

Municipalities Wait for State Approval of OPEB Reserve

Legal authority to establish a trust fund would reduce overall liability

Boston and other cities and towns are now required to account for and report the full and unfunded liability for other post employment benefits (OPEB) than pensions such as health and life insurance for retirees. As with the pension liability, the OPEB liability could be reduced if municipalities were able to set funds aside in an irrevocable trust to prefund the liability taking advantage of investment returns from expanded investment vehicles available to retirement boards but not municipalities. Cities and towns interested in starting to fund a reserve for this purpose are waiting for legislation (H1140) that has been stalled in the House but which requires revisions to be useful.

The Governmental Accounting Standards Board (GASB) has established a new standard for financial statements that requires states and municipalities to report their full liability for retiree health and life insurance. The reasoning behind this new standard is that while these benefits are not received until retirement, they are, like pensions, a promise to current employees and are therefore a cost of providing service today.

Boston's Growing OPEB Liability

Boston has been paying for these benefits as the actual expense is paid out (pay-as-you-go) with no funds raised for future expenses of current employees. The City's outside actuarial consultant prepared a report that indicated its actuarial accrued liability as of

June 30, 2005 was between \$5.2B (pay-as-you-go) and \$2.5B (prefunded). The prefunded estimate is now \$2.8B as of January 2007 which presumes that the City will prefund the liability over 30 years in a separate reserve which is presumed to receive a higher rate of investment return. Based on this model, Boston's OPEB obligation in FY09 would be \$208M. Instead, Boston will fund current retiree costs of \$95M and put \$25M in a stabilization fund for a total of \$120M.

H1140

Missing from this model is state authorization to create an irrevocable trust with investment authority similar to retirement boards. H1140 has been sitting in the Committee on Bills in the Third Reading since May 2007. This bill should be enacted before the current legislative session concludes at the end of July after three issues are addressed.

- Mayors and city managers should be authorized to assign responsibility for the investment of funds consistent with town board of selectmen in the bill
- Treasurers of cities over a certain population should be authorized to invest OPEB proceeds in securities permissible for retirement boards
- Municipalities should be allowed to partially fund the actuarial requirement for a period of time to encourage creation of reserves.