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Boston's OPEB Liability Identified

Increased health insurance liability will influence future financial decisions

The City of Boston would have to more than double its annual budget for retiree health insurance if it would begin to fully fund the liability identified in a recent actuarial analysis. This analysis of the City's unfunded liability for retiree health benefits other than pensions (OPEB) should have a sobering influence over future financial decisions, especially those involving collective bargaining contracts and health benefits.

Boston's actuarial liability for the costs of retiree health insurance and group life insurance benefits was estimated at \$5.2B, assuming no pre-funding of costs as of June 30, 2005. However, should the City decide to pre-fund the liability in a segregated reserve, similar to the pension fund, the liability would drop to \$2.5B due to the increase in the rate of assumed return on investment. An addendum to the analysis indicated that the City pays an estimated \$2.2 million in health benefit costs for each career employee.

This OPEB liability analysis was prepared in response to new standards for financial statements established by the Governmental Accounting Standards Board (GASB). 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. The City now pays these benefits on a pay-as-you-go basis.

To begin to fully fund the liability, the City would pay the normal cost earned by employees for the current year and the annual share of the amortization of the unfunded actuarial accrued liability over 30 years.

Assuming the City decided to fund the liability in a segregated reserve, the total annual required contribution (ARC) would have been \$175.9M in fiscal 2006. That amount would be more than double the \$79M budgeted for retiree health benefits that year. The retiree health budget for FY07 is \$87M.

Annual Contribution - Pre-funded

FY06 in millions

Normal Cost	\$39.3
Amortization	136.6
Total	\$175.9
FY06 Budget	\$79.0

The GASB standard requires the City to report in its FY08 financial statements the full and unfunded liability for these retiree benefits, but does not require the liability to be funded. However, the bond rating agencies will consider the City's response to this liability in its rating process for the City's debt. The Research Bureau has recommended that the City begin to pre-fund its OPEB liability in its FY08 budget at an appropriate amount. Eventually, a more standardized 30-year funding schedule should be established and followed. Legislation should be enacted that authorizes cities and towns to establish such a segregated reserve and initially to fund it at their discretion.

For a more complete explanation of OPEB, click here for our November 2006 Special Report [Soaring Health Insurance Costs Threaten Boston's Competitive Edge](#), or go to www.bmrb.org.