

MAYFLOWER MUNICIPAL HEALTH GROUP FINANCE COMMITTEE
MINUTES OF MEETING
January 26, 2017
Halifax Town Hall
Halifax, Massachusetts

Attendees: Thomas O'Brien, MMHG Treasurer
Derek Sullivan, Town of Wareham
Jeanne Sullivan, Town of Hanson
Peter Morin, Town of Norwell
Sheila Avery, MMHG
Aneish Arora, Meketa Investment Group

The meeting was called to order at 9:12 a.m.

1. **Accept Meeting Minutes**

Treasurer O'Brien noted two revisions on the meeting minutes; first sentence under #2 change "updated" to "update", and third paragraph adding language to read "no other municipality outside of MMHG".

MOTION: Morin motioned to accept the November 16, 2016 meeting minutes with revisions noted above.

SECOND: JSullivan

VOTE: Unanimous

2. **Update GBS Analysis**

Treasurer O'Brien said we received the draft audit and are reviewing it. He stated he was asked in January, 2016 to project FY16 year end and projected we would have around \$13.5 million in net assets. He stated we ended FY16 with \$13,506,811 in net assets according to the audit. He noted that the incurred but not reported (IBNR) of \$8.3 million is included in the net asset amount so to figure our total assets you would combine \$13,506,811 and the \$8.3 million.

Treasurer O'Brien stated the Board voted to use up to \$8.5 million in net assets to offset FY17 rates. He said we are running very well with claims and projects we may only need to use \$4-\$4.3 million for FY17. He stated our draft net assets as of December 31, 2016 is \$12.3 million.

Treasurer O'Brien passed out the summary page for each plan from the GBS funding rate analysis. He explained we have been running a positive but December claims were a little higher so we are now even in terms of claims versus funding. He stated Sharry explained at the last Steering Committee meeting that he projects claims will be a little higher for the last six months of FY17.

Treasurer O'Brien explained that at the last Steering Committee meeting Sharry suggested Medex plan reduction of 14.6%, Benchmark 7% increase, Rate saver 11% increase, and Legacy/Traditional 26% increase. O'Brien said the traditional plans don't exist anywhere else and Cape Cod Municipal Health Group got rid of their traditional plans in 2012. Avery

noted the benchmark plans have a lower percentage increase due to the voted plan changes and Sharry applied the savings to the benchmark plans.

Treasurer O'Brien passed out a comparison of all of our plans showing the differences in plan copayments. He said the legacy plans have to cost more due to the differences in the plan design and smaller copayments. Avery said she would send an electronic copy to all Finance Committee members. DSullivan said he is using this to help bring awareness of the plan differences to his employees. O'Brien said our rate saver plans are the new gold standard and MMHG will remain attractive option for municipalities.

3. **Presentation regarding general investment portfolio strategies:**

Treasurer O'Brien said at the last Finance Committee meeting it was decided to have a presentation by someone with a high level of expertise in the financial world to talk to us about the changing marketplace. He said it should help us in the future when deciding if we change our conservative investment portfolio. He introduced Aneish Arora from Meketa Investment Group and disclosed that Meketa is the consultant for the Plymouth County Retirement Board.

Arora passed out his presentation and reviewed his biography/experience and Meketa Investment Group. He said the world view on page 9 is not that good with high debt levels and worsening demographics. He explained the impact is lower asset class returns and higher asset class volatility.

Arora explained that a portfolio with 65% equity and 35% bonds has produced diminishing expected returns as well as actual returns over the past thirty years. He reviewed page 10 of his presentation. He said that health care inflation is rising at a faster rate than investment return and are difficult to plan for.

Arora reviewed long-term historical return and 20 year forward looking expected return as stated on page 11 of his presentation.

Arora stated diversification is the only effective way to reduce risk. He said the one sure way to increase performance is to reduce fees. He explained you must also be willing to accept market risk and benefit from the relative growth of emerging market to increase return.

Arora reviewed sample asset allocations and stated expected return for 10 years is 3.39% with standard deviation of 6.63% using 70% investment grade bonds. He explained the return increases to 3.88% with 50% investment grade bonds and volatility increases to 9.84%. He reviewed probabilities and historical scenarios.

Treasurer O'Brien said that we face challenges with 70%/30% conservative portfolio. He said we need to remain liquid and stable. He asked if we stick with the 70%/30% would it make sense to take some out of equity and put it in emerging markets. Arora said you would see a higher expected return but you would have an increase in volatility. Arora stated emerging markets were down 15% in 2015 and up 15% in 2016.

Arora said you have to be able to accept more risk if you want a larger return on investment.

Treasurer O'Brien said we should take this home and think about if we make changes to our current portfolio.

DSullivan said that our climate is changing with a few groups leaving and we need to think long term with year-end projections for FY17.

Morin asked what is different in the world in the past 20 years that wasn't happening in the 80s. He said we need to look to invest in different places and this analysis is sobering. Arora said the demographics are changing and the boomers are retiring and they were huge spenders.

Arora said that President Trump's message continues to change so we don't have a clear idea of what is going to happen. He concluded by thanking everyone for their time and he is available to speak with any member regarding the information.

4. **Next Meeting:**

Wednesday, March 22, 2017, 9:00 a.m., at the Halifax Town Hall

Morin made a motion to adjourn the meeting at 10:18 a.m., seconded by JSullivan and voted unanimously.

Respectfully submitted,
Sheila Avery

Reference Documents for this Meeting:

Meketa Investment Group MMHG presentation

GBS funding rate analysis plan summary one page review

MMHG summary comparison of benefits FY17