Reading Municipal Light Department Board of Commissioners
Budget Committee
June 12, 2014

Start Time: 6:35 p.m.
End Time: 7:28 p.m.

Committee Members:
Robert Soli, Chairman **David Talbot, Commissioner**

Staff:
Coleen O'Brien, General Manager **Bob Fournier, Accounting/Business Manager**
Patricia Mellino, Operational Assistant **Hamid Jaffari, Director of Engineering &Operations**
Jane Parenteau, Director of Integrated Resources

Consultant:
Larry Stone, Stone Consulting

Public:
John Stempeck, Thomas O'Rourke, David Nelson

Chairman Soli called the meeting to order at 6:35 p.m.

Actuarial Report – Larry Stone, Stone Consulting, Inc.
Mr. Stone gave a presentation of his actuarial study of the RMLD's Pension Trust, which results in an estimate of an appropriate amount of money that the RMLD should be depositing into the Pension Trust Fund annually. The RMLD is part of the Reading Retirement system where the town sends the RMLD an invoice every year stating the amount of money to be paid. The RMLD has funds set aside which are controlled by the Reading Municipal Light Department Trustees. Mr. Stone stated that one major result was that there was a very good return of the money invested in equities in the Reading Retirement system. With good rates of return over the years this has significantly lowered the contribution requirement.

Mr. Stone reported on the assumptions used which are the interest rate, market value of assets, and mortality. The interest or the discount rate reflects how we use the same number for both purposes. One is how are you going to return on your asset in the future and when you have a liability that is out in the future how do you discount it back to the current date. Mr. Stone said that some of the major assumptions of mortality are how long people live; are they going to reach the age where they get paid benefits, or once they do get paid benefits how long will they or their beneficiaries be receiving them. Other assumptions are withdrawal when people leave, become disabled and the pattern of retirement. This is making a model of what happens in the future. Mr. Stone reported that the cost of the plan is the benefits that the RMLD pays out. What he does is budgeting for the plan.

Mr. Stone said that the $1.3 million contribution is due to the rate of return on assets in 2012 being extremely good particularly for equities.

Mr. Talbot entered the meeting at this point.

Mr. Stempeck asked what formula was used. Mr. Stone replied that it may be related to liability. If the valuation report is made available he would review it. Mr. Stempeck said that it seems to be a relatively high number compared to the employees. The RMLD has a lot of liability due to the majority of the members being group four the value of those benefits are quite high at the same rate as police and fire fighters. For employees that have been around for a while they can get the same factor at 2.5% per year of service times their final three years of service at age 55 where a normal clerical person typically would not get that until age 65. Those benefits are worth twice as much. This group would be the linemen and foreman who potentially have the ability to go up on the lines. The RMLD has quite a number of group four employees which is a fair amount of liability relative to the payroll.

The Reading Retirement assets rate of return was previously set at 8% and has since been lowered to 7.75%. Mr. Stone recommended using the 7.75% for their assets. Mr. Stone stated that the reasonable rate of return for the RMLD assets would be 2.5% to 4% for long term fixed investments.

Mr. O'Rourke asked who manages the RMLD's assets. Mr. Fournier replied that was one of the points brought up in last year's audit for the RMLD and Pension cash.

Actuarial Report – Larry Stone, Stone Consulting, Inc.
Mr. Fournier said that since the last fall he has been working with the town treasurer investing in bonds and similar vehicles that the town uses and should be seeing a higher rate of return. Mr. Stone stated that it is still fixed investments.

Mr. O'Rourke asked why this was being managed internally. Mr. Fournier replied that in the past the Board has wanted the monies invested conservatively. Prior to last year's audit the RMLD was not receiving much of a return.

Mr. Talbot asked if the money had been sitting in a money market fund. Ms. O'Brien replied that the money was withdrawn from the town and was going to be invested internally by the RMLD's previous General Manager. It was brought out in the Budget Audit Committee that the RMLD was not making any money and that was not the most prudent. Ms. O'Brien indicated that the money has since been reinvested with the town.

Mr. O'Rourke asked if there was any reason that the RMLD would not invest along the same lines. Mr. Stone replied that it is his belief that in general it would be covered under the legal list where you could not invest in that way. Mr. Stone said that if the Retirement Board had the money that they could invest along the same lines.

Ms. O'Brien asked if he was speaking about the Reading Retirement money or the RMLD Trust Fund. Mr. O'Rourke replied the trust fund. Ms. O'Brien stated that the trust fund was internal then was given to the town treasurer to invest as a trust fund with certain portions that are locked into short and long term investments. Mr. O'Rourke said that it seemed like the strategy was conservative for what the money is expected to do over time. Mr. Stone stated that there are restrictions on these trust funds they are made to preserve capital and not for a rate of return. If you wanted to do that then typically you would have to do so in another vehicle like the Retirement Board's Trust Fund and that is potentially an option.

Mr. Stempeck asked if the town charges the RMLD anything for managing the money. Ms. O'Brien replied that it comes under the overall support services. If they perform more HR functions that too would be reflected under support services.

Mr. Stone recommended that the RMLD use the 7.25% instead of the 7.0% that was used in the past. Mr. Stone also recommended the Generational Mortality by using the Scale BB. When using the mortality table you take the age of a person and add the probability of the average number of years that person would live. A person at age 65 would have the probability of living on average 18 to 19 years. The flaw to this would be someone at age 65 right now is a pretty good assumption. If you take someone age 25 right now in forty years how long would a 65 year old person live. This person could possibly live longer on average 24 or 25 years. Mr. Stone reported that using this table gives a different mortality for every year of birth.

Mr. Stempeck asked if using two offsetting factors one would increase the cost where using the 7.25% decreases the cost. Mr. Stone replied, yes.

Mr. Stone said that the Present Value of Future Benefits (PVFB) is the value of all the benefits that are going to be paid from the plan discounted back to today's date. The change in the discount rate lowers the present value of future benefits by $1.67 million but the Generational Mortality increases the PVFB by $2.40 million. Mr. Stone stated that if you were to be conservative and adopt only the Generational Mortality and keep the 7.0% it would be a much larger number. Mr. Stone reported that neither the state nor the Town of Reading have adopted Generational Mortality and are using a table that does not reflect as much length of life and benefits paid.

Mr. Stempeck asked if you were to look out into the future two, six or eight years from now the Generational Mortality would not change that is all bedded into the statistics of the population at the RMLD but the interest rate could fluctuate all over the place. Mr. Stone replied that the Generational Mortality might not be enough you might need to change the underlying table that projects to the twenty-five year old with the longer lifespan. Mr. Stone said that the RMLD has a relatively educated population which is also relatively very well paid. There is a significant correlation between educational level and pay in terms of life expectancy.

Mr. Stempeck asked if the interest rate that is suggested is more likely to go down then up. Mr. Stone replied that he does not know. If the equities keep performing well then they will look like 95% or 99% your assets. Mr. O'Rourke said that pretty soon the RMLD piece is almost insignificant. Mr. Stone said if that is the case there maybe there is no reason to do this anymore.

Ms. O'Brien said that not captured in this study is the assumption to replace the present aging work force with kids out of college who are making the same amount of money and an extended life expectancy with a relatively higher market value than people who have been working a long time in the industry.

Actuarial Report – Larry Stone, Stone Consulting, Inc.
Mr. Stone stated that this study is only for the current work force and does not include a projection for future employees. As staff gets hired you are making projections about them where right now we are using a fairly simple salary assumption which is on average a 4% increase per year.

Ms. O'Brien asked that the next time Mr. Stone performs this study that it could include the interest rate, the mortality and the dynamics of the work force that has changed here.

Mr. O'Rourke asked do these figures reflect the rate of retirement. Mr. Stone replied, yes. The assumptions are about the rate of retirement in particular that group four employees seem to retire much earlier. Mr. Stone stated that there has been a change in the Pension Reform for employees hired after April 1, 2012. Prior to this reform a group one person was able to retire with the full factor of 2.5% times the years of service at the age of sixty-five, now it is age 67. The early retirement is less subsidized and for those who were able to retire at fifty-four you would have to wait until the age of fifty-seven. This is only for those hired after that date and their benefits are actually worth less than before. Mr. Stone stated that this study is very dynamic and reflects anticipations that not only the cost is less but they will be retiring later.

Mr. Talbot asked if the purpose is to figure out how much the RMLD should be contributing to the fund each year. Mr. Stone replied yes. Mr. Talbot said that looking at the numbers the range is fairly narrow. Mr. Stone stated that the methodology that is used comes up with one number and that the RMLD does not have to fund it.

Mr. Stempeck said that we would not want to be surprised by the contribution that would reflect on having to do a rate increase. Mr. Stone said the advantage to this is that is gives a cushion, like in 2008 when there was a bad rate of return and the town was looking for a lot more money. Mr. Talbot pointed out that in 2008 the RMLD did not have money in the stock market. Mr. Stone stated that the RMLD did not but in a sense did through the Reading Retirement system, having their money in there and what they charge the RMLD is affected by their investment. Mr. Talbot commented that for the long term this something that we should be concerned about.

Mr. Soli pointed out that your number was $1.3 million, yet the motion is for $1 million and asked if that was a problem. Mr. Fournier replied that the $1 million was the budgeted amount for FY2014 it is just a place holder not knowing what the final number would be. The actual dollar amount will be included in the motion tonight. Mr. Fournier stated that the RMLD Pension Trust is just a funding mechanism to meet the liability of the contributory system that the town gives the RMLD their assessment every August where the RMLD may pay out $1.3 or $1.4 million and the town invests the money.

Mr. Soli said that the last time he signed payroll all but eight employees were contributing to Medicare and since then one has retired. Mr. Soli asked does that take into account the OPEB calculations. Mr. Stone replied that is typically the way it is done and also taken into account is older people that were hired a long time ago were not in or paying Medicare. About 80% of these people could still end up in Medicare due to a spouse or other employment and this helps to cut down the cost where about 75% of the value is paid for by Medicare. Mr. Stone stated that state law says you have to force these people into Medicare if eligible.

Mr. Stone said that the RMLD will have to follow GASB 68 which significantly changes the way you calculate some of the costs. It is a separation of funding from accounting. Mr. Stone said that he is unsure how this is going to play out for the RMLD by having this side fund. Mr. Stone suggested to Mr. Fournier that they should have a conference call with the auditors and discuss if they need to do anything for that. Mr. Fournier asked if the RMLD was all set for FY2014. Mr. Stone replied yes, this would apply to FY2015.

Ms. O'Brien asked that the next time the actuarial study is performed that it be split between group four and group one employees. For example, if everyone was group one this would not look so bad because there would be about thirty-four more people with another ten years the way it appears now there would eighteen tomorrow and sixteen next year. Mr. Stone replied that just because you are eligible does not mean that you are going to retire. There is no real retirement pattern for linemen. Mr. Stone recommended that the RMLD contribute $1,374,538 with a 7.25% Interest Rate and Projected Generational Mortality for FY2014.

Mr. Soli made a motion seconded by Mr. Talbot that the Budget Committee recommends to the RMLD Board of Commissioners to accept the Pension Trust Actuarial Valuation as of January 1, 2014 from Stone Consulting, Inc.
Motion carried 2:0:0.

Actuarial Report – Larry Stone, Stone Consulting, Inc.
Mr. Soli made a motion seconded by Mr. Talbot that the Budget Committee recommends to the RMLD Board of Commissioners to authorize the General Manager to deposit $1,374,538 into the RMLD's Pension Trust Fund.
Motion carried 2:0:0.

Motion to Adjourn
At 7:28 p.m. Mr. Talbot made a motion seconded by Mr. Soli to adjourn.
Motion carried 2:0:0.