fact pro-rate hours of part-timers to one-half year of service. She added that this has been left up to the individual retirement boards to pro-rate service.

Mr. Caron asked if MMA has looked at how federal government is handling this problem. She acknowledged this was national issue but do not look to the federal government as model to solve. Ms. McCue discussed the different philosophies of funding both pension and OPEB. Is it appropriate to continue to “pay as you go” or do you find a way to pre-fund this liability. This is a national issue and many states are grappling with these same issues. Mr. Hartwell noted the government would be the worst example to follow in terms of funding its unfunded liability.

Mr. Hartwell noted that there is no “white knight” that will come along and rescue the towns, and Andover needs to step up and handle the problem themselves.

Other points made:

- a) The importance of continuing consistent funding to irrevocable trust, but mandated funding is not advised by MMA because of present funding schedule of pension liability;
- b) The importance of holding the state’s “feet to the fire” on solving this issue statewide and not a problem to be borne individually and solely by municipalities;
- c) Fully funding to ARC (those receiving benefit currently and active employees who are vested) would be \$13M, whereas the town is currently funding to \$6M, which may double with GASB 75;
- d) Towns cannot support OPEB liability alone--we have to solve problem at state level.

Biggest pushback is grandfathering clauses. Encourage everyone with labor unions to determine what is fair and reasonable; bill that is prospective bill could pass easily. Example of a sticking point is the current employee aged 50+ not fully vested with eight years of service, what would be fair and reasonable ; someone aged 28 with four years of service what would benefit look like, etc. Legislators heard from employees who bought into the system with some years of service,

but would now be denied the benefit;

- e) for those communities that chose to institute 2011 health insurance reform, there was a moratorium in place that no changes could be made until 2014, provision then extended to 2016; MMA advocating that moratorium will not be extended past 2016;
- f) municipalities have fewer levers to control healthcare coverage as it is;
- g) freeze premiums pro-rated on pension amount to protect those seriously affected by increase;
- h) no expectation that municipalities will go bankrupt even though balance sheet will reflect negatively;
- i) looming cadillac tax in 2018 citing individual cost \$10,200 total premium, or \$27,500 for family plan, employer charged 40% excise tax over cost; unionized states will be hit particularly hard as benefits are usually higher; MMA advocating for mitigation, but changes in local plans expected;

Mr. Morris asked if there were community alliances that could be formed, i.e. Essex County, to address this problem. Ms. McCue thought this would create an opportunity for education and awareness and the “drum beat” must start somewhere. She mentioned that the 2011 healthcare reform took seven years to pass. She gave another example of revealing that the taxpayer association revealed that Chapter 70 funds to schools had been used for 100% health insurance. This was an eye opener for most residents.

Mr. Morris reiterated the value of finding out and publicizing what state representatives and senators are: a) knowledgeable about problem; b) interested in this problem and c) thinking about it. In this way the democratic process can begin to take shape and getting the word out to Andover residents.

Next Steps

Mr. Morris said he would like to extend an invitation to the chair of the Retirement Board to appear at next meeting to discuss these issues.

Adjournment

Upon motion duly made by Mr. Hartwell and seconded by Mr. Baldwin, it was unanimously voted to adjourn. Motion passed 3-0.

Meeting adjourned at 9:07 a.m.

Respectfully submitted,

Christine Martin Barraford
Recording Secretary

Attachments:

Mr. Hartwell's Presentation