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## Boston's Retiree Health Care Liability is Growing

*City's appropriation to a trust is inadequate and should be increased every year*

The City of Boston's unfunded liability for retiree health insurance continues to grow and is estimated as high as \$5.8B in a newly released independent actuarial analysis. Despite this growth, the City took a step backward this year (FY10) when it reduced its appropriation to a health insurance trust fund by \$5M from the prior year. When the Mayor submits his recommended FY11 budget this Wednesday, April 14, the amount allocated to the trust fund to help reduce the liability should exceed the \$35M publicly suggested.

Since FY08, the City of Boston has been required to include in its financial statements a footnote that states its full liability and unfunded liability for other post employment benefits (OPEB) than pensions, such as health insurance for retired public employees and their spouses. These standards have been established in recognition that while the benefits may not be paid until after active employment has ended, the expense of the benefit is being earned by active employees now. Also, because the City did not set aside funds in the past for investment to pay for the future expense, a significant unfunded liability exists which needs to be paid over a set period of years. The reporting standard does not have a funding requirement but a growing liability with no plan to adopt a formal funding schedule will be noticed by the bond rating agencies and will become a concern.

The City of Boston's unfunded OPEB liability was between \$5.8B on a pay-as-you-go basis (unfunded) and \$3.7B on a pre-funded basis

as of June 30, 2009 based on the most recent actuarial analysis. The liability has increased from \$5.6B (unfunded) and \$3.1B (pre-funded) as of June 30, 2007. On either basis, the 2009 OPEB unfunded liability exceeds the City's unfunded pension liability of \$2.1B as of January 1, 2008.

In light of the new reporting requirement, the City established an OPEB Stabilization Fund into which it appropriated \$20M in fiscal 2008 and \$25M in fiscal 2009 beyond its pay-as-you-go expenses to start to prefund a portion of its OPEB liability. Taking advantage of new state authorization (Ch. 479, Acts of 2008), the City established an irrevocable OPEB Trust Fund in FY10 but appropriated only \$20M into this Fund.

These appropriations are significantly below what the annual required contributions (ARC) would be based on a formal funding schedule. The City's ARC to OPEB for FY10 was projected to be approximately \$354.4M (unfunded) and \$261.2M (pre-fund). The City's total OPEB pay-as-you-go and Trust appropriation this year is \$121.3M which is \$233.1M (unfunded) and \$139.9M (pre-funded) less than the ARC.

The escalating OPEB liability must be addressed more seriously by the Mayor and City Council and it should be a consistent influence in other employee decisions involving pensions, health insurance and collective bargaining contracts.