TOWN OF ANDOVER

TOWN OFFICES · 36 BARTLET STREET · ANDOVER · MASSACHUSETTS · 01810

July 12, 2013

To: Board of Selectmen

From: Reginald S. Stapczynski, Town Manager

Re: **OPEB Recommendation Report**

This Other Post Employment Benefits (OPEB) Recommendation Report is provided as an action plan for the Town's short and long term policy decisions and objectives regarding Andover's OPEB liabilities.

The OPEB liability of all U.S. public entities is a nation-wide problem. Most state and local governments in the U.S. are just starting to fully comprehend the implications and magnitude of the problem. In Massachusetts alone, the unfunded OPEB liability for all public organizations combined is in the area of $46 billion. Andover's OPEB liability was $215 million as of 2011.

The Town of Andover's OPEB liability will be a complex problem to solve; one which will require a long-term, multiple pronged approach to effectively address it over the course of the next ten to twenty years. This campaign will require the ongoing collaboration, cooperation and commitment of the Town's Executive staff, Board of Selectmen, School Committee, Retirement Board, and employee groups, all working together towards a universal goal.

What is OPEB?

The term Other Post Employment Benefits (OPEB) refers to retiree benefits other than pensions, which primarily means health insurance, but also includes benefits such as dental, vision, life, long-term disability and long-term care benefits, if and when offered. The Government Accounting Standards Board (GASB) issued Statement 43 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and Statement 45 "Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions" in 2004. These actions mandated that all U.S. governmental entities publically disclose their OPEB costs and liabilities starting in 2008, with the states and the largest municipalities phased in first, followed by smaller units of government.

GASB 45 requires the following disclosures on financial statements:

- Information about the OPEBs: what are the benefits, who is eligible for the benefits, how many employees and retirees are covered, and so forth.

- The actuarially determined liability for OPEB benefits and the assets (if any) that are available to offset the liability; also information about the actuarial methods and assumptions that were used to calculate the liability.
- The portion of the liability that must be reported as an annual accounting expense on the employer's financial statements, and a cumulative accounting of the extent to which the plan sponsor actually makes contributions to offset its annual expense.

OPEB Projections & Reporting

The Town of Andover conducted its first actuarial OPEB analysis in 2009, and identified $245 million in projected Actuarial Accrued Liabilities (AAL) through the year 2040. This was a fairly typical amount for a municipality of Andover's size and number of employees. The Town conducted its second analysis in 2011, which resulted in $215 million of projected Actuarial Accrued Liabilities over 30 years. The Town's Annual Required Contribution (ARC) was calculated at $15.4 million per year. The ARC reflects the projected $215 million total liability, amortized at 4.5% over 30 years. $9.4 million of the ARC is attributed to School retirees and $6 million to Town retirees. These two reports are available on the Town's website at:
http://andoverma.gov/finreports/gasb45val09.pdf
http://andoverma.gov/finreports/gasb45val11.pdf

There was also a $30 million net reduction in projected Actuarial Accrued Liabilities (AAL) between the 2009 and 2011 analyses. This reduction was the result of cost saving actions the Town took in regards to active employee and retiree health insurance plan design changes and shifts to Medicare, as well as slightly differing methodologies used by the two actuarial firms.

The next analysis is scheduled to be completed in the late summer/early fall of 2013. It is anticipated that the OPEB liability will be further reduced as a result of additional health plan design and Medicare changes made in 2012. The actuary will also be running various optional scenarios for proactively funding Andover's projected OPEB Actuarial Accrued Liabilities and Annual Required Contribution in future years. The actuary will present the Town's updated projected Actuarial Accrued Liabilities and funding options at a Tri-board meeting after the analysis and report have been completed.

OPEB Liability Funding & Policy

The 2010 Andover Annual Town Meeting accepted the provisions of Chapter 479 of the Acts of 2008 that allows municipalities to establish a special trust fund to hold funds towards the purpose of reducing their unfunded OPEB liability. An initial appropriation of $250,000 was made at the same ATM from a combination of Free Cash and Sewer Enterprise Reserves. $300,000 was appropriated at the 2011 ATM from Free Cash. $400,000 was appropriated at the 2012 ATM from the General Fund and Water Enterprise Reserves. $325,000 was appropriated from the General Fund at the 2013 ATM, and another $77,000 provided for within the Water Enterprise budget. The current balance in the fund is approximately $1.4 million.

The Town Manager recommends continuing to pre-fund Andover's OPEB liability as a fixed expense cost in the annual operating budget going forward.

Although municipalities are not as yet required to fund their OPEB liabilities, it is likely that they will have to do so at some point in the future. Andover is one of a small number of communities in Massachusetts that have decided to get a head start on funding their future OPEB liabilities. This action demonstrates a proactive financial management practice; something the bond rating agencies, bond buyers, and the Department of Revenue all look favorably upon. Standard & Poor's noted Andover's proactive actions of establishing a trust fund and starting to pre-fund its OPEB liability in its last ratings report of the Town's credit worthiness. Although it is not yet an official ratings factor, the bond rating agencies will likely be focusing more attention on municipal efforts to fund OPEB liabilities in the future, with the expectation that all "Aaa" rated communities will be taking pro-active steps to fund this fiscal obligation.

The Town Manager recommends that a formal OPEB policy be adopted as part of its official set of standing financial policies, based on this report.

For example, the policy could formally establish an annual OPEB appropriation as a percentage of the General Fund Budget, or as a percentage of Free Cash to set aside each year. This policy needs to be developed by the Selectmen, Finance Committee, and staff based on the recommendations in this report. Attached is example policy from the Town of Brookline.

<u>OPEB Trust Fund</u>

The Town's OPEB Trust funds are currently invested in the ICMA-RC's Model Portfolio Traditional Growth Fund, containing an asset mix of 60% equities, 25% fixed income, and 15% multi-strategy investments. The Town is investigating other options for managing and investing the funds held in its OPEB Trust Fund, with the goal of maximizing the potential rate of return within an acceptable level of risk. The primary option is taking advantage of new legislation (Chapter 68 of the Acts of 2011) that allows municipalities to move their funds into the Commonwealth's OPEB investment trust, known as the State Retiree Benefits Trust Fund (SRBTF). The SRBTF's investment portfolio is managed by the Pension Reserves Investment Management (PRIM) Board, which oversees the state's $50 billion Pension Reserves Investment Trust (PRIT) Fund. PRIT is the same trust fund that the Town utilizes to hold and invest its pension funds. Attached is some information about the SRBTF.

The ICMA-RC's Model Portfolio Traditional Growth Fund's 1 year and 3 year performance was 11.20% and 7.05% respectively. In comparison, the performance of the SRBTF/PRIT core investment fund was 17.91% and 11.49% for the same periods.

The Town Manager is investigating moving the Town's OPEB Trust funds into the SRBTF or another appropriate investment vehicle.

<u>State Legislation to Reduce OPEB Costs</u>

In February, 2013 Governor Patrick submitted a bill (H. 59) to the Legislature titled "An Act Providing Retiree Healthcare Benefits Reform" that would sanction the following core cost reducing measures on a universal basis for all governmental entities in the Commonwealth:

- <u>Increase the minimum years of service</u> requirement from 10 to 20 years;
- <u>Increase the minimum age for eligibility</u> to 60 for Group 1, 55 for Group 2, and 50 for Group 4 *
- <u>Prorate benefits on a scale</u> from 50% premium contribution after 20 years to the maximum current retiree benefit at 30 years.

* *<u>Note</u>*

Group 1 members are officials and general employees including clerical, administrative and technical workers, laborers, mechanics, and all others not otherwise classified.
Group 2 includes certain employees with hazardous occupations, such as ambulance attendants, and mental health hospital attendants.
Group 3 is made up of state police officers.
Group 4 consists of public safety officers, officials, and employees, such as police officers, firefighters, and certain correction officers.

These cost reducing measures were recommended by the Special Commission to Study Retiree Healthcare and Other Non-Pension Benefits, and were included in its report to the Legislature issued in January, 2013. If these key measures become law, they are estimated to save cities and towns $9 to $12 billion over the course of thirty years. However, Andover will not know what its specific savings will be until they are actually enacted and an actuarial analysis can be conducted. H. 59 was referred to the Joint Committee on Public Service in February, 2013. The bill has generated some controversy, receiving criticism for either not doing enough, or unfairly impacting current public employees. No further action has been taken on this bill as of this date. A summary of the provisions of H. 59 is attached.

The Town Manager will work with Andover's legislative delegation in support of the provisions of H. 59 "An Act Providing Retiree Healthcare Benefits Reform".

<u>What Can Andover Do to Reduce its OPEB Liability?</u>

There are a number of things that Andover can do now that will effectively lower its future actuarial projected OPEB liability. While the Town has been actively engaged in some of these measures for years, others are more controversial and will require actions by the Retirement Board, negotiations with unions, and/or organization-wide policy decisions to be made individually or jointly by the Board of Selectmen and School Committee.

<u>Health Insurance Cost Containment</u> – Everything the Town has done in the past and will do in the future to manage and contain the rising costs of employee and retiree health insurance, and to better manage their health, effectively reduces Andover's long-term OPEB liability. Actions such as moving eligible retirees to Medicare plans; making various plan design changes; negotiating the lowest rates possible with the existing carrier; putting the health insurance program out to competitive bid; promoting healthy lifestyles; indentifying the costs of medical procedures;

proactive management of existing health problems; preventative care measures; health insurance opt-out programs – all have the potential of reducing annual budgetary costs in the near term, as well as reducing Andover's OPEB liability over the long-term.

The Town is currently in the midst of its first three-year Public Employee Committee (PEC) agreement with all of its municipal and school public employee groups. The provisions of this agreement effectively reduced Andover's health insurance costs and OPEB liability through various plan design changes. The current PEC agreement will expire on June 30, 2015. This new legal process has proved to be an efficient and effective mechanism for negotiating Town-wide health insurance plan design changes with representatives of all the unions at once. The Town Manager will utilize this method again to negotiate future plan design changes with the Town's employee unions. In the interim, the Town continues to explore, investigate, and discuss options for further controlling the costs of employee and retiree health care.

The Town Manager recommends that the Tri-board Meeting scheduled for September 16th consider various health insurance cost containment options, plan design, and approaches that are available to Andover, both in the near term, as well as things that could be negotiated as part of the next PEC agreement with all the employee groups.

Re-acquire Andover Retired Teachers from the GIC – Andover's retired teachers' health insurance is provided through the state Group Insurance Commission (GIC), and the Town's proportion of the cost is assessed on its Cherry Sheet as a net reduction in its State Aid. Andover is one of 45 or so communities and regional school districts that opted to move its retired teachers to the GIC in the 1970s. Although this may have been a financially beneficial move years ago, at present the Town pays a greater proportion of its retired teachers' health insurance costs than it does for its other municipal retirees. This results in less State Aid to fund annual operating budgets, as well as an increased OPEB liability.

In addition, in recent years Andover's health insurance rates under MIIA Blue Cross have been much lower than the applicable GIC's rates. For instance, while the Town's health insurance plans enjoyed a 0% rate increase for FY14, the plan rates for retired teachers in the GIC increased 8.2% for their HMO plan and 11.6% for their indemnity plan.

State law allows for Andover to re-acquire its retired teachers back under the Town's health insurance program, after which they would pay the same rates as all other municipal retirees. It is estimated that this action will save the Town in the area of $450,000 per year in net retiree health insurance costs, which if extrapolated out over the years will save many millions on the Town's long-term total OPEB liability. This action requires sending a notice to all the retired teachers, conducting a public hearing, and a formal vote by the Board of Selectmen. The GIC requires a three month notice to transition the teacher retirees to the Town's program.

The Town Manager recommends that the Board of Selectmen initiate the process to re-acquire the Retired Municipal Teachers from the GIC.

Inconsistent Health Insurance Policies for Part-time Employees
Andover has inconsistent practices and thresholds for when part-time employees qualify for health insurance benefits. In most cases, permanent part-time employees who work 20 or more hours per week are eligible for health insurance, with the exception of part-time teachers who are offered health insurance starting at only 15 hours per week, per current school practice.

The Town Manager recommends that the School Committee/Administration provide health insurance only to part-time employees working 20 hours or more per week.

Several years ago the three board chairs petitioned Andover's legislative delegation to sponsor a bill that would increase the threshold for providing health insurance to part-time employees who work at least 30 hours per week.

The Town Manager will work with Andover's legislative delegation to submit legislation to increase the threshold for health insurance for part-time employees to 30 hours per week.

Pro-ration Policy for Part-time Service – The OPEB Commission recommended municipalities adopt the Commonwealth's policy for crediting part-time service for retirement, which then could then be used to determine eligibility and prorate retiree health insurance benefits. For example, a 20 hour per week employee would receive six months of service credit. Cities and towns in Massachusetts have various policies. Andover provides a full year's service credit toward retirement for all employees working 20 or more hours per week. This policy is within the purview of the Andover Retirement Board.

The Town Manager recommends that the Retirement Board change their policy to be in line with the OPEB Commission's recommendations.

Reduce Number of Eligible Active Employees – The Town Manager has reduced the number of municipal employees eligible for health insurance over the past decade. One of the ways this is accomplished is by splitting or reducing the hours of vacant positions to 19 hours or less. However, this approach is only viable for certain types of positions. The School Department however, has been adding significant numbers of new full-time and benefit eligible part-time employees over the past few years. Adding new benefit eligible employees not only impacts Andover's annual health insurance budget, it also increases its OPEB liability when they retire.

The Town Manager recommends the School Committee weigh the cost/benefit of bringing certain Special Education services in-house v. contracting with outside placements, considering the increased health insurance impacts and OPEB liabilities.

The Town can also pursue initiatives and actions that effectively reduce the current number of employees needed to provide a particular service, either through the adoption of technology based alternatives or by outsourcing to a private entity. Although these types of actions may initially increase budgetary costs in the short-term (e.g., new tech acquisition and maintenance costs, prevailing wage, etc.), their net savings will be realized over the longer-term through reductions in future benefits, retirement, and OPEB cost liabilities. These types of actions can be accomplished when positions are vacated, during the budgetary process, or anytime an opportunity presents itself. Many of these actions require impact bargaining with the respective employee unions.

The Town Manager recommends that the departments continue to investigate and pursue alternative options for providing services with less personnel.

<u>Shifting Premium Contribution Proportions/Splits</u> – The Town pays several different contribution proportions/spits for the health insurance plans it offers to its active employees and retirees – from 81.1% for HMO Blue NE for Families, to 65.0% for BC Elect PPO for active employees; and from 86.3% for Managed Blue for Seniors, to 65.0% for Medex 2 for retirees. Although MGL 32B requires municipalities to contribute a minimum of least 50% of the cost for retiree health insurance, most communities, including Andover, offer the same percentages as for active employees. Any change that shifts the Town's proportion of costs to the employees and/or retirees will effectively reduce Andover's OPEB liability.

This type of action would need to be negotiated with each employee union, or as part of a future PEC agreement. However, the current proportion ratios have been in place a long time, and thus would be difficult for the Town to negotiate significant cost shifts without offsetting the impacts with something of value to the employees, such as higher pay increases. Also, proposals that require retirees to pay more for their health insurance than active employees do are generally unacceptable to most unions. However, creative win-win proposals that would effectively increase percentage contribution rates for active and/or new employees, in order to help minimize cost increases for retirees, may be something the unions would be more receptive to discussing.

The Town Manager recommends that the Town and the PEC explore options for restructuring the existing health insurance premium contribution splits in ways that both minimize impacts to retirees and reduce Andover's long-term OPEB liability.

Attachments

TOWN OF BROOKLINE
UNFUNDED LIABILITIES POLICY

Defined as "the actuarial calculation of the value of future benefits payable less the net assets of the fund at a given balance date", unfunded liabilities represent a significant financial obligation for all levels of government across the country. In Brookline and other Massachusetts municipalities, the two primary unfunded liabilities are for Pensions and Other Post-Employment Benefits (OPEB's).

- Pensions – the Contributory Retirement System is a defined benefit program that is governed by Massachusetts General Laws, Ch. 32 and is regulated by the Public Employee Retirement Administration Commission (PERAC), a State entity responsible for the oversight, guidance, monitoring, and regulation of Massachusetts' 105 public pension systems. Funding for this system covers the costs of employees who are part of the Town's retirement system, which does not include teachers, as their pensions are funded by the State.

  In accordance with State law, PERAC regulations and government accounting standards, the Town contracts for an actuarial valuation of the retirement system to quantify the unfunded liability on a biennial basis. Under current State law, the Town then establishes a funding schedule to fully-fund this liability by 2040. The Town shall continue to fund this liability in the most fiscally prudent manner, recognizing the fact that the adoption of a funding schedule is, by law, the responsibility of the local retirement board.

- OPEB's – these consist primarily of the costs associated with providing health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) issued Statements No. 43 and No. 45 in 2004 to address the OPEB issue. GASB 43 required the accrual of liabilities of OPEB generally over the working career of plan members rather than the recognition of pay-as-you-go contributions, while GASB 45 required the accrual of the OPEB expense over the same period of time. The reporting requirements of GASB 43 and 45 include disclosures and schedules providing actuarially determined values related to the funded status of the OPEB. This requires that the accrued liabilities be determined by a qualified actuary using acceptable actuarial methods.

  While there is currently no legal requirement to fund OPEB's, the Town shall continue to follow its plan to move toward fully-funding the Annual Required Contribution (ARC), ultimately developing a funding schedule that fully-funds OPEB's according to a schedule similar to the pension funding schedule. This plan should continue to include annual increases in the portion of the appropriation supported by General Fund revenues. It should also include using the "run-off" from the pension system once that system is fully-funded. In order to determine the funding schedule, the Town shall continue its current practice of having an independent actuary prepare biennial valuations, which is in compliance with GASB's requirement.

State Retiree Benefits Trust Fund
Frequently Asked Questions

1. *What is the effect of the new legislation and procedures?*

Overview

Chapter 68 of the Acts of 2011, the FY 2012 state budget, was signed into law by Governor Patrick in July 2011. Sections 50 and 57 of Chapter 68 amend **Section 24 of Chapter 32A** and **Section 20 of Chapter 32B, r**espectively, of the General Laws allowing municipalities, authorities, and certain other government entities of the Commonwealth to establish a liability trust fund for funding retiree benefits (other than pension), also known as Other Post-Employment Benefits (OPEB). The legislation also ensures that these entities have access to the state's investment trust, the State Retiree Benefits Trust Fund (SRBTF), for purposes of investing OPEB funds. Further, Section 20 of Chapter 32B, as amended, designates the entities eligible to serve as custodian of such funds: 1) a designee appointed by the board of a municipal lighting plant, 2) the treasurer of any governmental unit, or 3) the Health Care Security Trust (HCST) Board of Trustees, which oversees the SRBTF.

Section 20 of Chapter 32B –Government entities that have not yet established an OPEB Trust

Government entities who have not yet established an OPEB Trust should adopt Section 20 of Chapter 32B. Entities that adopt this section may invest in the SRBTF either directly by designating the HCST as the custodian, or through the action of their designated custodian (e.g. treasurer) who may be authorized by the government entity to invest in the SRBTF, as provided by Section 24 of Chapter 32A. Investment in the SRBTF requires approval of the HCST Board as described in question 4 below.

Section 20 may be accepted in a city having a Plan D or Plan E charter, by a vote of the city council; in any other city, by a vote of the city council and approval of the mayor; in a town, by vote of the town at a town meeting; in a district, by a vote of the governing board; in a municipal lighting plant, by a vote of the board; and in a county, by vote of the county commissioners.

Section 24 of Chapter 32A – Government entities that have already established an OPEB Trust

The amended Section 24 of Chapter 32A provides that any political subdivision, municipality, county or agency or authority of the Commonwealth may participate in the SRBTF in accordance with the HCST's procedures. Government entities who have already established an OPEB Trust through special legislation may invest in the SRBTF under this Section and are not required to adopt Section 20 of Chapter 32B, except in those cases where the special legislation provides that the OPEB fund's custodian may only invest in securities that are legal for the investment of funds of savings banks under the laws of the Commonwealth, or where the special legislation provides that municipalities "may participate in the (OPEB liability trust) fund." The entities that are eligible to invest in the SRBTF without adopting Section 20 of Chapter 32B include contributory retirement systems that were designated as the custodian of an OPEB liability trust fund before July 1, 2011, as provided by Section 206 of said Chapter 68. Investment in the SRBTF requires approval of the HCST Board as described in question 4 below.

For the detailed legislation, please go here:

http://www.mass.gov/anf/press-releases/state-to-provide-access-to-investment-vehicle-for.html)

2. *What is the name of the Commonwealth's OPEB liability fund and how is the money invested?*

The seven-member HCST Board, established by section 4 of Chapter 29D of the General Laws, is responsible for the administration and investment management of the State Retiree Benefits Trust Fund (SRBTF), the Commonwealth's OPEB liability fund. The HCST Board is comprised of the Secretary of Administration & Finance or a designee, the Executive Director of the Group Insurance Commission or a designee, the Executive Director of the Public Employee Administration Commission (PERAC) or a designee, the State Treasurer or a designee, the Comptroller or a designee, an appointee of the Governor, and an appointee of the State Treasurer (both appointed members are required to have investment, financial management, legal, or public management experience). In August 2011, the HCST Board voted to assign full investment management of the SRBTF assets to the nine-member Pension Reserves Investment Management (PRIM) Board, which manages the approximately $50 billion Pension Reserves Investment Trust (PRIT) Fund, the state pension fund. PRIM and PRIT were established in 1983 to address the Commonwealth's unfunded pension liabilities. The PRIM Board is chaired by the State Treasurer, or his/her designees, and includes the Governor, or his/her designee, appointees of the State Treasurer and Governor, and other elected beneficiary representatives. In addition to investing the pension funds of state employees, municipal teachers, and Boston-teachers, PRIM also manages the assets of 90 local retirement systems, which represent 88% of all the retirement systems in the Commonwealth (there are 105 retirement systems). PRIM employs a professional staff of approximately 25 people that oversees the daily investment and financial functions of the PRIT Fund. The SRBTF is invested in the PRIT Fund's General Allocation Account (GAA), also known as the PRIT Core Fund. The target asset allocation of the PRIT Core is as follows: 43% Global Equities, 13% Core Fixed Income, 10% Value Added Fixed Income, 10% Private Equity, 10% Real Estate, 4% Timberland/Natural Resources, and 10% Hedge Funds. The HCST works in close partnership with PRIM, and PRIM provides full investment and back office support to the HCST, pursuant to Investment Services and Administrative Services Agreements signed by both parties in October 2011. More detailed information about PRIM and PRIT can be found on their website at http://www.mapension.com.

3. *What are some of the benefits to investing in the PRIT Core Fund through the SRBTF?*

PRIM and PRIT were created for the sole purpose of reducing the state's unfunded pension liability through modern investment portfolio management, and investment of OPEB funds in the PRIT Core Fund is a natural adjunct to PRIM's retirement asset-focused mission. Because of its asset size, PRIM enjoys economies of scale, and can offer participation in the PRIT Core Fund at to its investors at fees that are significantly lower than the investors could get on their own. Participants that invest in the PRIT Core Fund also have access to alternative investments that may be unavailable to smaller investment funds, such as private equity (venture capital and special equities or buyouts), directly owned private real estate, private debt, and hedge funds, which mitigate overall portfolio risk because of their low correlation to traditional stock and bond portfolios.

4. *How does a government entity make an investment in the SRBTF*

Government entities who would like to invest funds in the SRBTF for purposes of funding their OPEB liabilities are required to execute a Form of Investment and Custodian Agreement with the HCST, which documents the authority to make the investments and makes reference to certain governing, policy, and procedures documents that dictate how the funds are managed and administered. (These documents [Exhibits B-F] may be downloaded from this website.) Government entities that do not choose to designate the HCST as custodian are only required to execute the investment portion of the agreement.

The assets of a local government entity will be "commingled" with other participants in the SRBTF, and each participant will receive units of participation, or shares, in the SRBTF. Each local government entity will receive a monthly capital account statement directly from PRIM's custodian bank, showing beginning and ending net asset value balances, management fees, realized and unrealized investment gains/losses, and other investment income attributable to its portion of the SRBTF.

The approval of the HCST Board requires that the SRBTF be an allowable investment vehicle based on the authorization resolutions or special legislation of each government entity. This requirement may be satisfied by appointing the HCST as custodian or by identifying the SRBTF as an authorized vehicle for a different designated custodian, or through authorization to apply the prudent investor rule by special legislation. Authorizing resolutions adopted pursuant to Chapter 32B, Section 20 or special legislation, and all agreements with the HCST will be reviewed at HCST Board meetings according to the calendar below:

Tuesday, February 12, 2013
Tuesday, April 9, 2013
Tuesday, June 25, 2013
Tuesday, August 13, 2013
Tuesday, October 22, 2013
Tuesday, December 10, 2013

HCST Board meetings are usually held in ANF Conference Room 1 in Room 373 of the State House, Boston, MA beginning at 9:00am.

A government entity may terminate its Agreement with HCST following 30 days' prior written notice. Redemption of assets would be made on the first business day of the month following the receipt of such written notice. Such a decision may require a vote of the governing body of the municipality or other entity.

5. *Does a governmental entity have the option to invest in separate asset classes of the PRIT Core as an alternative to investing in the total PRIT Core?*

No. This type of investment, which is called "Segmentation" by PRIM, and made available to participants investing pension assets in the PRIT Fund, is not an option available to participants investing OPEB assets in the SRBTF at this time. Because OPEB liabilities are severely underfunded, the HCST believes that the most appropriate model to address unfunded liabilities is the PRIT Core asset allocation, as it is positioned to close the pension asset/liability gap in accordance with an amortization schedule mandated by state law. Going forward, as the SRBTF program matures and OPEB liabilities become more fully funded the option of allowing Segmentation may be revisited.

6. *What if my government entity had special legislation approved to establish an OPEB liability trust fund prior to the enactment of the provisions contained in Chapter 68 of the Acts of 2011?*

   A governmental entity that had already established an OPEB liability trust fund prior to the enactment of Chapter 68 of the Acts of 2011 may invest in the fund pursuant to the provisions of Section 24 of Chapter 32Aor may accept the provisions of Section 20 of Chapter 32B, both of which , which require authorization by the HCST Board.. Section 20(c) establishes the votes and procedures to be followed by the various governmental entities for acceptance.

7. *What about fees?*

   Investment management fees are netted out of investment returns and are paid from the SRBTF's cash account, so there is no need for the local government entity to ever "cut a check" to the HCST or PRIM for services rendered. Each local governmental unit will be assessed its share of fees on a pro rata basis. Fees are based on the actual expenditures incurred by PRIM and PRIT in administering the SRBTF and are "passed through" to the HCST Board and the participating state and local government entities that invest in the SRBTF. According to the most recent audited financial statements of the PRIT Fund, the ratio of expenses, including all fees associated with the operation of PRIM and PRIT, was 0.50%, or 50 basis points. Please be advised that the aforementioned basis point fee reflects actual expenditures incurred in FY 2011 and is not meant to represent or guarantee future fees.

   In addition to these fees, there will be a charge for accounting and reporting for SRBTF clients by PRIM's custodian bank. The additional custody work involves the division of the primary SRBTF account into separate client accounts, as well as producing monthly reports for clients and handling cash deposits and withdrawals for SRBTF clients. The custodian bank has created a separate database program to produce the monthly SRBTF client reports.

8. *Is the SRBTF a Qualified OPEB Trust under GASB 43?*

   Yes. The SRBTF is a qualified OPEB trust.

9. *Are there any annual minimum or maximum contribution requirements?*

   The HCST Board of Trustees has set a minimum investment requirement of $250,000 and a non-binding plan for qualified governmental entities to reach $1,000,000 over three years.

10. *We have some funds currently invested in bonds and stocks. Can we transfer those assets "in-kind."?*

    The HCST will only accept cash transfers into the SRBTF. Securities, such as stocks and bonds, must be liquidated before any transfer to the SRBTF takes place.

11. *Where can I find information on the historical returns of the PRIT Core Fund, including comparisons to market indices, and peer trust funds?*

    Detailed current and historical information on the PRIT Core Fund and the PRIM Board can be found on the PRIM website at: http://www.mapension.com.

    You may also find additional historical investment performance information comparing the PRIT Fund to other Massachusetts public employee contributory retirement systems on the Public Employee Retirement Administration Commission (PERAC) website at: http://www.mass.gov/perac/index.htm

12. *Where do I submit the documents and whom do I contact for more information?*

    You may contact Paul Todisco, PRIM's Senior Client Services Officer:

    Paul Todisco
    Senior Client Services Officer
    Pension Reserves Investment Management Board
    84 State Street, 2nd Floor
    Boston, MA 02109
    617-946-8423
    ptodisco@mapension.com

    Paul is also available to meet with you or your local officials at any time to discuss the benefits of investing in the SRBTF.

MMA statement regarding legislation to reform public retiree health benefits

PRINT

January 11, 2013

For immediate release
For further information, contact Geoffrey C. Beckwith at (617) 426-7272

Cities and towns are committed to providing quality health care benefits for their retired employees, and it is important to recognize that the current system must be reformed to make it sustainable and affordable for taxpayers, municipal workers, and present and future retirees. Without effective reform that provides meaningful savings now, the cost of the system will soon spiral out of control and consume a larger and larger share of local budgets, forcing cutbacks in essential services and increasing a property tax burden that is already too high.

The Massachusetts Municipal Association appreciates the initial steps toward reform that have been offered by the OPEB Commission and endorsed by Gov. Deval Patrick and others. There are many elements of the proposal that we strongly support, and we look forward to working with the administration, Legislature and all stakeholders to achieve reform this year.

We cannot endorse the full package offered by the commission for two reasons.

First, although the proponents are predicting that cities and towns could save between $9 billion and $12 billion over the next 30 years, almost all of this savings would be delayed by more than a decade. Only 5 percent of the savings would be achieved in the next 10 years, and 95 percent of the savings would not be realized until 2024 and beyond. Cities and towns cannot wait 10 years for meaningful savings – especially since municipal retiree health costs are expected to grow by at least 50 percent over the next decade. Retiree health reform must offer immediate relief, otherwise OPEB costs will expand and squeeze out education, public safety and other vital services from local budgets.

Second, the legislation would impose a three-year moratorium on any changes to the percentage contribution paid by retirees, and after that, it would permanently strip cities and towns of their existing ability to adjust the premium percentage for anyone who has already retired, even for those who receive generous pensions. This proposal would effectively eliminate the most important tool that cities and towns can use to carefully manage the cost of retiree health benefits.

Again, we applaud Gov. Patrick and the members of the commission for recognizing that Massachusetts must take steps to reform the retiree health insurance system. We look forward to working with all parties to build on the commission's recommendations so that the final product provides communities and taxpayers with immediate and meaningful savings and provides employees and retirees with an affordable and sustainable system that provides excellent benefits.

Summary of An Act Providing Retiree Healthcare Benefits Reform
House Bill 59
Massachusetts Municipal Association
February 2013

On February 12, 2013, Governor Patrick filed legislation to reform the system for providing retiree health insurance. This legislation stems from recommendations from the Special Commission to Study Other Post Employment Benefits (OPEBs) created in Chapter 176 of the Acts of 2011; the third round of pension reform. The Commission filed their completed report on December 20, 2012. The legislation has been referred to the Joint Committee on Public Service.

Highlights of recommended changes

Minimum age for eligibility: Increased by 5 years	• Group 1: age 60 • Group 2: age 55 • Group 4: age 50
Minimum years of service for eligibility	• 20 years of service
Grandfathering provisions (changes DO NOT apply): to protect employees close to retirement and those on disability pensions	• Individuals retired before July 1, 2013 • Employees with 20 years of service and within 5 years of retirement (age 50 for Group 1) • Employees with nine years of service within 5 years of Medicare eligibility (age 60) • Teachers enrolled in Retirement Plus who have reached the statutory maximum of 80 percent of their pension could retire at age 57 • Employees receiving an accidental disability retirement and employees receiving an ordinary disability retirement (until eligible for insurance under the health insurance exchange under the ACA)
Phase-in provisions	• Employees who are age 50 with 15 years of service would be eligible to receive a 50% premium contribution • Employees who are age 55 with 10 years of service would be eligible to receive a 50% premium contribution
Pro-rating: to reward employees with longer years of service	• 20 years of service: 50% premium contribution

	• 23 years of service: one-third the difference between 50% and the Maximum Available Benefit (MAB) • 27 years of service: two-thirds the difference between 50% and the MAB • 30 years of service: MAB
Continuous Service: if an employee is not working for the state or municipality at the time of retirement, they are still eligible for health insurance if:	• Employee has at least 25 years of service and applies within 5 years of leaving public employment • Employee has at least 20 years of service and is enrolled in Medicare Parts A&B
Surviving spouses: covered at 50%	• Survivors currently on the municipal plan paying 100% of their premium • New survivors as of date of enactment
Moratorium: 3 years	• Municipality cannot change percentage contribution rates in effect from January 1, 2013 to before January 1, 2016
Permanent freeze	• Once an employee has retired, their contribution rate can never be changed
NOT Local option	• The changes recommended in this legislation would not be local option. Communities that do not currently offer retiree health insurance but have accepted any part of 32B would be required to offer retiree health insurance at at least 50%

OPEB Commission suggested best practices:

- Municipalities adopt the Commonwealth's definition of creditable service providing pro-rated credit for part time service based on hours /week worked (i.e.: 20 hours/week = 6 months of service)
- Municipalities periodically competitively procure health coverage
- Changes to Chapter 32B, Section 9A1/2 to make it easier for municipalities to charge back other municipalities for a portion of a retiree's health insurance
- Changes to make the State Retirement Benefits Trust Fund more accessible for municipalities choosing to pre-fund