Massachusetts Municipal Association
MMA BEST PRACTICES SERIES
Recommendations for Effective Local Government Administration and Management from MMA Policy Committees

January 2016 • Volume 1 • Number 4

MMA Policy Committee on Personnel and Labor Relations
Best Practice Recommendation: Managing Other Post-Employment Benefit (OPEB) Liabilities

BEST PRACTICE: Take necessary steps to modernize benefit structures and implement pre-funding options to effectively mitigate and manage Other Post-Employment Benefit (OPEB) liabilities. This includes using the authority that localities have under state law to change retiree health plan contribution ratios and plan design elements, and investing funds in a reserve account to pre-fund the OPEB liability for current and future retirees.

Cities and towns face a $30 billion liability for their Other Post-Employment Benefits. Under current law, eligibility for benefits is quite generous. In most cases, employees qualify for health insurance for themselves and their dependents for life if they work as few as 20 hours per week for 10 years and are 55 years of age. Access to this level of retiree health benefit has left cities and towns with a liability far larger than their pension liability, with bond rating agencies and the federal government taking notice.

In the absence of statewide legislation, there are several actions that cities and towns can take to manage their OPEB liability. It is important to regularly review and consider a wide range of options to make changes to health insurance as an opportunity to manage OPEB costs. Cities and towns should be creative, and consider measures such as increasing new hire contribution rates, making meaningful plan design changes, and engaging in conversations with active employees about setting money aside to fund their future benefits.

Similarly, under state law (recently affirmed by a Supreme Judicial Court decision), cities and towns may change the contribution rate for retired employees without engaging in collective bargaining. If municipal retirees are paying less than 50 percent of the premium, or have the same or lower contribution rates as active employees, it may be worth considering a change.

On the funding side, there are a handful of steps municipalities can take to begin funding their liability. In order to have all of the information and have all parties be on the same page, it is first important to conduct the required actuarial analysis every two years, as well as to have an agreed-upon reserve or financial policy.

Once the size of the liability is agreed upon, municipalities should consider funding their normal costs each year. Cities and towns are encouraged to use savings from changes in health insurance, such as using Municipal Health Insurance Reform, to fund their Annual Retired Contribution (ARC). This would at least fund OPEB obligations from this point forward at their annual cost. Additionally, cities and towns are encouraged to begin to pay the normal cost for new employees immediately from the date they are hired. If financially feasible, this could eventually be expanded to existing employees.

Finally, it is a best practice recommendation that communities establish an irrevocable trust through Chapter 32B, Section 20 of the Massachusetts General Laws, and use a meaningful and recurring revenue stream to fund the trust (such as a portion of the local-option meals tax, local-option lodging tax, or other local revenue source). Communities are encouraged to use an irrevocable trust rather than a stabilization fund. This ensures the money is earmarked for OPEB and is segregated from other municipal responsibilities. Similarly, it is worth weighing the pros and cons of managing the funds locally or investing through the State Retiree Benefits Trust Fund (SRBTF), an option now available to municipalities.

These best practices will allow cities and towns to manage the costs of retiree benefits and begin to pre-fund their OPEB liabilities.

Resources

State Retiree Benefits Trust Fund (Frequently Asked Questions)
www.mass.gov/srbtf/docs/srbtf/srbtf-faq.doc

Government Finance Officers Association (OPEB Best Practice)
www.gfoa.org/sites/default/files/CORBA_ENSURING_OPEB_SUSTAINABILITY.pdf