Revenue and Expenditure Task Force
Thursday, May 9, 2019 7:30PM
Second Floor Conference Room

I. **Call to Order**

Chair Vaill called the meeting to order at 7:00PM in the Second Floor Conference Room. Present were Tim Vaill, Tom Hartwell, Paul MacKay, Melissa Danisch and Don Robb. Absent were Greg Eliasen, Kevin Connors, Dan Esdale and Joe Guilmartin. Also present were Anne Gilbert, Board of Selectmen Liaison and Eugenie Moffitt, Finance Committee Liaison. Also present were Patrick Lawlor, Management Analyst, and Donna Walsh, Finance Director. The meeting was live cablecast.

II. **Approval of Minutes – April 12, 2019**

Upon motion duly made by Mr. Robb and seconded by Ms. Danisch, it was unanimously voted to approve above minutes. Motion passed 5-0.

III. **Opening Comments by the Chair**

Mr. Vaill reviewed the role of the task force to advise the Town Manager. Toward that end the committee would review one topic at a time in general, and the topic of this evening pension and OPEB. He also reviewed the meeting schedule. Discussion ensued.

IV. **Presentation by Patrick Lawlor**

Mr. Lawlor reviewed the town's existing defined retirement benefits plan as well as the impact of 2012 pension reform and the town's plan to be fully funded by 2035. He emphasized the need for the task force, in its review of revenues and expenditures, to limit its review and discussion to what is allowed by state law. See attached powerpoint presentation. Discussion ensued. Mr. Lawlor stated that when comparing Andover's unfunded pension liability, there are a number of factors that must be considered, and those comparison must be done holistically. He also reminded the committee of its advisory role to the Town Manager and maintaining its focus on testing assumptions and making recommendations for long-term change to the Town Manager.

V. **Presentation by Tom Hartwell**

Mr. Hartwell began by saying that although he is a member of the Retirement Board, the opinions expressed below are his as a resident and retired CPA only. He then reviewed his presentation on pensions (see attached.) Mr. Vaill asked Mr. Hartwell as he goes through his presentation to point out assumptions the task force should evaluate as part of its mission. Mr. Hartwell commented Andover's pension plan hasn't made progress in reducing its unfunded liabilities over the years, despite a robust stock market, and the quote found in the CPA journal does a good job explaining why Andover has one of the worst funded plans in the State. Mr. Hartwell walked the task force through the differences between public pension plans and private pension plans. The biggest reason for the town's unfunded liability is the discount rate used to value pension liabilities. This determines the town's annual pension contributions. Because unrealistic discount rates have been used the past 20 years, the town has underfunded pensions. Mr. Hartwell commented this assumption is the most important assumption the task force should evaluate when it comes to pensions.

Mr. Hartwell pointed out the differences in the valuation of unfunded pension liabilities between the Retirement Board and the town. The Retirement board uses a 7% discount rate whereas the town uses a 6.25% rate. Mr. Hartwell provided the task force a report (see attached) he prepares annually for the town supporting the 6.25% rate. Andover is the only town in the State showing a different (higher) liability than what's reported by its Retirement Board.

Mr. Hartwell highlighted how Andover's pension plan compares to other towns and noted Leominster is now 100% funded. Mr. Hartwell cited 3 primary reasons for Leominster reaching 100% funding - 1) more aggressive funding schedule, 2) eliminating COLAs paid to retirees, and 3) investment performance. Mr. Hartwell noted Andover's Retirement Board expected to earn 8.02% over the last 20 year years on its investments but only earned 4.39%. This is the primary cause for the town's unfunded liability.

Mr. Hartwell explained normal cost is the amount the town is required to pay annually if there was no unfunded liability. At 7%, the normal cost for this year would be $2.7 million or roughly 7% of salaries. Using 6.25%, normal cost increases to $3.9 million, or approx. 10% of salary. If normal cost was calculated using what the plan actually earned (4.39%), the pension cost would be 2 to 3 times what it would be at 7%. Mr. Hartwell stated it was a myth that pension cost for employees is less expensive for the town than if it had to pay social security for its employees. Mr. Hartwell also commented that it is unrealistic to think the town will be fully funded by 2035, the date the town expects to be fully funded. The town would have to contribute towards pensions approx. $318 million (using 7%) or $383 million (using 6.25%) over the next 16 years. The town is currently paying approx. $11 million today. The annual contribution in 2035 would be approx. $31 million.

Mr. Hartwell highlighted the possible reform measures to address the town's pension crisis at the local level. Changing eligibility for new employees in the retirement plan from part time employees to full time employees would not reduce the unfunded liability today but would slow down its growth as well as the OPEB unfunded liability growth. This measure would have to be approved by the retirement board. This reform measure should be the reform priority of the town and Retirement Board. Mr. Hartwell did not discuss in detail possible reform measures requiring State approval as they would be more difficult to achieve. Discussion ensued.

VI. <u>Discussion on Task Force Priorities</u>

Mr. Vaill reiterated the role of the task force and further discussion ensued.

VII. Next Meeting
Thursday, May 30

Adjournment
Upon motion duly made by Mr. Robb and seconded by Ms. Danisch, it was unanimously voted to adjourn. Motion passed 5-0. Meeting adjourned at 9:00PM.

Respectfully submitted,

Christine Martin Barraford
Recording Clerk

Attachments:
Mr. Lawlor Powerpoint Presentation
Mr. Hartwell Powerpoint Presentation and Long Term Summary