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A Renewed Look at Boston's Retiree Health Insurance Costs

Segregated trust and Medicare enrollment receive new interest

In last month's *Bureau Update*, the Research Bureau reported that Boston's retiree health insurance actuarial liability (OPEB) increased to \$3.1B as of June 30, 2007 on a prefunded basis. Two related issues that emerged recently in public discussion deserve further comment.

Segregated Trust Advantage

The City has established a stabilization fund and has funded it with \$20M in FY08 and \$25M in FY09 intended for OPEB obligations. Boston has taken this action because the state has not passed legislation authorizing municipalities to establish irrevocable trusts to hold funds to pay for the OPEB liability. The advantages of the irrevocable trust are that the funds cannot be used for any other purpose and a higher rate of return (e.g., 8%) can be assumed by the actuary when determining the City's OPEB liability and the required annual contribution. The City does have authority to invest in higher yielding securities due to a 1983 state law. However, because a stabilization fund is not a segregated trust, amounts in the fund will not be recognized by the actuary and the actuary can only apply the City's regular investment return rate (e.g., 4.0%-4.5%) when determining the City's unfunded liability.

The Menino Administration has been engaged in this issue for a few years by seeking modifications of a bill in the Legislature (H1140) that would authorize municipalities to establish OPEB segregated reserves. The Research Bureau supports a statewide OPEB trust standard and also has suggested revisions in the bill. To learn more click here [MORE>](#). H1140 has been sitting in the House Committee on

Bills in the Third Reading since May 2007. Recently, legislative leaders have shown renewed interest in the bill and are in discussions concerning the suggested changes.

Frustrated by lack of state action, a few communities have established OPEB trusts through the home rule petition process. City Councilor Sam Yoon recently introduced a special act that would establish an OPEB trust for Boston. His plan would authorize the Treasurer to invest the funds and does not seem to require the City to adopt a formal funding schedule initially. This point would need to be defined more precisely.

Steps to Reduce Retiree Health Costs

The increasing OPEB liability has raised again the issue of whether the City could better control health costs by requiring all eligible retirees 65 and over to enroll in Medicare. That step is not required by the City now but would be if Chapter 32, section 18 were adopted as recommended by the Research Bureau since it would provide substantial premium savings. A Research Bureau report in 2006 estimated that 1,700 eligible Boston retirees were enrolled in non-Medicare plans. Since 1991, all eligible state retirees are required to enroll in Medicare. A bill introduced by the Menino Administration in January 2007 that would require eligible retirees to enroll in Medicare prospectively is ready for the Governor's signature. By applying this option rather than adopt Section 18, the City will pass on the opportunity to achieve more substantial savings now.