

# Other Post Employment Benefits

Town of Plymouth

May 12, 2009

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# Other Post Employment Benefits

- What is OPEB?
  - **OPEB** is the acronym for **Other Post Employment Benefits.**
  - Most common post employment benefit is a pension.
  - OPEB represents the other benefits received at retirement:
    - Health, Dental & Life Insurance
  - Employees earn these benefits, Pension & OPEB, over their years of service.

# Other Post Employment Benefits

- What is GASB 45?
  - **GASB** -*The Governmental Accounting Standards Board*
    - *“The mission of the Governmental Accounting Standards Board is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports.”*
  - **Statement 45** -
    - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*
    - *Equivalent in the private sector is FASB 106.*
  - **Other Statements:**
    - ***GASB 27 – Funding of Public Pension Plans (1994)***
    - ***GASB 34 – Financial Reporting – Accounting for Fixed Assets & Depreciation***
    - ***Others - ie. Accounting for Compensated Absences.***

# Other Post Employment Benefits

- *GASB believes that as benefits accrue during the employees years of service they represent a cost of providing public services today and should be part of the Town's financial statements. (Similar to Pensions)*
  - *Currently "pay-as-you-go" approach to accounting and funding*
- *Reporting this long-term obligation in the financial statements would give readers more accurate information with which to assess the cost of public service and to analyze the financial position and long-run financial health of the town.*
  - *Should foster improved accountability and a better foundation for informed policy decisions about levels and types of benefits and potential methods of financing those benefits.*
- *Plymouth was required to adhere to the standard with our financial statements as of the year ended June 30, 2008. Based on revenues we are a Tier 1 community. (Annual Revenues larger than \$100 million in FY1999)*
  - *Hired the services of Stone Consulting back in 2007 to perform our first actuarial study as of 7/1/2006.*
  - *Required every two years (next one 7/1/2008 or 1/1/2009)*
  - *Same actuary that is used by the Plymouth Retirement System*

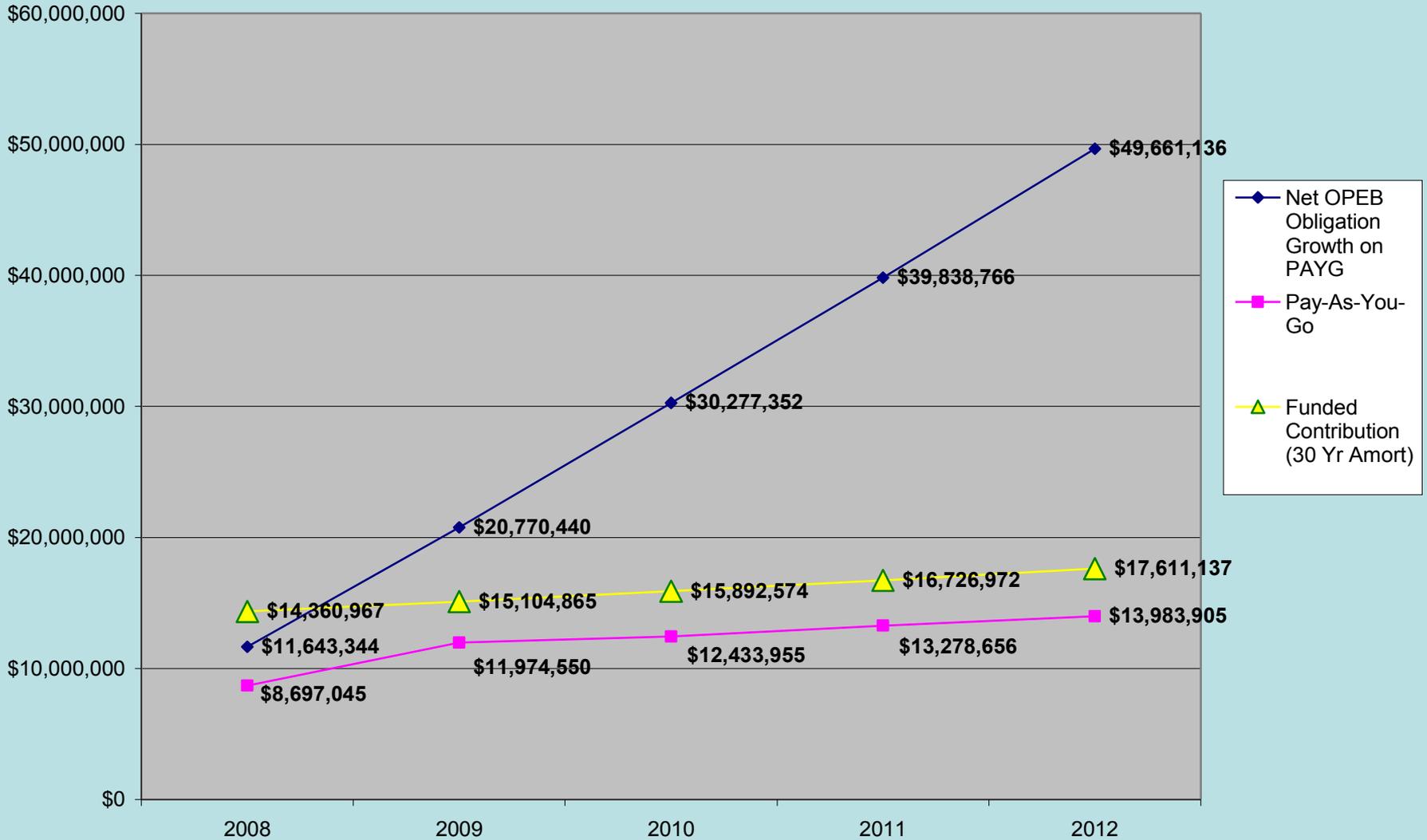
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- *This is just a standard for accounting and financial reporting, does not dictate how the town chooses to finance it or require it.*
  - *Values in this report are consistent with GASB 45, and are shown with a funded plan and a non-funded plan.*
- *Does not require immediate recognition of the unfunded actuarial accrued liability (UAAL) as a financial statement liability*
  - *The Town applies the statement prospectively (start with zero at beginning of year)*
  - *From that point forward the town will accumulate a liability called the Net OPEB Obligation*
  - *The Net OPEB Obligation (not the same as the UAAL) will increase rapidly over time if we choose to continue on the pay-as-you-go method*
  - *Requires disclosure of information about our funding status in the notes to the financials*
    - *Generally, the more of its annual OPEB cost that a government chooses to defer, the higher will be its unfunded actuarial accrued liability and the cash flow demands on the town and its tax payers in future years*
- *This is not an accrual of a future expense – the reported expenses relate entirely to transactions (exchanges of employee services for the promised future benefits) that already have occurred.*

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	Unfunded System (4.5% Interest Rate)	Funded System (7.75% Interest Rate)
Unfunded Accrued Liability (UAL)	<u>\$264,991,414</u>	<u>\$168,651,840</u>
Normal Service Cost (NSS)	\$10,553,931	\$5,134,035
<i>Portion of the present value of estimated total benefits that is attributed to services received in the current year.</i>		
30 Year amortization of UAAL (using a 3.75% increasing amortization)	<u>\$9,786,458</u>	<u>\$9,226,932</u>
Annual Required Contribution (ARC)	\$20,340,389	\$14,360,967
<i>Represents a level of funding that, if paid on an ongoing basis, is projected to cover NSS and the 30 year amortization of the UAAL.</i>		
Estimated Net Benefit Payments (Pay-As-You-Go)	<u>\$8,697,045</u>	<u>\$8,697,045</u>
Net OPEB Obligation	<u>\$11,643,344</u>	

### Pay-As-You-Go versus Funded Plan



# Other Post Employment Benefits

- *Consultant's Recommendations & Comments:*
  - *Funding Policy:*
    - *Maintain a formal written funding policy that it reviews each year.*
      - *Director of Finance in conjunction with Director of Human Resources and Town Manager will review what are options are and return to you with a funding policy recommendation*
        - » *State passed an Act on January 10, 2009 which provides for the Establishment of Other Post Employment Benefits Liability Trust Fund*
        - » *Local Option, Section 20, to GL Chapter 32B – Needs Town Meeting Action*
        - » *Prior to this communities adopted special acts of the legislature*
  - *Plan Design:*
    - *Review the designs of all medical plans offered annually.*
      - *Changes in plan characteristics such as deductibles, coinsurance levels, out of pocket maximums and covered services can help mitigate the impacts of ever-increasing medical costs*
  - *Contribution Levels:*
    - *Review contribution rates annually.*
      - *Higher contribution levels mean that more of the cost of the plan is born by the Town and higher contribution levels lead to higher participation rates for retirees.*
      - *This valuation estimates that 95% of retirees will eventually enroll in the plans based on history*

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- *Consultant's Recommendations & Comments, continued:*
  - *Eligibility:*
    - *Review eligibility criteria each year to be sure that they are in accord with town goals for controlling costs and for providing well-deserved benefits for those who have worked for the town.*
  - *Record Keeping:*
    - *Improve on organizing and keeping data on employees and retirees*
      - *Implementation of the MUNIS HR and Personnel Module will help with this. (Article 9 of the June 1 ATM)*

# Other Post Employment Benefits

- *Forcing Tough Decisions:*
  - *The OPEB Liability is here to stay and will only get larger and unreachable if we do nothing:*
    - *Control Costs:*
      - *Plan design, contribution rates and eligibility need to be considered*
        - » *Plan Design and premium split requires collective bargaining*
    - *Setting up an OPEB Trust:*
      - *Establishing a trust means paying more for benefits up front, which requires finding a source of revenue to do it, and at these times that meets with great challenges*
      - *Setting up the Trust to have the mechanism may be a start*
      - *Begin funding it when the time is appropriate (Retiree Drug Subsidy)*
  - *Health Insurance Budget in Prospective (All fixed costs 25%):*
    - *Represents 17% of the budget*
      - *Public Safety, Public Works, Finance, Administrative Services, Inspectional Services, Community Resources, Planning & Development make up 20%*
    - *Dollar Increase in health insurance is \$1.5 million*
      - *Represents 51% of the Town's 2 ½ % levy limit increase*
  - *State may have other plans for us regarding health insurance*
    - *Governor's Plan*
      - *How do we measure up to the GIC standard?*
        - » *If we don't State Aid is penalized*