

Other Post Employment Benefits

ASSOCIATION OF TOWN FINANCE
COMMITTEES
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What are OPEBs?

- OPEBs are Other Post Employment Benefits- the set of benefits offered to a retiree other than their pension. OPEB is mainly health insurance, including: medical, dental, Medicare Part B premiums, drugs, etc.
- The OPEB liability consists of the government entity's [state, municipality, regional school district, etc.] share of health insurance costs for a retiree, plus dependents, from the time he/she retires until he/she dies, plus the gov't entity's share of health insurance costs for eligible survivors until the survivor's death or remarriage. For Medicare-eligible retirees and survivors [most retirees/survivors age 65 and over], this cost is offset by federal Medicare funds.
- OPEB liability is the present value of the government entity's share of retirees' benefits for those who are retired, as well as for those who have a right to retire at a future date [i.e. those with vested pension rights]. **The current municipal liability statewide is roughly \$30 billion.**

M.G.L. Statutes

- M.G.L. Chapters 32 and 32B govern municipal retirees and public employee benefits.
- Effective July 1, 2011, M.G.L. Chapter 32B, Section 20 allows municipalities to establish a Trust Fund for Other Post Employment Benefit Liabilities and also allows for the administration and investment of these funds to be managed with the State Retiree Benefits Trust Fund [SRBTF], the state's OPEB liability fund.
- As of October 2014, 30 municipalities and other government entities are investing their funds in the SRBTF.

Reporting Requirements

- Government Accounting Standards Board [GASB] has issued reporting requirements [Effective December 2006- 2008 depending on total municipal revenue]
 - Statement No. 43, *Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses accounting by plans that administer OPEB
 - Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes accounting and reporting requirements for state and local government employers that provide OPEB
 - Two proposed statements are expected to be finalized by the end of the year
- These are reporting requirements—NOT requirements to pre-fund. Reports are typically made available to bond rating agencies and are now also shared with PERAC.

Who is eligible?

- In most communities, retirees are eligible for health care benefits after 10 years of service if they've worked at least 20 hours per week and are at least age 55. [Benefits can begin before age 55 for employees in Groups 2 or 4].
- Some communities have continuous service policies or local by-laws that further restrict eligibility.

The Municipal Challenge

- Current municipal burden is approximately \$30 billion. [Massachusetts Taxpayers Foundation]
- Most communities pay at least 50% of the premium of benefits – MMA survey shows the average is close to 70%.
- Health care costs are rising at a rate faster than revenues.
- Large numbers of public employees are retiring.
- There are roughly 260,000 municipal employees, more than double the number of state employees.

OPEB vs. Pensions

- Pensions are now required to be on a funding schedule. The impact on municipalities unfunded OPEB liabilities are double that of pension liabilities.
- Teacher pensions are a state responsibility whereas retired teacher's health insurance is a municipal costs.
- Early retirees [age 55-64] are particularly costly to insure.

Current Landscape: State Legislation

State legislation was proposed in the 2013-2014 legislative session that would have:

- Increase minimum age for eligibility by 5 years
- Increase minimum years of service from 10 to 20 years
- Pro-rate benefits for employees with 20- 30 years of service
- Mandate that all communities pay at least 50% of the premium for retirees and surviving spouses
- Permanent freeze on ever changing a retiree's premium contribution once they retiree

The legislation did not pass.

Current Landscape: Local Benefits Changes

There are some benefits changes cities and towns can make **locally** to help save money and reduce their OPEB liability, including:

- Chapter 69, municipal health insurance reform savings
- Changing premium contributions
- Implement a continuous service policy
- Prorating benefits for part time employees
- Improve analysis and public awareness

Current Landscape: Funding Trends

- In addition to paying-as-you go, many communities are starting to **pre-fund** (generally with nominal amounts of money to satisfy bond rating agencies) in OPEB trusts.
- Municipalities have **two primary options** for pre-funding:
 - Set up a trust locally. Money in a trust must be earmarked for OPEBs, but can be used if need be to pay pay-as-you go costs.
 - Invest in the SRBTF. This option lessens the administrative burden locally and also invests the funds in a larger pool.

Options for Pre-Funding

Some popular options for **pre-funding** include:

- Set aside revenue from the meals and/or hotel & motel tax
- Use savings from municipal health insurance reform
- Using Medicare Part D federal reimbursements
- Earmark tax revenue
- Some cities and towns have indicated they will look to divert funds currently being set aside for pensions once that liability is fully funded, although for most communities that's at least a decade away.

What's Next?

- **2015-2016 legislative session:**
 - New Administration for the first time in 8 years
 - A new Senate President
 - 30+ new legislators
- **New GASB requirements:**
 - Reporting of your OPEB liability will have an even more prominent place on your balance sheets
 - Depending on the size of your liability and what you're putting aside to manage it, your liability will look even larger
- **Continued strain on municipal budgets to maintain current level of services and jobs.**
