



Town of Wayland Massachusetts

Finance Committee

Carol Martin (Chair)
Steven Correia (Vice Chair)
Jen Gorke
Kelly Lappin
Klaus Shigley
George Uveges
Dave Watkins

Date: 11/26/2018

The Board of Selectmen
330 Cochituate Road
Wayland, MA 01778

Re: Recommendation to Amend the OPEB Trust Document

In order to address forecasted budget issues arising from the funding of OPEB liabilities, the Finance Committee, at its meeting on Nov. 19, 2018 voted to recommend certain amendments to the OPEB Trust.

Background:

As of December 31, 2016, the Town has an actuarial accrued liability of \$40.6 million and plan assets of \$13.8 million. The assets are held in a Wayland OPEB Trust fund established through a special legislative act that the OPEB Advisory Committee (in their final report dated Sept. 15, 2015) notes is not a bona fide trust, does not comply with all of the GASB 45 requirements, and does not clarify investment management responsibility.

The Town's OPEB Trust is up and running and receiving OPEB contributions, which are then invested by PRIT. This arrangement reflects current best practices and the Town officers who made this happen should be commended.

At present, the Town's OPEB process is to make all retiree benefit payments from current taxation, and make additional contributions to the Trust based on an amount approved via a warrant article at the Town's Annual Meeting. No benefits are currently being paid from the OPEB trust fund. Based on the current actuarial valuations the current funding levels are projected to result in past service costs being fully funded by approximately 2039.

Thereafter, once the plan is fully funded, it is expected that retiree benefit payments will be made from the trust, and new contributions will consist solely of the annual normal cost, i.e. the OPEB expense will go down significantly because benefit payments will come from the fund rather than annual taxation.

The disadvantage of the current approach is that total funding costs, PAYGO plus scheduled contributions to the fund, have a very steep growth rate. Based on the previous actuarial valuation the total cost for OPEB would jump from \$2.4 million in FY 2019 to \$4.0 million in FY 2029. The biggest component of that jump is the PAYGO portion, which goes from \$1.9 million in FY 2019 to \$3.3 million in FY 2029.

Recommendations:

- The laws governing such a Trust are codified in MGL Chapter 32B. Section 20 (OPEB Liability Trust Fund) of Chapter 32B as amended effective November 7, 2016. The Finance Committee recommends that the BOS review the current trust and investment documents and determine the changes that are required to create a true trust for the OPEB assets, provide the ability to pay benefits from the trust when deemed appropriate, comply with the new GASB requirements and the MGL sections referenced above, and provide an independent investment board to oversee the investment decisions.
- The Finance Committee recommends that the document clearly define a methodology for making benefit payments and provide for the flexibility to begin paying benefits from the trust when deemed appropriate.
- One way to mitigate the forecasted steep rise in OPEB payments in the future is to increase near term contributions into the trust and begin to fund a portion of future obligations from the trust.

Summary:

The OPEB obligation represents a significant annual and future funding requirement of the Town that needs to be properly managed and controlled. The OPEB Advisory committee recommended a number of actions that still need to be addressed. The Finance Committee believes that the above actions are appropriate and recommends that the Board of Selectmen and the Town Administrator take steps to understand where we are and what action is required.

Respectfully submitted,

The Finance Committee

cc: Louise Miller, Town Administrator
Brian Keveny, Finance Director