

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 and Thomas Hartwell. Also in attendance was Finance Director Donna Walsh. Absent were Steven Caron, Selectman Liaison Robert Landry, School Committee Liaison Paula Colby-Clements and Finance Committee Liaison John Barry.

Minutes of February 26, 2016

Upon motion duly made by Mr. Hartwell and seconded by Mr. Baldwin, it was voted to approve the above minutes. Motion passed 3-0.

Recommendation X

The composition of the Retirement Board is mandated by state law, a law which is unlikely to be changed in the foreseeable future. Nevertheless, the Committee strongly recommends to the Board of Selectmen that it carefully review the makeup of the Board. Further, the Committee strongly recommends that a joint study group be formed between and among the Town's employees/retirees and the Board of Selectmen to develop a matrix of skills through which they, together, can identify the most important capabilities which Board members should possess. In that way they would be able to contribute to the successful performance of the Board and make appropriate impacts on retirement eligibility standards prospectively which, in turn, will have beneficial impacts on both of Andover's huge and growing unfunded liabilities. Present Board members should be evaluated against this matrix (see attached).

Mr. Morris asked Mr. Hartwell to expand on his recommendation. Mr. Hartwell acknowledged that he is a member of the Retirement Board. While it was originally set up to be independent from the town, its relationship with the town's finances are very much interdependent, i.e. the Board's decisions have a dramatic effect on town finances, particularly the responsibility of the town to keep the pension fund solvent. He is recommending that the composition of the board be reformed to include a) persons who have investment management experience (with \$150M of assets to manage, this is crucial); and b) a person with actuarial experience who would work cooperatively with the independent actuary to best reflect the interests of the town. He added that the Town of Wellesley uses the same actuary as Andover, but has two persons on the board who have actuarial experience who challenged the rates and assumptions used.

Mr. Morris reiterated the strong impact of the retirement board's decisions on the financial health of the town. The "door of the closet" has been locked for a long time, and it is important that we unlock that door and understand the workings of the retirement board. It is imperative that all stakeholders, current, retired employees, town management, understand the importance of the board and town management working together to effect reform. Related issues having to do with eligibility, COLA and contribution recommendations all come under the retirement board and its obligations and functions. The ability of the board to digest the consultative information presented to it is paramount in making sound decisions.

He added that many towns are on target to pay off their unfunded pension liabilities and then address the unfunded OPEB liability. Andover is scheduled to have its pension liability funded by 2032, but he believes this date will be pushed beyond 2032 as further actuarial data becomes available.

Of key importance is that the committee draws an accurate picture, dire but realistic, of what happens to the town and its workforce and retirees if reform is not accomplished. The whole unfunded liability issue “has come home to roost.” With the average age of active employees at 49, the problem needs addressing now.

Mr. Morris said the actuarial report as of 6/30/2015 will be available on March 15th and will be reviewed in light of the recommendations made.

Actuarial Report

Mr. Morris asked Mr. Hartwell to report on the conference call he and Ms. Walsh had with actuary Kathy Riley. As part of the Board of Selectmen’s goals and objectives for the Committee, an independent assessment of the town’s actuary report was to be accomplished. To that end, the rates and assumptions, mortality tables and healthcare assumptions were discussed.

The healthcare trend she is proposing is 7% for medicare and 8% for non-medicare, trending down to 5% over the next five years. Current mortality tables will be used, reflecting higher longevity and will have a negative impact on OPEB unfunded liability. Actuarial method is the same used in previous years and acceptable under GASB75. Discount rate

The rates and assumptions she is suggesting include a long-term rate of return on trust assets of 6.60%. The pay-as-you-go needs to be provided by the town. Mr. Hartwell suggested the 20-year muni rate as of 6/30/15 of 3.75% as the pay-as-you-go rate. He is suggesting 6.0% rate for long term investments.

Mr. Baldwin supported the conservative approach, as overestimating return on investment would deepen the unfunded liability and its potential impact of cutting services in the future. Ms. Walsh said the rates seemed reasonable and she would discuss with Town Manager. Discussion ensued on the implications of making short-term decisions with long-term consequences. Mr. Hartwell suggested an even lower rate than 6.0% in light of the losses over the last two years.

Mr. Hartwell then discussed his disapproval of the Town Manager’s decision to allocate less funding of OPEB in FY2017. It is his recommendation that the town continue to invest in the trust fund at the same rate as last year.

Ms. Morache

Mr. Morris thanked Ms. Morache for her impact analysis and asked that it be put on next meeting’s agenda.

Draft Report

Mr. Hartwell discussed with Mr. Lombardi the Canadian drug option. Because Andover is self-insured, this is an option that can be offered to employees. Savings would result in a selected group

of drugs, mostly maintenance. It would be offered to employees on a voluntary basis in order to comply with existing procurement laws.

Mr. Morris also reiterated the need for a health and wellness program. Mr. Hartwell said the cost savings would not be significant.

Mr. Hartwell said Mr. Lombardi confirmed that other towns had in fact reduced premium contributions, i.e Winchester. However, reduction to 50% was eventually increased back up to 60%.

Finalization of Report

Mr. Baldwin outlined the target dates for presentation of the draft report:

Monday, March 14 – review of draft report

Friday, March 18 – public presentation of draft report

Thursday, March 24 – discussion and public forum feedback

Thursday, March 31 – presentation to Board of Selectmen

Audience Feedback

Feedback from the audience included: a) decisions to retire based on long-term projections of benefits and having benefits changed “mid-stream” is unfair with dramatic effects on lifestyle; b) use of school facilities for health/wellness programs; c) replacement of family plan with two-person individual plan for medicare-retirees with few dependents; d) cooperation of active employees in cost-shifting plan design changes; e) support of retirement board and its reliance on financial consultants to complete its mission and f) sharing costs between active and retired employees.

Adjournment

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

Meeting adjourned at 9:30 a.m.

Respectfully submitted,

Christine Martin Barraford
Recording Secretary

*Attachments: Mr. Hartwell's Recommendation X
Mr. Hartwell's Report on Actuarial Data*