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Boston's OPEB Liability Is Growing

New actuarial valuation increases liability by \$553M since June 2005

A new actuarial valuation of Boston's other post employment benefits (OPEB) as of June 30, 2007 indicates that the updated liability is \$3.1B, which represents an increase of \$553M or 21.7% in two years since June 30, 2005. OPEB benefits include health and life insurance for retired employees. The \$3.1B liability assumes prefunding which lowers the liability due to the increase in the assumed return on investment. On a pay-as-you-go basis, the liability is estimated at \$5.6B.

While the City has begun to set aside funds in a segregated stabilization fund for OPEB obligations, these funds will not be acknowledged in determining the actuarial liability because the Commonwealth has not authorized cities and towns to create segregated trust funds for such reserves. Under Massachusetts restrictive home rule, cities and towns cannot create trust funds through their own authority and must wait for the state to act.

The City of Boston would have to significantly increase its spending for retiree health insurance if it would begin to fully fund the liability identified in the new actuarial analysis. The Annual Required Contribution (ARC) for retiree health insurance is \$221.7M (pre-funded). The actuarial projected cost of retiree health insurance in FY08 is \$115.9M and \$20M was allocated to an enterprise fund for a total of \$135.9M. That means the gap to reach the full ARC was \$85.8M.

The required ARC consists of \$55.5M for the normal cost earned by employees for the current year and \$166.2M for the annual

amortization of the actuarial accrued liability over 30 years for a total of \$221.7M. In June 2006, the ARC was \$175.9M, which means that in one year, the ARC has grown by \$45.8M or 26%. That is good enough reason to suggest that there is some urgency for the state to enact a law authorizing cities and towns to create a segregated OPEB fund.

Annual Contribution Pre-funded	
In millions	
Normal Cost	\$55.5
Amortization	166.2
Total ARC	\$221.7
FY08 Actuarial Cost	\$115.9
FY08 Contribution	20.0
Total	\$135.9
Gap	\$85.8

In addition, this new analysis of the City's unfunded OPEB liability should have a sobering influence over future financial decisions, especially those involving collective bargaining contracts and health benefits.

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.