RETIREE HEALTH INSURANCE MATTERS - TIMELINE

Date/Timeframe	Comments/Description
1/23/2009	Buck Consultants issued The Town of Winchester Post Retirement Benefits Analysis as of July 1, 2008. The Unfunded Actuarial Liability (UAL) was reported as $110,278,479 on a pay-as-you-go basis. The UAL was reported as $55,294,384 if the Town pre-funded (i.e. met the annual required contribution).
Spring Town Meeting 2011	Finance Committee made a comprehensive presentation to the Spring Town Meeting wherein it recommended steps to be taken to deal with the liability (including the change in the premium split for retirees).
9/12/2011	Buck Consultants issued The Town of Winchester Post Retirement Benefits Analysis as of June 30, 2011. The UAL was reported to be $93,333,604 on a pay-as-you-go basis. The UAL was reported to be $53,332,544 if the Town pre-funded (i.e. met the annual required contribution). The Town accepted Massachusetts General Law (MGL) Chapter 32B, Section 18 which requires that retirees enroll in a Medicare plan when/if eligible at 65. This MGL adoption was not reflected in the July 1, 2008 UAL. Favorable claims experience also contributed to the UAL reduction on a pay-as-you-go basis.
April 2012	The Other Post Employment Benefits (OPEB) Advisory Committee presented recommendations to the Board of Selectmen regarding the funding of the UAL. A key recommendation of this group was to change the premium split for retirees.
11/5/2012	Board of Selectmen voted: 1). To change retiree health insurance contribution rates (50%/50%) effective July 1, 2014, based on recommendations made by the Finance Committee and OPEB Advisory committee. 2). To adopt modifications to the health care plan design for retirees effective July 1, 2013. 3). To provide a plan to mitigate, moderate or cap the impact of these changes for retirees who are low income and/or who may have big out of pocket health care costs and who would be otherwise disproportionally affected.
Fall Town Meeting 2012	The Town Manager described the recent premium changes to Town Meeting.
Mid-November 2012	The Town Manager sent a letter to all retirees regarding the Board of Selectmen's decision on changing the premium split.

RETIREE HEALTH INSURANCE MATTERS - TIMELINE

Date/Timeframe	Comments/Description
12/17/2012	Board of Selectmen vote to elect to change the health insurance benefits under MGL Chapter 32B S21-23, as amended by Chapter 69 of the Acts of 2011, for the purpose of implementing changes in health insurance benefits it provides to its subscribers.
Post 12/17/12 through the Spring 2013	Management worked on the implementation of the Board of Selectmen vote taken on 12/17/12 regarding the health insurance benefits changes.
7/1/2013	Memorandum of Agreement (MOA) between the Town of Winchester (Town) and Winchester Public Employee Committee (PEC*) was effective 7/1/13. The purpose of the agreement is to implement the changes in health insurance benefits for current employees and retirees pursuant to MGL Chapter 32B S22. These changes were generally to bring the Town plans in line with the most selected option in the state's Group Insurance Commission (GIC) plan. As part of the agreement, the Town agreed: 1). To establish an "Employee Health Care Mitigation Fund" (EHCMF) in the amount of $195,675 which is 25% of the estimated first year savings from the plan design changes. These funds were designated to reimburse HPHC plan members as part of a Health Reimbursement Arrangement (HRA) for costs for out-of-pocket co-pays (once deductibles were met). 2). To leave retiree (including surviving spouses and their dependents) contribution rates unchanged before 7/1/14. 3). To meet quarterly with the PEC to discuss plan operations including the HRA program and other issues as may come before the PEC relative to plan operations. *The PEC was made up of representatives from 9 bargaining units PLUS a retiree representative who had a 10% vote. School Bargaining Units represented 68.98% of the PEC vote.
10/30/2014	Sherman Actuarial Services issued The Town of Winchester OPEB Actuarial Valuation as of June 30, 2013. The UAL was reported to be $59,354,402 on a pay-as-you-go basis. The UAL was reported to be $33,056,940 if the Town pre-funded (i.e. met the annual required contribution). The UAL dropped due to plan changes (GIC model) and changes in the co-share (retirees share = 50%).
Fall Town Meeting 2013	Winchester Retiree Committee communicated to Town Meeting members their opposition to the increase in premiums voted by the Board of Selectmen in November of 2012.

RETIREE HEALTH INSURANCE MATTERS - TIMELINE

Date/Timeframe	Comments/Description
January 2014	The Winchester Retiree Committee and others presented their opposition to the Board of Selectmen. On January 9, 2014, the Chairman of the Board of Selectmen wrote a letter to Jan Dolan (to share with the committee she represents) acknowledging their position.
2/18/2014	A meeting was held at the Library in relation to the retiree insurance matters. Those attending included State Senator Jason Lewis, former Selectman Peter Haley (new Moderator), Town Manager Richard Howard, representatives from the Board of Selectmen as well representatives from the Winchester Retiree Committee, employees and retirees. The group planned to meet again on March 10, 2014.
3/10/2014	A working group met to discuss the Board of Selectmen's draft mitigation plan. The representatives from the Winchester Retiree Committee prepared and presented their own plan. The attendees of the meeting were: Town Manager Richard Howard, Comptroller Stacie Ward, Selectman Jennifer Wilson, Selectman Jim Johnson, employee (fire-fighter/union representative) John Frongillo, retirees Jan Dolan, Virginia Laats, Joan Grenzeback, former Selectman Peter Haley (new Moderator) and State Senator Jason Lewis.
3/24/2014	The Board of Selectmen approved the draft mitigation plan at their meeting. The Board of Selectmen published this draft mitigation plan including a comprehensive explanatory memo and materials on the Town's website. The public was invited to provide written comment due by Friday April 4, 2014 for Board of Selectmen consideration. The Board of Selectmen originally scheduled to vote on the plan at the April 7, 2014 meeting, but this was postponed until the April 22, 2014 meeting (due to the change in Board of Selectmen).
3/27/2014	The Town Manager mailed a notice to all retirees regarding the draft mitigation plan.
4/4/2014	Written comments were received from a variety of sources, including the Winchester Retiree Committee, Finance Committee, Multicultural Network and a variety of individual citizens.
4/22/2014	In accordance with the 11/5/12 Board of Selectmen vote, the Board of Selectmen adopted a mitigation plan for retirees (in addition to the EHCMF noted above related to health plan changes). The plan intention is to mitigate, moderate or cap the impact of premium rate changes for retirees of low income and/or who may have high out-of-pocket health care costs and who would otherwise be disproportionally affected. The plan provided, in summary: 1). Post 2004 retirees cost phased to 50%/50% (1st change 7/1/14, final change 7/1/15).

RETIREE HEALTH INSURANCE MATTERS - TIMELINE

Date/Timeframe	Comments/Description
4/22/2014 *(continued)*	The plan provided, in summary *(continued)* : 2). Pre-2004 retirees cost phased 70%/30% (1st change 7/1/14, final change 1/1/16). 3). All pre-2004 non-Medicare retirees to migrate to Harvard Pilgrim Health Care (HPHC) Enhance Medicare plan at 70%/30%. 4). A means based mitigation fund of approx. $55k was established as a further safety net for retiree subscribers who would qualify for further mitigation in accordance with ACA income standards. This fund is to be in effect for no less than 3 years but possibly available on an on-going basis depending upon the level of need shown as the plan is put in place. 5). The phase-in results are subject to the usual annual rate increase proposed by HPHC.
Spring Town Meeting 2014	At the Spring Town Meeting, Town Meeting voted the article to set aside the balance of the EHCMF $195k savings ($184k balance at the time) so that the funds would continue until they run out per the MOA with the PEC noted above (7/1/13). Originally they were part of the FY14 annual operating health insurance budget and in order to continue past the fiscal year, this had to be voted by Town Meeting.
Spring Town Meeting 2014	The Town Retiree Health Insurance Committee was formed.
May 14, 2014	The Benefits Coordinator notified all retirees of the Health Insurance Open Enrollment and Updates which included reference to the March 27, 2014 letter noted above sent by the Town Manager and reference to the Board of Selectmen approved mitigation plan.

Sequence of Actions
That Led to Retirees' Response to Retirees' Health Insurance Changes

On **November 5, 2012**, the Winchester Board of Selectmen—without prior notice or public discussion—voted to increase the percentage of health care premiums paid by all retired Town employees to 50 percent, the maximum allowed by state law.

The Selectmen's vote was prompted by a ruling issued in 2009 by the Government Accounting Standards Board (GASB) that requires all cities and towns to calculate the cost of future health care obligations (Other Post-Employment Benefits or "OPEB") and recommendations from the Finance Committee that the Town do so as soon as possible.

In **2012**, the Selectmen opted for a less expensive health insurance plan that created higher co-pays and deductibles for active employees and retirees. They then chose to gain further savings by increasing premium costs for retirees and only for retirees.

The 50/50 policy would have sharply increased costs for most of Winchester's 512 retired employees. Employees who retired before 2004 would have seen their premium share jump 400 percent. Employees who retired after 2004 would have seen a 50-percent increase. Current employees who retired after **July 1, 2014** would have immediately paid 50 percent.

The 50/50 policy would have set aside a long-understood social contract between the Town and its employees that retirees would pay the premium share percentage that was in place at the time they retired—that they could plan their retirement around known pension amounts and health care benefit payments.

The 50/50 policy would also have resulted in a significant inequity between current employees and retirees. Current employees pay 25 percent of their health care premium, but retirees would be paying 50 percent.

Finally, the 50/50 policy would have been devastating for the Town's oldest retirees. Fifty-three of the Town's 512 retirees are over 85. Pensions for employees who retired before 1990 are between $17,000 and $25,000.

The Town mailed a single letter to retirees dated **November 12, 2012**, informing them that the premium share increase would take effect on **July 1, 2014**. The 50/50 plan provided for a "mitigation fund" based on documented means testing. However, little subsequent effort was made to educate the retirees—who are not represented by unions, as are current employees—and no specifics were made available about the mitigation fund.

In early 2013, an ad hoc group of retirees, the Retiree Health Insurance Committee, formed out of concern about the Town's unilateral action and sought to discuss the issue with the Board of Selectmen. However, the Retiree Committee found it very difficult to make their concerns heard.

The Retirees Committee met with the Town Manager on **April 8, 2013**, but their concerns were downplayed. Efforts were then made to contact individual Selectmen, but no responses were forthcoming. After considerable effort, the Retiree Committee was finally allocated ten minutes to speak at the Selectmen's meeting of **October 22, 2013**, and then told that the issue would be "taken under advisement." In late **January 2014**, the Retiree Committee contacted Representative Jason Lewis, who agreed to facilitate a meeting with the Selectmen. Two discussions were held between representatives of the Selectmen and the Retiree Committee: one on **February 18, 2014**, the other on **March 10, 2014**. The Retiree Committee presented three alternatives to the 50/50 plan, but there was no response to the plans.

On **March 24, 2014**, the Selectmen issued their "70/30 mitigation" plan to temper the impact of the 50/50 plan. The 70/30 mitigation plan proposed that most employees who retired before 2004 would incur a 200-percent premium increase phased in over two years. Employees who retired after 2004 would still see a 50-percent increase phased in over two years.

HOW WE GOT HERE

A time line of actions taken by Town of Winchester Retirees

2012

November

Nov. 5 The Board of Selectmen voted to increase the health plan premium cost splits to 50% retiree and 50% town effective July 1, 2014.
Nov. 15 Retirees received a letter informing them of that action

December

Agree to oppose the Nov. 5 vote of the Board of Selectmen

TOWN OF WINCHESTER
TOWN MANAGER
SELECTMEN
14 NOV 20 AM 8:37
RECEIVED

2013

January
Met and formed the Winchester Retirees Health Insurance Committee
It continued to meet regularly from January 2013 until May 2014.

February
Explored strategies to request the Selectmen to rescind their vote

March
Identified Winchester residents who might be supportive of the Retirees issues

April
Met with representatives from the MTA and the WEA
Met with The Winchester Town Manager for the purpose of discussing the action of the Board of Selectmen and the letter sent to each retiree in the health plan.

May
Collected Health Insurance information from other communities that Winchester compares itself to, as well as other communities throughout the Commonwealth and developed charts which demonstrated the financial significance of the increase to Winchester retirees

June

Five representative retirees met with the Winchester State Legislative Delegation, Senator Clark, Senator Jehlen and Representative Lewis and their staff members.
Sent to many school department retirees a letter requesting support for the committee's efforts and a response post card (addresses of municipal retirees were not made available)

July

Refined information obtained from other communities and developed an action plan based on the comparison of Winchester to specific communities
Town offered an expanded "Health Reimbursement Arrangement which allows non-medicare retirees to submit certain medical expenses for reimbursement.

August

Developed a petition to be presented to the Selectmen and determined how to obtain signatures.
Met with MTA representative

September

Met with Shawn Duhamel, Legislative Liaison, Retired State, County and Municipal Employees Association of Massachusetts. The Retirees Committee had questions about the Selectmen's vote to increase the percentage of retirees premium contribution to health insurance in view of the pending H59 bill.
Requested time on the Selectmen's meeting agenda for the purpose of stating our position on the Insurance issue

October

Submitted letters to the Editor of The Winchester Star and Daily Times Chronicle (Winchester Edition) this continued weekly until May of 2014
Retiree representatives spoke at the Winchester Council of Aging meeting for the purpose of presenting the concerns of the Retirees and delivering a Petition signed by more than 600 Winchester citizens requesting that the Selectmen rescind their vote.

November

Composed and mailed a letter to each Town Meeting member, explaining the position of the Winchester Retirees concerning the Health Insurance issue

December

Composed a letter and sent it to residents of Winchester stating the Retirees position on the Health Insurance issue.
Collected information to be published in flyer to be sent prior to Town Meeting

2014

January

Met with Senator Ken Donnelly and Senator Pat Jehlen and their staff
Arranged conversations with "leading" Winchester residents seeking their advice
Attempted to schedule conversations with each Winchester Selectman
Met with The Winchester Senior's Association and spoke about the Retirees concerns.
Met with William Rehrey, Executive Vice President /Legal Counsel and Shawn Duhamel of the Municipal Employees Association of Massachusetts seeking advice as to Health Insurance changes in other communities in the Commonwealth and any legal implications
Met with Representative Jason Lewis

February

Accepted Representative Lewis's recommendation to form a working group with representatives of the Board of Selectmen and representatives of the Retirees Health Insurance Committee which he would convene
Attended the first meeting with Representatives of the Selectmen and Retirees which Jason Lewis convened
Mailed flyer to Town Meeting members and 2000 Winchester citizens which presented the position of the Retirees

March

Attended a Finance Committee meeting
Participated in the second meeting with Representatives of the Selectmen and Retiree Representatives. Jason Lewis convened
Submitted a Warrant Article for Spring Town Meeting
Participated in the League of Women Voters " Hot Topics"
Consulted with John Sullivan, retired Town Moderator

April

Prepared information for Town Meeting Article 16
Attended a Town Meeting Briefing
Attended a Personnel Board meeting
Attended Selectmen's meeting and responded to the Selectmen's vote to approve the 70/30 Mitigation plan
Participated in Town Meeting and spoke to Article 16.
Withdrew Article 16 and planned to offer a motion under Article 40 to create a committee to study Retiree Health Insurance issues.

May

Town Meeting approved the Article 40 motion to form a Town Retiree Health Insurance Committee.

WE HAVE ARRIVED

Winchester OPEB Timeline- FinCom view

October 17, 2014

2006 GASB (Government Accounting Standards Board) issued Statement 45 requiring that government entities measure the size of their OPEB liability

January 2009 Buck Consulting issued Winchester's first OPEB measurement (as of 7/1/2008) identifying a $110M unfunded liability (UAL <1% funded) and a $1.7M annual funding gap (if pre-fund)

May 2009 Town Meeting funded $75K into Retiree Healthcare Liability Fund (Fincom recommended Town Manager's budget, Town Manager requested more time to understand issue)

May 2010 Town Meeting Funded $25K (Fincom recommended Town Manager's budget, Town Manager requested more time to understand issue)

May 2011 Town Meeting Funded $250K (Town Manager recommended $25K, BOS supported Town Manager; Fincom recommended $250K and adoption of a 5 year plan to close the ARC funding gap by increasing annual funding by $250K/year if no action was taken by Town, and amortize liability over 30 years). GASB45 Advisory Committee was formed.

May 2011 Municipal health care reform legislation enacted (Chapter 69 of the Acts of 2011) giving cities and towns will the choice to implement health care plan design changes under a newly-created process.

September 2011 Buck Consulting issued report (required every 2 years, but Town was a year late with its request). UAL = $93M (biggest reduction due to Adoption of MGL ch. 32 s 18 requiring that Medicare eligible retirees enroll in Medicare at 65). ($1.3M annual gap if prefund)

March 2012 GASB45 Advisory Committee made three recommendations:

1. The Town fund the Annual Required Contribution (ARC) fully by 2016 or before;
2. The Board of Selectmen direct the Town Manager to achieve cost reductions through a combination of lowering plan costs, reducing the share paid by the town, and/or other expense reduction measures the Town Manager may determine;

3. FinCom increase the FY 2013 funding of the GASB 45 line item from $0 (in the Town Manager's budget) to $500k (in line with the funding plan) unless and until the BoS and/or the Town Manager can present a plan or dollar-specific cost reduction for FY 2013.

May 2012 Town Meeting Funded $250K (Town Manager recommended $0). Town Meeting voted yes to FinCom's motion to Accept MGL c.32B s.20-Other Post Employ. Benefits Liability Trust and move funds all previously appropriated funds from Retiree Healthcare Liability Trust.

November 2012 BOS voted to BOS voted to reduce the Town's contribution to retiree healthcare to 50% as of 7/1/2014 and to make changes to plan design effective 7/1/2013. The HMO plan would be GIC-like.

May 2013 Town Meeting Funded $100K (Town Manager recommended $0). Number was based on 11/2012 vote.

July 2013 Town employees/retirees moved to HPHC GIC like HMO products.

November 2013 Sherman Consulting Actuarial report as of 6/30/2013 reflected 11/2012 votes and identified UAL at $59.4M ($1.3M annual gap if prefund)

April 2014 BOS issued mitigation plan increasing contributions for pre-2004 retirees to 70/30, and allotting $55K for other mitigation. UAL = $64M, Annual gap = $300K

April 2014 FinCom wrote to DoR to request a ruling as to whether the proposed plan was allowable under MA law. The Town has not adopted Ch32B s9E which would allow it to contribute more than 50% to retiree *indemnity* plans.

May 2014 Town Meeting Funded $470K (Town Manager recommended $0, and BOS recommended <$300k). Town Meeting Created Retiree Health Insurance Advisory Committee.

March 12, 2012

TO: Winchester Board of Selectmen

CC: Richard Howard, Town Manager; Finance Committee

FROM: GASB 45 Advisory Committee
B. Keveney (Comptroller); K. Ferriter (Audit); B. MacIntosh (Pension Trust); D. Marmon (BoS); D. Pagán (FinCom); S. Tracy (Treasury)

RE: Committee Findings and Recommendations re. OPEB

Executive summary

An actuarial study by Buck Consulting conducted last summer found that Winchester has promised retiree health care benefits (OPEB) amounting to $93 million for which it has set aside virtually no reserves. The Governmental Accounting Standards Board (GASB) is requiring municipalities to recognize. The Commonwealth will likely require towns to fund this liability and the rating agencies are certain to look negatively on a large unfunded liability.

The Finance Committee in 2011 presented a plan to get to full funding by 2016 through increased annual contributions to reserves. The GASB 45 Advisory Committee was established in 2011 to investigate other ways in which the Town might get on track to funding this liability. One very important mechanism to liability reduction analyzed was decreasing annual retiree health care costs.

The first option available to the town is to do nothing to change retiree benefits, but continue with the FinCom proposed plan to increase annual contributions to the GASB trust fund to about $1.3 million annually. The town contributed $250k in FY 2012 and the plan is to contribute $500k for FY 2013 (and increasing each year by $250k until we meet the required annual contribution). This schedule puts significant pressure on the operating budget.

Decreasing retiree health care costs would lower the liability and the magnitude of future cash outlays. Changing plan design to follow the Group Insurance Commission (GIC) plan and lowering the town's share of the cost of the premium to 50% (Town pays half, retiree pays half) reduces the annual required contribution to the level of our current pay-as-you-go expense. This means that the current expected total expense does not change, but we are fully meeting our GASB funding requirement.

Of course, there are a number of options in between.

The GASB 45 Advisory Committee recommends:

- The Town fund the ARC fully by 2016 or before;
- The Board of Selectmen direct the Town Manager to achieve cost reductions through a combination of lowering plan costs, reducing the share paid by the town, and/or other expense reduction measures the Town Manager may determine;
- FinCom increase the FY 2013 funding of the GASB 45 line item from $0 (in the Town Manager's budget) to $500k (in line with the funding plan) unless and until the BoS and/or the Town Manager can present a plan or dollar-specific cost reduction for FY 2013.

Background

The GASB 45 Advisory Committee, established following 2011's spring Town Meeting, reviewed Winchester Other Post-Employment Benefits liabilities in the context of the GASB 45 reporting requirements. In so doing, the committee worked with the town's third party consultant, Buck Consulting (Buck) to understand the current liability and to explore mechanisms to reduce the liability over time.

In the course of our review, it became clear to the committee that the town had inadequately financed an ongoing expense in accumulating retiree benefits and that continuing to do so would not only increase the burden on future years' budgets, but also jeopardize the town's bond rating and thus increase its borrowing rates. The committee therefore worked with Buck to understand mechanisms of reaching full funding.

The committee reviewed the impact on the liability of increasing annual funding as well as various expense reduction approaches. The attached memo includes the annual impacts of i) reducing the share of retiree health care premiums paid by the town, ii) reducing plan costs by 10% (e.g,, through a change to GIC or a GIC-like plan, and iii) both % share reduction *and* lowering of plan costs. These cost reductions are then juxtaposed against a base-line plan to achieve full funding through annually increased outlays as presented to 2011 Spring Town Meeting by the Finance Committee.

The committee recommends that as a baseline, the town continues on the course to full funding by 2016 laid out by the Finance Committee. Furthermore, to reduce the amount needed to reach full funding, the GASB 45 Committee recommends that the Board of Selectmen direct the Town Manager to achieve cost reductions through a combination of lowering plan costs, reducing the share paid by the town, as well as any other expense reduction measures the Town Manager may determine. Using a combination of funding increases and these expense reductions, either introduced in full for FY 2013 or phased in over time, together with some appropriations for GASB 45 will allow the town to both reduce the future outlays and utilize a higher discount rate for determining the present valuing of the liability.

What is GASB 45

The Governmental Accounting Standards Board issues accounting guidance that municipalities use to prepare and record its financial statements. In June 2004, the board issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) (http://www.gasb.org/st/summary/gstsm45.html). This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), etc. in the financial reports of state and local governmental employers. The goal of this guidance was to bring transparency to the liability associated with accumulating OPEB and to encourage governmental employers to fund these expenses through contributions *in the same period in which the expenses were incurred.*

This results in a liability equal to the present value of future OPEB outlays. The size of the liability is determined by the cumulative fund contributions to date, the magnitude of expenditures over time, and the discount rate used in the present value formula. To lower the liability governments may i) increase annual funding, ii) lower future cash outlays, and/or iii) increasethe discount rate. Funding is an annual decision of Town Meeting and is represented in FY 2012 by $250,000 in the GASB 45 line. Future outlays are determined by the type of plans available to participants as well as the percent of the premium paid by the town versus by the retiree.

Current OPEB liability

Towns are required to conduct an assessment of the actuarial liability of its OPEB every two years. Winchester engaged Buck to calculate the OPEB liability as of June 2011. The liability was calculated to be $93.3 million dollars. The town has placed a total of $375,000 into a fund to support future payments, resulting in a net unfunded liability of $92.9 million, and a funded percentage less than 0.5%.

This liability is calculated using a 4.0% discount rate on the projected net expenditures for retirement health care benefits. This represents a blended rate of the unfunded discount rate of 3.5% (the historical rate for short term investments) and the fully funded discount rate of 8.0% (the historical rate for long term investments). Were the town able to use a higher rate of 8%, the gross liability would be calculated at $53.0 million rather $93.3 million. Getting to a full annual contribution would allow the town to use this higher rate and thereby lower the unfunded liability. The appropriate discount rate will need to be reviewed with the Town's external auditors.

"Full funding" is defined by annual contributions by the town totaling the Normal Costs (i.e., the expenses incurred in the current fiscal year for the retiree benefits) and the amortization of the existing unfunded liability (i.e., the annual payment in a

30-year amortization schedule that would bring the liability to full funding). This total amount is defined as the Annual Required Contribution (ARC). The ARC will have different values based on the discount rate used. At the town's current funding level and required 4% rate, the FY 12 ARC was $6.5 million. ($4.1 million in an 8% scenario). The total funding level the town put against this ARC was $2.9 million in benefits payments plus the $250,000 GASB 45 line item, totaling $3.2 million and representing 46% of the current ARC and 74% of the theoretically fully funded ARC. Thus, the shortfall to full funding is $4.1 million less the total budgeted funding of $2.8 million or $1.3 million.

Why fund the OPEB liability?

There are three main arguments to moving the town to a fully funded ARC. The first is a fundamental rule of accounting call the matching principle. As the GASB 45 guidance puts it, "Recognize the cost of benefits in periods when the related services are received by the employer." The benefit the town receives is the labor provided in the current period by its employees, and the expense is the promise of future retiree health benefits. This is analogous to pension benefits earned by current employees but to be paid in the future. Failing to recognize and fund these expenses in the current period (as the town has historically done) pushes this burden to future periods and generations.

The second argument is the actuarial benefit of using a higher discount rate to define the current liability. The rationale for allowing municipalities to use the higher discount rate (and thereby calculating a smaller liability) is that the town has demonstrated a plan to get to and apply full funding to its liability and therefore the amount is a lower risk and therefore it is appropriate to discount the liability using the historical rate for long term investments. Using the "pay as you go" method of funding only the payments for current retirees (which is essentially the path take presently by the town) represents a bigger risk and therefore uses a lower discount rate and increases the liability.

The third argument is the impact that not funding the GASB liability has on the town's bond rating. Rating agencies look at the financial health of municipality to judge its ability to pay back debt. Included in the data analyzed is the town's willingness to pay for current expenses rather than to defer them, as well as the size of its unfunded liabilities. The GASB 45 committee was not able to determine specific trigger points for altering the bond rating, but we understand the OPEB liability is an important consideration in the ratings agencies' calculus.

Options for the Town

The Finance Committee put forward to Spring Town Meeting 2011 a path to fully funding the ARC through increasing annual contributions through the GASB line. The funding plan would call for building the GASB line by $250k each year until by 2016 when combined with the expected benefit payments would result in full

funding. Demonstrating progress along this path to the Town's auditors would result in their likely agreeing to the Town's use of the higher discount rate prior to 2016 and thereby reducing the liability in current financial statements (as discussed above). The committee endorses this approach as the baseline path forward and in the absence of any other town action on health care expenses.

The committee engaged Buck to get an in-depth understanding of the current report and options for expense reduction available to the town. Subsequently, Buck reviewed several scenarios provided by the committee. The scenarios reviewed included:

- Reduction of plan costs by 10% (e.g., by moving to GIC or GIC-like plan): Year 1 impact of 10% of funding gap (i.e., reducing ARC to $3.9 million)
- Increasing retiree portion of cost-share to a uniform 50% from current mixed schedule: Year 1 impact of 70% of funding gap (i.e., reducing ARC to $3.1 million)
- Affecting both changes simultaneously: Year 1 impact of 100% of funding gap (i.e., reducing ARC to $2.8 million)

A summary of these results is shown in Table 1 and Chart 1 below.

Table 1:

Current

FY	Benefit payments	GASB contribution	Total outlay	ARC	Funding Shortfall
2012	2,800,000	250,000	3,050,000	4,200,000	1,150,000
2013	3,100,000	500,000	3,600,000	4,300,000	700,000
2014	3,300,000	750,000	4,050,000	4,500,000	450,000
2015	3,600,000	1,000,000	4,600,000	4,700,000	100,000
2016	3,800,000	1,100,000	4,900,000	4,900,000	0

GIC plan changes 7/1/2013 only

FY	Benefit payments	GASB contribution	Total outlay	ARC	Funding Shortfall
2012	2,800,000	250,000	3,050,000	4,200,000	1,150,000
2013	3,100,000	500,000	3,600,000	4,300,000	700,000
2014	3,000,000	750,000	3,750,000	4,100,000	350,000
2015	3,200,000	1,000,000	4,200,000	4,200,000	0
2016	3,400,000	1,000,000	4,400,000	4,400,000	0

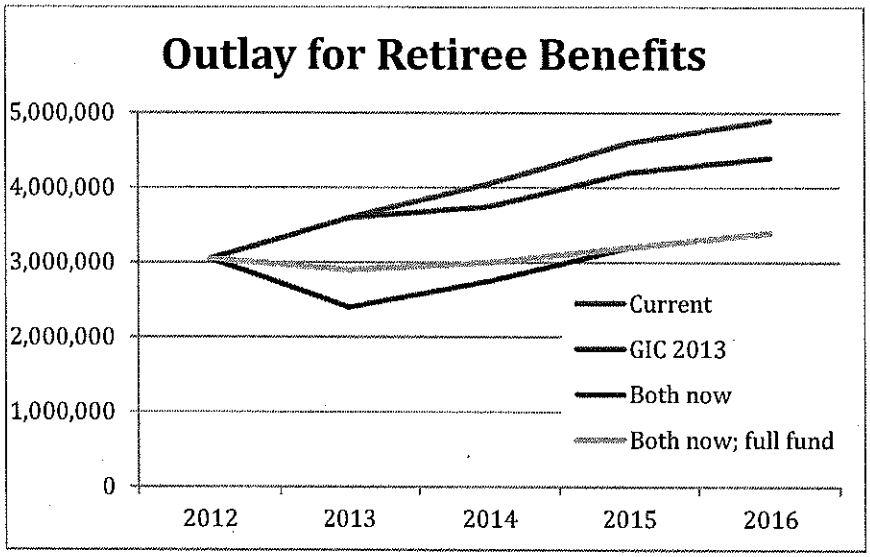
Both GIC-like plan and 50-50 premium split effective 7/1/2012

FY	Benefit payments	GASB contribution	Total outlay	ARC	Funding Shortfall
2012	2,800,000	250,000	3,050,000	4,200,000	1,150,000
2013	1,900,000	500,000	2,400,000	2,900,000	500,000
2014	2,000,000	750,000	2,750,000	3,000,000	250,000
2015	2,200,000	1,000,000	3,200,000	3,200,000	0
2016	2,400,000	1,000,000	3,400,000	3,400,000	0

Both GIC-like plan and 50-50 premium split effective 7/1/2012

FY	Benefit payments	GASB contribution	Total outlay	ARC	Funding Shortfall
2012	2,800,000	250,000	3,050,000	4,200,000	1,150,000
2013	1,900,000	1,000,000	2,900,000	2,900,000	0
2014	2,000,000	1,000,000	3,000,000	3,000,000	0
2015	2,200,000	1,000,000	3,200,000	3,200,000	0
2016	2,400,000	1,000,000	3,400,000	3,400,000	0

Chart 1:



Other considerations

In addition to funding and expense decisions, the town needs to consider the relationship between health care benefits provided to current employee and to retirees, the timing impact of adopting Chapter 69 section 32B and changes to OPEB, the health care trust account in the Town Managers budget, and the political and union bargaining implications of changes to retiree benefits. The GASB 45 Committee reviewed these topics, but determined that the implications and a full

understanding of these relationships was better left to town management and counsel.

Recommendations

The committee acknowledges the wisdom of achieving fully funded ARC to:

i – lower current accounting liability
ii – begin to fund future expenses
iii – match current payments with current benefits received (i.e., the impact of current fiscal year's services from the current employees that are future retirees – just as in pension funding)
iv – protect the towns AAA rating

In the absence of town cost reductions, the committee endorses the multi-year increase in the GASB line funding schedule as presented by the FinCom to Spring Town Meeting 2011 (and shown as "Current" in this memo's chart).

This line item is a current and real expense that has been neglected in the past, and should not be viewed as a source of plugging current year budget shortfalls. Providing this funding is the town's fiduciary responsibility.

The GASB 45 fund is equally or more important as a reserve than Free Cash in that its use is proscribed for retiree health care benefits and not general operations. Therefore it shows a firmer commitment to fiscal responsibility than leaving reserves in Free Cash.

The committee fully embraces reducing future town outlays (and thus the Normal Cost) as an alternate means of closing the funding gap by adopting expense reductions and decreasing the liability. Utilizing a combination of immediate or phased-in expense reductions is acceptable. The town should continue to move toward a fully funded ARC by 2016 in step-wise through a combination of increased GASB line item funding and reduced costs.

The committee recommends that FinCom increase the FY 2013 funding of the GASB 45 line item from $0 (in the Town Manager's budget) to $500k (in line with the funding plan) *unless and until* the Selectmen and/or the Town Manager can present a plan or dollar-specific cost reduction for FY 2013.

To: Winchester Town Meeting Members
From: Winchester Finance Committee
RE: Article 14, Other Post Employment Benefits Appropriation
Date: November 15, 2012

Last week, the Finance Committee moved to indefinitely postpone Article 14, which requested an additional $250,000 appropriation to the Other Post Employment Benefits (OPEB) Trust Fund to bring the FY 2013 total allocation up to $500,000.

This decision to postpone was based on the following four healthcare related votes made by the Board of Selectmen during their Monday, November 5, 2012 meeting:

1. That effective July 2, 2014, the Town shall pay 50% of the premium to be paid by retired employees for group health insurance policies.
2. That effective July 1, 2013 the Town shall adopt modifications to its health care plan design for non-Medicare retirees.
3. That effective July 1, 2013 the Town shall modify the Medicare supplement plans to include co-payments, deductibles, and tiered provider network co-payments, similar to those offered by the Group Insurance Commission.
4. That the Town Manager report back to the Board with his recommendations as to whether the Board should adopt the provisions of Section 21 through 23 of Chapter 69 of the Acts of 2011.

Changes 1-3 also requested that the Town provide a plan to mitigate the impact of these changes for all retirees who are low income, and/or who may have high out-of-pocket health care costs and who would otherwise be disproportionately affected.

These motions directed the Town Manager to make changes to plan design and retiree contributions consistent with the recommendations made by the GASB45 Advisory Committee in their March, 2012 Report. The plan changes are scheduled to be implemented in stages, and should move the Town close to funding its Annual Required Contribution in FY15 (Annual Required Contribution or ARC is the amount required on an annual basis to bring the plan to full funding). The Finance and GASB 45 Advisory Committees' shared OPEB objective (as stated in the FinCom's Spring 2011 Town Meeting and the GASB 45 March 2012 memo to the Selectmen) is for the Town to meet its ARC by 2016; so the BOS plan meets that goal. A fully funded ARC:

- matches current payments with current benefits
- begins to fund future expenses
- lowers the accounting liability
- protects the Town's AAA rating

The ARC is the sum of two parts: (1) the normal cost, which is the cost of OPEB benefits attributable to the current year of service (current employees, current costs), and (2) the amortization payment, which is a catch-up payment for past service costs to fund the Unfunded Actuarial Accrued Liability (UAAL) over the next 30 years (all retiree costs and prior years' cost for

current employees). The changes mean that the Town will begin to set aside funds to pay for future benefits for current employees, and will set up a payment schedule to fund previously unfunded obligations, just as it does for employee pensions. In approximately 2045, the Town will have properly set aside funds for its previous commitments (amortization of liability would be complete) and would fund only the normal costs after that time. It is important to note that the amount required to fund OPEB is an estimate based on interest rate, participation, and other assumptions, and the ARC (and associated OPEB liability) represent a moving target which will need to be updated every two years, as required by law.

There are two approaches the Town could take to close the gap between the ARC and the total outlay (current year retiree benefits paid + OPEB line) by 2016. The first would involve no change to the Town's plan structure or contribution rates, and would have closed the gap by steadily increasing the OPEB contribution. The additional $250,000 for FY-2013 in the postponed warrant article, plus larger/increasing appropriations in subsequent years, would have kept the Town on that path. Continuing on that path would have required cuts in current services, concessions from current employees, or an override. (An increasing share of the Town's operating budget has paid for employee and retiree benefits over the past decade, crowding out other spending for current services). The second method involves closing the gap by bringing the cost curve down to meet projected cash outlays; it is this latter approach that reflects the changes as voted by the Selectmen.

The Town will contribute approximately $3M (3% of the Town's budget) for retiree healthcare in the FY13 budget (retiree healthcare spending in the healthcare budget plus specific OPEB funding of $250K). Last spring, Buck Consultants ran several scenarios for the GASB45 Advisory Committee that became the basis for that committee's recommendations to the BOS and Town Manager. The changes voted by the Board of Selectmen will reallocate the $3M of spending in future years and will move the Town (approximately) to the *GIC with 50% co-share* scenario in the Buck and GASB45 Advisory Committee reports. The liability will be reduced by roughly one third to approximately $35M.

The changes proposed by the Town Manager and Board of Selectmen address an issue that we believe is of critical importance to Winchester's long term fiscal health and will end the practice of transferring costs of current services to future generations. Because the timing of implementation of these changes is different from those included in the scenarios previously run by Buck Consulting, we will need to wait for the next update to the actuarial report to understand precisely the impact of these proposed changes. The Finance Committee and Town Manager will work together in the spring of 2013 to ensure that the appropriate actuarial analysis is performed and that the Town funds this benefit according to the proscribed schedule. In the meantime, the Finance Committee is optimistic that these steps taken by the Selectmen will put the Town on a path to fully funding its ARC by 2016. Accordingly, no further action was needed for the FY 2013 budget.

Westport Rivers – Application to sell/provide wine samples at Mahoney's Garden Center Farmer's Market

*Motion: That the Board of Selectmen approve the issuance of a license to Westport Rivers to sell/provide wine samples at Mahoney's Garden Center for the remainder of calendar 2012.

Johnson – Marmon All in Favor. VOTED.

Health Care Plan Design for Retirees

Town Manager informed the Board that there are a series of recommendations contained in each of the motions that will bring the Town's share of health insurance premium contribution for retirees to a 50% level, in line with what is allowed under the statute. The second recommendation, which begins on July 1, 2013, initiates the change in plan design for retirees. Those changes relate to deductibles and copayments, and are more in line with the effort to contain health care costs. Town Manager pointed out that the plan design mirrors the most selected plan in the GIC and includes an increase in deductibles and copayments in order to bring the Town more in line with what is acceptable throughout the Commonwealth.

Town Manager further informed the Board that he will try to put a safety net in place for those retirees who are considered to be lower income, using Federal guidelines for this. He noted that this change will save money in OPEB benefits in the outlying years. He suggested that in tandem with this, an effort will be made to bring overall health care costs in line. Chairman Howley noted that this is a significant decision towards effective management of health insurance costs, yet maintains the quality of coverage for retirees and employees.

*Motion: That effective July 2, 2014, the Town shall pay 50% (one-half) of the premium to be paid by retired employees for policies of group general or blanket insurance providing hospital, surgical, medical, dental, and other health insurance. Provided further, that the Town provide a plan to mitigate, moderate or cap the impact of these changes for all retirees who are low income, and/or who may have high out-of-pocket health care costs and who would otherwise be disproportionately affected.

Marmon – Wilson All in Favor. VOTED.

*Motion: That effective July 1, 2013 the Town adopt modifications to its health care plan design for non-Medicare retirees that will include co-payments, deductibles, tiered provider network co-payments and prescription drug formularies and co-payments, and other cost sharing plan design features that are no greater in dollar amount than the co-payment deductibles, tiered provider network co-payments and prescription drug formularies and co-payments offered by the Group Insurance Commission pursuant to Section 4 or 4A of Chapter 32A in a non-Medicare plan with the largest subscriber enrollment. Provided further, that the Town provide a plan to mitigate, moderate or cap the impact of these changes for non-Medicare retirees who are low income, and/or who may have high out-of-pocket health care costs and who would otherwise be disproportionately affected.

Marmon – Wilson All in Favor. VOTED.

*Motion: That effective July 1, 2013 the Town, for subscribers enrolled in a Medicare plan pursuant to Section 18A, modify the plan to include co-payments, deductibles, tiered provider network co-payments, prescription drug formularies and co-payments, and other cost-sharing plan design features that are no greater in dollar amount than the co-payment, deductibles, tiered provider network co-payments, prescription drug formularies and co-payments offered by the Group Insurance Commission pursuant to Section 4 or 4A of Chapter 32A in a Medicare plan with the largest subscriber enrollment. Provided further, that the Town provide a plan to mitigate, moderate or cap the impact of these changes for Medicare retirees who are low income, and/or who may have high out-of-pocket health care costs and who would otherwise be disproportionately affected.

Marmon – Wilson All in Favor. VOTED.