CITY OF NEWTON

IN BOARD OF ALDERMEN

FINANCE COMMITTEE BUDGET REPORT

MONDAY, MAY 12, 2014

Present: Ald. Gentile (Chairman), Ciccone, Norton, Blazar, Fuller, and Lappin;
Absent: Ald. Rice, 1 vacancy
Also present
City staff present: David Wilkinson (Comptroller), Elizabeth Dromey (Director of Assessing), James Reardon (Treasurer), Nick Read (Chief Procurement Officer), David Wilkinson (Comptroller), Kelly Byrne (Director of Retirement), Donna Cadman (Retirement), Nunzio Piselli (Retirement Board), Rob Symanski (Financial Analyst), and Maureen Lemieux (Chief Financial Officer)

REFERRED TO FINANCE AND APPROPRIATE COMMITTEES

#322-12(2) HIS HONOR THE MAYOR submitting in accordance with Section 5-1 of the City of Newton Charter the FY14 Municipal/School Operating Budget totaling $331,073,197 passage of which shall be concurrent with the FY14-FY18 Capital Improvement Program (#322-12). [04-08-13 @ 6:03 PM]
EFFECTIVE DATE OF SUBMISSION: 04/16/13; LAST DATE TO PASS THE BUDGET 05/31/12

REFERRED TO FINANCE AND APPROPRIATE COMMITTEES

#322-12 HIS HONOR THE MAYOR submitting the FY14-FY18 Capital Improvement Program pursuant to section 5-3 of the Newton City Charter. [10/09/12 @ 2:38 PM]

ASSESSING DEPARTMENT

Director of Assessing Elizabeth Dromey presented the Assessing Department's recommended budget for Fiscal Year 2015. The Department's mission statement is to value real and personal property efficiently, fairly and accurately in accordance with the laws of the Commonwealth, to administer motor vehicle excise, personal exemptions, and abatement programs for water, sewer, real estate, and excise taxes and to address concerns of members of the public professionally, quickly and courteously. The Department works with residents, realtors, business, and developers daily to provide property tax and assessment information. The Department also defends property values before the Massachusetts Appellate Tax Board.

In the past year, the department provided values for 27,000 parcels of taxable real estate and 2,400 personal property accounts amounting to over $20.9 billion in assessment. The department also assesses the value of non-profits. In addition, the department valued new growth due to new construction and renovation that resulted in over $4.1 million in new tax revenue. Only .5% of assessed values were contested and the department's success rate defending its valuations before the Appellate Tax Board was 91%. Most cases are resolved before the reach they tax board. The majority of cases before the Appellate Tax Board are related to commercial property, particularly the property of utility companies. A recent court decision allows a different methodology for valuing the utility equipment of National Grid and NStar. However; both companies have contested their valuations. Ms. Dromey plans to hire experts to help defend the new values placed on the equipment and/or property. Costs for the outside counsel will be shared with other communities.

Chief of Staff added that when the Board of Assessors declares an overlay surplus, it makes an estimate of the statutory interest obligations that the city is likely to pay and requests that the Mayor request an appropriation and that the Board of Aldermen appropriate a portion or all of the surplus, which would then be placed in the special appropriation reserve fund. The reserve would ensure that there would be available funds for statutorily required interest payments if the City were to lose a large property tax case.

The department administered over 500 personal exemptions, deferrals, tax work-offs and elderly and disabled taxation aid grants in Fiscal Year 2014. A two-day turnaround of excise abatement applications was maintained, as well.

The desired outcomes for next fiscal year include inspecting sold properties within two months of deed receipt to update the property database, use the Mass Appraisal software to analyze sales to develop formulas to value properties, inspect residential, commercial and industrial properties to verify property characteristics, income/expense analysis of commercial, industrial and apartment buildings with 4+ units. In addition, the Department expects to receive certification of values from the Massachusetts Department of Revenue for the FY 2015 triennial certification of values. The outcomes for the Assessing Department are similar every year and include fair and accurate assessments, a highly trained staff, and successful defense of valuations that are appealed to the Massachusetts Tax Board, and administration of all of the tax assistance programs.

The staffing levels within the department remain the same at thirteen full-time employees. Ms. Dromey added that the staff in the department is professional and well-trained. There are minor changes within the Assessing Department's budget related to increases in employee compensation. There is a small decrease in the Computer Equipment Repair and Maintenance and a small increase in software maintenance. The department's computer equipment is new and will not require much maintenance; however, the department is always updating its software. The postage account was increased because more mail is going to be sent certified. In particular, the requests to commercial property owners for income and expense information related to the operation of their real estate will be sent out certified. The Department of Revenue recommended this in order to improve the rate of return of this information. In addition, some of the requests for the return of forms of list of business personal property, such as furniture, fixtures and machinery also are going to be sent by certified mail in order to improve the rate of return.

With that, Ald. Lappin moved approval of the Assessing Department's budget at the recommended $1,247,599. The motion for approval carried unanimously.

TREASURER'S DEPARTMENT

City Treasurer and Collector James Reardon presented the department's budget for next year. The FY 2015 budget includes an increase of $41,377 to address an increase in banking services and parking services fees. The City is changing its depository bank from Citizens Bank to Village Bank and there are some one time fees associated with that change.

Mr. Reardon reviewed the accomplishments of the past year. The department has worked on collection efforts on past due personal property taxes and parking ticket balances, placing the appropriate liens on delinquent real estate, providing credit card and e-check access for home computers using bill pay software. In addition, the department implemented a third-party software program to process payments within one day of tax due date that did not meet the department's needs; therefore, other options are under review. The department worked with Assessing, Public Works, and the Comptroller to design and implement a process to address the reconciliation of all transfers, abatements and adjustments. Other outcomes for Fiscal 2014 include maximizing the return on investible funds and effective cash control policies.

Outcomes for Fiscal Year 2015 include the establishment of a working group to look at establishing a credit card payment system for all City transactions. The Department will be working with the Information Technology Department, the Financial Information Systems Department, and Comptroller to create a computer bridge between the Utilities Division and the Treasury to eliminate manual reporting of abatements and credits on water/sewer bills The department will also work with the Utilities Division and Comptroller to design and institute a final billing process. In addition, the department continues to work on implementing uniform cash/risk control policies citywide.

The department budget is $1,227,166 and includes eleven employees. Ald. Ciccone moved approval of the Treasurer's Office budget, which carried unanimously.

PURCHASING DEPARTMENT

The Purchasing Department's mission is to assist all departments in obtaining the highest quality supplies and services for the best price through a transparent competitive bidding procedure. The Purchasing Department includes the City's print shop and mailroom, which provide services to City departments. Chief Procurement Officer Nicholas presented the Purchasing Department's Fiscal Year (FY) 2015 recommended budget of $454,502. Mr. Read highlighted the department's accomplishments in Fiscal Year 2014. Mr. Read visited with 11 departments and taught classes to educate managers and staff on procurement law through the visits to departments and classes at City Hall and the School Department. Other accomplishments include publishing a book of policies and procedures and creating a monthly newsletter, upgrades in security in the mailroom and the purchase of a new machine to fold, stuff, and seal mailings.

In addition the department issued 100 Requests for Proposals (RFP) or Invitations to Bid (IFB), 107 quotes, and 4,611 purchase orders with an attributed savings of $2,660,194 related to IFBs and RFPs and $355,144 associated with quotes.

In the upcoming year Mr. Read will focus on reviewing and proposing amendments to ordinance related to the Purchasing Department. The department is planning to continue with the publication of the monthly newsletter and issue a revised policy and procedures handbook. Mr. Read is expecting to establish regular orientation and training sessions for new and current employees on purchasing processes. Further details on the department outcomes for FY 2015 are provided in the budget book under the Purchasing tab.

The budget for FY 2015 is slightly more than the FY 2014 budget, because of increases in salary compensation. Ald. Lappin moved approval of the recommended budget, which carried unanimously.

EXECUTIVE DEPARTMENT

Chief of Staff Maureen Lemieux presented the Executive Department's budget. The department continues to maintain the same level of staffing; however, there have been changes in titles and responsibilities. The Chief Operating Officer left the City last month and that position was changed to Chief Administrative Officer and the Chief Financial Officer took on additional responsibilities and that title was changed to Chief of Staff/Chief Financial Officer to reflect that change. The salaries for the two positions reflect the changes in roles. Overall there is only a $547 increase in the Executive Department's salary line items.

The Chief Administrative Officer will work closely with City departments that have a focus on community life like the Health and Human Services Department, the Veterans Services Department, the Parks and Recreation Department, the Police Department, and Fire Department It is likely that the Planning Department and Inspectional Services Department will be included in the community life group but those details have not been worked out. The Chief of Staff/Chief Financial Officer will work closely with the administrative and financial departments including the Department of Public Works. Ms. Lemieux will also be working with all other departments regarding the financial requests and aspects of those departments.

The Executive Department did not do an accomplishments or outcomes page for the Executive Department's budget because the budget and Capital Improvement Plan is what the Executive Office intends to accomplish. Ms. Lemieux reviewed some of the accomplishments of the Sustainability Director. The position was added to last year's budget but remained unfilled until the end of October 2013. The Director of Sustainability has been instrumental in the LED Streetlight Replacement Project, which will generate significant savings for the City. The Sustainability Director is currently working with Public Buildings on a number of energy efficiency projects, such as solar panels and the preferred vendor program at 30 municipal and school buildings.

Ms. Lemieux explained the salary increases for municipal employees. The Administration's policy is to not increase the overall salary and benefits costs more than 2.5% a year. The H-Grade employees are receiving two step increases this upcoming year. Each step for the H-grades is about a 1.5% increase, therefore, the increase for the upcoming year are about a 3% increase. There is approximately 60 million dollars in compensation on the municipal side. If everyone in the City receives a 3% increase, it would bring the compensation to $61.8 million. The City spends about $10 million for health insurance on the City side for the active employees bringing the total compensation level to $70 million. If there is a 4% increase in health care costs next year it would result in additional costs of $400,000. With those changes, compensation costs would then be 72.2 million. 2.5% of 70 million is approximately $71,750,000. The administration is using attrition to ensure that salary and benefit costs do not increase more than the 2.5%. On the city side, there is an assumption that there will be a 6% turnover. The 6% turnover rate is approximately $4.2 million in salary. The City is replacing most of those employees but most of the people who are filling the vacant positions start at with a smaller salary than their predecessor, particularly in union positions due to contract language that dictates what Grade and Step people can start at. Therefore, the Administration can count on a 10% savings on all positions that turnover. That 10% savings per year number was used as part of the calculation when all of the union contracts were negotiated three years ago and has proven to be true. Overall what the administration was focusing on was making sure that in the end that the total of all salaries and health insurance do not increase by more than 2.5%.

Ms. Lemieux added that the City now has 625 employees between the City and School Departments that are paying either a 25% or 30% contribution rate for their health insurance. The Administration forecasts that it will hire 200 new employees each year. Although forecasting is not perfect, the City is a large enough organization that it all proves out to be true. When union contracts were negotiated three years ago, the administration made sure that every union employee had some percentage of increase in the upcoming year. All of the contracts include language staggering raises throughout the upcoming fiscal year based on length of service. Staggering when employees get raises has large and compounding impact on what the budget looks like. In addition, the teachers all agreed to receive their raises on March 1 instead of September 1, the shift in the date saves the City $1.3 million a year. Those monies were reprogrammed so that the 40% of the teachers that were at the top step and were not getting increases could now get an increase.

The budget reflects all of the increases in salary for the upcoming fiscal year. There is no need for Wage Reserves accounts for contract negotiations as union employees all have increases in this budget. Any Wage Reserve account in a department's budget reflects changes in a department's level of staffing or salary changes related to details and shift differentials.

There are no plans to include the Other Post-Employment Benefits (OPEB) in the 2.5% cap on employee increases because the OPEB liability is not the employees' liability but the City's liability. Currently, when every employee retires, they contribute 20% towards their health insurance and the City is responsible for the remaining 80%. The City began setting aside 2.5% of OPEB costs for employees hired on or after July 1, 2012. The FY 2015 budget reflects an increase to 3% instead of those salaries. The City is planning to increase the percentage each year.

The Healthcare Advisory Committee recommended that the City investigate rebidding its health care plans. However, the Executive Office has no plans to rebid the health plans this upcoming year but in the not so distant future it is a possibility. Rebidding the health care plans is a huge undertaking. The Administration will have to further review health care plans and understand what administrative costs would be associated with each health plan.

The Administration has made a decision to increase the override fund by 2.5% per year to address inflation. For example, the $1 million in override funding for paving has increased to $1,025,000 in the Fiscal Year 2015 Budget. The $2.4 million in the Debt Capital Stabilization Account will also grow by 2.5% every year and it may allow the City to spend less money each year for debt service. The increase is reflected in the budget. There are budget line items that reflect these two changes. The override funding for additional staff in the Police Department has been rolled into their budget.

The total recommended budget for the Executive Office is $993,629. The staffing levels within the Department remain the same. There are no proposed capital improvement projects in the Executive Office. Ald. Ciccone moved approval, which carried unanimously.

COMPTROLLER

Comptroller David Wilkinson reviewed the recommended Fiscal Year (FY) 2015 Comptroller's Department. The Comptroller's budget does not have any substantial changes for Fiscal Year 2015. The staffing levels within the Department remain the same for the upcoming fiscal year. Mr. Wilkinson highlighted the minor changes in the budget. There are increases related to employee compensation. In addition, there is a slight reduction in the external auditing fee for FY 15 due to the timing of the contract. The external auditing contract includes the audit of one general purpose federal grant at a cost of $5,000. The grant audit fee remains constant for the next four years. There is a new line item for actuarial valuation services of $11,500, which is half of the cost of the annual retirement actuarial valuation. The actuarial valuations are necessary for implementation of the Government Accounting Standard Board's Statement 68, which requires separate funding and financial reporting assumptions and disclosures. There is an additional $1,450 in the training line for certification of staff and a $2,200 increase in property insurance costs.

The Comptroller's accomplishments include coordinating the completion of the annual independent financial audit and issuance of the annual financial report. Many of the department's accomplishment are date and performance driven. The Comptroller's Department met all of its goals for Fiscal Year 2014 except for the development of a bridge between MUNIS receivables and Finance Plus. Funding for that project was just recently approved.

The objectives for the department are timely and accurate reporting, automated integration of financial accounting records, and ongoing documentation of the City's financial procedures. The Comptroller's Office will continue to work with the Chief Financial Officer, Finance Committee and Financial Audit Advisory Committee on developing risk assessment procedures and policies. The Comptroller will also process all invoices within thirty days of receipt.

The 2014 budget includes a $2.5 million budget reserve, which includes $2 million for snow and ice control and $500,000 for extraordinary and unforeseen purposes. The City is in the process of restoring the Workers' Compensation self-insurance fund actuarial funded status. For the past several years, the funded status of the plan has allowed the City to use approximately $350,000 in investment income to subsidize recurring benefit payments. A June 30, 2013 review of the workers' compensation beneficiaries by the new Workers' Compensation Agent resulted in the identification of four long-term cases that needed to be reclassified from temporary disabilities to long-term permanent disability status, as a result the City was required to recognize $3.1 million in long-term liabilities in the fund, which resulted in a $1.4 million deficit.

Retirement System Budget

The Retirement Department's budget is very similar to last year. The Retirement Department budget includes funding for both municipal and public school participants. However, the school budget contains the funding for the health benefits for retirees from the Massachusetts Teachers' Retirement System. The State funds the employer share of the Teachers' Retirement Systems.

The Retirement appropriation for FY 2015 is $29.5 million dollars, which reflects an increase of $1.7 million or 6.1%. The city has absorbed the over $80 million in investment losses from 2008. The City is back on track to fully fund its pension liabilities by 2030 with an annual increase of 8.5% and an assumed return on investment of 7.65%. The 2030 date includes a refined mortality rate.

The City's actuarially required contribution to the benefit pension plan amounts to $18.8 million. The contribution increased 8.5% or $1.5 million over the current year appropriation. The retiree health pay as you go budget of $10.1 million increased by $240,077 or 2.4%.

Ald. Lappin moved approval of the recommended budget for the Comptroller's Office, which carried unanimously.

Respectfully submitted,

Leonard J. Gentile, Chairman

CITY OF NEWTON

IN BOARD OF ALDERMEN

FINANCE COMMITTEE REPORT

PENSION & OPEB LIABILITY DISCUSSION

MONDAY, MAY 12, 2014

Present: Present: Ald. Gentile (Chairman), Ciccone, Norton, Blazar, Fuller, and Lappin;
Absent: Ald. Rice, 1 vacancy
City staff present: David Wilkinson (Comptroller), Kelly Byrne (Director of Retirement), Donna Cadman (Retirement), Nunzio Piselli (Retirement Board), Rob Symanski (Financial Analyst), and Maureen Lemieux (Chief Financial Officer)

#34-14 ALD. FULLER requesting a discussion with the Executive Office regarding the current status and challenges related to the City of Newton pension and retiree healthcare (OPEB) systems. [01/11/14 @ 5:22 PM]

ACTION: HELD 6-0

NOTE: The Committee began initial discussion on the City's liabilities, as they relate to pensions and Other Post-Employment Benefits. Employees of the City of Newton receive pension benefits and continue to receive health insurance once they have retired from the City. Representatives of a number of the City's unions were in attendance. The pension benefits do not apply to teachers and some school administrators employed by the City, as their pensions are paid through the State's retirement system; however, all employees that worked more than 20 hours per week with ten or more years of service are eligible for health insurance benefits once they retire. The City has significant unfunded liabilities associated with both of these benefits. The City will be required to reflect these liabilities in its comprehensive annual financial report in the near future.

Ald. Fuller and a number of citizens, several of whom were present for the discussion, provided a report on the City's retiree benefits that was previously provided to the Committee. There are complicated issues associated with the pension and Other Post-Employment Benefits (OPEB) liabilities that city officials should understand how the pieces fit together. The report hopes to provide information on the liabilities. The report is not meant to be an attack on employee benefits but a tool to begin discussion on how to address these liabilities.

Pension Liability

The City has a plan to address its pension liability as required by State law. All of the City's pension obligations are expected to be funded by 2030, which is seven years sooner than the previous expected fully funded date of 2037. The City's pension liability stood at approximately $244 million in 2013. For the past couple of years, the City has increased funding by 8.5% each year and will continue to do so until pensions are fully funded. In addition, the assumed return on investment was decreased from 7.75% to 7.65%, which has been met and exceeded over the past two years, as the average return on investment has been close to 10%.

It is important to note that in 2012 the contributions by employees towards their pensions was $7.1 million and the City's contribution was $11.3 million. Of that $11.3 million, 83% was used to address unfunded liability for retirees.

Other Post-Employment Benefits Liability

. State law requires the City to contribute 50% of the health insurance premium but the City of Newton has agreed to fund 80% of the health insurance premiums for all municipal employees hired before July 1, 2011, all school employees hired before August 31, 2011 and current retirees. During the last collective bargaining negotiations increases in employee contributions of between 25% and 30% for new municipal and school employees were agreed upon. The increases will remain in effect when those employees retire.

The City just recently began taking very small steps to prefund the future costs of health insurance for its current employees. The City started contributing 2.5% of compensation for new employees to partially fund the City's contribution to health insurance premiums when the new employees retire. The Administration increased that funding percentage to 3% in the Fiscal Year 2015 budget. In order to fund the OPEB liability the city should be putting aside approximately 12% of employee salaries to fund retiree health insurance.

In April 2014, the City held assets of $945,175 in an OPEB Trust Fund and it will be putting an additional $902,721 into the trust this upcoming fiscal year. The City will be investing the trust fund through the State's PRIM Board. The City's OPEB liability is approximately $602 million.

The following are some of comments and concerns raised regarding the liabilities:

- There is concern that as government accounting rules change and liabilities become more apparent to rating agencies, the rating agencies will become more tentative when issuing ratings.
- In conversations with representatives of Moody's Investor Services, it was clear that the representative felt that the City should be focusing on first increasing the Rainy Day Stabilization Fund, second on funding its pension liability, and third on funding the OPEB liability. It is important to take the representatives guidance when determining where to allocate funds.
- The City should not renege on any commitments it has made to retirees on their benefits. It is certainly appropriate to look at changes that can be made to benefits for new employees but there should not be changes to the retirees' benefits.
- There were concerns that the 8.5% funding level is not sustainable over time and that there can be major fluctuations in the economy that could negatively impact the City's return on investment rate. The City needs to be correct in its assumptions.

- It was pointed out that the City could decide to lower its percentage of contribution to retiree health care benefits to as low as 50%.
- If the City decides to prefund the OPEB costs, it will need a marketing strategy to help residents understand. If the City were to fully fund the liabilities it would be 21% of the budget and that percentage would increase each year. The City needs to think about how it can fund the liabilities and continue with the level of services residents expect.
- It is important to understand how all of the pieces fit together before making any decisions on if and how to fund the OPEB liability.
- There is pending health care legislation before the legislature, which proposes a tiered approached to health care benefits similar to pension benefits. The proposed legislation is attached.
- The only way to protect benefits is to develop a funding plan. At the current funding pace increases in the liability will outpace funding. The City needs to ramp up funding over the next ten years. Pay as you go will not work `in the long run.
- The City of Newton employees are not in a position of their own making.

This was an initial discussion and the Committee will continue to discuss the Docket Item. Ald. Ciccone moved hold, which carried unanimously.

Respectfully submitted,

Leonard J. Gentile, Chairman

HOUSE . . . . No. 59

Message from His Excellency the Governor recommending legislation relative to providing retiree healthcare benefits reform. Public Service. February 12, 2013.

The Commonwealth of Massachusetts

EXECUTIVE DEPARTMENT

STATE HOUSE • BOSTON, MA 02133

(617) 725-4000

DEVAL L. PATRICK

GOVERNOR

TIMOTHY P. MURRAY

LIEUTENANT GOVERNOR

February 12, 2013.

To the Honorable Senate and House of Representatives:

I am filing for your consideration the attached legislation, entitled "An Act Providing Retiree Healthcare Benefits Reform."

The cost of retiree health benefits for public employees in Massachusetts has resulted in an unfunded benefit liability that is estimated to be over $40 billion for the state and municipalities combined. Addressing the growing cost and unfunded liability of state and municipal retiree health care is in the best interests of the Commonwealth, taxpayers and public employees.

This legislation implements the recommendations of the Commission to Study Retiree Healthcare and Other Non-Pension Benefits to reform the structure of retiree healthcare provided by state and local governments to make it more equitable and sustainable. The proposed reforms will reduce the costs of these benefits in order to ensure that providing contributions to retiree healthcare coverage will be sustainable for the future, based on existing policy benchmarks for fiscal sustainability, while maintaining the state's commitment to high quality health care for employees and retirees. The recommendations take into account the fact that under the Affordable Care Act, qualified individuals whose employer-subsidized insurance is not considered affordable will become eligible for federal subsidies to offset the cost of purchasing insurance through a Health Insurance Exchange.

This legislation proposes to address these objectives by implementing the following changes for contributions to future retiree health care benefits provided by both the State and municipalities:

- Increasing the minimum years of service requirement from 10 to 20 years
- Increasing the minimum age for eligibility to 60 (for Group 1), 55 (for Group 2) and 50 (for Group 4)
- Prorating benefits on a scale from 50% premium contribution after 20 years to the maximum current retiree benefit (80% of premium for State retirees) at 30 years
- Exempting current retirees and certain employees who are nearing retirement age from the reforms
- Exempting future ordinary disability retirees from the reform until the 2014 Affordable Care Act exchange is available. At that time, ordinary disability retirees shall receive a 50% premium contribution for 10 to 20 years of service. Beyond 20 years, prorating will apply.
- Providing future surviving spouses with a minimum 50% employer premium contribution

The potential savings from this proposed reform is estimated to be between $15 billion and $20 billion for state and local governments over the next 30 years.

I respectfully request your prompt enactment of this legislation.

Respectfully submitted,

DEVAL L. PATRICK,
Governor.

HOUSE DOCKET, NO. 3496 FILED ON: 2/12/2013

HOUSE . . . . No.

The Commonwealth of Massachusetts

In the Year Two Thousand Thirteen

An Act providing retiree healthcare benefits reform.

Whereas, The deferred operation of this act would tend to defeat its purpose, which is to lower forthwith the unfunded liability of state and municipal governments for retiree healthcare benefits, therefore, it is hereby declared to be an emergency law, necessary for the immediate preservation of the public convenience.

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

SECTION 1. Section 2 of chapter 32A of the General Laws, as amended by section 34 of chapter 224 of the acts of 2012, is hereby further amended by adding the following subsection:-

(j) “Qualified retiree,” a person who was an employee after January 1, 1956, is receiving a retirement allowance from a system, as defined in section 1 of chapter 32 and who is eligible for contributions to group health care coverage under this chapter, including retirees receiving a retirement allowance from the optional retirement plans of participating retirees under section 40 of chapter 15A, but excluding retirees receiving a retirement allowance from any plan designed specifically to comply with the federal Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508), as amended.

(1) An individual who receives a superannuation retirement from a position classified as Group 1 under section 3 of chapter 32 shall not be a qualified retiree unless the individual is at least 60 years old. An individual who receives a superannuation retirement from a position classified as Group 2 under section 3 of chapter 32 shall not be a qualified retiree unless the individual is at least 55 years old. An individual who receives a superannuation retirement from a position classified as Group 3 under section 3 of chapter 32 shall not be a qualified retiree unless the individual is at least 50 years old. An individual who receives a superannuation retirement from a position classified as Group 4 under section 3 of chapter 32 shall not be a qualified retiree unless the individual is at least 50 years old. In addition, a retired employee shall not be a

qualified retiree for purposes of this chapter unless the retired employee has received a minimum of 20 years of creditable service.

(2) A retired employee shall not be considered a qualified retiree unless the individual was employed by the public employer at the time of retirement, but this requirement shall not apply to retired employees with at least 25 years of creditable service if they apply for retirement within 5 years after leaving public employment or to retired employees with at least 20 years of creditable service if they are enrolled in Medicare parts A and B.

(3) The requirements of subparagraphs (1) and (2) of this definition shall not apply to (a) individuals who retired before July 1, 2013; (b) employees and former employees who, on July 1, 2013, are within 5 years of eligibility for superannuation retirement under chapter 32 and have received a minimum of 20 years of creditable service; (c) employees and former employees who, on July 1, 2013, are within 5 years of eligibility for Medicare and have received a minimum of 9 years of creditable service; (d) individuals who are members of the teachers retirement system or the State-Boston retirement system who participate in the alternative superannuation retirement benefit program established under subsection 4 of section 5 of chapter 32 and are at least 57 years old and eligible for a retirement benefit of 80 per cent; (e) individuals receiving an accidental disability retirement under section 7 of chapter 32; or (f) individuals receiving an ordinary disability retirement under section 6 until access to healthcare benefits though a Health Insurance Exchange becomes available to qualified individuals under the Patient Protection and Affordable Care Act, Public Law 111-148. Individuals in these categories, upon retirement, shall be considered qualified employees for purposes of this chapter.

SECTION 2. Section 8 of said chapter 32A, as appearing in the 2010 Official Edition, is hereby amended by striking out the first paragraph and inserting in place thereof the following 4 paragraphs:-

For policies of group life insurance and accidental death and dismemberment insurance, and group health insurance purchased by the commission in accordance with sections 4, 5 and 10C, the commonwealth, on behalf of active employees and their dependents shall contribute not less than 75 per cent of the total monthly premium or rate applicable to said coverages.

For policies of group life insurance and accidental death and dismemberment insurance, and group health insurance purchased by the commission in accordance with sections 4, 5 and 10C, the commonwealth, on behalf of qualified retirees and their dependents, shall contribute not less than 50 per cent of the total monthly premium or rate applicable to said coverages and the qualified retirees on behalf of themselves or themselves and their dependents shall contribute the remaining 50 per cent of the total monthly premium or rate. For purposes of this section, “maximum available benefit” shall mean the percentage of the total monthly premium or rate paid by the commonwealth to qualified retirees with a minimum of 30 years of creditable service. The commonwealth shall contribute an increased amount of the total monthly premium or applicable rate according to the following schedule:

(a) Qualified retirees with a minimum of 20 years of creditable service shall be eligible to receive a minimum of 50 per cent of the total monthly premium or applicable rate.

(b) Qualified retirees with a minimum of 23 years of creditable service shall be eligible to receive a minimum of 50 per cent of the total monthly premium or applicable rate, plus 1/3 of the difference between 50 per cent and the maximum available benefit.

(c) Qualified retirees with a minimum of 27 years of creditable service shall be eligible to receive a minimum of 50 per cent of the total monthly premium or applicable rate, plus 2/3 of the difference between 50 per cent and the maximum available benefit.

(d) Individuals receiving an ordinary disability retirement under section 6 of chapter 32 who have received a minimum of 10 years of creditable service shall be eligible to receive a minimum of 50 per cent of the total monthly premium or applicable rate.

(e) Notwithstanding clauses (a) through (d), qualified retirees who are not subject to the requirements of subparagraphs (1) and (2) of subsection section (j) of section 2 shall be eligible to receive the maximum available benefit.

An employee who retires after July 1, 2013 and is not a qualified retiree shall be eligible to receive 50 per cent of the total monthly premium or applicable rate if, by July 1, 2013, the employee: (i) is at least 50 years old and has completed 15 years of creditable service, or (ii) is at least 55 years old and has completed at least 10 years of creditable service.

The active and retired employees on behalf of themselves or themselves and their dependents shall contribute the remaining share of the total monthly premium or rate, except, that upon approval by way of an annual, or more frequent appropriation act, the commonwealth may contribute more than the percentage indicated above, but less than the entire total monthly premium or rate. Each appropriation act as may be applicable, shall provide the necessary sum based upon the estimated monthly cost as required by section 4 and shall describe the ratio of contribution to be paid by the commonwealth and by the active and retired employees insured under the aforesaid sections. The description of the ratio may include a condition that if, as a result of a change in the total monthly premium or rate which occurs during the current or ensuing fiscal year from a change in a contract between the commission and the insurance carrier or carriers, the amount of the contribution paid by the active and retired employee and dependents is to remain unchanged and the difference in the amount thus paid and the total monthly premium or rate as changed is to be added to, or deducted from as the case may be, the contribution by the commonwealth. This ratio shall continue until changed by a subsequent appropriation act, and the aforesaid sum shall also include the commonwealth’s contribution of the total monthly premium or rate required for coverages contained in other sections of this chapter.

SECTION 3. The second paragraph of said section 8 of said chapter 32A, as so appearing, is hereby amended by striking out the second sentence and inserting in place thereof the following sentence:- With respect to any period of insurance authorized by this chapter which is in effect for a qualified retiree and dependent, there shall be withheld from each payment of pension or retirement allowance not more than 50 per cent of the aforesaid total monthly premium, or there shall be withheld a lesser amount as provided in this section and the most recent applicable appropriation act.

SECTION 4. The first paragraph of section 10 of said chapter 32A, as so appearing, is hereby amended by adding the following sentence:- A retiree who is not a qualified retiree may continue all such insurance coverage if the retiree files an application to the commission on a form prescribed by the rules and regulations of the commission, and makes payment to the commission for the total monthly premium or rate applicable to the coverage in such manner as the commission may prescribe.

SECTION 5. Section 10C of said chapter 32A, as so appearing, is hereby amended by striking out, in lines 69 to 71, the words "fifty per cent of the premium for such insurance, and the commonwealth shall make primary payment of the remaining fifty per cent" and inserting in place thereof the following words:- the appropriate per cent of the premium for such insurance, and the commonwealth shall make primary payment of the remaining share.

SECTION 6. Section 11 of said chapter 32A, as so appearing, is hereby amended by striking out, in lines 13 to 14, the words "contributes, pursuant to section eight, on behalf of retired employees," and inserting in place thereof the following words:- had contributed on behalf of the deceased employee or retiree as of the date of death, but for the surviving spouse of an employee or retired employee who died before July 1, 2013, the commonwealth shall contribute 90 per cent of the cost of the monthly premium or rate applicable to the coverage. Contributions by the commonwealth under this section shall be.

SECTION 7. Section 12 of said chapter 32A, as so appearing, is hereby amended by inserting, after the first paragraph, the following paragraph:-

Notwithstanding the first paragraph of this section, for retired teachers who are qualified retirees as defined in section 2 of chapter 32B, the commission shall determine a schedule of contribution ratios consistent with section 5 of chapter 32B. Notwithstanding the first paragraph of this section, a retired teacher who is not a qualified retiree as defined in section 2 of chapter 32B may continue all insurance coverage to which the retiree is entitled under this section if the retiree files an application therefor with the commission, and makes payment for the total monthly premium or rate applicable to the coverage to the commission in such manner as it may prescribe.

SECTION 8. Section 2 of chapter 32B of the General Laws, as amended by section 1 of chapter 69 of the acts of 2011, is hereby further amended by inserting after the definition of "political subdivision" the following definition:-

"Qualified retiree," a retired employee who is eligible for contributions to group health care coverage under this chapter.

(1) An individual who receives a superannuation retirement from a position classified as Group 1 under section 3 of chapter 32 shall not be a qualified retiree unless the individual is at least 60 years old. An individual who receives a superannuation retirement from a position classified as Group 2 under section 3 of chapter 32 shall not be a qualified retiree unless the individual is at least 55 years old. An individual who receives a superannuation retirement from a position classified as Group 4 under section 3 of chapter 32 shall not be a qualified retiree unless the individual is at least 50 years old. In addition, a retired employee shall not be a qualified retiree for purposes of this chapter unless the retired employee has received a minimum of 20 years of creditable service.

(2) A retired employee shall not be considered a qualified retiree unless the individual was employed by the employer at the time of retirement, but this requirement shall not apply to retired employees with at least 25 years of creditable service if they apply for retirement within 5 years after leaving public employment or to retired employees with at least 20 years of creditable service if they are enrolled in Medicare parts A and B.

(3) The requirements of subparagraphs (1) and (2) of this definition shall not apply to (a) individuals who retired before July 1, 2013; (b) employees and former employees who, on July 1, 2013, are within 5 years of eligibility for superannuation retirement under chapter 32 and have received a minimum of 20 years of creditable service; (c) employees and former employees who, on July 1, 2013, are within 5 years of eligibility for Medicare and have received a minimum of 9 years of creditable service; (d) individuals who are members of the teachers retirement system or the State-Boston retirement system who participate in the alternative superannuation retirement benefit program established under subsection 4 of section 5 of chapter 32 and are at least 57 years old and eligible for a retirement benefit of 80 per cent; (e) individuals receiving an accidental disability retirement under section 7 of chapter 32 or (f) individuals receiving an ordinary disability retirement under section 6 until access to healthcare benefits through a Health Insurance Exchange becomes available to qualified individuals under the Patient Protection and Affordable Care Act, Public Law 111-148. Individuals in these categories, upon retirement, shall be considered qualified employees for purposes of this chapter.

SECTION 9. Section 7 of said chapter 32B, as so appearing, is hereby amended by striking out, in line 2, the words "or retired employee" and inserting in place thereof the following words:- employee or qualified retiree.

SECTION 10. Section 9 of said chapter 32B, as appearing in the 2010 Official Edition, is hereby amended by inserting, after the first paragraph, the following 3 paragraphs:-

Notwithstanding the first paragraph of this section, for policies of group health insurance purchased by the appropriate public authority in accordance with this chapter, the governmental unit, on behalf of qualified retirees and their dependents, shall contribute no less than 50 per cent of the total monthly premium or rate applicable to said insurance coverage and the qualified retirees on behalf of themselves or themselves and their dependents shall contribute the remaining 50 per cent of the total monthly premium or rate. For purposes of this section, “maximum available benefit” shall mean the percentage of the total monthly premium or rate paid by the governmental unit to qualified retirees with a minimum of 30 years of creditable service. The governmental unit shall contribute an increased amount of the total monthly premium or applicable rate according to the following schedule:

(a) Qualified retirees with a minimum of 20 years of creditable service shall be eligible to receive a minimum of 50 per cent of the total monthly premium or applicable rate.

(b) Qualified retirees with a minimum of 23 years of creditable service shall be eligible to receive a minimum of 50 per cent of the total monthly premium or applicable rate, plus 1/3 of the difference between 50 per cent and the maximum available benefit.

(c) Qualified retirees with a minimum of 27 years of creditable service shall be eligible to receive a minimum of 50 per cent of the total monthly premium or applicable rate, plus 2/3 of the difference between 50 per cent and the maximum available benefit.

(d) Individuals receiving an ordinary disability retirement under section 6 of chapter 32 who have received a minimum of 10 years of creditable service shall be eligible to receive a minimum of 50 per cent of the total monthly premium or applicable rate.

(e) Qualified retirees who are not subject to the requirements of subparagraphs (1) and (2) of the definition of qualified retiree in section 2 shall be eligible to receive the maximum available benefit.

An employee who retires after July 1, 2013 and is not a qualified retiree shall be eligible to receive 50 per cent of the total monthly premium or applicable rate if, by July 1, 2013, the employee: (i) is at least 50 years old and has completed 15 years of creditable service, or (ii) is at least 55 years old and has completed at least 10 years of creditable service.

A governmental unit shall not reduce the percentage of its contribution to premiums of qualified retirees from the percentage contributed on January 1, 2013 before January 1, 2016, but the governmental unit may implement changes in contribution percentage adopted before January 1, 2013. Reductions in contribution percentage for qualified retirees made after January

1, 2016 shall not apply to individuals who retire before the change in contribution percentage takes effect.

SECTION 11. Section 9A of said chapter 32B, as so appearing, is hereby amended by striking out, in lines 7 and 12, the words "retired employee" and inserting in place thereof, in each instance, the following words:- qualified retiree.

SECTION 12. Said chapter 32B is hereby further amended by striking out section 9B, as so appearing, and inserting in place thereof the following section:-

Section 9B. Upon the death of an employee or a qualified retiree, the surviving spouse may continue the group general or blanket insurance coverage for himself or his dependents providing hospital, surgical, medical, dental and other health benefits, until the remarriage or death of the surviving spouse; provided, that application for this insurance coverage shall be filed with the appropriate public authority and a method for the payment of premiums shall be determined in accordance with its rules and regulations. For the surviving spouse of an employee or qualified retiree who dies after July 1, 2013, the governmental unit shall contribute not less than 50 per cent of the cost of the premiums, and the surviving spouse shall pay the remaining cost. A surviving spouse who is enrolled in a governmental unit's insurance coverage on January 1, 2013 and is contributing a portion of the premium in excess of 50 per cent shall have the surviving spouse's share of the premium contribution reduced to no more than 50 per cent. A surviving spouse who is enrolled in a governmental unit's insurance coverage on January 1, 2013 and is contributing less than 50 per cent of the premium shall continue to contribute the same per cent of the premium.

SECTION 13. Section 9C of said chapter 32B, as so appearing, is hereby amended by striking out the second paragraph and inserting in place thereof the following paragraph:-

For the surviving spouse of an employee or qualified retiree who dies after July 1, 2013, the governmental unit shall contribute not less than 50 per cent of the cost of the premiums, and the surviving spouse shall pay the remaining cost. A surviving spouse who is enrolled in a governmental unit's insurance coverage on July 1, 2013 and is contributing a portion of the premium in excess of 50 per cent shall have the surviving spouse's share of the premium contribution reduced to no more than 50 per cent. A surviving spouse who is enrolled in a governmental unit's insurance coverage on July 1, 2013 and is contributing less than 50 per cent of the premium shall continue to contribute the same per cent of the premium.

SECTION 14. Section 9D of said chapter 32B is hereby repealed.

SECTION 15. Section 9D1/2 of said chapter 32B, as so appearing, is hereby amended by striking out, in lines 11 to 12 and 22, the words "nine D" and inserting in place thereof, in each instance, the following number:- 9B.

SECTION 16. Said section 9D1/2 of said chapter 32B, as so appearing, is hereby further amended by striking out, in lines 13 to 14, the words "or retired employee" and inserting in place thereof the following words:- employee or qualified retiree.

SECTION 17. Said section 9D1/2 of said chapter 32B, as so appearing, is hereby further amended by striking out, in line 20, the words "retired employee" and inserting in place thereof the following words:- qualified retiree.

SECTION 18. Section 9G of said chapter 32B, as so appearing, is hereby amended by striking out the second paragraph and inserting in place thereof the following paragraph:-

For the surviving spouse of an employee or qualified retiree who dies after July 1, 2013, the governmental unit shall contribute not less than 50 per cent of the cost of the premiums, and the surviving spouse shall pay the remaining cost. A surviving spouse who is enrolled in a governmental unit's insurance coverage on January 1, 2013 and is contributing a portion of the premium in excess of 50 per cent shall have the surviving spouse's share of the premium contribution reduced to no more than 50 per cent. A surviving spouse who is enrolled in a governmental unit's insurance coverage on January 1, 2013 and is contributing less than 50 per cent of the premium shall continue to contribute the same per cent of the premium.

SECTION 19. Notwithstanding any general or special law to the contrary, an appropriate public authority that changes its contribution percentages to retiree group health care coverage under this act shall delay implementation of these changes as to those retirees whose contribution level is specifically included in a special act that is in effect on the date of implementation of these changes until the term stated in that act has ended.

SECTION 20. The executive office for administration and finance, in consultation with the division of local services in the department of revenue, the group insurance commission and the public employee retirement administration commission, shall establish a process to monitor the continuing fiscal sustainability of state and local retiree health care benefits. The process shall include (a) periodic analysis of the rate of growth of retiree health care benefit costs and liabilities and metrics for the sustainable rate of growth in public sector revenue available to pay for these benefits based on pre-determined information to be supplied by state and local governments on a regular basis to the division of local services and the public employee retirement administration commission , (b) a mechanism developed by the executive office for administration and finance for determining whether the retiree health benefit costs or liabilities are growing faster than sustainable rates of growth, and (c) a process for notifying local government officials and legislators if the level of spending is determined to be unsustainable and for the executive director of the Group Insurance Commission to identify additional cost saving strategies that would cause the rate of growth for the costs of these benefits and the liability for these benefits to meet benchmarks for sustainability.