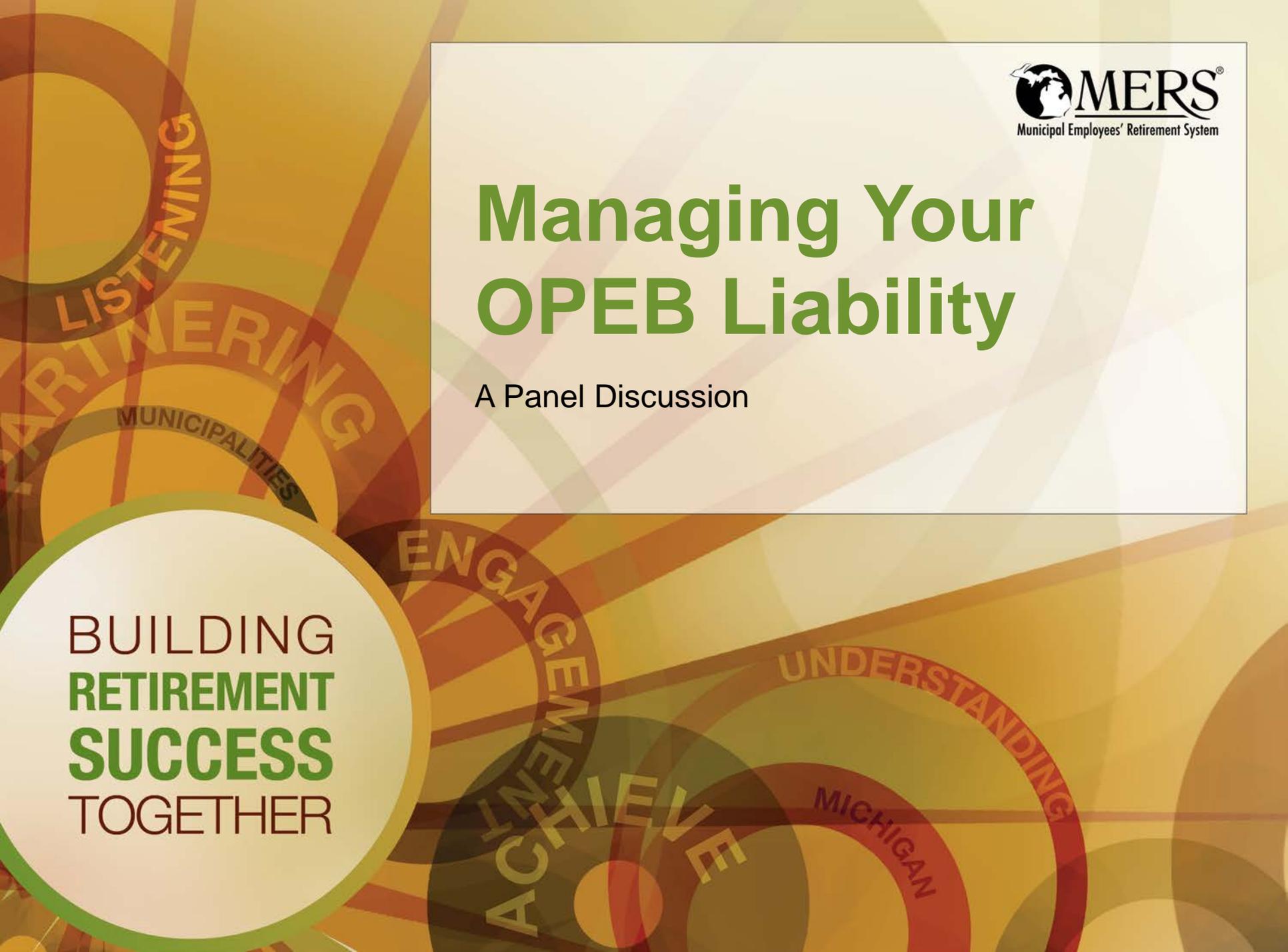


Managing Your OPEB Liability

A Panel Discussion

BUILDING
RETIREMENT
SUCCESS
TOGETHER



Moderator

- **Carrie Lombardo,**
MERS Chief Marketing and Employer Services Officer

Panelists

- **Tara Tyler,**
MERS Benefit Plan Advisor

- **Kelli Schroeder,**
Human Resource Generalist, City of Traverse City

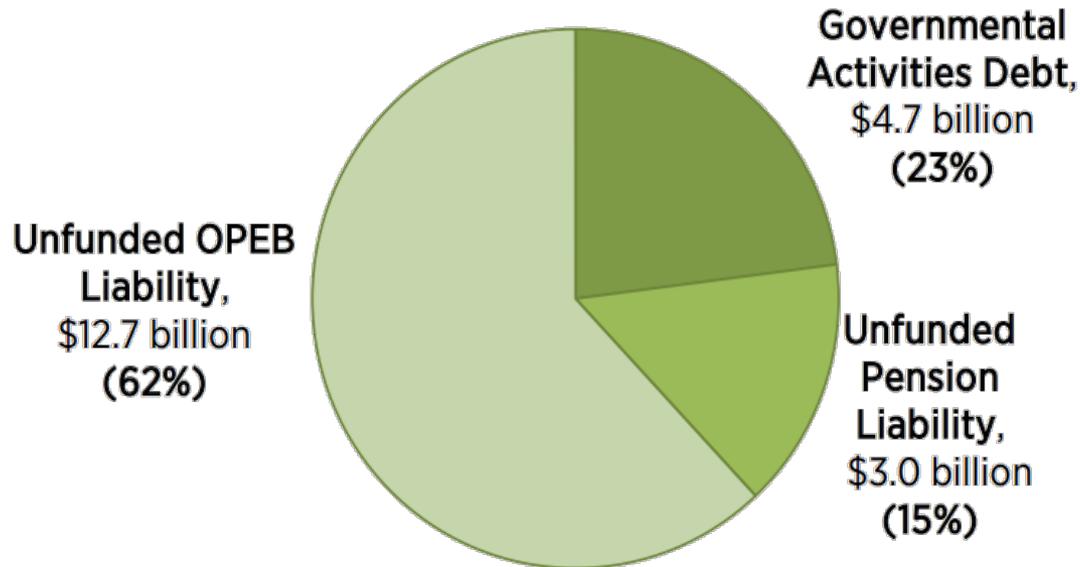
- **Jodie McGarry,**
Human Resource Director, Newaygo County

GASB 45 - Ten Years Later

- In 2004 GASB issued statement No. 45
 - Requires the long-term cost of other post-employment and non-pension benefits be determined on an actuarial basis for financial reporting purposes
- Initially there was much confusion
 - What is OPEB?
 - If the retirees pay 100% of the premium, do we have a liability?
 - Was there a funding requirement?

Today's Challenges

Total Local Unit Long-term Liabilities



Source: Funding the Legacy, MSU Extension White Paper
By: Eric Scorsone

What options do municipalities have today to help manage or reduce their OPEB liability ?

Funding Through a Trust vs. Non-Trust

Non-Trust

- Assets can be transferred to use for other purposes
- Assets do not offset OPEB liability
- Employees do not feel benefit is secure
- Low investment earnings
- Employer must manage investments

MERS Retiree Health Funding Vehicle

- 115 Governmental Trust
- An account in which employers can offset their retiree health care liability
- Earning on assets reduce long-term contributions and unfunded liability
- Contributes to a positive credit rating
- Assets are legally protected from creditors and may only be used for OPEB
- Provides economies of scale and pooling
- Employer decides how much of their OPEB liability to fund based on budgetary constraints and funding plans

Employer Sponsored Medical Savings Accounts

Similar to an HRA

An employer-sponsored program providing a tax-free medical savings accounts to employees for post employment health care

- Employer Benefits
 - Can augment or replace defined benefit style health plans
 - Contributions are exempt from FICA (7.65%)
 - Assets within employer trust can be transferred to fund employee account
- Employee Benefits
 - Allows employees to prefund their portion of health care costs
 - Allows employees to invest leave conversions
 - Leave funds to a beneficiary

**How do municipalities
know how much their OPEB
liability is?**

OPEB Valuation

- Actuary reviews municipality plan:
 - Group size
- Type of benefits offered (health care, life insurance, disability, long-term care)
 - Plan provisions and rates
 - Cost sharing
 - Spousal coverage
 - Report as whole entity or by division
- Required every 2 or 3 years based on size of the plan

Examples

Traverse City

Overview	<ul style="list-style-type: none">• 180 City and Light & Power employees with retiree health care benefits• OPEB liability totaled approximately \$12 million• Funds set aside were less than the liability total
Decision	<ul style="list-style-type: none">• In 2003 negotiated new program for retiree health care: (continued to provide retiree health care however until negotiations began in 2009)<ul style="list-style-type: none">– New hires receive health care savings account in lieu of coverage– Existing retirees converted and existing employees allowed option to convert to the new program
Health Care Saving Program	<ul style="list-style-type: none">• New hires receive Health Care Savings account in lieu of retiree health care<ul style="list-style-type: none">– Employer contribution of 2% per year, immediate vesting– Mandatory Salary Reductions of 0.5%• Existing employees allowed option to convert<ul style="list-style-type: none">– Employer contribution of 2% per year, immediate vesting– Mandatory Salary Reductions of 0.5%• Two Existing Retiree Groups<ul style="list-style-type: none">– \$225 for life of retiree and spouse– Amount equal to premium amount for single coverage of our highest plan for 36 months
Retiree Health Funding Vehicle	<ul style="list-style-type: none">• Began pre-funding OPEB liability in 2007 with 115 Trust

Newaygo County

Overview	<ul style="list-style-type: none">• County with 200 employees that offers retiree health care benefits• OPEB liability totaled \$9,298,209 in 2008
Decision	<ul style="list-style-type: none">• Starting in 2006, modify existing benefit plans to reduce future costs to:<ul style="list-style-type: none">– Protect credit rating– Improve long-term financial health– Educate employees on impacts of GASB and communicate the need for changes (lunch meetings, contract negotiations, etc.)
Health Care Saving Program	<ul style="list-style-type: none">• Those with more than 8 years of service as of 12/31/06 are eligible for employer paid health and rx coverage; 50% from age 62 to 65; 100% at age 65• Those with less than 8 years of service as of 12/31/06 receive a reduced retiree health insurance benefit coupled with employer contribution to Health Care Savings• New hires receive Health Care Savings account in lieu of retiree health care and do not have access to buy the County's insurance at retirement<ul style="list-style-type: none">– Employer contribution of \$50 per pay
Retiree Health Funding Vehicle	<ul style="list-style-type: none">• Began pre-funding OPEB liability in 2009 with 115 Trust• Fund through internal charges to departments through payroll
Impact	<ul style="list-style-type: none">• OPEB Liability \$8,252,510• Continue to offer employees a benefit they may use towards retiree health care (HCSP) and also continue to reduce the county's OPEB liability

Current Trends

Please take time to fill in your survey

There are session surveys in the back of your book. Please take the time to fill in the survey to assist us in planning future events!



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