Managing Your OPEB Liability
A Panel Discussion
Moderator

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Panelists

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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

- Unfunded OPEB Liability, $12.7 billion (62%)
- Governmental Activities Debt, $4.7 billion (23%)
- Unfunded Pension Liability, $3.0 billion (15%)

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
- 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
- In 2003 negotiated new program for retiree health care: (continued to provide retiree health care however until negotiations began in 2009)
  - 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
- New hires receive Health Care Savings account in lieu of retiree health care
  - Employer contribution of 2% per year, immediate vesting
  - Mandatory Salary Reductions of 0.5%
- Existing employees allowed option to convert
  - Employer contribution of 2% per year, immediate vesting
  - Mandatory Salary Reductions of 0.5%

### Two Existing Retiree Groups
- $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
- Began pre-funding OPEB liability in 2007 with 115 Trust
# Newaygo County Overview

- County with 200 employees that offers retiree health care benefits
- OPEB liability totaled $9,298,209 in 2008

## Decision

- Starting in 2006, modify existing benefit plans to reduce future costs to:
  - 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

- 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
  - Employer contribution of $50 per pay

## Retiree Health Funding Vehicle

- Began pre-funding OPEB liability in 2009 with 115 Trust
- Fund through internal charges to departments through payroll

## Impact

- 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

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Contact Us

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