OTHER POST-EMPLOYMENT BENEFITS TRUST FUND

BOARD OF TRUSTEES MEETING REPORT

Tuesday, September 22, 2015

Trustees Present: Board of Aldermen Appointee Ruthanne Fuller, Citizen Appointee Sarah Ecker, Comptroller David Wilkinson, Chief of Staff/Chief Financial Officer Maureen Lemieux

Also present: Linda Dubuque (Assistant Treasurer/Collector), Ald. Emily Norton, Marie Lawlor (Assistant City Solicitor), Shawna Sullivan (Clerk) and Jay Stiefel (Actuary; representing Financial Risk Analysts, LLC)

The Other Post-Employment Benefits (OPEB) Board of Trustees met with Jay Stiefel, Associated Consultant representing Financial Risk Analysts, LLC who presented the actuarial valuation of the Other Post-Employment Benefits (OPEB) for Fiscal Year 2015.

Chief of Staff Maureen Lemieux stated that a year ago the City put together a plan to fully fund the City's pension liability by 2038. Since that time, the City has managed to reduce the number of years that it will take to fund the pension liability. The anticipated date for full funding of the pension liability is 2029. Last year, when the City prepared the five-year financial forecast, it was projected that the City would take the pension funding appropriation and repurpose it to fund Other Post-Employment Benefits (OPEB) to aggressively fund those liabilities. When that projection was made, the Administration told the Board of Aldermen that it would engage an actuary to look at the funding plan for OPEB, validate it or not, value the OPEB liability and give the City an estimate, based on the plan, of when the City could anticipate having the OPEB liability fully funded.

The City has engaged the same actuarial firm since 2006 to value the assets and liabilities associated with OPEB. The previous reports did not include a funding plan. This is the first year that the report includes the funding plan. For a number of years, City officials have been working to try to improve the financial position of the City. The City has met with representatives from the credit rating agency (Moody's Investor Services) and repeatedly asked for some guidance on what the City needs to do to bolster its Triple A bond rating status. Moody's was very clear with the City that the number one priority should be to fund a rainy day stabilization fund at a minimum of 5% of the budget. Secondly, the City should develop a more aggressive funding schedule for the defined benefit pension liability and thirdly, put to paper some type of a plan for actuarial funding of the OPEB liability. The City has been able to make some inroads on the first two priorities over the years. It is really this year that the OPEB funding plan is being proposed. Actuary Jay Stiefel is prepared to talk about the plan, the valuation, and issues, if any.

Under the new Governmental Accounting Standard Board (GASB) rules the funding plan and the financial reporting of the liabilities go in different directions because the plan makes more long-term assumptions, whereas; the actual financial reporting under the new reporting model for pension liability and, shortly, OPEB liability will be changing every year. There is no asset smoothing on either side for financial reporting purposes but it is very likely asset smoothing will continue on the funding schedule side. The investment return assumptions that

will be used for discounting purposes have to be based upon specific documented criteria on a year-by-year basis for financial reporting. There is a little bit more flexibility over long-term projections for the funding schedule, although medical trend will be documented annually based upon factors that are specific to Newton. Funding schedules are a long-term perspective; therefore, it can get confusing when discussing financial reporting and funding schedules. Similar to the pension side of things the OPEB liability will have an actuarial accrued liability number, which is the funding liability number, which differs from the net pension liability number. The net pension liability number is the number that shows up in the financial statements.

Actuary Jay Stiefel began his presentation by commending the City for taking its liabilities seriously. The liabilities are real and payments have to be made. With the exception of the Town of Lexington and the City of Newton, most of Mr. Stiefel's clients are not paying much attention to their OPEB liabilities and have not developed a plan to fund those liabilities. Newton has come up with a good plan. The plan is dependent on a myriad of assumptions, none of which are guaranteed, but the City has to start somewhere. Mr. Stiefel provided a review of the funding projections that he developed working with Comptroller Dave Wilkinson. Mr. Stiefel began with the assumptions because the assumptions are what drive the calculations of the normal cost and the amortization of the accrued liability.

Chief of Staff Maureen Lemieux explained that Column #5 of the GASB 45 Valuation Funding Projection Chart in the actuary's report provides the Administration's assumptions for the report. This year the City has $1.4 million in the budget dedicated to the OPEB liability. When the City provided these numbers, it wanted to be very conservative with how it said it was funding OPEB liability. The Administration dedicated $250,000 a year to the OPEB funding schedule until 2029. There are two reasons for this decision. In order to fund the pension plan by 2029, the City is making a tremendous commitment that will not be easy to keep based on the new mortality tables that are being used for the pension plan. The City needs to aggressively fund the pension liabilities at an 8.75% increase per year to the dedicated funding for pensions to meet the goal of funding that liability by 2029 making it very difficult to dedicate more than $250,000 to OPEB liability. The City is funding the OPEB liability for all employees hired since July 1, 2012. At some point, the City will reach a point where some positions that were filled since July 1, 2012 will turnover. Once that type of position is filled, it will have little or no impact on the amount of money being set aside for OPEB, as o new OPEB funding would be captured for the new employee because they are replacing an employee that the City has already appropriated OPEB funds for based on salary. When employees that worked for the City or School Department prior to July 1, 2012 retire or resign, they are replaced and the City places an OPEB funding appropriation against that employee's salary.

The assumptions are all a function of the way the Administration has chosen to fund the liabilities. The Administration could change the assumptions, as there are no agreements with a particular employee or union. It is all a way of setting up a base stream for funding associated with the workforce. There will never be fewer employees than what the City is currently capturing. There are about 200 positions in the City that turnover each year. If the City reaches the point where it is already applying OPEB to 100 of the vacant positions, it could more aggressively increase the percentage. This year the Administration is setting aside 3.25% of the

salaries of anyone who takes health insurance that was hired after July 1, 2012. The percentage started at 2.5% when the City began this process. In next year's budget, the goal would be to increase to 3.5% then 3.75% the following year, which would go back to the first employee hired on or after July 1, 2012, which is why it will never be less funding. The intent is to capture more employees in this OPEB funding method while increasing the percentage. The City ought to be putting aside in the range of 10% to 12% of salary for OPEB for each employee. The City is not only growing into the number of employees it is applying OPEB funding to, it is also growing into that percentage.

Although the funding plan is not cast in stone, it is the plan for showing Moody's, the City's financial advisors, the rating agencies, and bond council that the City is serious about funding the OPEB liability. The Administration also understands that as the pensions are a defined benefit, it needs to be fully funded before taking an aggressive approach to funding the OPEB liabilities.

Maureen Lemieux clarified that the money that is being applied to the OPEB liability will never be less than $250,000 per year. The $250,000 is a conservative number for the OPEB report. The City still intends to increase the actual appropriation for OPEB by percentage increments over the next few years. The purpose of using the $250,000 in the valuation report is not to overstate what the City projects it will appropriate each year until 2029, when it is anticipated the pension liability would be funded. The purpose of this is to be conservative. The City is also using the most conservative mortality tables and medical trend rates. Ms. Lemieux did not want to get a projection back from the actuary that by the Year 2036 the City would fully fund its OPEB liability and then not have it funded because the City made aggressive assumptions. The OPEB valuation report and funding schedule are designed to be conservative.

When the funding projection chart is viewed, the key item is the actuarial accrued liability displayed in Column 7, which is entirely dependent on the assumptions that are used to calculate it. Viewing Column 7, you can see that in 2042, if all goes according to plan, the OPEB liability should be funded. It is important to step back and ask what assumptions were used to calculate the actuarial accrued liability. Some of the assumptions are straightforward and not controversial others are fraught with controversy. The interest discount rate is not a controversial discount rate. It is based on the assets that are actually going to be used to pay the benefits. Right now, the City is using the General Fund to pay benefits. The City's Comptroller gave an estimate of 2%, as a projected long-term return on Newton's general fund. Arguably, you could substitute the high-quality municipal bond rate, which would be higher than the 2% but the City is trying to be conservative.

It was pointed out that if the City and actuary were being conservative, they would use what the City is actually earning, which has been a 1% rate of return for the past seven years. The actuary responded that the report should reflect the long-term projection for its funding schedule and 2% is a reasonable assumption. The City can opt to change the assumption next year to a more conservative assumption. The actuary generally sees assumption rates of 3% or 4% from other clients. GASB states that most of the assets are general fund. Therefore, most of the assets are projected at a rate of 2% per year; however, Newton almost uniquely is funding the

liabilities and the actuary's understands that the current rate of return on the funded pension liabilities is 7.35% for financial reporting purposes.

The actuary worked with the Comptroller to determine an assumption of a rate of return of 7.04% for the OPEB Trust, which is conservative. There are $2.1 million of assets that are assumed to earn 7.04% and there are several hundred million of assets assumed to earn 2%; therefore, the blend of it all is 2.04%. The actuary believes that over the long-term, the federal government is going to raise the prime discount rate and the return on general funds will be higher. The interest rate assumption is a key item. A 1% increase in the assumed interest rate, which the actuary believes is too aggressive, would result in a 21% reduction of the liability.

Management's position is that if the City is going to err, it is going to err on the side of caution. The City is entering into an OPEB funding plan and it is not known what obstacles it will encounter. The City made an educated decision that the 7.04% rate is an appropriate assumption. When GASB Statements 74 and 75 come into play in 2017, the financial reporting piece of this will be based upon whatever comes out of the pension consultant's report from the PRIT fund. The funding will be an entirely different matter. The funding will be a judgement call. The Actuary believes that the biggest impact of GASB Statements 74 and 75 is that Newton would be allowed to use a bogus discount rate based on high-grade municipal bonds. Right now, that rate is 3.8%. If Newton went to GASB 75 and elected to use that discount rate, liabilities would tumble. Whether they would legitimately tumble is another matter, but the City would have the option to show a happier face as far as funding goes.

The next assumption in the report relates to medical trends. Since Newton fully insures the benefits, the assumption is based on how fast the benefit premiums on average will increase in the future. There are two schools of thought that actuaries have for doing medical trending. One school of thought uses 10% this year, then 9%, 8%, 7%, 6%, 5% in year six and then 5% forever more. The advantage to using that method is that numbers do not bounce around as much from year to year, because the medical trends are a key driver of the numbers. Mr. Stiefel does not subscribe to that school of thought. It is his belief that the City's liabilities depend on the situation at the time the valuation is prepared. When he did the City's valuation, the average rate increase for the City of Newton for fully insured benefits was 8.39%. The Society of Actuaries did an extensive study, which states that after 2020 the medical trend rates in general will be 6.08%. Mr. Stiefel started at 8.39% and gradually went down to 6.08% in even increments. One of the results of that were Newton's liabilities increased quite a bit because the year before the rate increase was actually negative. There is room for substantial discussion regarding how to calculate the assumptions related to medical trends and the current method is not cast in granite. There was a suggestion that in the future, the OPEB report should contain a footnote that states the actuary used the Society of Actuaries forecast of 6.08% for 2020 and that the numbers decrease gradually from the 8.39% in 2015 to the 6.08% in 2020.

Last year's numbers are dramatically different from this year's numbers. The City's numbers are not going to be as large when the City starts at 8.39% and grades down to 6.08%, which accounts for the substantial change between the two years in the liabilities for the City.

It was stated that the actual percent rate increase can be related to medical trends or it can be related to how successful the Administration is in negotiating with unions on benefits. The actual experience can reflect two very different things. If the City were to change the health benefits, the premiums would reflect any changes to benefits. Four years ago when the Administration negotiated benefit changes, they consulted with the health insurance carriers to get the decrement in order to understand the value of $5 more in prescriptions versus $5 for an office visit and which one would give a higher decrement.

All things being equal the premium rates are fine because if the Administration does not negotiate any other changes to health plans, than the rates are true. Any of these reports are only true, based on the set of assumptions that are used. If the City negotiated entirely different benefit plans, than in all likelihood the report would be a different document. The goal of the actuary's report is to make sure that the City stays conservative, especially in its first foray into creating a funding schedule for OPEB. It was also pointed out that if the City were to negotiate benefits, it is more than likely that it would be negotiating less rich benefit plans resulting in lower premium increases, at least in the beginning. Another goal related to the report was to understand what the true actuarial accrued liability is. It has changed from $554,000,000 to $700,000,000 because of all of the conservative assumptions.

Mr. Stiefel moved on to the next assumption that effects the actuarial accrued liability, which is the amortization period. GASB gives actuaries considerable flexibility in determining the length of amortization. Depending on what the client wants, the actuary could amortize anywhere from no amortization period all the way up to 30 years. There are a variety of different methods, which can be used; one of which is a closed amortization period, which means the amortization declines one year every year. The actuary was using that assumption up until this year. In talking with the City's Comptroller, it was decided that an open amortization period should be used, which is valid and approved by GASB. The reason for that is it makes it easier to follow a funding plan. If the amortization period keeps declining, it means the payment on the accrued liability keeps going up. It is amortized over a lesser period. It is just one more thing that makes an already complicated funding projection seem even more complicated.

There was a request to see how the numbers would look if there were no change to the assumption. It was agreed that a chart of the funding projections done with a closed amortization period would be provided. The actuary explained that the actuarial accrued liability would not change because of the speed of amortization of the accrued liability. Column 3, the amortization of the UAAL (unfunded actuarial accrued liability) would certainly change and the Annual Required Contribution (ARC), which is the sum of Items 2 and 3, would change but the overall funding projection, which is based on the AAL and the unfunded AAL would not change. It does not influence Column 7 because Column 3 is calculated from Column 7. Therefore, you can change the rules for calculating Column 3 without effecting Column 7, which is the unfunded actuarial accrued liability.

The actuary continued with the discussion regarding the funding plan, as the Trustees need to understand how it is calculated and in particular, the assumptions used and the variability that inevitably surrounds the assumptions.

Assumption 4 is retirement eligibility, which is dictated by the City's retirement rules. The Comptroller informed the actuary what the rules are and the actuary followed those rules to develop the assumption. Assumption 5 is related to marital status. Active participants are assumed to keep their current marital status upon retirement. Assumption 6 is related to turnover, which is based on the same assumption as the pension plan. A trustee suggested adding a note to the report that the turnover assumption comes from the pension plan.

Assumption #7 is mortality trends, which is a controversial assumption. The Society of Actuaries just came out with a new mortality table, the RP2014, and those mortality rates reflect the substantial mortality improvement in the general population since 2000. The lower mortality rates in RP2014 mean higher liabilities. The actuary talked with the Comptroller about the possibility of switching to RP2014. The PERAC actuary, who advises on the defined benefit pension side of things, has counseled not to move to the RP2014 tables until he is confident and the pension actuaries themselves are confident that those tables are representative of the government class of employees. At a certain point, the pension actuaries will either move or not move to RP2014. They will document why and at that point, whatever happens on the retirement side will happen on the OPEB side. The City will have to keep a close eye on that because it is a key assumption. The City will want to make the switch, assuming it is reflective of government employees, sooner rather than later. The switch to RP2014 would increase both the pension and the OPEB liabilities by approximately 10%, which is important understand, as it is the pension liability funding that is driving our funding for OPEB.

Other assumptions include disability. If someone becomes disabled, they leave the active group sooner. The actuary made a reasonable assumption for the disability assumptions using average retirement ages that were one year younger than the city actually observed. In other words, the assumption is conservative. The next assumption is the age of retirement. The actuary looked at the representative average ages when employees retire and worked with the Comptroller to come up with reasonable assumptions as to when a person who is currently active will retire. When employees retire, almost nobody turns down the insurance; therefore, that assumption is 100%. The city has switched to Advantage Plans for some of the employees and for new retirees. The actuary took into account the impact of that switch. As time goes on, the savings to the city will increase dramatically because of the switch.

The actuary did not make an explicit assumption for expenses because the assumed interest discount rates are net of expenses. The actuary explained the Cadillac Tax associated with health plans. The Affordable Care Act levies an excise tax on OPEB plans that are deemed too rich. For the most part the city's plans are not too rich. Some of the Legacy Plans are but they are rapidly going away. The actuary used a 1% loading to account for the expected impact of the Cadillac Tax. The one other thing that this is based upon is the assumption that there is no change in the state or city level in the definition of qualification for these benefits. This is still assuming that whether an employee works 10, 35, or 40 years, they will qualify for retirement benefits and the employee is going to get 80% contribution from the City for life. GASB requires that actuaries value the plan, as it exists at the time. Actuaries cannot use statements along the line of in the future the City is going to do this. The actuary can only assume something that is in writing and communicated to the employees and retirees.

There is plenty of room for discussion regarding the assumptions. Reasonable people could come up with actuarial accrued liabilities far in excess of what is projected and far less than what is projected. The City and actuary have to wait and see what happens and update the plan every year to see what happens to the actuarial accrued liability.

There is one more assumption that the trustees and actuary have not talked about, which is imbedded in the report and outside of the actuary's control. The assumption is that come 2030 the $60 million used to fund pension liabilities will shift to funding OPEB liabilities. It is great that the Mayor, Chief of Staff, Comptroller and Retirement Board have set out a very aggressive plan for pensions but the tough part is accomplishing the goal. The City must have a balanced budget and it does not want to hurt the level of current services. It appears that to pay for the pensions, if services are not reduced, the city is going to have to generate tax increases. It does not seem like new growth can cover all the percent increase in pensions. The assumption that the City can pull off the challenges of funding the pension liabilities is an assumption that is built into the OPEB funding plan.

A year ago, when the Chief of Staff first brought the plan forward she stated and would still say now is that the challenge will be getting our pensions fully funded and increasing that funding. Repurposing that money to OPEB when the City gets there is the easy part. The pensions currently are about $20 million and the City's budget is $360 million. The pension appropriation is about 5.5% of our budget. If that 5.5% has to increase by 8.75% per year, and the assumption is that that there is about 3.1% or 3.2% revenue increase per year on average, than within that other 94.5% the Administration must identify enough appropriations or expenditures that increase by less than 3.2% to balance out the pension funding increase of 8.75%. It is important to remember that the number that is increasing by 8.75% is only 5.5% of the budget. As the City tackles the challenge on an annual basis, different managerial decisions or operational decisions are made. The Administration sets cost-containment strategies and tackles them each year. If the City is committed to it, it can do it.

Ald. Fuller stated that it is this challenge of investing in the future versus paying for the past. It tells you how important it is to start funding the OPEB, so that the City is not in this problem for the next fifty years. Chief of Staff Maureen Lemieux responded that of the $20 million that is in the budget for the appropriation for pensions only about $4 million of that is associated with current employees. It is because the City has not set enough money aside for the retirees. Many people look to reduce the benefits of the current employees. If the City had been able to take care of the retirees, the current employees are not the draw.

The City can move forward on to the funding schedule. Even if the actuarial accrued liability were guaranteed to be exactly as is, which is far from the case, there are many assumptions in the funding schedule. The City does the best it can. It tries to make reasonable assumptions, and it will update the funding schedule every year. Briefly going through it, there are eight items in the funding schedule.

The first one is projected benefit payments. The Comptroller gave the actuary the 2015 number of $17,361,119 and he assumed that the benefit payments would go up in accordance with the assumed trend. If rate increases are this much, benefit payments, which are the same as

premium payments, will go up the same amount. Mr. Stiefel assumed a 5% per year increase. The Retirement System Actuary did a projection for the City of Newton on the pension and they assumed the normal cost would go up 5%.

Amortization of the unfunded actuarial accrued liability of $30,865,329 is from Column 3 of the funding projection table in the report. Mr. Stiefel assumed the amortization payments would increase based on future trend increase up to 2029 and then they would be less. The ARC column is the sum of the normal cost and the amortization of the unfunded actuarial accrued liability. Column 5, which is the additional OPEB appropriation column are the City's numbers that the Comptroller provided the actuary. It seems reasonable. There is a very significant assumption in that column in 30 years, which is the City is going to put in a $59,442,504 appropriation. The Comptroller and actuary agreed that there should be a continuing resolution that would actually commit the City to the funding plan because the City does not know if there will be the same level of commitment to fund OPEB in the future. If a future Mayor wanted to do something different with that $59 million, absent a continuing resolution, it could happen.

Comptroller David Wilkinson stated that the trustees might not have the authority to establish a continuing resolution. One major distinction between the authority that the OPEB trustees have and the retirement trustees have is that the retirement trustees can enforce the ARC appropriation on the city. The OPEB trustees do not have the authority. The OPEB trust gives that authority to the Mayor. The Comptroller is not sure how it could be addressed short of giving the OPEB trustees that power.

Mr. Stiefel referred back to GASB, which states that if a client intends to do something, it is not valid for an actuary to use that statement as an assumption without a written commitment. When the time comes, it would be useful for the trustees and the actuary to think about how to accomplish a more solid basis for the $59 million than everybody's sincere intention and plan to put the money in OPEB funding. For the time being, it is okay for the actuary to say this looks like a reasonable schedule, as he has cautioned the City that there needs to be some binding commitment. Without the binding commitment, the actuary would discount differently, which would result in less money and lower discount rates.

Mr. Stiefel continued with the explanation of the columns in the funding scheduled. Column 6 is the assets at the end of the year, which are the assets at the beginning of the year plus the additional OPEB appropriation and 7.04% interest for six months assuming the appropriation happens in the middle of the year.

Column 7 is the AAL (Actuarial Accrued Liability) at the end of the year. It is a very interesting and challenging projection. Up until 2029, the actuary assumed that the actuarial accrued liability increases with assumed trend. In other words, based on 2.04% interest, it increases every year with the trend. After 2029, with a large amount of money coming in, it increases the percentage that the net OPEB obligation is funded. The more the net OPEB, the higher discount rate the actuary can use. For example, if the discount rate is 3.04%, the factor is 78.96%. If the factor is 4.04%, the factor is 63.83%. If it is 7.0%, the factor is 37.91%. A simpler way to say this is that there are two elements of fund plan: 1) How much is the City going to put in and 2) how much can the City earn on the assets in the trust. After 2029, the

actuarial accrued liability actually goes down instead of increasing with the assumed trend because of the impact of the big deposit on the net OPEB obligation and the ability for the actuary to use a higher discount rate, which means lower actuarial accrued liability. This phenomenon allows the funding schedule to work. More and more money is being put in, assets are going up at 7.04% per year, the actuarial accrued liability is going down and eventually there is a crossover point, which is assumed to be 2042. It is a number that greatly depends on assumptions that could mean that the number is much higher or lower than it actually seems to be.

There are many assumptions associated with the plan but it is the best that can be done. The actuary agrees with the notion that the City should have a plan even if it has to condition it upon assumption after assumption after assumption. Mr. Stiefel thinks the funding plan is a reasonable plan with reasonable conservative assumptions. He would encourage the City to update it when it redoes its valuation report.

On the funding schedule, Column 5 has a footnote that states additional OPEB appropriations provided by the City. It would be helpful to have page in the report or a paragraph saying what assumptions the City made for the additional OPEB appropriation because the City's assumptions need to be included in the report.

Chief of Staff Maureen Lemieux responded that for the report increasing Column 5 by $250,000 is correct. What the City is doing for a plan is everywhere but it does not belong in the OPEB valuation report. The annual increase of $250,000 is what the assumption is for the OPEB Valuation Report. The report should state that the City is assuming an annual increase of $250,000 for the OPEB appropriation until 2029.

Trustee Ruthanne Fuller asked to Pages 6 and 7 of the report. The City knows that from last year to this year, the unfunded actuarial accrued liability went up $150,000,000 and the expected post-retirement benefit obligation went up $250,000,000. Mr. Stiefel explained that the main reason that the numbers went up so much was the change in the trend assumption. In addition, he pointed out that the trend assumption is controversial and one school of thought says keep it at 10%, 9%, 8%, 7%, 6%, or 5% than there are not changes in the results. Mr. Stiefel does not subscribe to that school of thought. He thinks that the liability is a year-by-year number that changes every year, sometimes dramatically. The trend assumption accounted for approximately 24% of the 27% change. It is the medical inflation trend assumption that is driving almost all of it. A small portion of change can be attributed to the population increases.

The expected post-retirement benefit obligation is the present value of future benefits for every employee regardless of whether or not they are vested or earned their benefits. The accrued actuarial liability is the present value of future benefits for those people who are vested. All of the retirees are vested and the active are not entirely vested. For the general employees 41.5% of the benefits are accrued today. For the general employees the actuarial accrued liabilities are 41.5% of the expected post-retirement benefit obligation and 39.8% of the uniform population represents vested benefits. Exhibit 3 included in the report provides more detail.

The chart on Page 7 was requested by the City and not required for financial reporting. It shows the power of pre-funding. It was suggested that it needs a new title to clarify that chart is

not required as part of the financial reporting. The information on Page 6 is what is reported. The actuary stated that he recommends removing the chart on Page 7 from next year's report.

The City should anticipate over the next 14 years that its unfunded liability would grow. Once the City hits the point where there is a larger infusion of cash into the fund, the unfunded liability will decrease. If next year, the trustees are looking at the report and the number 2015-2016 number is $762,000,000, everyone ought to be thrilled with the City that it didn't get worse. If it is less than $762 million but more than $703 million than something in our assumptions did better than anticipated. Chief of Staff Maureen Lemieux asked if other than an annual actuarial valuation of the fund, are there things that the City could be doing over the course of the year to understand if that $762 million is moving substantially.

Mr. Stiefel informed the trustees that the most important thing that the City can do is to try to get an idea of what kind of a rate increase is coming for an effective date of 07/01/16. For instance, if the insurance company reports that the experience is bad from their viewpoint, the claims are much greater than projected, the City can assume that it is going to be hit with a large health insurance rate increase that is more than 8.39%, which would result in the $762 million being closer to $800 million. Conversely, if the claims are less than expected and there is not much of a rate increase than the $762 million will be much lower. The City can monitor its changes in population and rate increases to project where liabilities will be by next year. The City's savings from its advantage plans are likely to be higher next year as more and more people are going to be in the advantage plans and fewer in the legacy plan.

When reading the report, Mr. Stiefel reminded the trustees that the funding always addresses the actuarial accrued liability numbers because those reflect only active employee benefits that are vested. The expected post-retirement benefit obligation is just a number that is interesting to actuaries. The City does not have to disclose it on its balance sheet. It just gives everyone an idea of where the actuarial accrued liability number that has to be disclosed is coming from.

GASB 75 is going to encourage governmental bodies to fund their OPEB plans; therefore, three years from now, you are probably going to see more municipalities and schools funding OPEB than you are now. The funding that that the City is proposing right now at the $1, 2, 3 million amount, qualifies as funding. It is a minimal amount of funding but it passes muster. With that, the Board of Trustees concluded its discussion with the actuary.

For the next meeting, the Comptroller will attempt to set up discussion with a Pension Reserves Investment Management Board representative. The OPEB Actuary is tentatively scheduled to meet with Finance Committee in November 2015. Comptroller David Wilkson also provided the Trustees with the August 2015 PRIM Board Update and an article from The Economist regarding high valuations.

The meeting adjourned at 11:55 AM.

Respectfully submitted,

Maureen Lemieux; Chair