OPEB TRUST COMMITTEE
City Conference Room
260 Constitution Plaza
Tuesday, September 27, 2016
9:00 a.m.

MINUTES

OPEB TRUST

MEMBERS PRESENT: Peter Stevens, Chairman; Frank Lord; Gene Goldman; Nicholas Trigila, Employee Representative; Adam Cloud, Secretary; Darrell Hill, Mayor's Designee; John Griffin, Superintendent's Designee

STAFF PRESENT: Donna Parker, Plan Administrator; Wendy Bond, Assistant Plan Administrator; Lisa Silvestri, Assistant Corporation Counsel; Gary Draghi, Director of Investments; P. Wayne Moore, Assistant Director of Investments; Carmen Sierra, Assistant City Treasurer; J. Sean Antoine, Principal Administrative Analyst; Chelsea Mott, Accountant

OTHERS PRESENT: Richard Pokorski, Employee Benefits; George Zoltowski, Management & Budget; Tim Ryor, Hooker & Holcombe

Chairman Peter Stevens called the meeting to order at 9:08 a.m.

I. Minutes of the Meeting of July 29, 2016

There were no changes or corrections to the minutes as presented.

A motion was made, seconded and unanimously adopted to accept the minutes of the July 29, 2016 meeting.

II. July 1, 2015 OPEB Valuation Report

Chairman Stevens introduced the item. Tim Ryor, Senior Vice President and Consulting Actuary from Hooker and Holcombe (H&H), presented and summarized the preliminary results from the July 1, 2015 OPEB valuation to the Pension Commission. First Mr. Ryor reviewed the prior July 1, 2013 OPEB valuation performed by Segal Consulting. Mr. Ryor explained that Segal calculated the Actuarial Accrued Liability (AAL) to be $263 million based on a 4.5% discount rate because the OPEB benefits were not funded. In addition, he explained, the OPEB Annual Required Contribution (ARC) of $20 million used an amortization method that did not cover the interest on the unfunded AAL (UAL), as Segal used a level percent of pay method amortized over 30 years. He further stated the H&H methodology of 30-year level dollar amortization included interest on the unfunded amount and increased the ARC to $24.2 million. Mr. Ryor stated when reviewing the reports that H&H came within 3 percent of Segal's measurements. It was also noted by Mr. Ryor that the GASB 43/45 statements would be replaced by GASB 74/75 statements in 2017 and 2018.

Next Mr. Ryor explained the prior actuary's tranche methodology, which grouped the participants into three groups with a different discount rate assumption for each group based on the expected funding level for each group. A higher discount rate was used for the group that would be funded, Mr. Ryor continued, to lower the OPEB liability. However, Mr. Ryor noted, the OPEB plan was not funded prior to July 1, 2015 and the accountants measured the GASB results using a 4.5% discount rate for all groups. Mr. Ryor added that the new GASB accounting standards would not allow for tranches and the tranches added unnecessary complexity.

Secretary Cloud asked why the three tranches would not be allowed under the new GASB standards. Mr. Ryor responded that when the OPEB Trust was established two accounts, not three, were set up: one for the City and one for the Board of Education (BOE), and only the BOE was funding their liability. When setting the discount rate under the new GASB standards the adequacy of the funding plan would be analyzed, Mr. Ryor continued, and currently there was no funding plan in place.

Next Mr. Ryor discussed that Segal did not use the same actuarial assumptions as in the MERF or the Teachers Retirement Board (TRB) reports. Mr. Ryor further stated that using the assumptions for the MERF and the TRB in the OPEB calculations increased the liability by $25 million. Mr. Ryor said these assumptions produced results closer to the actual claims and increased the AAL from $263 million as of July 1, 2013 to $337 million as of July 1, 2015. Mr. Ryor also referenced that OPEB discount rate assumptions are typically slightly lower than the pension assumptions, so for comparison and to show the impact of a funding plan, the results were also shown under a level dollar funding method with 25-year amortization of the UAL at 7.5%.

Mr. Ryor further explained that using a 7.5% discount rate as of July 1, 2015, the City's AAL was approximately $182 million and the ARC approximately $20.5 million before benefit payments, and the BOE's AAL was $13.8 million after the $19.2 million contribution and the ARC was $1.8 million before benefit payments. The net amount of the cash contribution after reflecting the benefit payments was $282,000 for the BOE and $11 million for the City, he concluded.

Commissioner Gene Goldman asked Mr. Ryor if the 7.5% discount rate could be used for the City and BOE. Mr. Ryor responded if the funding path was to fund the BOE and not the City, the BOE might use a 7.5% rate and the City might use a 4.5% rate. Mr. Ryor stated the new rules require the demonstration of a valid funding plan and a blended rate must be used if the fund would be depleted by benefit payments.

Mr. Ryor showed a chart demonstrating the pay as you go method versus funding the plan. Mr. Ryor explained the funding plan showed that over time the ARC slowly decreased.

Secretary Cloud stated that the $26.6 million OPEB ARC using a 4.5% discount rate was not in the City budget and he was concerned that the OPEB ARC was not considered in the 2017 budget. Secretary Cloud asked about the impact of the City not funding the OPEB plan for another 5 years. Mr. Ryor explained that would be the same as the pay as you go method.

Commissioner Goldman asked if the recent retirements would have an effect on the benefit payments. Mr. Ryor responded they would not since H&H was assuming earlier retirement rates where Segal was not, and Segal placed more liability on the active population.

Commissioner Goldman also asked if there was a requirement in the OPEB ordinance to fund OPEB. Secretary Cloud offered to review the wording in the ordinance regarding the funding requirement for OPEB. The Director of Investments Gary Draghi asked when the Pension Commission could expect the final numbers to be available and Mr. Ryor stated before the next Pension Commission meeting.

John Griffin, Executive Director of Risk Management at the BOE, asked if the OPEB results would affect the City's bond rating. Secretary Cloud responded that it may add to the negative outlook. Mr. Ryor added that the rating agencies gave a 20% weighting to long term debt and pension, not including OPEB. Mr. Griffin stated the BOE believed that its liability would drop rapidly during the next 2 to 5 years as the BOE expected 50 to 250 retirees to drop off and 5 to 7 years out the BOE expected to have a smaller population with mostly age 65 and under remaining, because retirees must pay the full cost of the medical plan or opt out.

Rich Pokorski from Employee Benefits explained that the prior Finance Director Chris

Wolfe created the tranches to reduce the liability. Mr. Pokorski explained in more detail the three tranches and the discount rates: retirees before July 1, 2009 used pay as you go and a 4% discount rate, hires before year July 1, 2009 used a 6.5% discount rate and new hires after July 1, 2009 used an 8% discount rate and would be funded. Mr. Pokorski stated in 2008, the BOE separately underwrote the premiums on the health policies and the retirees paid the full cost. He also stated that the OPEB liability was reduced via contract negotiations and not just by the funding alone. Mr. Ryor stated for the BOE, most of the OPEB cost was for pre '86 non Medicare coverage for teachers and this population was a dwindling group.

George Zoltowski from Management and Budget asked Mr. Ryor if the change to GASB 75 would affect the balance sheets and Mr. Ryor responded for Fiscal Year End 2018 the UAL would need to be shown on the balance sheet.

Darrell Hill, Finance Director, referenced the chart in the report on page 9 stating that the funding line should drop. Mr. Ryor stated the BOE was a small percentage of the cost, the City dominated the normal cost and a 3% rate of inflation assumption with a closed group was used. He also stated that the normal cost would drop off but he would need to do an open group projection to determine the decrease.

Mr. Hill asked in reference to the exhibits in the report, why the AAL was higher for H&H versus Segal. Mr. Ryor explained the liability was higher over time because it was not funded, and Segal's $263 million rolled forward to $292 million 2 years later. Also, he responded, the change to Segal's assumptions to be consistent with the MERF and the TRB assumptions added $25 million to the AAL. Mr. Ryor said H&H costs were weighted more toward the aging population and the BOE costs were higher due to the retirees who were pre '86 non Medicare teachers.

Commissioner Frank Lord asked what the next steps were after Mr. Ryor provided the Pension Commission with the report. Mr. Ryor responded he needed additional data such as if the tranches would be included, whether the BOE would have a funding plan, and the best long term rate to use.

Commissioner Lord asked if it was the responsibility of the OPEB Trust Committee, the BOE or the City to provide these responses to Mr. Ryor. Secretary Cloud responded that there was a lot of information and the Committee would need to decide on the appropriate funding level.

The Commission received the report for advice and placed it on file.

III. Other Business

Chairman Stevens introduced the item. There was no Other Business to come before the Commission at this meeting.

There being no further business, Chairman Stevens adjourned the OPEB Trust portion of the meeting at 10:18 a.m.

Attest:

Adam M. Cloud

Adam M. Cloud, Secretary