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OPEB Commission Seeks to Manage \$46 Billion Liability

Recommendations intended to sustain affordable health insurance benefits for retirees

The Legislature's Commission to Study Retiree Healthcare and Other Non-Pension Benefits issued its [report](#) on January 11th with recommendations intended to enable the Commonwealth and its municipalities to fiscally manage their large liability for many years while still providing quality benefits for career employees. The state and municipal retiree healthcare savings from these recommendations are estimated at \$15-20B over 30 years with the local share at \$9-12B.

OPEB liabilities are a function of health care costs, the size and age of the eligible population and the level of benefits offered. Low eligibility requirements, high benefit levels, healthcare cost inflation, an aging population and longer life expectancies are factors that have created a higher liability for cities and towns than their pension liability. The OPEB liability is concentrated at the local level since cities and towns pay the health insurance for retired teachers.

Most public employees are eligible for retiree health benefits after 10 years of service and may begin receiving benefits upon retirement at age 55 or older. Further, public employees who have worked 10 years may leave public service and remain eligible for public health insurance when they retire.

Commission Recommendations

Faced with an estimated OPEB liability of \$16B for the Commonwealth and \$30B for its municipalities, the Commission proposed a plan to better ensure fiscal sustainability and

appropriate healthcare benefits for retirees. A few key recommendations are:

- Increase the minimum age to be eligible for retiree healthcare by 5 years. Most employees (Group 1) would need to be 60 years old.
- Increase minimum years of service required to receive retiree healthcare from 10 to 20 years.
- Pro-rate benefits based on retirees' years of service. Retirees with 20 years of service would be eligible for 50% of employer contribution and with 30 years, 80% of employer contribution.
- Existing retirees would be exempt from these new changes as would select groups of current employees such as those within five years of retirement age with 20 years or more of service.

Boston's OPEB Liability

Many of these recommendations will help Boston reduce its liability over time, but it depends on what the Legislature approves. The City's unfunded liability for retiree health insurance (OPEB) is \$2.9B as of June 30, 2011. By comparison, the City's pension unfunded liability is \$1.3B as of January 1, 2011. In FY13 the City appropriated \$40M for the OPEB Trust to help prefund the liability which is prudent. However, that amount is below both the Annual Required Contribution for the year and still does not prefund the Normal Cost of the liability being earned this year by active employees to be paid upon retirement. The City should aim to fund the annual Normal Cost for now.