



Memorandum

To: CRA Board

From: Tom Evans, Executive Director

RE: OPEB Trust

DATE: December 16, 2016

The CRA currently has a substantial long-term liability to pay healthcare coverage for retirees and their dependents. As of November 7, 2016, a recently amended MGL Chapter 32B, Section 20, allows authorities to legally make long-term investments to cover these obligations through a separate trust fund that should, over time, result in a lower total cost for providing these other than pensions postemployment benefits (OPEB).

The recommendation by Odyssey Advisors and auditors Roselli Clark & Associates is to pre-fund the OPEB account each year by contributing the entire Annual Required Contribution, as specified in the actuarial report. In order to get to full funding over a 30-year period (by 2046), the CRA would need to contribute \$6,746 per year to the OPEB fund in a balanced portfolio that earns 7.0% per year over time. This cost is in addition to the pay-as-you-go annual cost. The annual contribution recommendation will be adjusted every three years in accordance with future actuarial reports. The fluctuations will depend on the profile of current staff, the age of retirees, and the performance of the fund.

In order to implement these recommendations, the Board needs to take the following actions:

- 1) Adopt MGL Chapter 32B, Section 20, amended on August 4, 2016 and effective November 7, 2016, which governs the formal creation of a single employer OPEB trust account. The adoption dictates the structure of the trust.
 - Establish on books and accounts as Other Post-Employment Benefits Liability Trust Fund
 - Assets are held solely to meet the current and future liabilities of the governmental unit for group health insurance benefits for retirees and their dependents.
 - May appropriate amounts to be credited to the fund and the treasurer of the governmental unit may accept gifts, grants and other contributions to the fund.
 - Any interest or other income generated by the fund shall be added to and become part of the fund.
 - All monies held in the fund shall be accounted for separately from other funds
 - Funds are irrevocable
 - The trustee shall: (i) act in a fiduciary capacity, (ii) discharge its duties for the primary purpose of enhancing the value of the OPEB Fund, (iii) act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise with like character and with like aims and (iv) diversify the investments in the fund to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
 - The treasurer of the governmental unit shall be the custodian
 - Governing Body - CRA Board
 - Trustee – CRA Treasurer
- 2) Establish an OPEB account, which specifically involves three steps:

- a) Approve and declare the opening of an irrevocable OPEB Trust Fund account; a Section 115 Trust which is a special purpose government trust
 - b) Approve \$6746 appropriation for each of the three years, as suggested in Odyssey Advisors actuarial report for fiscal years ending 2015, 2016, and 2017. A transfer of \$13,492 in equity into the OPEB account for each of the years 2015 and 2016, and a \$6746 expense for the year 2017.
 - c) Select Morgan Stanley as the investment advisor. **
- 3) Approve an update to the CRA Investment policy section F for a new investment allocation strategy.

F. Other Post Pension Employment Benefits (OPEB) Trust Fund

Under M.G.L. c. 32B, § 20, public entities may establish an OPEB Trust Fund in order to cover future liabilities of postemployment benefits of past employees. Per GASB No. 45, the CRA conducts actuarial estimates of future liabilities every three years. Utilizing these GASB 45 Reports, the CRA will seek to fund this future obligation to reduce annual operating expenses and avoid a future liability balance. Notwithstanding limitations elsewhere in this policy, the OPEB Trust fund may pursue an investment strategy with a higher risk profile to accelerate fund growth than other investments of the CRA. This allows the CRA, under the discretion of the Treasurer to allocate up to 60% of the OPEB fund toward non-collateralized investment products such as equities.

The Board has 90 days from the declaration of the OPEB Trust to change its mind regarding the OPEB Trust formation. The Investment Policy may be revised at any time and the investment portfolio of the OPEB Trust may be managed under the direction of the Treasurer following the rules of prudent investment.