June 23, 2009

REPORT OF THE OTHER POST EMPLOYMENT BENEFIT (OPEB) TASK FORCE

Introduction

In April 2008 the Board of Selectmen established the Other Post Employment Benefit ("OPEB") Task Force to assess methods for reducing and funding the Town's OPEB liability. OPEB refers primarily to retiree health insurance benefits and the costs associated with those benefits. In short, OPEB represents current and future obligations for the Town of Brookline's post employment health insurance benefits.

Recently the Town's Override Study Committee presented a report to the Board of Selectmen. A key finding of the report was that: "retiree health is going to place enormous strains on the [Town's] budget." In reaction to this retiree health problem the Board of Selectmen created the OPEB Task Force which was charged with undertaking a complete analysis of options for reducing and/or funding the Town's OPEB liability. The Task Force was further asked to develop a comprehensive plan to address the issue, with the overriding goal being to substantially reduce OPEB liabilities while preserving affordable comprehensive coverage options for retirees.

If the Town's OPEB liability is not pre-funded by 2040, then Brookline's retiree health costs, according to an independent actuary, will likely exceed the entire budget for both Town and Schools services. The Town's present "pay-as-you-go" method of dealing with its OPEB obligations courts disaster. If left unchecked the present residents and employees of the Town are passing on an enormous liability which the next generation of taxpayers and Town employees will be forced to deal with. Notwithstanding the fact that there is a variety of issues surrounding the Town's OPEB liability as well as a variety of opinions as to what might constitute the "best" solutions, overall, there was a clear consensus of the full Task Force that Brookline's OPEB liability must be reduced.

The OPEB Task Force was divided into two working groups. One sub-committee studied funding, and the other studied cost containment. Both reported back to the full Task Force. The Task Force's critical finding was that the Town needs to pre-fund its OPEB liability. The Task Force is recommending a set of measures concerning both cost containment and funding which are meant to achieve both a reduction in the growth rate of OPEB's liability as well as identify several funding alternative sources. If the OPEB Task Force's recommendations were to be fully adopted then the Town would, in all likelihood, reach "full funding" by the year 2039.

If the Town does not alter course with respect to OPEB funding, it will be faced with the stark choice of ballooning taxes or sharply reduced services (or both). Thus the Task Force urges the Board of Selectmen to adopt a variety of cost containment and funding recommendations as described herein. The Task Force wishes to commend the

Town of Brookline for being one of only several communities in the Commonwealth of Massachusetts that has begun to address this issue.

The Town has already accumulated $5.8 million in a Retiree Health Trust Fund to pre-fund its OPEB obligation. In addition, the Task Force notes the collaborative efforts made by the Town and its employees to proactively manage Brookline's health insurance costs. Such efforts ultimately help to reduce our OPEB liability. This report intends to build on this track record of working together and it is in that spirit that we have attempted to develop a shared response to this most difficult and challenging problem.

The OPEB Task Force approved the recommendations of both the Cost Containment and the Funding Sub-Committees by a vote of 7-2-0 (Ms. Curran and Mr. Riley opposed).

OPEB Task Force Cost Containment Sub-Committee Report

The OPEB Cost Containment Sub-Committee (the "Sub-Committee") was given the task of conducting a complete analysis of options for reducing the OPEB liability. First, the Sub-Committee identified actions which other organizations, both private and public, have implemented to reduce the liability. Second, the Sub-Committee developed a list of options to control and/or reduce the liability. These options were debated by the Sub-Committee, and its recommendations passed on to the OPEB Task Force.

The Sub-Committee was made up of the following eight individuals:

- Nancy Daly, Chairman
- Susan Wolf Ditkoff
- Leonard Weiss
- Graydon Clouse
- Jody Curran
- Bobbi Kaplan
- Mark Manin
- Thomas Reed

The Sub-Committee met seven times on the following dates:

- August 27, 2008
- September 24, 2008
- October 20, 2008
- December 17, 2008
- January 12, 2009
- March 30, 2009
- April 13, 2009

All meetings were held the Old Lincoln School and Town Hall. They were "open" meetings which met all of the posting and notification requirements. Minutes were taken at all Sub-Committee meetings and those meeting minutes are available to the public. The Sub-Committee offers the following observations and recommendations:

Factors Contributing to the Growth in the OPEB Unfunded Liability

OPEB's primarily consist of the current and future obligations for retiree health insurance. There is a small category of retirees that are not eligible for Medicare and they and their dependents stay on the Town's employee health program through their retirement years. A larger group includes those employees who will be eligible for Medicare at age 65, but retire prior to the eligibility date. Those retired employees and their dependents stay on the Town's health insurance program until they reach the eligibility date. The cost to the Town for retirees who are enrolled in the Medicare program is much less than what it would be if the retiree were enrolled in the Town's health insurance program. Both costs are included in the Town's actuarial calculation of the unfunded liability.

There are four basic factors that contribute to the growth in the OPEB unfunded liability. They are:

A. The Lack of an Annual Commitment to Funding

Although the Town is one of only a few communities that has established a trust fund and have begun to address this liability, the annual accumulation of assets has not been based upon a full commitment to funding. Instead, assets have been assembled from different sources as they became available. This arbitrary and inconsistent funding pattern was interrupted by a moratorium placed upon funding between FY 2005 and FY2008. Most recently, this moratorium has been removed and the Town has again begun to assemble annual assets on an ad hoc basis. The most recent contribution was a $1 million appropriation as of July 1, 2008. The Town Administrator's FY 2010 budget proposal, incorporating one of the recommendations of the OPEB Funding Sub-Committee, includes a small ($250,000) appropriation to address the liability, and it is expected that future years' appropriations would grow**.**

At any point in time, the nominal (not discounted) future value of the unfunded OPEB liability can be actuarially determined based upon assumptions that reflect benefit levels, health care costs, funding and investment earnings. To be meaningful, that nominal value must be expressed as a discounted present value by applying an assumed investment earnings rate. The governing accounting literature establishes an 8.25% rate for expressing the present value of the nominal unfunded liability, if the assets accumulated towards its settlement are placed in an irrevocable trust for the benefit of the employees, and administered by independent trustees. The Town's existing trust fund does not currently meet these requirements. In the absence of such a trust, the governing accounting literature establishes a 5.25% rate for expressing the present value of the same nominal unfunded liability. The Town expects to transform its existing fund into an irrevocable, independently administered trust. Regardless of the difference in the assumed discount rates, the achieved investment earnings on the trust's assets will be determined by their actual performance.

The June 30, 2008 OPEB Actuary Analysis (the most recent actuarial determination) calculated the unfunded OPEB liability under both discount assumptions. On June 30, 2010, the unfunded liability would be $231 million, assuming a discount rate of 8.25%. Based upon that rate and other assumptions, including continuance of funding the annual cost of health insurance plus additional amounts to fully settle the unfunded liability over a thirty year period, the Town would need to assemble $576 million of assets, including the $231 million unfunded OPEB liability, in order to meet its obligations. Assuming the 5.25% discount rate, the unfunded liability on the same date would be expressed as $353 million and the Town would need to assemble $958 million of assets over the same thirty year period in order to meet its obligations.

Based upon expectations that the Town will establish an irrevocable, independently administered trust, the Sub-Committee concludes that the Town's considerations, conclusions and actions on its OPEB liability should be based upon the assumed investment earning rate of 8.25%.

B. The Annual Inflation Rate of Health Care

The second factor contributing to the growing unfunded OPEB liability is medical inflation. Predicting the Town's OPEB obligation is complicated by the assumptions of the actuarial analysis which are likely to change over a thirty year time period. The actuarial report utilizes a health care inflation rate that is assumed to begin at 10% and assumed to decline to 5% over a six year period. The inflation rate is assumed to remain at 5% from FY2016 through FY2039. The Town has experienced a budgetary inflation rate on health insurance costs of 10.00% over a five year period between FY2006 and FY2010. The ten year experience is 10.91%. An eighteen year experience shows a health insurance cost inflation rate of 7.25%. The actuary makes adjustments to their analysis on a bi-annual basis, using the actual inflation that has been experienced by the Town between each report. The rates used by the Actuary may seem low when compared with the Town's actual experience, but they are in accordance with generally accepted accounting principles in this area and which therefore, give us a good basis of comparison with the OPEB liability for other entities. If the actual inflation rate exceeds the assumed inflation rate, then the OPEB liability will be larger than stated above.

C. The Rate of Return on Investments

Third, the actuarial analysis assumes the same rates of return which are currently utilized in the Pension Actuary Analysis. It is assumed that if the Town were to provide annual funding equal to the additional funding identified in the analysis, the calculation could be based upon an average rate of return that could be generated by pursuing a fully diversified investment strategy (stocks, bonds and alternative investments). That average is assumed to be 8.25%. Prior to calendar year 2008, the Pension system has experienced a five year average of 12.05%. However, the volatility in the markets over the past seven years has been extraordinary. As one might expect, a significantly bad year of rate of return would have a dramatic impact over a short time period until offset with a good year of gains or after five years when the bad year is no longer included in the average.

The analysis also assumes that, in the event that the Town was not to provide annual funding equal to the additional funding identified in the analysis, the calculation would be based upon an average rate of return that could be generated by investing the funds in bank accounts. That average is assumed to be 5.25%. Prior to calendar year 2008, the Town was experiencing bank rates of return in levels as high or higher than this amount. However, the instability of the world economy has led governments to reduce borrowing rates leading to a sharp decline in bank interest earnings. The Town is currently experiencing a bank rate of return of between 0.5% and 1.3%. Again, if the actual average investment earnings exceed or fall short of the assumed average investment rate of return, then the OPEB liability would vary accordingly.

D. Growth in the Number of Participants in the Health Insurance Program

Finally, the growth in the number of participants eligible to enroll in the Town's health insurance program is driven by two factors. First, the number of employees of the Town/School has grown by 7.76% between fiscal years 1981 and 2009. This increase has been driven by the growth of School Department employees associated with SPED and other mandates. While School employment has grown by +36.49% during the measurement period, the Town employment has been reduced by -16.82% during the same period.

Second, Chapter 32B of the Massachusetts General Laws (MGL) provides that communities can decide to offer health insurance to retirees. In accepting this section of the law, Brookline has committed itself to increases in health insurance program enrollment as a retired employee continues coverage and a new employee filling the position of the retiree begins enrollment in the program.

In conclusion, the above factors (non-commitment to annual funding, health insurance inflation rates, rates of return on investments, and growth in enrollment) all contribute to a growth in the unfunded OPEB liability, and we can only conclude that the liability identified in the June 30, 2008 Actuary Analysis may be conservatively stated. The Town's obligation identified in the analysis could potentially grow to extraordinary and unsustainable levels.

Responsibility for the Unfunded OPEB Liability

Ultimately, it is the responsibility of the taxpayers of the Town to pay for this large obligation given the legal commitment made by the Town to provide these benefits. The fact that the Commonwealth of Massachusetts is one of a few states that is subject to revenue limitation laws complicates how the Town would fulfill its obligation. For the past several years Brookline has been one of the most expensive communities in which to live, with the property tax per household being amongst the highest in the Commonwealth. Since 1992 the Town has agreed to four increases (overrides) to the annual levy, two of which have been permanent changes.

In the absence of additional revenue to support this obligation the Town has two options. It can choose to not pre-fund the obligation, allowing the increase of retiree health costs to be resolved on a "pay as you go" basis. The effect would be continuous and growing shift in annual operating budget revenues from direct services to employee benefits. The taxpayer would pay no more than the annual property tax but would experience a reduction in services. By FY 2040, if there were no pre-funding or reduction in the liability, funding the OPEB would require more than 100% of the annual operating budget.

The second option is to begin a commitment to controlling or reducing the OPEB liability. There is a possibility that funding, which is already included in the Town's Annual Financial Plan, could be freed up and then re-committed to the different use of OPEB funding. Most of this money would be generated by the elimination of services (primarily employee salary and benefit costs) in order to support the new annual funding required for the OPEB obligation. Pre-funding OPEB is an important objective. It would reduce the estimated liability from $353 million to $231 million. However, it does not change the Town's obligation to pay for the estimated OPEB liability.

Methods for Controlling or Reducing the OPEB Liability

The Town's actuary stated that there are two methods of controlling or reducing the OPEB Liability: change in plan design and/or change in utilization. Change in plan design would shift the cost of the benefit away from the taxpayer. The change in utilization would reduce the number of enrollees in the plan offered.

The choice in burdens that the taxpayer must face, additional taxes vs. reduction of service, is a difficult decision. It is made a more difficult choice as the potential liability grows to the extraordinary levels described above. Therefore, **the Sub-Committee concludes and recommends to the OPEB Task Force that the Board of Selectmen and School Committee make all reasonable efforts, including plan design change or utilization change, to contain or reduce the OPEB liability.**

The Sub-Committee approves that the policy statement, above, be included in the final OPEB Task Force Report. Vote: 7-1-0 (Ms. Curran opposed);

The Question of Containing or Reducing the OPEB Liability

The Sub-Committee considered eight proposals, separating them into categories of "Changes in Plan Design" or "Changes in Utilization" as follows:

Changes in Plan Design

(PD1) **Proration of Retiree Health Benefits Based Upon Length of Service –** This proposal, modeled after the benefit structure of the Retirement System, would provide benefits based upon length of service. As an example, an employee who worked for a period of ten years (but less than 20 years) before retiring would be eligible for a minimum percentage of the employer subsidized portion of the retiree health benefit.

If an employee worked for twenty years (but less than 30 years) before retiring, he or she would be eligible for a larger percentage of the employer subsidized portion of the retiree health benefits.

If an employee worked for thirty or more years, he or she would be eligible for 100% of the employer subsidized portion of the retiree health benefits.

It should be noted that if we were to prorate retiree health benefits based upon length of service and if the minimum percentage of the employer subsidized portion of the retiree health benefit amount is determined to be less that a 50% subsidy by the employer, this proposal would require special legislation to amend MGL Chapter 32. In addition, any change to the current 75% employer share would require agreement within the collective bargaining process. This proposal has been adopted by other communities in other states.

The Actuary analyzed this hypothetical proration proposal and found that, if adopted, it would reduce the annual total funding required by approximately $1.8 million. For a hypothetical example of this concept please go to the Appendix.

The Sub-Committee approved this recommendation to the OPEB Task Force that the Board of Selectmen and School Committee consider prorating retiree health benefits based upon an employees length of service: Vote: 7-1-0 (Ms. Curran opposed).

(PD2) **Shift to a More Efficient Purchasing Program Such as GIC or an Alternative That Offers Equivalent Savings –** The Group Insurance Commission (GIC) is a health insurance program offered to State employees. Recent changes in State law now permit cities and towns to join the GIC. The invitation was extended through December 1, 2008 for entry in FY 2010. Due to the fact that the GIC is the largest purchaser of health insurance in the Commonwealth, it is able to provide benefits at a far less expensive annual rate than local government could offer. The average increase in GIC over the last few years has been 8%, while the Town of Brookline has experienced a 10.91% average annual growth.

The GIC co-pay structure might be higher than that which currently exists in the current Town plan. Also, the level of co-pay would be removed from the collective bargaining process. It is estimated that the savings accrued to the employee would offset the increase in annual co-pay expense.

The Town and a coalition of current and retired employees have already entered into negotiation over the Town proposal to join the GIC. Notwithstanding the fact that a good faith effort by all stakeholders to resolve this issue is ongoing, as of this report's publication date (June 23, 2009) an agreement has not yet been reached.

There are group purchasing arrangements other than the GIC, including the Suburban West Health Insurance Purchasing Group led by the town of Wellesley. For the purposes of this report the Sub-Committee focused on the GIC. Notwithstanding our focus on the GIC, the Sub–Committee concluded that retiree health cost savings can be achieved by considering more efficient group purchasing programs, but offers no recommendation on which program to join. The Actuary estimates that the savings to the annual Total Funding Requirement would be approximately $787,000 or 5%.

The Sub-Committee approved this recommendation to the OPEB Task Force that the Board of Selectmen and School Committee continue the negotiation process of working with all appropriate stakeholders (the Town, employees and retirees) to find a way to join a more efficient health insurance purchasing program such as the Commonwealth's GIC health insurance program or alternatives that offer equivalent savings. Vote: 6-0-0.

(PD3) **Employee Contributions to Post Employment Benefit Cost –** This proposal is discussed in the Funding Sub-Committee Report. The Cost Containment Sub-Committee includes the proposal in its report as well because a change in employee contributions also constitutes a change in Plan Design. The proposal shifts a small portion of the burden of future costs to employees (in a spirit of shared responsibility). The cost to the employee could be pre-tax and portable. The shift in financial responsibility could offset reductions in work force. The cost reduces the liability by approximately $55.8 million.

The Sub-Committee approved this recommendation to the OPEB Task Force that the Board of Selectmen and School Committee consider including in the collective bargaining process a proposal for current employees to share in the future cost of retiree health insurance benefits. Vote: 6-0-0.

Different Rates for Current and Future Employees – This proposal, modeled after the contribution structure of the Retirement System, would require a higher employee contribution to the health insurance program for all employees beginning work after a specific date. The current contributions in effect for members of the Retirement System are 5%, 8% and 9% plus. The proposal would, in all likelihood, require both special legislation and agreement within the collective bargaining process. The Actuary estimates that the savings to the annual Total Funding Requirement would be approximately $1,200,000. See the appendix for an example of how this idea might work.

The Sub-Committee approved this recommendation to the OPEB Task Force that the Board of Selectmen and School Committee consider including in the collective bargaining process a proposal for future employees to be assessed a larger percentage share of health insurance costs. Vote: 7-1-0 (Ms. Curran opposed).

Changes in Utilization

(U1) **Adoption of "Rules and Regulations" Defining the Eligibility for Benefits** - This proposal would create a formal document containing the Town's "Rules and Regulations" regarding the employee / retiree eligibility for health insurance benefits. The document brings together the various criteria for eligibility that is found in MGL Chapter 32B. Currently, the absence of a formal policy creates an environment for a generous interpretation for eligibility of benefits. In adopting a formal policy, the Board of Selectmen would have the flexibility to tighten eligibility standards.

The Sub-Committee approved this recommendation to the OPEB Task Force that the Board of Selectmen and School Committee consider adopting a "Rules and Regulations" policy which defines employee / retiree eligibility for health insurance benefits.
Vote: 6-0-0.

(U2) **Create a target for reductions of FTE's equal to 5% of the workforce over a Five Year Period –** Health insurance continues to grow as a percentage of the total operating budget. The average increase of 10% over the last five years exceeds the average growth in annual operating budget revenues of approximately 3.5%. Governments are generally labor intensive, traditionally having a range of 65% to 75% of the annual operating budget dedicated to labor cost. In the FY 2010 budget, the employer share of annual health insurance benefits is $14,848 for a family plan and $5,542 for a single plan. A review of the business practices of various departments may identify ways to provide adequate services to the taxpayer while reducing benefit costs through staff reductions. This action would have an immediate effect of reducing the growing budget line item for health insurance. This saving could act as a source of funding for the OPEB liability. It is estimated that each FTE reduction would reduce the total funding requirement by approximately $155,000. The Sub-Committee believed that the proposal led to the micro-managing of the various departments, and ultimately decided that the proposal was beyond the scope of the charge to the OPEB Task Force.

The Sub-Committee considered but rejected a recommendation that the Board of Selectmen and School Committee establish a target of a 5% FTE reduction over the next five years. Vote: 0-6-0.

As an alternative, the Sub-Committee approved a recommendation to the OPEB Task Force that the Board of Selectmen and School Committee

consider the cost of retiree health, in addition to salaries and current benefits, when making decisions to expand current FTE levels.

Vote: 6-0-0.

(U3) **Recommendation to the Retirement Board that Membership Eligibility Increase from the Current 20 Hrs per Week to Higher Level –** There is growing evidence that some part time employees seek government employment for the minimum time possible to become eligible for pension and OPEB health insurance benefits. The current Pension System "Rules and Regulations" for pension eligibility state that an employee is eligible to become a member of the Retirement System if they work a minimum of twenty hours per week. Upon retirement, the member is also eligible for retiree health insurance benefits. An employee who meets the minimum standard of twenty hours per week for ten years can then leave government service, knowing that the health insurance benefit will be available to them throughout their retirement. The Actuary has estimated that the annual Total Funding Requirement could be reduced by $36,000. The Sub-Committee believed that the proposal was beyond the scope of the charge to the OPEB Task Force.

The Sub-Committee considered but rejected a recommendation that the Board of Selectmen recommend to the Town's Retirement Board that the standard for membership in the Retirement System be raised from twenty hours per week to twenty five hours per week.

Vote: 1-4-1. (Mr. Weiss in favor; Mr. Reed abstained)

(U4) **Recommendation to the Retirement Board that for purposes of OPEB and pension benefits, Creditable Service Hours be prorated for all Part-Time Members –** A pension benefit is determined by three criteria: age, longevity, and average of three highest years of salary. The current "Rules and Regulations" for pension eligibility state that an employee who is a member of the Retirement System (works a minimum of twenty hours per week) will be granted a full year of creditable service even if the employee works less than full time. See the appendix for an example of how this idea might work.

The Sub-Committee approved a recommendation to the OPEB Task Force that the Board of Selectmen consider recommending to the Town's Retirement Board that the standard for creditable service years for calculation of Pension benefits are prorated for members who work less than full time.

Vote: 6-0-0.

Cost Containment Sub-Committee Summary

The growing cost of retiree health insurance benefits will place a large financial burden upon the taxpayer of Brookline. The Sub-Committee believes that the choice between increased taxes and decreased services should not have to be made before first exploring all possible actions to contain or reduce costs. There are two methods of reducing the cost:

- Plan Design Changes
- Utilization Changes

The Cost Containment Sub-Committee has determined that a series of actions should be pursued in order to begin to reverse the growing cost trends of current and retiree health insurance benefits. Adoption of one or more of our specific recommendations would help mitigate this financial crisis. We, the OPEB Cost Containment Sub-Committee, recommend that the OPEB Task Force adopt a menu of actions, listed above, because the more cost control measures the Town adopts and enacts the better off all stakeholders of this issue will be. The Town will be better off because of its prudent fiscal management. Brookline taxpayers will be better off because there will be less need to reduce services or increase taxes. Town employees will be better off because a critical employee benefit can be preserved and made stronger through appropriate design and funding.

OPEB Task Force Funding Sub-Committee Report

Background

The Other Post Employment Benefits ("OPEB") Funding Sub-Committee (the "Sub-Committee") was tasked with the responsibility of considering whether or not the liability associated with the Town of Brookline's (the "Town") retiree medical plan should be pre-funded rather than financed by the current "pay-as-you-go" approach. First, the Sub-Committee was to determine whether pre-funding of the OPEB liability is appropriate and necessary. Second, assuming that pre-funding is appropriate, the Sub-Committee examined potential funding mechanisms and potential income streams the Town could use to pre-fund the liability.

The Sub-Committee was made up of the following five individuals:

- Greg Grobstein – Chairman
- Oliver Buckley
- Bobbi Kaplan
- Chet Reilly
- Mark Manin

The Sub-Committee met five times on the following dates:

- July 30, 2008
- August 14, 2008
- September 15, 2008
- October 14, 2008
- October 29, 2008

All meetings were held at the Old Lincoln School. They were "open" meetings which met all the required posting and notification requirements. Minutes were taken at all Sub-Committee meetings and those Meeting Minutes are available to the public. The Sub-Committee was ably assisted by Stephen Cirillo, Town Finance Director. The Sub-Committee wants to acknowledge Mr. Cirillo's good work and recognizes that this report would have been neither as comprehensive nor as detailed as it is now had it not been for his efforts.

Sub-Committee Considerations – The Funding Question

The Sub-Committee considered the first question of whether or not to pre-fund the Town's retiree medical plan. The Sub-Committee voted unanimously to recommend pre-funding for three critical reasons. First, the Commonwealth will in all likelihood require pre-funding. Second, there is currently a massive liability (approximately $231 million as of July 1, 2010) that is expected to grow larger over time. By the year 2039 the projected OPEB actuarial liability is over $576 million, assuming that pre-funding begins immediately. If we do not pre-fund the liability, it is highly likely that the Town will be unable to provide other Town and School services at the current levels as most of the Town's and School's budget will be dedicated to paying for retiree health costs.

Third, by pre-funding we mitigate the looming intergenerational inequity associated with OPEB. Without pre-funding, Town employees and Town residents will bear an unreasonable and unacceptable portion of the promises and commitments being made by the current employees and residents of the Town. As the OPEB liabilities increase, it is quite possible that they will negatively affect the Town's bond rating and the fiscal well being of Brookline.

As previously noted the Sub-Committee approved 5 to 0 the proposal to begin funding OPEB. The objective of the Sub-Committee was to identify enough sources of financing to "fully fund" the OPEB liability by FY 2039. The Sub-Committee would prefer to see the Town set aside dollars for OPEB as much as it can as soon as it can. By front loading the funding, the Town can reduce future payments it will need to make because of the returns on the funds set aside for the OPEB liability.

The basis for the OPEB Funding Sub-Committee's analysis is the actuarial valuations and actuarial projections provided by the Town's actuary, The Segal Company, dated June 30, 2008. The Funding Sub-Committee did not consider specific health initiatives to contain or reduce the cost of providing health insurance to retirees.

Although the Funding Sub-Committee was focused on how we might finance the OPEB liability and we were not asked to consider how we might reduce the need for future funding through healthcare cost containment, the Sub-Committee believes that any future solution requires a shared responsibility between the Town (including, the taxpayers of Brookline) and employees of the Town. There must be healthcare cost containment initiatives to mitigate (and hopefully ultimately control) the ultimate cost of OPEB.

Sub-Committee Proposals – Funding Alternatives

The Sub-Committee considered nine separate funding proposals as follows:

(F1) **Pension Funds**. Fund OPEB by using the budgeted dollars that are being employed to finance the Town's pension plan once the retirement plan obligation is fully funded.

This approach will constitute a re-use of dollars that have previously been budgeted and appropriated by the Town for purposes no longer necessary. Hence, it does not represent a commitment for new funding. The primary drawback to this approach is that the pension obligation will not be paid off until 2029. Thus, even if we assume all the retirement plan actuarial projections are met, this method will not generate any OPEB funds for approximately 21 years.

If we assume that we would be able to re-apply the Town's pension funding to OPEB starting in 2029, $71.5 million would be set aside for OPEB. This funding alternative depends on the pension system being fully funded by 2029. To the extent that this does not occur by then, or occurs earlier, there may be fewer or greater funds available for OPEB. However, there is inherent uncertainty about the actual date at which the pension liability would be fully funded.

The Sub-Committee approved this recommendation to the OPEB Task Force and recommends that the Board of Selectmen commit the annual contribution to future pension liability to the OPEB liability, once the pension liability is fully funded. Vote: 5-0-0

(F2) **Non-Contributory Retirement Appropriations.** Currently, the Town must appropriate dollars to a small group of older retirees who were eligible for a non-contributory retirement benefit. As the group ages and passes away, funds being spent for this group become available to the Town. The Sub-Committee notes that this reallocation of funds was occurring prior to the OPEB funding moratorium.

It is estimated that this proposal would generate approximately $5.5 million between fiscal years 2010 through 2039. This proposal will constitute a re-use of dollars that have already been budgeted and appropriated. This method does not represent a commitment by the Town for new funding.

The Sub-Committee approved this recommendation to the OPEB Task Force and recommends that the Board of Selectmen commit the annual contribution reduction for Non-Contributory Retirement costs to the OPEB liability. Vote: 5-0-0

(F3) **Unexpended Health Insurance Appropriations.** Each year the Town budgets for a certain number of new hires and assumes a budgetary cost for health insurance for these individuals. For many different reasons some of these budgeted positions do not get filled and the dollars set aside for their health insurance do not get spent. The Sub-Committee reviewed a proposal to take all unexpended health insurance appropriations and apply them to the OPEB unfunded liability. Using conservative assumptions provided by the Town's Finance Director, this source of financing would generate approximately $100,000 per year and is projected to produce approximately $3 million between fiscal years 2010 and 2039.

The Sub-Committee notes that this reallocation of funds was occurring prior to the OPEB funding moratorium and that this proposal will constitute a re-use of dollars that have already been budgeted and appropriated. This method does not represent a commitment by the Town for new funding.

The Sub-Committee approved this recommendation to the OPEB Task Force and recommends that the Board of Selectmen commit the unexpended portion of the annual health insurance appropriation to the OPEB liability. Vote: 5-0-0

(F4) **Introduction of Employee Contributions.** Under the banner of shared responsibility, the Sub-Committee reviewed a proposal recommending that the Board of Selectmen enter into negotiations with all labor unions to have employees share in the future cost of retiree health insurance. The Sub-Committee proposes to ask employees to share in the OPEB's "Normal Cost." The Normal Cost is that portion of the actuarial present value of retiree medical benefits under OPEB which is expected to accrue in the current fiscal year. The sum of all future Normal Costs is the price of benefits (associated with OPEB) not yet earned. Importantly, and as recommended by the Town's Actuary, this proposal would not ask employees to contribute a portion of their retiree medical benefits that have already been earned. The Sub-Committee is proposing that we use the same employer and employee split (currently 75% / 25%) that exists in the Town's health insurance program for active employees. It is our understanding that the employee contribution can be done in such a way so that it is both pre-tax and portable. The Town will maintain full responsibility for all retiree health benefits accrued to date.

Using calculations provided by the Town's Finance Director, this source of financing would generate approximately $55.8 million between fiscal years 2010 and 2039.

The Sub-Committee approved this recommendation to the OPEB Task Force and recommends that the Board of Selectmen and School Committee include in the collective bargaining process a proposal for current employees to share in the future cost of Retiree Health Insurance Benefits. Vote: 5-0-0

(F5) **Debt Exclusion Override Extension.** In its effort to find ways to reapply and reallocate dollars that are currently being appropriated and are now in the Town's budget, the Sub-Committee modified a funding source currently being used in another municipality (Wellesley). We call this the "Debt Exclusion Override Extension." This proposal would take the two existing debt exclusion overrides in Brookline – The Lincoln School and the Brookline High School debt exclusion overrides – and extend each of them for an additional ten years at the amount of the last annual debt service payment of the school projects.

The debt exclusion overrides for the Lincoln School ends in fiscal year 2013, and ends for the Brookline High School renovation ends in fiscal year 2020. According to the Town's Finance Director, the amount of the extension would be approximately equal to the debt service in the final year of the existing debt exclusions. Our proposal would be revenue neutral (extending the existing tax burden by an additional ten years) and it is estimated that this proposal would generate approximately $41.5 million during the ten year periods (FY2014 to 2024 for the Lincoln School debt exclusion and FY 2020 to 2030 for the High School Renovation debt exclusion). As in Wellesley's process, the Town would require special legislation to modify the debt exclusion override process and the overrides would need to be approved by Brookline voters.

The Sub-Committee discussed the possibility of proposing a general override for the purpose of funding the OPEB liability. This idea was ultimately rejected for several reasons: 1) The Town has just approved an override to resolve structural deficiencies within the annual Financial Plan; 2) the Town already imposes a high end tax per house hold cost to the homeowner; and 3) unlike the exclusion extension, the general override would be permanently part of the annual levy. A consideration of a debt exclusion extension override for the entire OPEB liability of $231 million, for twenty years, was also rejected, as it would increase the tax levy by an additional 7.6% above the normal annual levy increases.

The Sub-Committee approved this recommendation to the OPEB Task Force and recommends that the Board of Selectmen and School Committee consider and place on the ballot a temporary property tax override, extending by ten years the tax increases associated with the Debt Exclusion overrides for the High School and new Lincoln School. Vote: 5-0-0

(F6) **New Funding Initiative With or Without Caps and Offsets.** Even with the aforementioned funding proposals recommended by the Sub-Committee, consideration was also given to the possibility of new funding sources that would immediately be committed to reduce the OPEB liability. This would be a new funding commitment through annual appropriation and would be a line item in the Town's annual budget. The Sub-Committee reviewed a proposal to adopt a new annual funding appropriation that begins at $250,000 (the split between the Town and School would be determined by use) and that increases by $250,000 each year. So, for example, assuming this funding began in the 2010 fiscal year the contribution schedule to OPEB would be the following:

Year		Appropriation
2010		$ 250,000
2011		$ 500,000
2012		$ 750,000
-	by the year	-
2026		$4,250,000
-	by the year	-
2035		$6, 500,000
-	by the year	-
2040		$7, 500,000

This new funding proposal would generate approximately $116 million over the 30 year period (FY 2010 to FY 2039).

The Sub-Committee understood the need to have this additional new appropriation. However there was also general agreement that if we can dampen the impact of this amount on the taxpayers that would be a good thing. We therefore discussed whether or not there should be a cap on the annual appropriations (for example it could not grow higher than $5,000,000). For purposes of this presentation we decided not to make that part of our recommendation. Another tact we considered would be to offset this new annual funding appropriation of $225,000 by an annual assessment that would be applied to the Enterprise, Revolving and Grant Funds (see Proposal #7 below).

The Sub-Committee approved this recommendation to the OPEB Task Force and recommends that the Board of Selectmen commit to an annual and growing budget appropriation to fund the OPEB liability. Vote: 5-0-0

(F7) **Assessments against the Enterprise, Revolving and Grant Funds**. Similar to Proposal #6 above, the Sub-Committee considered a second proposal that would be viewed as new funding. An assessment for the normal cost of each employee working in funds not supported by the property tax levy (enterprise, revolving and grant funds) would be included in the annual budget for those funds. The appropriations would then be applied to the OPEB liability. It should be noted however, that this proposal differs from Proposal #6 because these special assessments had been in place and functioning prior to the moratorium being placed upon financing OPEB's unfunded liability. Given this history, the Sub-Committee believes that there is more of a precedent for reintroducing this special assessment concept.

The Sub-Committee believes that this proposal should be only for the employer share of normal costs of the OPEB liability. This seemed both appropriate and fair given the accepted employer - employee premium split associated with Brookline's health insurance program. Although this proposal can be considered a separate proposition, we link it to Proposal #6 for two reasons: (1) like Proposal #6, it represents new funding; and (2) these assessments, by themselves, will have a minimal impact on the OPEB liability. The Town's Finance Director has indicated that on a stand-alone basis, this new funding proposal would generate between $150,000 and $200,000 in any given fiscal year. Inasmuch as Proposal #6 is introducing an annual incremental $250,000 we could envision using the assessment dollars described in this Proposal #7 to lessen this new funding burden articulated in Proposal #6. Since the Sub-Committee was unable to decide whether these assessments should be part of or in addition to the annual budget appropriation of Proposal #6, the Sub-Committee decided to leave this to the discretion of the Board of Selectmen.

The Sub-Committee approved this recommendation to the OPEB Task Force and recommends that the Board of Selectmen commit to an annual OPEB appropriation to Town enterprise, revolving and grants funds in an amount equal to the annual "Normal Cost" per FTE. Vote: 5-0-0

Proposals Considered and Rejected

(F8) **Benefit Obligation Bonds.** The Sub-Committee reviewed a proposal to use Benefits Obligation Bonds (BOB's). BOB's are similar to Pension Obligation Bonds. In either case, a community borrows funds through a general obligation taxable bond and then invests the funds, using the investment income to reduce the OPEB liability. This approach assumes that the investment return is greater through time than the borrowing costs. For example, if the investment return were 8.25% and the borrowing cost 5.5%, this would generate a 2.75% spread that the Town could use to reduce the OPEB unfunded liability.

A BOB also forces a disciplined and mandatory OPEB funding budget on the borrowing municipality. The Sub-Committee rejected this funding proposal even though we acknowledge the potential for a positive spread between investment returns and borrowing costs. However, if this is not the case, the Town could potentially lose millions of dollars. We view this approach as being too risky for the Town because the downside threat of failure outweighs the upside potential for gains. In addition, we believe that in the current financial climate the Town would most likely be unwilling to take the risk associated with this market arbitrage play.

The Sub-Committee considered but rejected a recommendation that the Board of Selectmen consider Benefit Obligation Bonds as a source of funding the OPEB liability. Vote: 0-5-0

(F9) **VEBA or Multi-employer Trust Funds.** The Sub-Committee rejected the proposal to negotiate with Town unions to create a VEBA Medical Trust. In this instance we are using the term VEBA (Voluntary Employee Benefits

Associations) to mean a Trust whereby a group of employees/unions accept responsibility for the management of employee health benefits. VEBA's can be structured in different ways. The employer can pay a lump sum payment to the Association equal to the unfunded liability, or make scheduled payments. Once the agreement is implemented, the employer has in effect placed a cap on its future liabilities. If expenses of the VEBA outpace its revenues then this becomes the problem of the VEBA. Of course the unions, in such situations, will certainly attempt to renegotiate the employer's payment upward.

An individual employee does not have to join the VEBA. However, as the employer has no further responsibility, the Association has to pay the non-participating employee a share of the funds provided by the employer. Usually the Association hires a medical services provider, a third party administrator or an insurance company to manage the distribution of benefits. This can be in the form similar to the plan currently existing in Brookline, or in the form of monthly tax free payments to each employee for cost of insurance, or contributions to a medical trust fund. The best example of this program is in the automobile industry, where the employer paid a large sum of money to the union who now administers the program.

The Sub-Committee rejected this approach for two reasons. First, while some government entities (in Hawaii, Washington, Ohio, Florida and California) have implemented a VEBA, no government in Massachusetts has done so yet. We did not believe that it was appropriate to ask the Town to pioneer this concept here in the Commonwealth. Second, this is not a "shared responsibility" concept. The Sub-Committee viewed it as an attempt to shift the liability from the Town to the VEBA Trust. It is not entirely clear why Unions would be willing to take on this responsibility (unless the Town was willing to make a lump sum payment or make annual payments to the VEBA Trust that were unreasonably high). We felt that the Unions would not see this approach as a positive gesture by the Town and would be unwilling to negotiate such a proposal.

The Sub-Committee considered but rejected a recommendation that the Board of Selectmen consider VEBA or Multi-Employer Trust Funds as a method of reducing the future OPEB liability. Vote: 0-5-0

Funding Sub-Committee Summary

This concludes the Other Post Employment Benefits Funding Sub-Committee Report. The recommendations described throughout this report were each approved unanimously. In addition, each of the proposals represents either a continuation of an existing funding source, a reallocation of an existing funding source, or an employee shared amount. The Sub-Committee believes that the adoption of the recommendations would achieve the following essential objectives:

- Current funding
- Intergenerational fairness

- Fairness between town taxpayers and town employees

For your convenience we have included a summary matrix which identifies each proposal considered and accepted by the Sub-Committee and the potential funding impact on OPEB.

Cost Containment Report APPENDIX

Supplemental Data and Hypothetical Examples with Projected Cost Savings

Changes in Plan Design

(PD1) **Proration of Retiree Health Benefits Based Upon Length of Service**

As an example, an employee who worked for a period of ten to nineteen years before retiring would be eligible for 33% of the full retiree health benefit; an employee who worked for twenty to twenty-nine years before retiring would be eligible for 67% of the full retiree health benefits; An employee who worked for thirty or more years would be eligible for 100% of the retiree health benefits. States that prorate retiree health benefits based upon creditable service are as follows:

Alabama	Louisiana	North Dakota
Arizona	Maine	Ohio
California	Maryland	Oregon
Colorado	Missouri	Rhode Island
Delaware	Nebraska	South Carolina
Hawaii	Nevada	Tennessee
Illinois	New Mexico	West Virginia
Kentucky	North Carolina	Virginia

The Actuary analyzed this hypothetical proration proposal and found that, if adopted, it would reduce the annual total funding required by approximately $1.8 million.

It should be noted that there are numerous examples of government entities throughout the United States de-linking the service required for vestment in retirement systems and retiree health benefits. Government entities in Kentucky, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, Texas, and Tennessee have higher vestment requirements for health benefits than for pension benefits.

(PD2) **Shift to a More Efficient Purchasing Program Such as GIC or Other Alternatives Offering Equivalent Savings**

As noted in our report, due to the fact that the GIC is the largest purchaser of health insurance in the Commonwealth, it appears to be able to provide benefits at a far less expensive annual rate than local government could offer.

This is why the Sub-Committee spent a considerable amount of time looking at the parameters for joining the GIC and trying to determine what effect such a change would have on the OPEB liability. Initially, the Sub-Committee estimated that the savings to the OPEB liability might be comparable to the rate of savings for the operating budget. However, since many of our retirees are on Medicare, the savings would accrue only for those retirees that are on the Town's Health Insurance program. The Actuary estimates that the savings to the annual Total Funding Requirement would be approximately $787,000 or 5%. It was also suggested that the liability may be greater than the present calculation suggests, since it uses a standard health inflation factor of 10% declining to 5% over five years. An increase in the liability would conversely generate a higher savings amount if the town were to enter the GIC program.

These numbers assume that all of the cost savings inure to the Town and do not assume that any of the cost savings are collectively bargained away in order to gain support of the unions to join the GIC. This is probably not a realistic assumption, but it was not appropriate for the Sub-Committee to presume any allocation percentage.

(PD4) **Different Rates for Current and Future Employees**

There would be two ways the Sub-committee could envision the implementation of this proposal. The first way would be to add this additional contribution percentage to an employee's health premium payment. For example, an employee hired after December 31, 2009 would pay 30% of health insurance premiums (rather than the current 25%). This additional 5% would represent his/her contribution to OPEB. The second approach would be to have this same employee (hired after December 31, 2009 in our example) pay the same 25% of premium while active and pay into a special account the 5% OPEB funding. The Actuary estimates that the savings to the annual Total Funding Requirement would be approximately $1,200,000.

<u>Changes in Utilization</u>

(U4) **Recommendation to the Retirement Board that for purposes of OPEB and pension benefits, Creditable Service Hours be prorated for all Part-Time Members.**

An illustration of this concept would be a part-time employee who currently works 20 hours a week would receive a ½ year of creditable service (rather than the full year they would receive today). A simple pro-ration would be to take the number of scheduled hours to be worked and divide that number by 40. An employee who is scheduled to work 30 hours a week would receive a ¾ year of creditable service. Two points should be noted as part of this illustration. First, one must still be scheduled to work at least 20 hours per week to be eligible at all; and second, one could define a "full-time" employee for purposes of this calculation as someone who works 35 hours a week. That way a person who is scheduled to work 20 hours a week would now receive 20/35 = 57% of a year of creditable service as opposed to a 20/40 = 50% of a year of creditable service.

INDEX: COST CONTAINMENT AND FUNDING

Items on Issues List	Est Average Annual Savings	Estimated Total Future Savings	Present Value of Future Savings	Comments
COST CONTAINMENT SUB-COMMITTEE RECOMMENDATIONS				
Recommend that all Reasonable Efforts be Made, Including Design or Utilization Change, to Contain or Reduce the OPEB Liability.	N/A	N/A	N/A	Approved
Changes In Plan Design				
PD1. Recommend Proration of Retiree Health Benefits Based Upon Length of Service.	$ 1,800,000	$ 54,000,000	$ 19,795,249	Reduces amount needed for annual full funding
PD2. Recommend Shifting to a More Efficient Purchasing Program Such as GIC or Other Alternative Programs	$ 800,000	$ 24,000,000	$ 8,797,889	Reduces amount needed for annual full funding. Savings in Retiree Health
PD3. Recommend that Current Employees Contribute to Future Normal Cost	$ 1,861,052	$ 55,831,554	$ 20,466,658	Requires Joint Bargaining Agreement Funding Sub-Committee Also Recommends
PD4. Recommend Different Rates for Current and Future Retirees	$ 1,220,000	$ 36,600,000	$ 13,416,780	Reduces amount needed for annual full funding
Changes In Utilization				
U1. Recommend Adopting Rules and Regulations Defining Eligibility for Benefits	N/A	N/A	N/A	Approved
U2. Establishing Target For FTE Reduction Over Five Year Period	$ 5,160	$ 154,800	$ 56,746	Sub-Committee Rejected this proposal
U3. Eligibility For Membership In Pension System Be Increased From 20 Hours per Week to 24 Hours per week	$ 36,000	$ 1,080,000	$ 395,905	Sub-Committee Rejected this proposal
U4. Recommend That Retirement Creditable Service For Part Time Employees Be Prorated	-	-	-	Actuary Determined that the Savings Were Negligible
FUNDING SUB-COMMITTEE RECOMMENDATIONS				
Recommend that the Town begin long range funding and that such funding be made at the earliest possible date	N/A	N/A	N/A	Approved
F1. Recommend that upon full funding of Pension liability annual appropriations be transferred to OPEB liability.	$ 17,875,000	$ 71,500,000	$ 6,882,087	Savings Not Avail Until 2029. May Extend to 2039
F2. Recommend that Non-Contrib Retirement Runoff Shifted to OPEB	$ 183,333	$ 5,500,000	$ 2,016,183	Funding increases from $20K to $230K
F3. Recommend that Un-Expended Health Insurance Shifted to OPEB	$ 100,000	$ 3,000,000	$ 1,099,736	Minimum Annual Savings
F4. Recommend that Current Employees Contribute to Future Normal Cost	See PD3	See PD3	See PD3	Requires Joint Bargaining Agreement
F5. Recommend an Extension of Exclusion Overrides 10 yrs	$ 1,383,333	$ 41,500,000	$ 15,213,016	Requires Spec Legislation
F6. Recommend an Annual & Growing Employer Contribution	$ 3,875,000	$ 116,250,000	$ 42,614,773	250K increase per year
F7. Recommend Enterprise/Revolving/Special Funds Contribution	$ 84,418	$ 2,532,525	$ 928,370	Subtracted from # 5 (96K grows to 384K)
F8. Benefits Obligation Bonds	N/A	N/A	N/A	Sub-Committee Rejected this proposal
F9. Adoption of VEBA	N/A	N/A	N/A	Sub-Committee Rejected this proposal
Total	$ 29,223,296	$ 411,948,879	$ 131,683,391	

Minority Report

OPEB Task Force
Town of Brookline

The writers of this report, Chet Riley and Jody Curran, were asked to join the OPEB Task Force in mid-summer of 2008. We are the Retiree Rep. on the Town Pension Board and the President of the Brookline Educators Union respectively. We also serve as co-chairs of the Public Employees Committee, a group of representatives from all Town unions who meet regularly with the Town to discuss health insurance issues and negotiate health care agreements under Section 19, Chapter 32 of the Mass. General Laws. We'd like to thank Stephen Cirillo for the work he did in maintaining an environment that was conducive to the expression of all opinions and kept the group focused on the important issues involved.

We have spent many hours talking with Town, community and union leaders, investigating information about health care, meeting with insurance and purchasing consortium representatives, spending time at the State House learning about the latest legislative initiatives around health insurance for municipal employees, poring over numbers, charts and graphs and discussing health care issues with the members we represent. There is no other single issue that has occupied our time more than the issue of health care, including the costs of health care now and in the future. We understand the need to be pragmatic in a time of economic downturn and uncertainty. We also realize an obligation to the Town employees and retirees who entrust us to make the right decisions around this very important life or death benefit which is health insurance.

The OPEB task force was formed in the summer of 2008 to "undertake a complete analysis of options for reducing and/or funding the Town's OPEB liability." (Charge adopted by Board of Selectmen, April 8, 2008) This was done when there was just a hint of some slower economic times ahead, but well before the true tailspin of the current economic crisis was felt. The Charge was bolstered by the growing costs of health care, the recommendations of the Override Study Committee and a stated expectation that bond authorizing agencies wanted to see local governments form cost control plans. Since then, as a society, we find ourselves faced not only with future cost concerns, but with very real current needs in light of widespread economic hardships that have hit us all across the board. For those families who already found it hard to make ends meet before the fall of 2008, the latest crisis has hit them especially hard. We have taken on, as an important part of our role on this committee, the task of speaking for those who will suffer irreparably if their health care and pension benefits are further eroded with out relief. By this we specifically mean retirees, low-paid employees and the ill. The shifting of the burgeoning costs of health care to those in these groups could have far-reaching consequences. We recognize that both the goal and result of higher co-pays in insurance delivery plans are two-fold. This plan design moves more of the financial burden of paying for health care to the patient, and it affects their behavior when they must decide whether or not to seek out the very health care they need. Deciding not to see a doctor or purchase a medication because of high co-pays can lead to catastrophic events in the long run. The ethical and financial implications of instituting a health care delivery program with this end result should give us pause.

In this report, we'd like to address the sections one by one, and give some narrative to the reasons for our vote on each item.

First, the committee outlined the reasons for growth in the unfunded liability. We agree with much of what is stated here. The Town should have a consistent long-range plan for funding future costs. In recent days, we've all been challenged with the notion of how to reach our long-range goals in this economy, and working families must do in microcosm what the Town and other government agencies have to grapple with more broadly. We also agree that health care costs continue to climb and put a burden on Town coffers and family finances alike. We would like nothing better than to see significant changes in the way that health care is delivered and paid for, and we applaud the recent round of discussions that are taking place in communities across this country on health care reform. As a positive suggestion, we urge this committee to take a stand and vote in favor of a Medicare-for-all type plan that would guarantee basic coverage for every American while still offering a choice of supplemental health insurance programs through currently existing providers. Hundreds of local government bodies, labor councils, unions and community organizations have come around to this idea and support such a bill currently circulating in Congress. We believe this kind of plan would offer the financial relief that so many cities and towns are begging for as we sink under the weight of runaway health care costs. The efficiencies alone of a universal single-payer health insurance plan would give immediate significant savings to all who currently contribute to health care plans. A strong stand, made jointly by all of our town leaders, would send an important signal to our lawmakers that we are serious about a real fix of our health care payment problems and that we might even eliminate the need to talk about OPEB's in the future.

We also understand that it seems logical to expect that the pension system in Brookline, as is true elsewhere, must be experiencing lower returns than were previously forecast. Imagine, too, what that means for individuals and families who have watched as their retirement funds have sunk while costs continue to be flat or rise. However, recent indications are that the economy is improving, and we know that pension investments are made for the long-run. In a recent report from PERAC (the government agency that monitors pension funds), the Brookline pension fund has seen an average increase of 8.35% since 1987 (slightly higher than the actuarial assumption of 8.25%). This is good news for the health of our system and should help us avoid a panic mentality.

On the specific measures that were voted on by the committee, we voted as follows:

- On the general statement about controlling or reducing OPEB liability which recommends that "all reasonable efforts be made, including design change or utilization change, to contain or reduce the OPEB liability," we, the minority, voted no. This statement fails to recognize the work of the Town and the Public Employee Committee in going to the table for two separate sessions in the past year to discuss health care options. The Town Manager, the HR office and the town unions have worked diligently to review all options open to us on health insurance. Our current contract with Blue Cross Blue Shield still has two years until its completion so it wasn't obligatory that we engage in these talks. We could have sat back and been complacent. But historically, this is not how the Town leaders and unions have addressed health care concerns. Together, over time, we have saved the Town millions of dollars through agreements such as the ones to discontinue indemnity plans, move to one provider, consolidate plans and make plan design changes. We believe that adopting a statement such as this, while it may seem innocuous, does damage to the negotiating process that is currently underway between Town and union leaders on health care. We think it has the feel of arm-chair quarterbacking and does not recognize the often delicate nature of negotiations. In addition, this statement is so general and potentially far-reaching that it loses its value as a framework. For these reasons, we felt it necessary to register a "no" vote.

- There was a proposal to recommend "the prorating of retiree health benefits based upon an employee's length of service." What does this say about the ability of the town to attract highly qualified personnel including teachers and middle managers, in the future. We know that health benefits are the #2 consideration that people make when deciding to take a position. If we adopt a two-tier system, one that penalizes new hires over the currently employed, are we not eroding the very high standards that have always been a hallmark of the Brookline hiring process by giving highly qualified candidates a reason to look elsewhere? Two-tier systems may seem appealing for their quick-fix qualities, but they also carry the seeds of competition and resentment which can undermine a healthy work environment in the long run.

- The proposal to recommend that the Board of Selectmen "continue the negotiation process" to explore the GIC and alternative programs seems unnecessary at best and more likely counter-productive in its result. As stated above, the Town and PEC are already engaged in negotiations. Anyone familiar with negotiations knows that pressure from outside sources can often have a negative impact on those talks even if that was not the intention. Participants in these talks know better than anyone that if such a change were simple, it would have been done long ago. While the GIC offers high-quality insurance options, there are also problems to consider. Some say that today the GIC is having difficulty just handling the number of subscribers it currently has. There have been recent budgetary concerns about the State's ability to maintain and pay for the low premiums associated with the GIC. In addition, who pays for premium increases? This year the GIC premiums increased only 3% for employers but another 4.5% increase was passed on to employees, a number that is unsustainable if it continues in this way. Finally, the negotiation process around the GIC must involve an honest and respectful discussion of how savings over our current plan can be allocated to the stakeholders. It is disingenuous for anyone in Town to publicly discuss actual numbers before the real figures have even begun to be discussed in negotiations. Many factors must go into these bottom-line decisions and those at the table are best able to make recommendations to the town citizens and town employees for those decisions.

- In another recommendation, the majority of Committee members voted to shift a portion of future health-care costs onto current employees. At this time, town employees are already not receiving sustainable cost of living increases in their paychecks. They're paying more of the out-of-pocket costs of health insurance since our last agreement with Blue Cross Blue Shield 2 years ago. They are considering changes to our health insurance provider. And all of these concessions have come, over time, with a price tag of other deferred benefits. Again, these are decisions best left to those who have done the research in real terms of how it will affect real people. Town leaders, union leaders, and their health-care consultants have the greatest knowledge base to arrive at the best recommendation for the Town and the employees. This committee, although well-meaning in its intentions, cannot substitute for the work that has been done and the knowledge that has been gained over many years by the above-named parties.

- The majority of the committee also voted to recommend a proposal that would charge different rates of premium contribution to employees based on hire date. By the committee's own admission, such a proposal "would, in all likelihood, require both special legislation and agreement within the collective bargaining process." Why not, then, leave it to those in the collective bargaining arena? Suggestions such as this can be extremely counter-productive to the process of negotiations already in place.

- The majority of the committee approved, as well, a recommendation that the Board of Selectmen "adopt a 'Rules and Regulations' policy which defines employee/retiree eligibility for health insurance benefits." The minority opinion is that we have followed all applicable laws and rules up to this point. Words such as "generous" and "stringent" are subjective and can lead to a breakdown in the negotiation process. Effective negotiations deal with real numbers based on concrete situations. All past decisions about health care benefits have been multi-faceted and can't be reduced to a call for a "policy."

- In its report, the majority voted to recommend that retiree health care costs be considered when expanding the number of full-time equivalent positions in town. There is a cost to running a community, and citizens can and should make decisions about the amount and quality of services they want. Basing hiring needs today on future retiree costs takes away the right of the citizenry to make decisions about public employees based on the concrete reality of the day. It also hampers the ability of all to think creatively about solving cost problems. There are other ways to trim costs that don't have to cut to the bone of public services. One town, Wellesley, decided to let the voters decide, through a bond issue, to deal with their OPEB's separately from the normal budget.* Other towns are looking at VEBA's (Voluntary Employee Benefit Associations) as a way to do this. Single-payer universal health care, once thought to be pie-in-the-sky, is now being talked about in communities all across the country. Other creative ideas can be considered if we don't hamstring our decision-makers in this process. And, of course, we would expect that any future expansion of services would most likely be based on a community desire to maintain or raise the services the town offers, including the areas of public safety and legally mandated programs.

- We stand with the majority in rejecting a recommendation that "the standard for membership in the Retirement System be raised from twenty hours per week to twenty-five hours per week." This current system has proven to work well, is cost effective and reflects a general norm that those who work half-time or more should be eligible for retirement benefits.

- Finally, we strongly disagree with the Committee's final recommendation that "the standard for credible service years for calculation of pension benefits be prorated for members who work less than full time." We see this as an attempt to balance the budget off the backs of the Town's lowest paid employees and this hints at a discriminatory measure against working mothers. The savings of this recommendation, by all admissions, is minimal. In addition, part-time

*see attachment

- employees already experience lower pension returns from their full-time brothers and sisters based on their salaries, so instituting this kind of penalty would be a double-hit for them.

In conclusion, the costs of health care place a large burden on all of us. We bear this burden as a society, in the macrocosm, and as individuals and families in the microcosm. It's time to advocate for major changes in how health care is delivered and paid for. There is no better time than now for the leaders of town management and employee groups to band together to demand long-needed changes in this system. We are all after the same goal – to reduce the costs to our localities of providing health care to our people, while at the same time, ensuring quality health care to all. The latter is something we can't lose sight of, and it's especially important in these times to not force those who need the best opportunities for making wise decisions around health care into dangerous waters. We, as the minority members of this committee, feel that we are taking the long-term view to preserve the quality of the care that Brookline has historically given to its employees. To preserve the nature of our community that is respected far and wide, we need to not fall prey to platitudes and panic phrases. Let's look at the big picture, put our heads together as we have always done, and get down to work so that we can move forward.

Chet Riley
Jody Curran