

April 2012

Boston's Retiree Health Care Liability Reduced

Negotiated agreement with unions and Medicare requirement cut OPEB liability

The City of Boston's unfunded liability for retiree health insurance (OPEB) was lowered to \$3.06B or by 34.6% on a partially-funded basis in the most recent independent actuarial valuation as of June 30, 2011. This decrease is due to changes put in place by an April 2011 health insurance agreement between the City and its 36 collective bargaining units and state legislation passed in July 2011. Though the unfunded liability for OPEB has been reduced, it still exceeds Boston's pension liability of \$1.37B.

Table 1
OPEB Liability
Partially-Funded
\$ in Billions

FY10	\$4.68
FY12	\$3.06

Two distinct changes led to the FY12 decrease in the partially funded liability:

- Coalition Bargaining Agreement** - The City's agreement with the unions includes a phased-in 2.5% increase in contribution for active employees and non-Medicare retirees over two years, plan design changes, and a 1% increase in retiree contributions to Medicare effective at the expiration of the agreement in FY15.
- Deletion of Section 18A** - Legislation passed in July 2011 (Chapter 69 of the Acts of 2011) deleted section 18A, and requires all Medicare eligible retirees to enroll in Medicare effective July 1, 2012.

The City had previously [taken steps](#) to reduce its OPEB liability from \$5.80B to \$4.68B in 2010 in contract negotiations involving increasing the employee premium share and Medicare enrollment for retirees who become eligible after July 1, 2010.

Annual Required Contribution (ARC)

The decrease in the OPEB liability has subsequently led to a lower Annual Required Contribution (ARC) for the City to properly fund the liability. The ARC in FY12 totals \$194M, a 26.5% drop from FY10. The City's total OPEB pay-as-you-go and Trust appropriation for FY12 is \$153.7M, which is \$40.3M less than the ARC for FY12.

Table 2
ARC and Appropriation Gap

\$ in Millions

	ARC	City Appropriation	Gap
FY10	\$264.10	\$143.0	\$121.1
FY12	\$194.00	\$153.7	\$40.3

The gap between the ARC and city appropriation in FY12 is far less than it will be in FY13. The ARC includes the full impact of all Medicare-eligible retirees enrolling in Medicare. However, in FY12 many retirees remain in higher-cost non-Medicare plans which results in higher premium costs requiring larger appropriations. The cost will be less in FY13 as eligible retirees enroll in a lower-cost Medicare supplemental plan, thus creating a larger gap as the ARC grows.