

# Acton-Boxborough Regional School District

Other Post Employment Benefits (OPEB)  
February 2, 2012

# What Is OPEB?

## Other Post-Employment Benefits

- OPEB refers to all benefits, other than pensions, that retirees receive. In Massachusetts, OPEB largely consists of retiree health insurance payments.
- An OPEB Trust would be used to cover the retiree health care costs for which the fund was created.
- The Acton-Boxborough Regional School system is a separate legal entity and has its own retirees, and would therefore need to create its own OPEB trust.

# Recent Accounting Requirement Change

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## Why are we hearing about OPEB now?

- Result of requirements issued by Governmental Accounting and Standards Board (GASB) in June, 2004
- Requires that government entities report their accrued but unfunded obligations

# Reporting of OPEB

- GASB 45 requires that technical information be reported every two years
- FY'09 was the first year that all 351 Massachusetts communities were required to disclose their OPEB liabilities
- Credit rating agencies are beginning to focus on this issue
- **GASB 45 does not set policies for governments to manage their assets and liabilities!**

# OPEB for ABRSD

Is this a liability that has been “mismanaged”  
- like overspending a budget?

This is a technically-driven liability for future retiree health insurance based on a number of complex factors. GASB 45 is designed to outline our liabilities in an accounting format- but as the saying goes “actual mileage will vary” when it comes to actually deciding how and mean to deal with it.

# Current Retiree Health Insurance Coverage

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How are we paying for retiree health insurance now?

- “Pay-as-you-go” system.
- FY12 Budget \$1.14m (including Medicare)
- We pay 50% of retiree (individual or family plan) health insurance cost.
- We require Medicare enrollment.

# Budget Impact of Pay-As-You-Go Model

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What do you project will happen if we maintain a pay as you go system?

Due to retiree plan design, number of retirees, and increases in health insurance costs, the “pay as we go” will consume an increasing percentage of our operating budget.

# Projection of OPEB on Future Budget

## Pay as you go projection – Segal 2011 data

\*assumes 3% annual budget growth

FY	AB proj ben	ABRSD Budget*	% of budget
2011	\$967,205	\$ 38,228,410	2.53%
2012	\$1,119,128	\$ 39,375,262	2.84%
2013	\$1,296,016	\$ 40,556,520	3.20%
2014	\$1,465,056	\$ 41,773,216	3.51%
2015	\$1,640,747	\$ 43,026,412	3.81%
2016	\$1,800,178	\$ 44,317,205	4.06%
2017	\$1,974,128	\$ 45,646,721	4.32%
2018	\$2,127,363	\$ 47,016,122	4.52%
2019	\$2,244,466	\$ 48,426,606	4.63%
2020	\$2,373,055	\$ 49,879,404	4.76%
2021	\$2,506,722	\$ 51,375,786	4.88%

# How Can We Manage OPEB Differently?

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What will this mean for the choices for the Administration and the RSD committee?

- Just like in the average household budget, setting money aside for a roof or college or other needs can be very difficult with short-term needs clamoring for these same dollars. Shifting dollars away from short-term needs to this long-term liability will require a re-thinking of how we allocate dollars.

# OPEB for ABRSD

## Incremental payment projection – Segal 2011 data

\*assumes 3% annual budget growth,

\$300K increment year 1, 3% payment growth thereafter, 5% interest

	AB	ABRSD	% of	incremental	OPEB	% of
FY	proj ben	budget	budget	Benefit pay	balance	budget
2011	\$967,205	\$ 38,228,410	2.53%			
2012	\$1,119,128	\$ 39,375,262	2.84%			
2013	\$1,296,016	\$ 40,556,520	3.20%	\$1,596,016	\$300,000	3.94%
2014	\$1,465,056	\$ 41,773,216	3.51%	\$1,643,896	\$493,840	3.94%
2015	\$1,640,747	\$ 43,026,412	3.81%	\$1,693,213	\$570,999	3.94%
2016	\$1,800,178	\$ 44,317,205	4.06%	\$1,744,010	\$543,381	3.94%
2017	\$1,974,128	\$ 45,646,721	4.32%	\$1,796,330	\$392,752	3.94%
2018	\$2,127,363	\$ 47,016,122	4.52%	\$1,850,220	\$135,246	3.94%
2019	\$2,244,466	\$ 48,426,606	4.63%	\$1,905,727	-\$196,731	3.94%
2020	\$2,373,055	\$ 49,879,404	4.76%	\$1,962,898	-\$616,724	3.94%
2021	\$2,506,722	\$ 51,375,786	4.88%	\$2,021,785	-\$1,132,497	3.94%

# OPEB for ABRSD

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Why can't we just wait until we come out of this recession and start putting money aside then?

- We can do that. However, every year that we don't start putting money aside for this liability defers this obligation and increases the money we will owe. For instance, every time we defer, municipalities lose the investment income that they would have potentially earned on the money, which adds to the obligation.

# Funding OPEB in Other MA Towns

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- In February 2011, Mass Taxpayers Foundation noted that only the Town of Arlington had designated a special OPEB trust.
- Most recently, Acton's Finance Committee noted that sixteen (16) municipalities had created OPEB funds.

# Irrevocable Trust for OPEB Fund

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In order to receive “credit” for addressing the liability, GASB 45 requires that contributions be “irrevocable” and placed in a specially designed trust that is protected from creditors.

The trust would be managed by the Treasurer of the AB Regional School District.

# OPEB and State-Wide Reform

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With this liability so large, are there options on the expenditure side?

Most credible independent commentators, like the Massachusetts Taxpayers Foundation, believe that the severity of the issue is so large that reforms will most likely have to occur on the authorization end that may affect our current employees, our most recent employees and perhaps, our long term retirees.

# Mass Taxpayers Foundation Recommendations

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The Massachusetts Taxpayers Foundation has recommended a whole series of potential reforms:

- Plan design changes,
- Capping municipal contributions to retiree health insurance on a dollar amount,
- Tying level and cost of retiree health insurance to years of service,
- Raising retiree health insurance eligibility.

# OPEB Trust Balance Not a Part of E&D

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If we were to create an OPEB fund, how would that fund work in conjunction with the DOR's 5% cap on E&D?

We have confirmed with the DOR that any funds that are placed in an OPEB fund would not count toward the 5% cap because they would be considered to be separate.

# Creation of OPEB Trust

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What does the RSD have to do to create the OPEB fund? When can RSD act?

- The RSD must accept M.G.L. Chapter 32B Section 20 to establish an OPEB fund. The vote to accept will be a majority vote, as calculated under the voting rules in the Regional Agreement.
- At any time. The statute does not provide for specific timing. Once the Committee accepts M.G.L. Chapter 32B Section 20, it can then create the fund by a vote of the Committee.

# OPEB Trust Reporting

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Once an OPEB fund is created, the statute requires an annual report on or before December 31, summarizing the District's "other post-employment benefits costs and obligations and all related information under Government Accounting Standards Board standard 45."

# OPEB Trust Funding

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How does money go into the trust?

M.G.L. Chapter 32B Section 20 does not provide for a specific mechanism for funding the trust. Could be through three ways:

1. Annual regional budget process
2. Fiscal Year end transfers (while looking at the relationship to E & D 5% cap)
3. Vote from E & D (once DOR certified).

# OPEB Trust Fund Disbursement

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Once reserved, can it be used for anything else?

When the fund is set up as an irrevocable trust and funds are disbursed into this separate account, they cannot be used except to cover the retiree health care costs for which the fund was created.

# OPEB for ABRSD

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Someday, we will need to “access the funds.” How does that happen?

The statute does not deal with this issue. GASB 45 says that monies held in an OPEB fund should only be used for the purpose of paying benefits to retirees or their beneficiaries, but does not specify the manner in which the payments are to be made.

# OPEB for ABRSD

Will the next report take in account all the recent activity?

Yes. All the recent efforts to make changes to plan design for health insurance, the creation of a trust, and any contributions to the trust made over the next several years were not factored into this report, but will be in the next report when it is completed in two years.

# OPEB for ABRSD

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Thank you.