MEETING YOUR OPEB OBLIGATIONS

PREPARING FOR GASB 75

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UNDERSTANDING OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Post-Employment Healthcare	Other Post-Employment Benefits (outside of a pension plan)
Medical and prescription drugs	Death/survivor benefits
Dental	Life insurance
Vision	Disability
Hearing	Long-term care
Includes "implicit subsidy" plans	

Generally, does *not* include sick leave and vacation pay

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NEW ACCOUNTING STANDARD GASB 75

Liabilities to be directly reflected on *statement of net position* rather than a footnote disclosure.

For many, this will increase…

1. Transparency of OPEB liabilities
2. Impact on balance sheet
3. Communication challenges

UNDERSTANDING YOUR OPEB OBLIGATIONS

Are calculated based on…

1. Specific OPEB plan provisions
2. Employee and retiree demographics
3. Actuarial assumptions, including interest rates

FUNDING VS. PAY-AS-YOU-GO

	FUNDINNG	PAY-AS-YOU-GO*
How it works	Build up assets to meet future liabilities	Only pay annual claims or premiums
Interest rate basis	Expected return on plan assets	20-year, high-quality municipal bond rate
Typical rate range	7% to 8%	Market rates
Change frequency	Infrequent	Generally annually

Which interest rate is used makes a huge difference…

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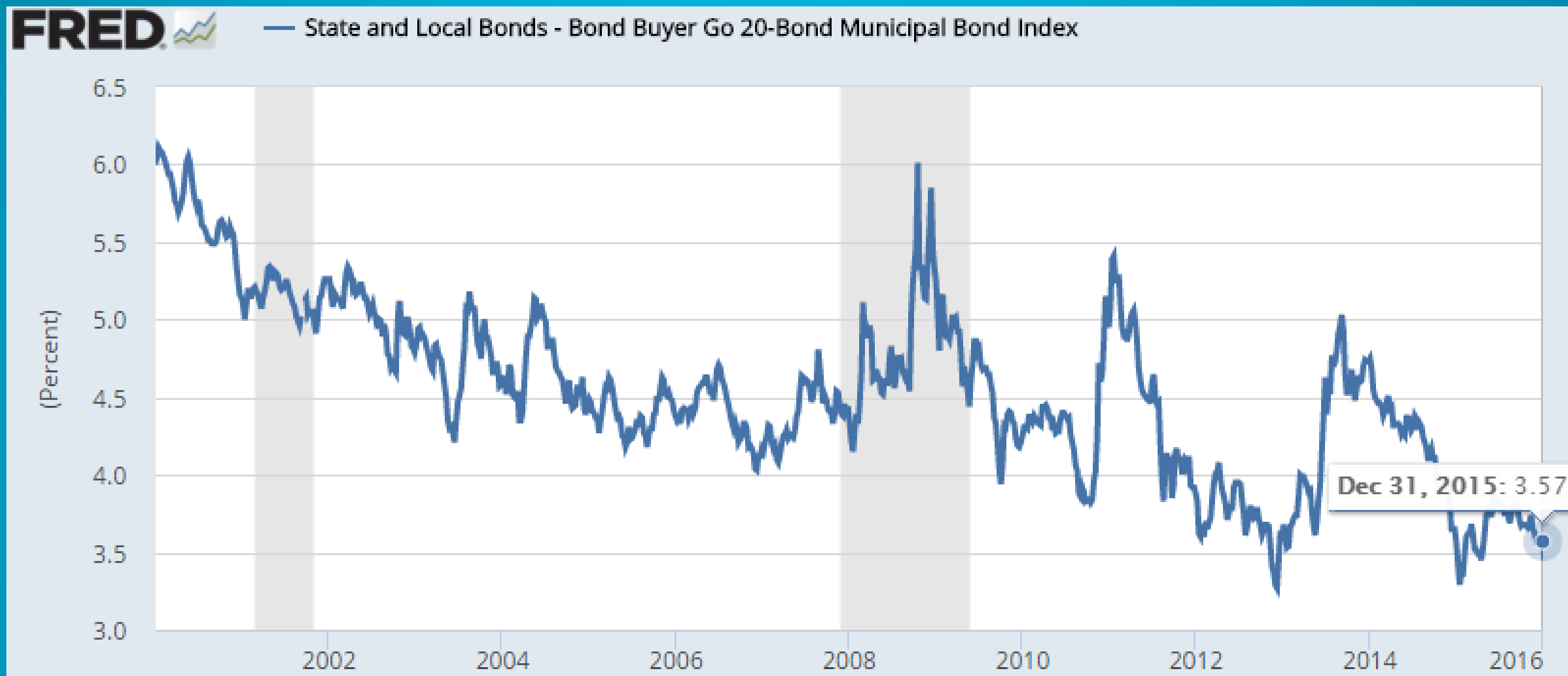
* Including the portion of funded OPEB expected to remain unfunded
Source: GASB 75

INTEREST RATES FOR UNFUNDED OPEB PLANS



Discounting using these much lower interest rates produces a much *higher* OPEB liability

Source: research.stlouisfed.org

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RISKS EXIST UNDER BOTH APPROACHES

FUNDED PLAN RISKS

- Ability of employer to sustain annual funding at adequate levels
- Balance sheet volatility based on financial market fluctuations

PAY-AS-YOU-GO (UNFUNDED) RISKS

- Ability of employer to sustain rising pay-as-you-go costs
- Greater impact on balance sheet
- Balance sheet volatility due to changes in muni-bond rate

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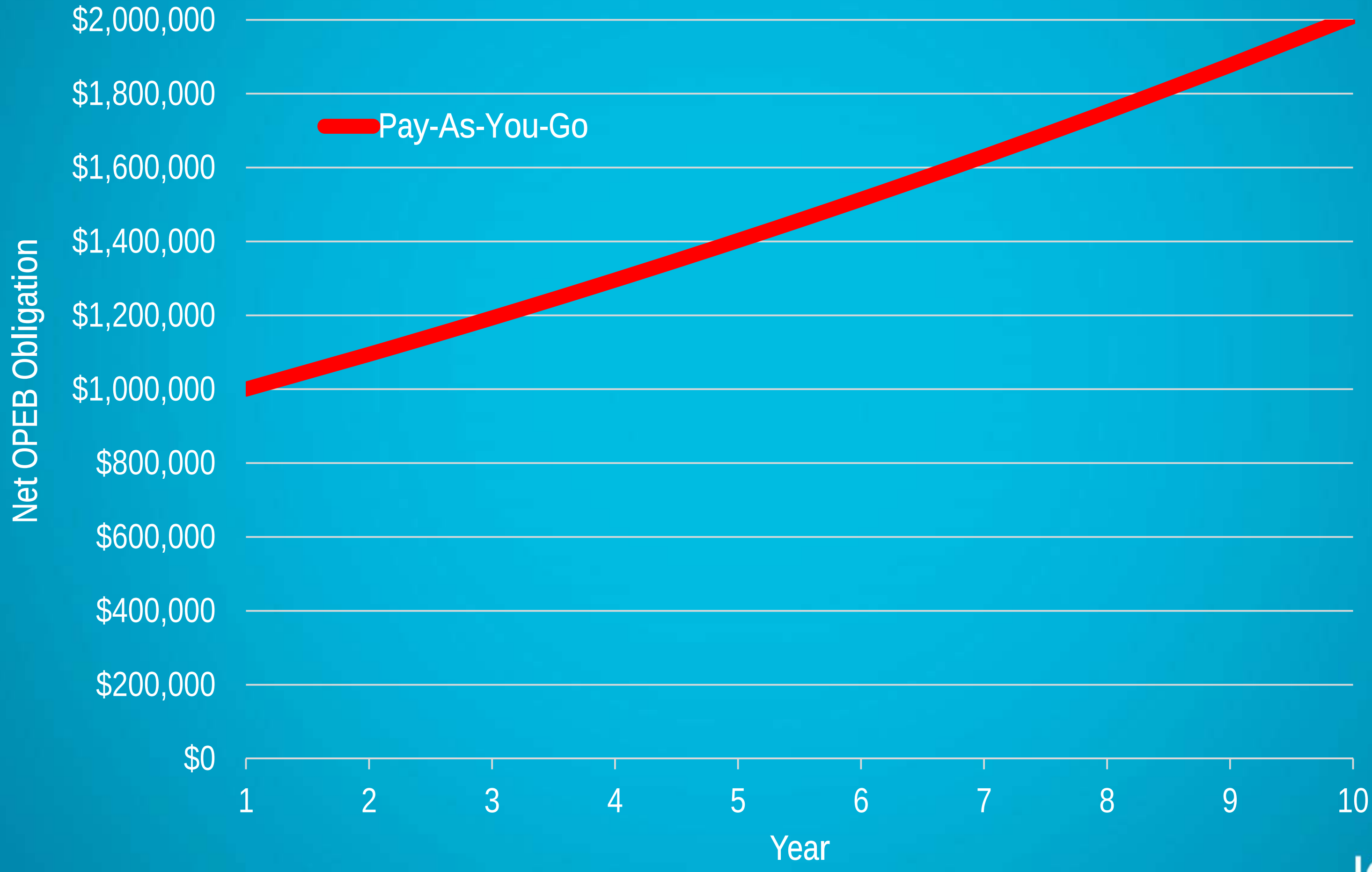
EXAMPLE OF BALANCE SHEET IMPACT – 10 YEAR PROJECTION



Assumptions: See Appendix

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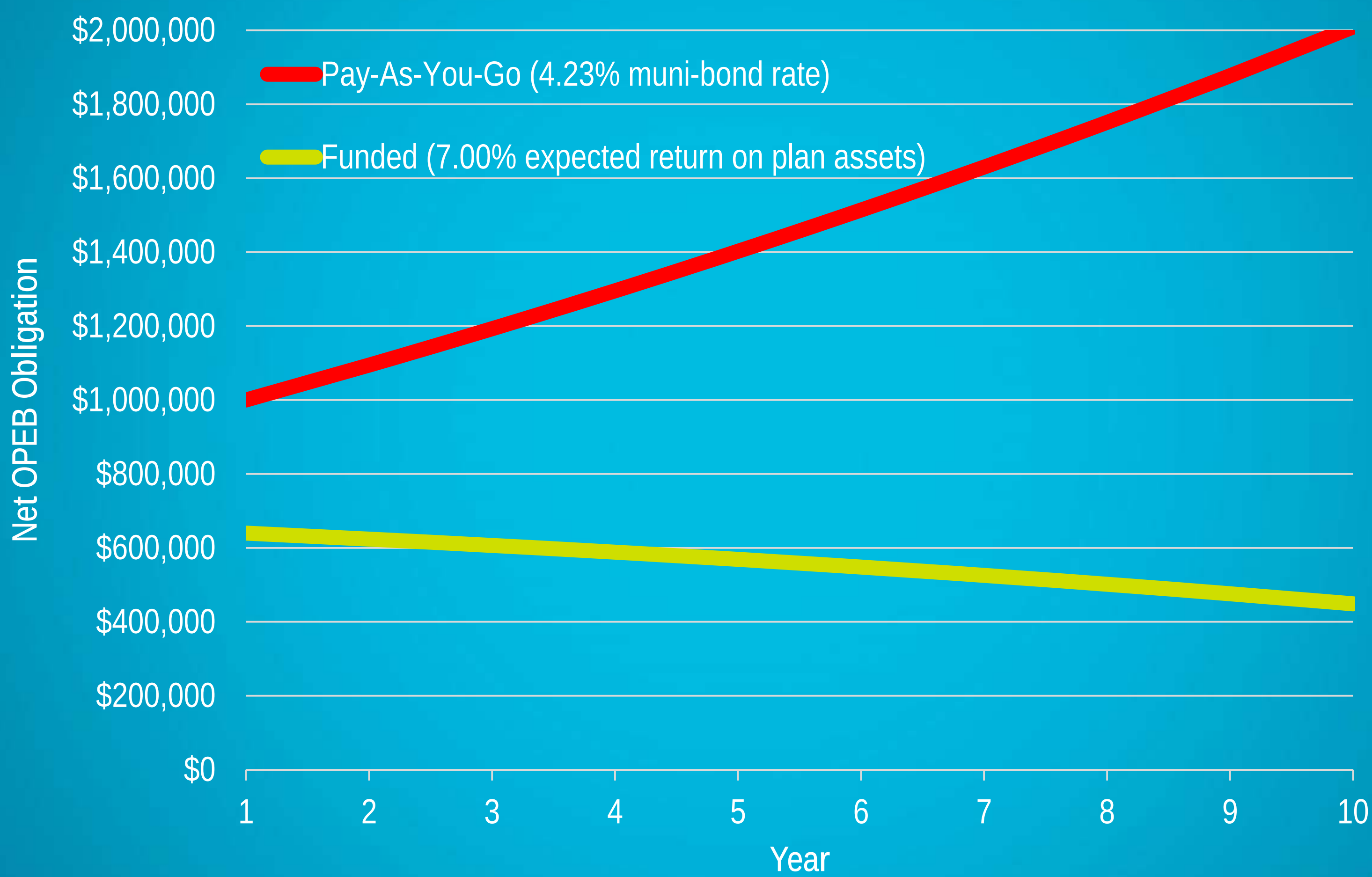

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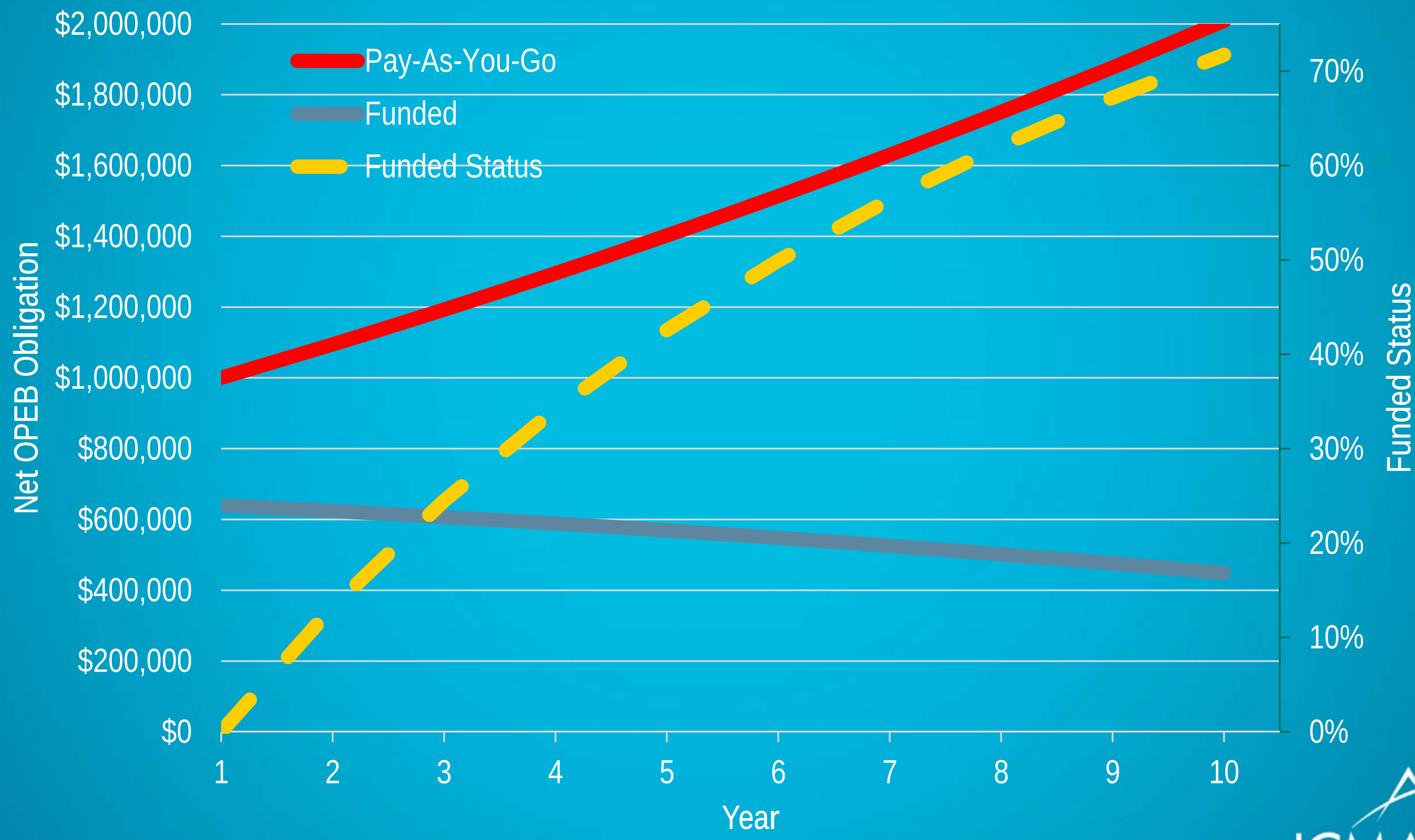

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Assumptions: See Appendix

COMMUNICATING WITH STAKEHOLDERS

The upcoming changes may have budget implications for your community – how you communicate is key

PRE-FUND APPROACH

- Immediately reduces net OPEB obligation
- Analogous to communicating an underfunded pension plan

  "Long-term debt (mortgage) paid down over many years"

PAY-AS-YOU-GO APPROACH

- Growing balance sheet impact
- Need to determine how to address any conflict with a *funded* pension plan

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ADDITIONAL BENEFITS OF OPEB FUNDING

- **Intergenerational tax equity** – current taxpayers pay for current services
- **Enhanced retirement security for employees** – OPEB generally viewed as "less protected" than pensions
- **More valuable to lower-paid employees** – OPEB benefits are generally not salary related

NEXT STEPS

The earlier you plan the better

- Proactively assess impact via discussion with your actuaries and auditors
- Evaluate OPEB funding *prior to* GASB 75 implementation, including investment options
- If OPEB costs appear to be unsustainable or problematic
  1. Evaluate what level of benefits can continue
  2. Assess potential alternative OPEB designs

ICMA-RC RETIREE HEALTH CARE SOLUTIONS

PRE-FUNDED OPEB TRUST

HYBRID, PAIRED SOLUTIONS

DEFINED CONTRIBUTION SAVINGS VEHICLE

Employer Investment Program (EIP)

Retirement Health Savings Accounts (RHS)
OR
401(h) Retiree Health Accounts

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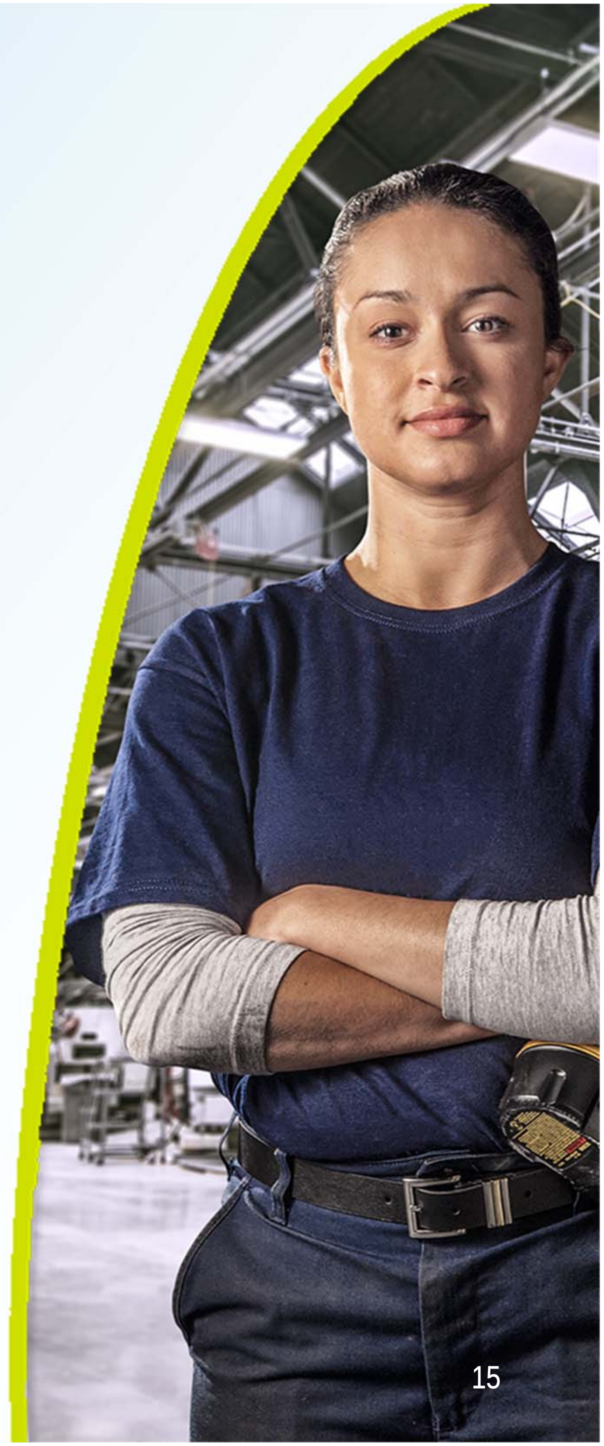
EIP

Pre-fund retiree health costs

- Tax-favored Integral Part Trust (IPT) funding vehicle
- Dedicated account fulfills GASB separate trust requirements
- Offsets OPEB liabilities

EIP Advisor *adds* investment advisory services, helping employers meet their fiduciary responsibilities



RHS

Tax-advantaged savings vehicle for employees

- All contributions set aside *exclusively* for qualifying medical expenses
- Employer determines participation and contribution criteria
- Range of investment options available
- Tax-*free* benefits for qualifying expenses

401(H) RETIREE HEALTH CARE

- Administratively similar to RHS
- Key distinction – a sub-account of a 401(a) Money Purchase Plan

Can only be paired with a 401(a) Money Purchase Plan

EIP + RHS OR 401(H)

EIP, to prefund promised retiree health benefit

+

RHS plans or 401(h) accounts, to provide dedicated savings account for employees

=

A TRULY COMPREHENSIVE SOLUTION

www.icmarc.org/eip

www.icmarc.org/rhs

www.icmarc.org/401h

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QUESTIONS

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APPENDIX: 10-YEAR BALANCE SHEET PROJECTION ASSUMPTIONS

Economic Assumptions		
Municipal Bond rate	4.23%	10-year year-end average of Bond Buyer 20 index
Expected return on plan assets	7.00%	
Interest rate sensitivity		Every 1.00% increase/decrease in interest rate reduces/increases OPEB obligations by 13%
Other Assumptions		
Net OPEB Obligation	$1,000,000	Value at 4.23%, starting value
Service cost	$50,000	Value at 4.23%, all years
Benefit payments	$0	No impact on net OPEB obligation
Annual funding	$95,000	Service cost plus 20-year (flat dollar) amortization, all years
Actuarial gains/losses	None	

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