

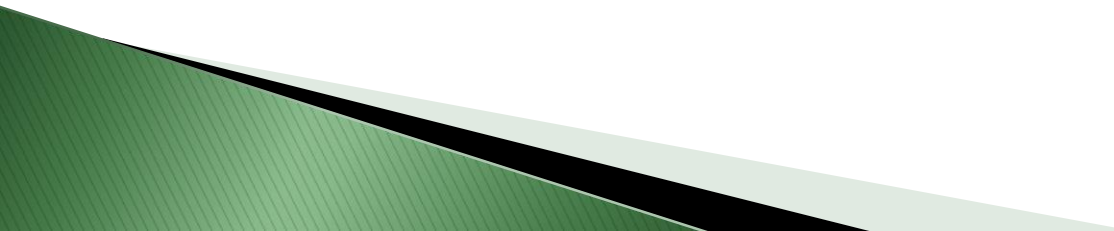
The Need for Sustainable Government Other Post-Employment Benefits (OPEB)

Association of Town Finance Committees

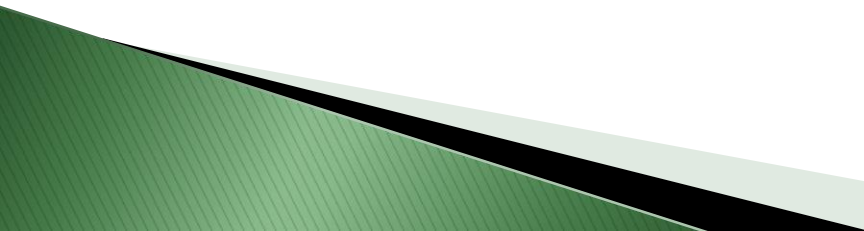
October 18, 2014

***Note:** Charts and much of the data contained within this presentation are taken from the final report of the
Special Commission to Investigate Other Post-Employment Benefits

What is Sustainability?

- Sustainable is defined by Merriam-Webster as “.....being a method of harvesting or using a resource so that the resource is not depleted or permanently damaged.....”.
 - So I view sustainable government as being a method of government that does not deplete or permanently damage resources be them revenue resources or programmatic resources.
 - Most communities do not have sustainable government.
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Decisions

- Another way to look at sustainability is to consider how spending decisions and revenue decisions are related.
 - In sustainable systems spending decisions and revenue decision are made at the same time.
 - In unsustainable systems spending decisions are made independently from revenue decisions.
 - One such example of an unsustainable system are the collective spending decisions that have been made with no connected revenue decisions relative to OPEB.
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Spending Decisions

Findings of the Special Commission

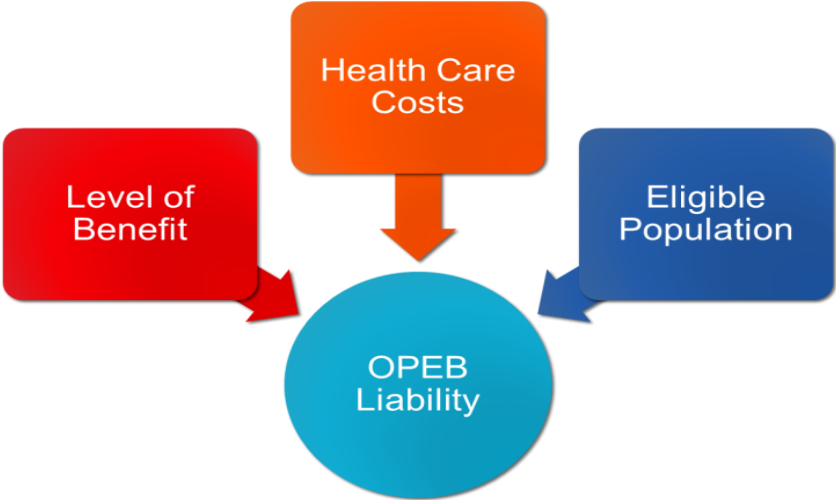
January 2013

- The Commission found that:
 - The Commonwealth's ARC is \$1.3 Billion but current costs are budgeted at \$415 Million.
 - The 50 largest municipalities have an ARC of \$1.2 Billion with current costs budgeted at \$500 Million.
 - Unfunded Actuarial Liabilities among many cities and towns are greater than their entire annual tax levy and without reform will continue to grow at a rapid rate.
 - In January 2012, the annual cost for a state employee was \$10,620 (< age 65) and \$4,780 (\geq age 65). Retiring at age 60 and living to age 80 = \$77,000 assuming 0% inflation.

Massachusetts Taxpayers Foundation

- Recently issued a report on September 22nd on the impact of retiree health insurance on the Commonwealth's poorest cities.
- By example, this report found that 51% of the growth in the tax levy of the City of New Bedford since 2009 was consumed by retiree health care costs. 25% in Lawrence and Holyoke.
- Are these examples outliers or our collective future?

Drivers of OPEB Liabilities



Before acting on its recommendations the Commission first adopted guiding principles.

OPEB Commission Principles

Commitment to Intergenerational Equity

- Avoid shifting costs onto future generations
- Honor health care promise to retired career employees

Competitive Compensation Packages to Attract and Retain Employees

- Including quality, affordable health care for retirees

Urgent Need for Sustainable Government

Prudent Allocation of Taxpayer Dollars Among Critical Services

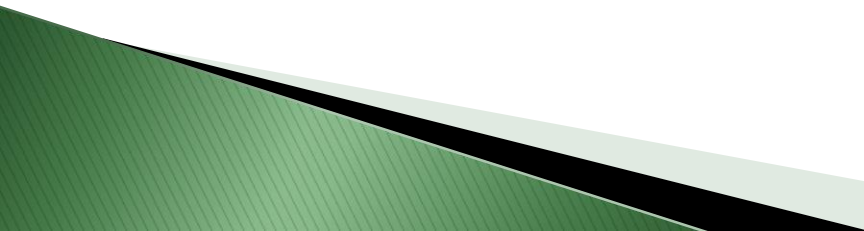
- Transportation, education, benefits, etc.
- Maintenance of credit ratings

Alignment with Recent Changes to State and Federal Health Care Programs

- With a focus on access and cost control

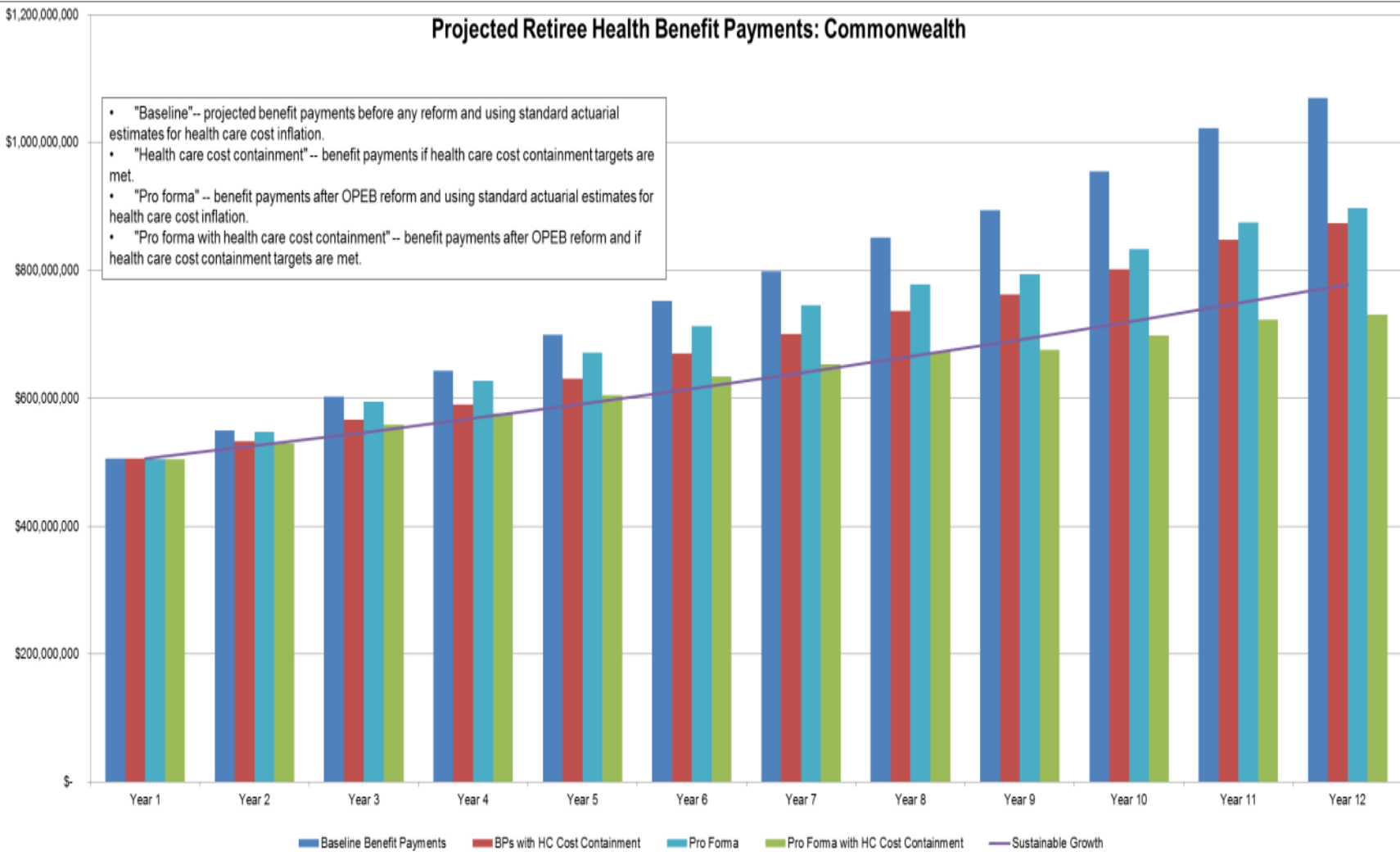
The Recommendations

- As part of the process of working towards its final recommendations, the Commission looked at various strategies:
 - Benefit Eligibility – YOS, Minimum Age, Continuing Service, Survivor Benefits
 - Level of Benefit – Pro-ration of benefits and Part-time Service
 - Cost Reduction – EGWP and Procurement
 - Cost Containment – Metrics/actions to control growth
 - Pre Funding – Payments during period of active employment

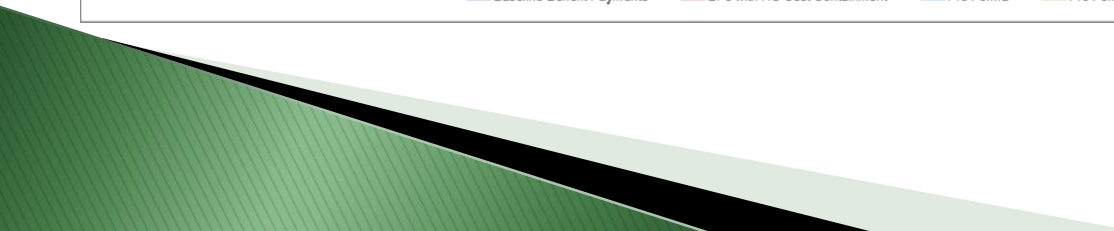
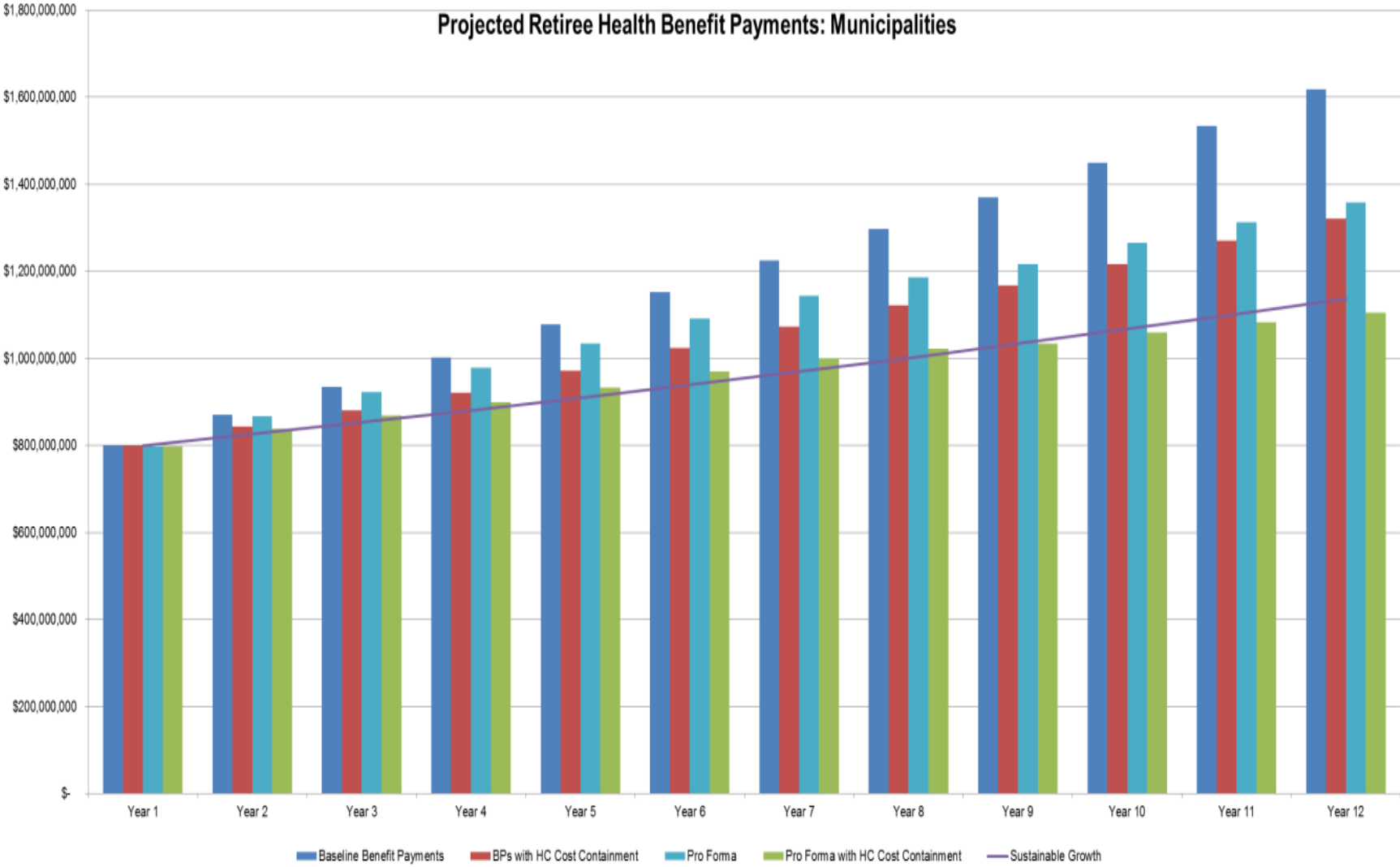
- To assist in this process of study the firms of Aon Hewitt and Segal Company were retained to provide analysis on how certain reforms would result in reductions of liability.
 - Aon handled the Commonwealth while Segal focused on a selected group of municipalities (Boston, Holyoke, Wellesley, Acton, Acton-Boxborough, Falmouth & Barnstable).
 - A benchmark for “sustainable spending growth” was established (4% - Commonwealth/3.25% Municipalities).
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Projected Retiree Health Benefit Payments: Commonwealth

- "Baseline"-- projected benefit payments before any reform and using standard actuarial estimates for health care cost inflation.
- "Health care cost containment"-- benefit payments if health care cost containment targets are met.
- "Pro forma"-- benefit payments after OPEB reform and using standard actuarial estimates for health care cost inflation.
- "Pro forma with health care cost containment"-- benefit payments after OPEB reform and if health care cost containment targets are met.



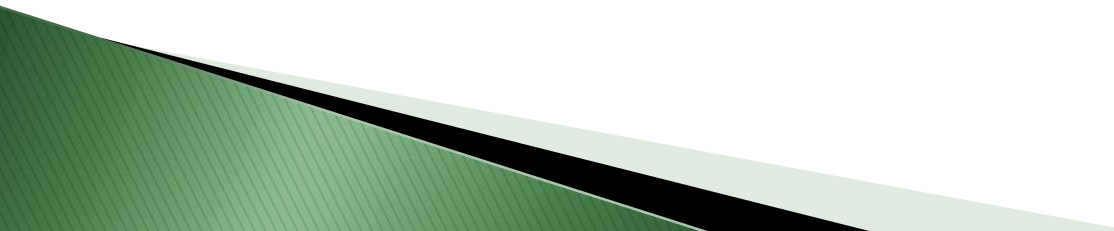
Projected Retiree Health Benefit Payments: Municipalities



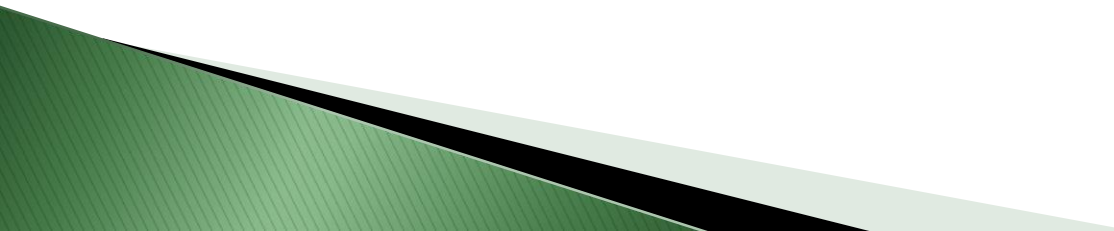
The projected reductions in liability based on the recommendations and as contained in HB 59 in the report.

Total	Commonwealth	Municipalities
<ul style="list-style-type: none"> Savings of \$15-20 billion over 30 years 	<ul style="list-style-type: none"> Savings of \$6-8 billion over 30 years Greater than 30% reduction in year 30 	<ul style="list-style-type: none"> Savings of \$9-12 billion over 30 years Greater than 30% reduction in year 30
<ul style="list-style-type: none"> Savings of \$1 billion over 10 years 	<ul style="list-style-type: none"> Savings of over \$400 million 12-13% reduction in year 10 	<ul style="list-style-type: none"> Savings of over \$600 million 12-13% reduction in year 10
	<ul style="list-style-type: none"> Meets ANF sustainable spending threshold in year 9 (year 3 with EGWP) 	

Reaction

- Much concern particularly by those that are near retirement which is entirely understandable.
 - In some cases there is denial that a problem exists at all.
 - There is however wide agreement that something must be done and done soon understanding that we must be thoughtful, respectful and cognizant that some people will be affected very adversely.
 - However, a delay in reform just makes what has to be done more difficult since this is not going away.
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My Thoughts to Consider

1. How do we convince all stakeholders that change must be made quickly and decisively to avoid great financial difficulty and collapse of the benefit?
 2. Do we have the political will to change a statutory structure that provides employee benefits more akin to 1963 than 2014?
 3. How long can we expect the public to continue to financial support a benefit package that is so far out of step to that most nonpublic employees now or will ever receive?
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On-Line Materials

<http://www.mass.gov/anf/opeb-commission.html>

<http://www.mma.org/labor-and-personnel/7421-governor-files-opeb-reform-bill>

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