

April 2016

## Boston's Retiree Health Care Liability Increases Slightly

*Investment return assumption is reduced to 7.0%, a prudent step for now*

The City of Boston's unfunded liability for retiree health insurance, also known as other post employment benefits (OPEB), is \$2.26B according to the most recent independent actuarial valuation as of June 30, 2015. This latest figure represents an increase of \$121M or 5.6% over the last evaluation as of June 30, 2013. The growth was driven by normal plan activity as well as important assumption and plan changes. The unfunded OPEB liability exceeds Boston's [pension liability](#) of \$1.69B.

June 30, 2011	\$3.061
June 30, 2013	\$2.142
June 30, 2015	\$2.263
<b>Chg. 2013-2015</b>	<b>\$0.121</b>

Three major factors contributed to the FY16 increase in the unfunded OPEB liability:

- 1. Normal Plan Activity** – Accrual of obligations for active members and interest on the total obligation, less employer contributions, increased the liability by \$104M.
- 2. Actuarial Experience Gain** – Changes in demographics, partly offset by a small investment loss, produced a reduced OPEB obligation of \$51M.
- 3. Valuation Assumption and Plan Changes** – The assumed rate of return on investments was lowered from 7.5% to 7.0%. Currently the rate of return for the pension liability is 7.75%. Also, the trend on future per capita health care costs and the mortality rates were revised. Retiree

contribution rates and plan design changes in the current [PEC agreement](#) offset a significant portion of the assumption costs. The net impact was an increase in the City's obligation by \$68M.

### Annual Required Contribution (ARC)

Since 2008, the City has paid the pay-as-you-go annual retiree health insurance costs and made an appropriation to the OPEB Trust each year. However, that total cost has been less than the actuarial Annual Required Contribution (ARC), which is the annual amount needed to fully fund the OPEB liability over 30 years. The ARC in FY16 totals \$172M, a 5.7% increase from FY14. The City's total OPEB pay-as-you-go (\$112.2M) and Trust appropriation (\$42.25M) for FY16 is \$154.5M, which is \$17.6M less than the ARC.

### ARC and Appropriation Gap

	<b>ARC</b>	<b>City Appropriation</b>	<b>Gap</b>
FY12	\$194.0	\$183.5	\$10.5
FY14	\$162.8	\$157.6	\$5.2
FY16	\$172.0	\$154.5	\$17.6

The City should strive to fully fund the ARC each year to contain the growth in future years' ARCs and the OPEB liability. The City's commitment to staying on schedule to reach full funding of its pension liability in 2025 is estimated to reduce pension costs by 77% in 2026. These funds should then be applied to reduce the City's unfunded OPEB liability.