

Other Post-Employment Benefits Trust Fund

Board of Trustees Meeting Report

Thursday, May 5, 2016

Trustees present: City Council Appointee Ruthanne Fuller, Citizen Appointee Sarah Ecker, Comptroller David Wilkinson, Chief of Staff/Chief Financial Officer Maureen Lemieux (Chair)

City staff present: Treasurer and Custodian of the OPEB Trust Fund James Reardon

Upcoming OPEB Valuation

The City has been trying to get a consistent date to start the OPEB valuation. Before the valuation can begin, the City must submit the number of employees and retirees that participate in each health care plan. Last year the date was changed to June 1, as the original June 30 date did not capture the full population, as there are a number of changes in enrollment numbers in later June due to the end of the school year. It is important that the data submitted to the actuary for the valuation is consistent. Due to the departure of the Benefits' Administrator, this year's enrollment data for health insurance was compiled on March 31. The City has not hired a new Benefit's person; therefore, if the City were to try to use the June 1 numbers, there could be mistakes. The Governmental Accounting Standards Board (GASB) is fine with using data from any point in the past year for the actuary's report. The Board is fine with using the March 31 data, as the census data is stable and it would allow the actuary to provide the OPEB Valuation Reports earlier. An earlier report would allow the information to be included in the City's Comprehensive Annual Financial Report. The March 31 date would be the date moving forward. There was a suggestion that the Trustees ask the actuary if there would be any substantive change in analysis between last year and this year because of the date change. The actuary should also include a footnote in the report regarding the date change for the census data and any substantive changes, if any.

There will be a substantive change in the Fiscal Year 2018 report when the OPEB discount rate is normalized, which will dramatically improve the City's OPEB position. To be more specific, GASB will require the City to use a discount rate of 4% starting in FY2018 rather than the more conservative discount rate of 2% that the City has used historically. By doubling the discount rate, the OPEB liability will decrease significantly, even though the amount of funds actually invested in the OPEB Trust Fund in FY2018 will be a small fraction of the total liability.

The City should have as much consistency as possible on the assumptions used in the pension and OPEB funding plans. Up until now, the mortality tables that are being used are different between the two plans. The pension actuary is willing to make their mortality tables available to the OPEB actuary. (The mortality tables used by the pension actuary are more up-to-date and, thus, better tables to use.) The expectation is that for this year there may be an increased OPEB liability, as a result of using the new mortality tables.

Health care costs increased by 5% this year but the City is using a more conservative 6% trend rate as an assumption. The Chair believes that the City should continue to use a 6% rate

for the valuation going forward. The actuary and the City agreed upon using the more conservative medical trend rates. The OPEB Board of Trustees agreed to use the conservative mortality rate numbers and the conservative medical trend numbers for this valuation.

The City may receive the report earlier this year, probably in June. The plan is for the trustees to have a conference call with the actuary before the report is final. Once the report is finalized, the actuary would meet with the City Council's Finance Committee to review the report.

The Board of Trustees also agreed to develop a Request for Proposals (RFP) for the actuarial contract. Although the trustees are pleased with the current actuary, it would be helpful to see what else is available. It may be easier to have the same actuarial firm for both the pension and OPEB liabilities.

The Trustees Review of OPEB Financial Statements

The City is in a better position this year in terms of addressing the OPEB liabilities; however, that is due to all of the city's contributions to the trust fund and not the return on investments. The City is on track with its funding schedule. The City has met the funding assumption. Although the City is doing slightly better than the \$250,000 a year funding assumption, it does not make sense to change the assumption. It is important to remain conservative because in the upcoming years some employee positions that already have OPEB appropriations will turn over; therefore, there will be a diminishing return. The current rate of the appropriation for OPEB is 3.25% of a new employee's salary. The percentage did not change this fiscal year but the expectation is that it will increase next year. The City would need to put aside 12% of all employee salaries to prefund the OPEB obligation.

Discussion of OPEB Funding Strategy

The City cannot reach the 12% goal right now but once pension obligations are met in 2029, the City will be able to fund the OPEB obligations by 2045. The City has to stay on track with the pension funding in order to meet full funding for first pension liabilities and then OPEB liabilities.

Scheduling of Mid-year Investment Review with PRIM

It would be helpful to have a PRIM representative join the trustees in September 2016.

The trustees developed the following schedule for future meetings; generally, the OPEB trustees will meet three times a year:

- Late April or early May meeting to develop assumptions for actuary.
- June conference call on draft actuarial report.

- September meeting with a PRIM representative. This year, the trustee will meet on September 13 at 10:00 AM. The meeting will also include the RFP discussion.
- Schedule a November meeting this year to review and finalize a RFP for actuarial services.

This year, there will be a one-time joint meeting with Finance in September or October on the OPEB Actuarial Report. Councilor Fuller expects to raise her concern regarding statements that the OPEB funding plan is sustainable. Comptroller David Wilkinson stated that he believes that the actuary is saying that the City's assumptions and the funding plan are reasonable. The funding plan hinges on funding the pension liabilities.

The Committee adjourned at 11:00 AM.