

MASSACHUSETTS OPEB COMMISSION

Discussion Worcester Regional Research Bureau

November 6, 2013

Henry Dormitzer

The OPEB Commission

OPEB Commission Membership

Representative Jay Barrows	Henry Dormitzer, Co-Chair	Shawn Duhamel, Retirees Assoc.	Al Gordon, Treasurer's Designee	Senator John Hart	Senator Michael Knapik
Dolores Mitchell, Exec. Dir. Of GIC	Gregory Mennis, Designee of Administration and Finance Secretary	Daniel Morgado, Shrewsbury Town Manager	Andrew Powell, Massachusetts AFL-CIO	Representative John Scibak	Anne Wass, Co-Chair

- Established by Chapter 176 of the Acts of 2011
- Commission met 12 times
- Commission procured two actuaries
- Filed recommendations January 11, 2013
- Legislative hearing on October 31, 2013

OPEB Commission Principles

Commitment to Intergenerational Equity

- Avoid shifting costs onto future generations
- Honor health care promise to retired career employees

Competitive Compensation Packages to Attract and Retain Employees

- Including quality, affordable health care for retirees

Urgent Need for Sustainable Government

Prudent Allocation of Taxpayer Dollars Among Critical Services

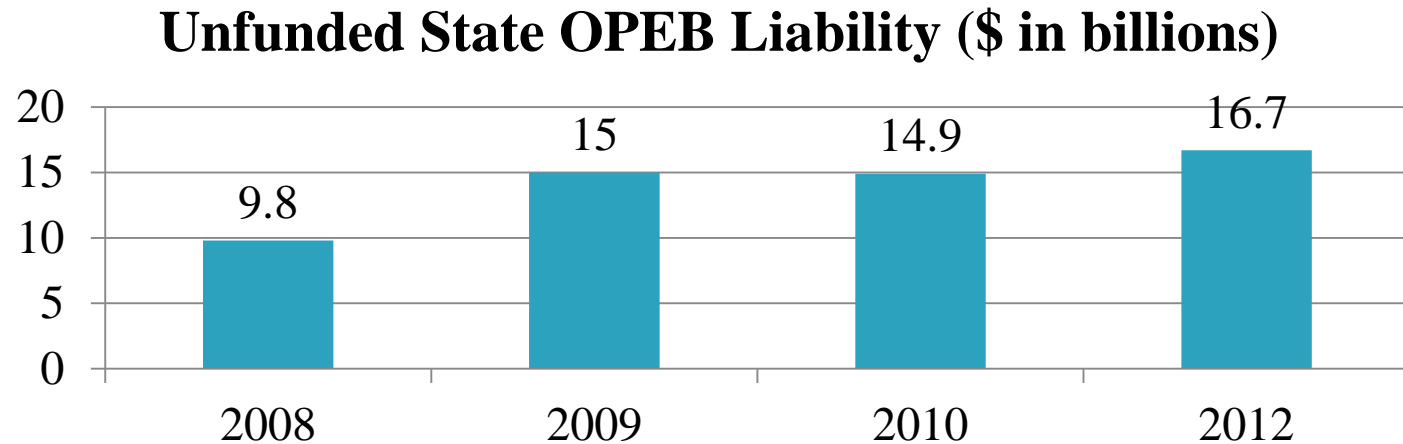
- Transportation, education, benefits, etc.
- Maintenance of credit ratings

Alignment with Recent Changes to State and Federal Health Care Programs

- With a focus on access and cost control

OPEB Costs & Liabilities

- Commonwealth of Massachusetts unfunded liability: \$16.7 billion

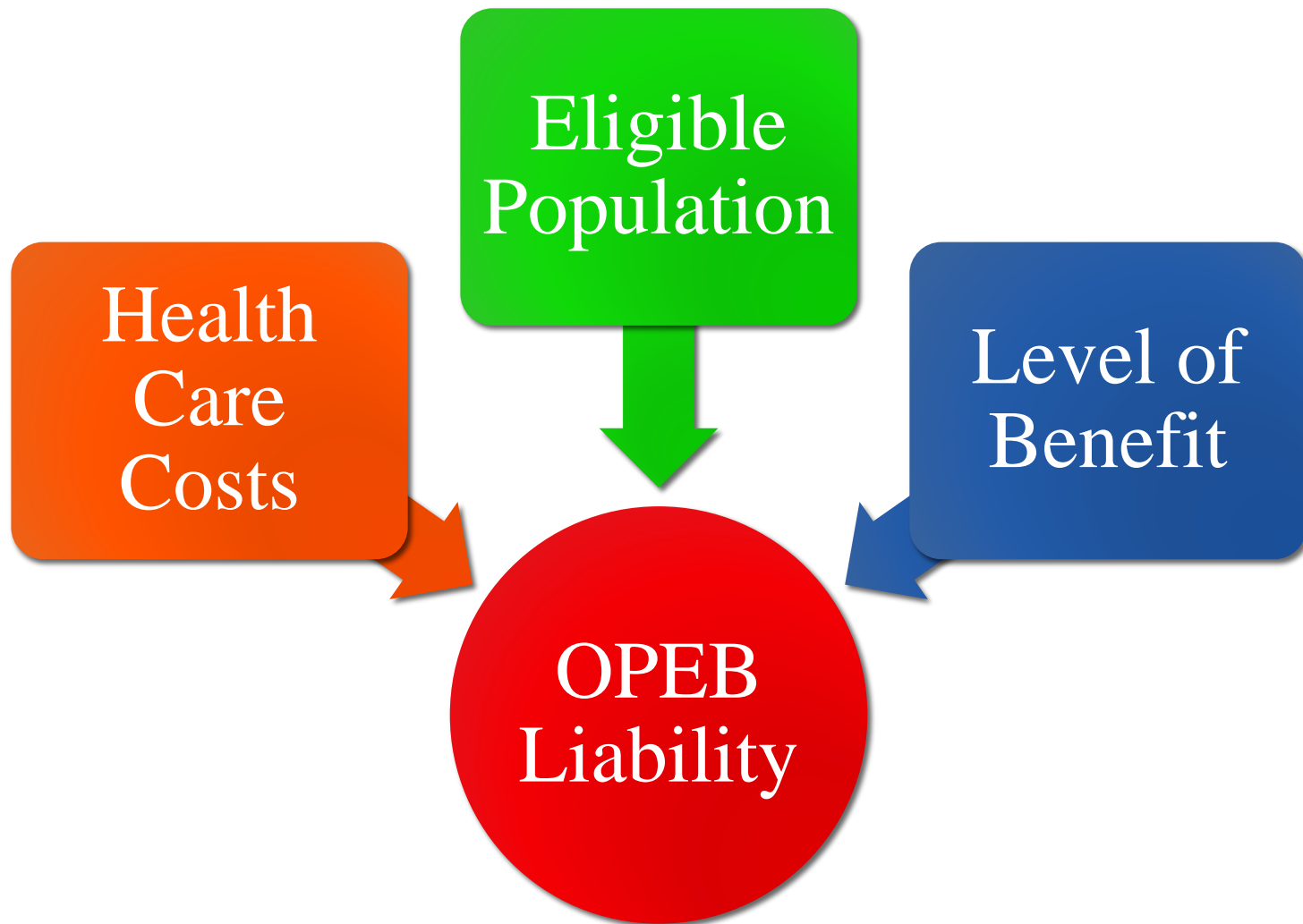


- Estimated municipal unfunded liability: \$29 – 30 billion
 - Each municipality reports separately from the Commonwealth
 - Municipalities include cities, towns and regional school districts
 - Municipal OPEB liabilities include teachers, in contrast to teacher pensions which are a state liability

OPEB is Affecting Budgets

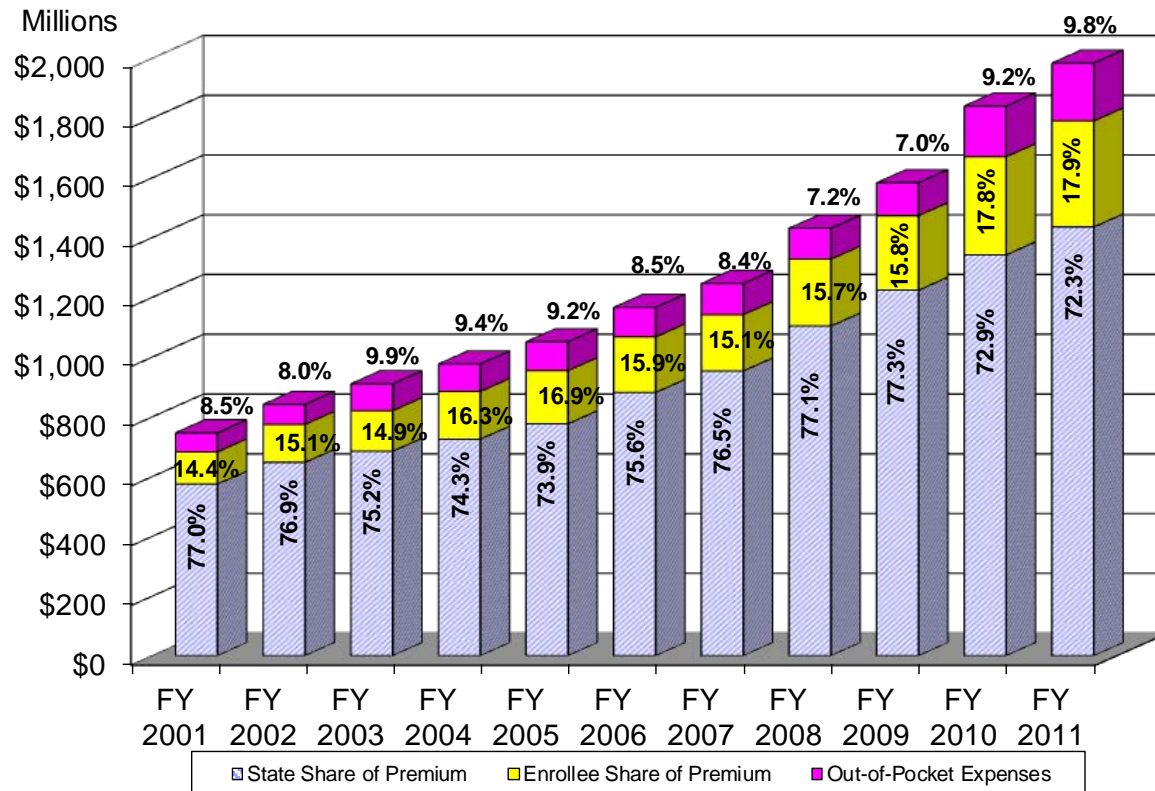
- Health care cost inflation is hurting
 - Total health insurance expenditures by municipalities have increased from 13.5% to 20% of budgets between 2001 and 2010.
- **Municipalities:** The portion of health insurance costs attributable to retirees is estimated to be over \$700mm annually. Funding the actuarial Annual Required Contribution (ARC) would cost approximately \$1.75-2 B.
- **State:** FY2013 retiree health costs are \$415mm but funding the ARC would amount to \$1.3 B annually.
- There is continued pressure on state and municipal budgets to maintain adequate funding for retiree pensions

Drivers of OPEB Liabilities



Health Care Cost Inflation Borne by State / Municipalities

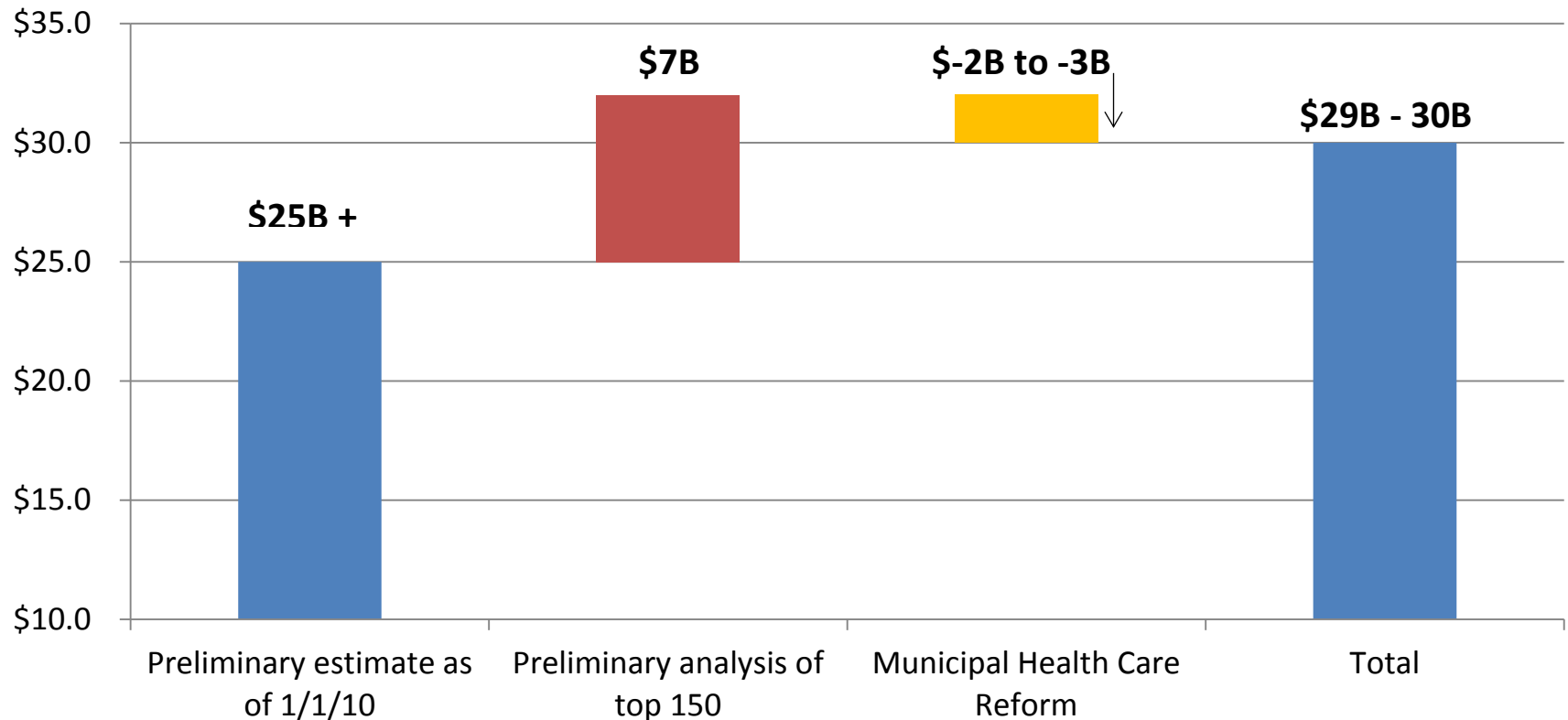
- GIC health expenditures grew 59% from 2007 to 2011.
 - Avg. per enrollee increase of 26.4% lower than nat'l average of 35%
- By comparison, state revenue grew 15% over this time period.
- Enrollee share of premium up 2.8% after 2009 when actives began paying 5% more.



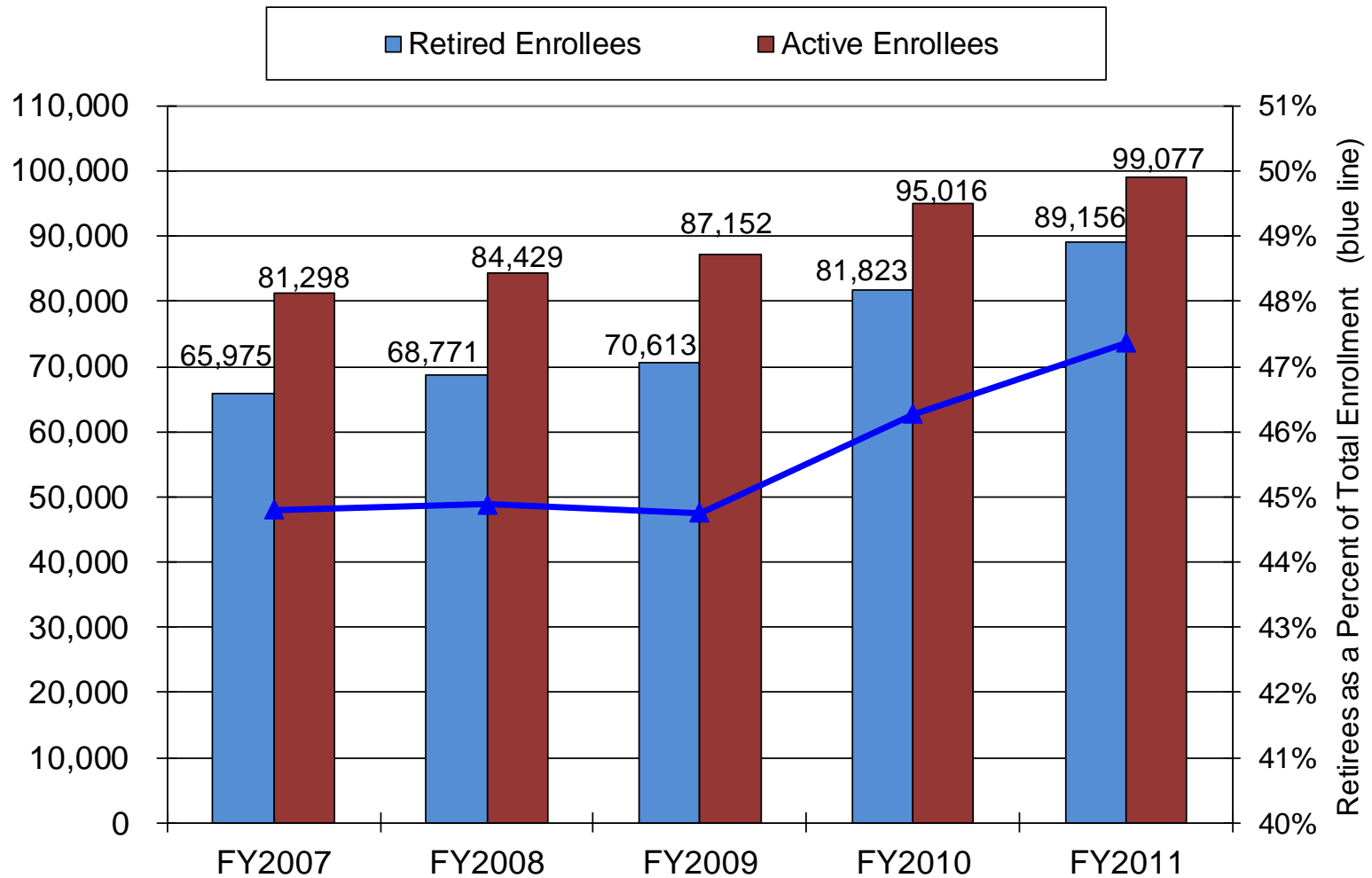
What about Municipal Health Care Reform?

- It helped, by about \$2 – 3 billion

Amount in billions*



Eligible Population is Increasing

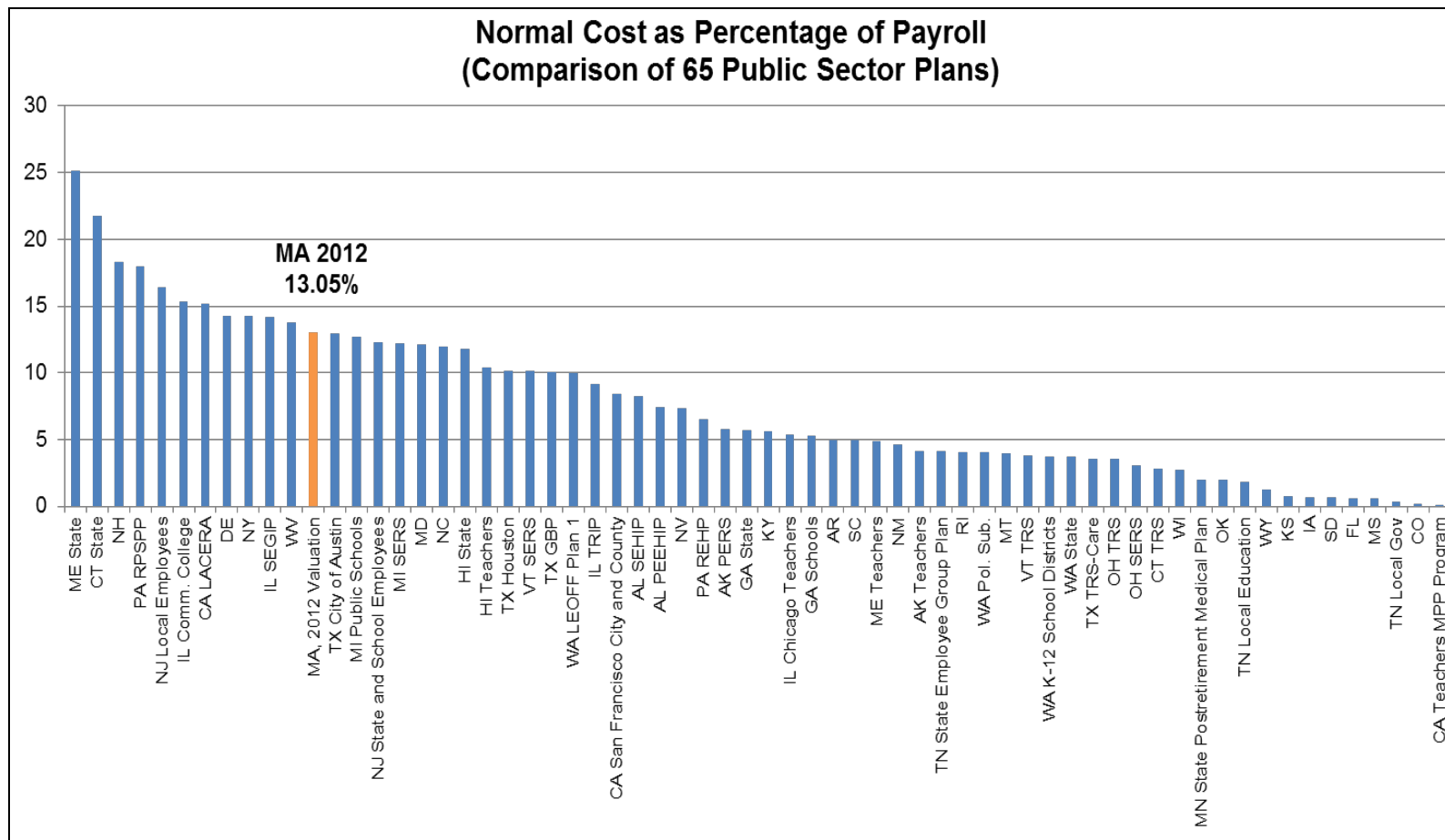


GIC Data.

Current Benefit Level

- The Commonwealth pays for 80% of premiums for retirees who retired after October 1, 2009.
- Municipalities vary in the level of benefit they provide
 - No municipality pays less than 50% of retiree health care premiums, and on average municipalities pay for about 75% of premiums.
- Most private sector employers that offer retiree benefits require their retired employees to pay the full cost of their premiums or to pay for any increases in premiums above a fixed dollar cap.
- A disproportionate share of OPEB liabilities is associated with the cost of health insurance for pre-Medicare retirees.
 - As of January 2012, the annual cost of retiree health care for former state employees was \$10,620 for those under age 65 and \$4,780 for those over age 65 and eligible for Medicare.
- The present value at retirement of this medical benefit for a single male, retiring at age 62 with Indemnity coverage, is \$114,000, which represents approximately \$200,000 in post-retirement benefit payments.
- Unlike pensions, retiree health benefits do not vary with length of service.
 - An employee who works for the Commonwealth or one of its municipalities for 10 years becomes eligible for the same retiree health.

Massachusetts' in Top 15 of 64 Public Plans



Source: Alicia H. Munnell et. al., “Comparing Compensation: State-Local Versus Private Sector Workers.” *Center for Retirement Research at Boston College*. September 2011. Study of 64 plans across 48 states and DC.

Normal cost as a percentage of salary is a useful metric because it accounts for differences between average salary levels. Most of the key assumptions from these plans, are reasonably similar (e.g. 55 of 64 have a discount rate between 4 and 5%)

Recommendations and House Bill 59

Item	Recommendation
Minimum Age	Minimum age of eligibility for retiree health care benefits increased by 5 years for all groups (60 for Group 1, 55 for Group 2, 50 for Groups 3 and 4)
Minimum Years of Service to Receive Benefit	Minimum years of service increased from 10 to 20 years for all groups
Pro-Rating of Benefits	Prorated from 50% premium contribution after 20 years to maximum current retiree benefit (currently 80% of premium for State retirees) at 30 years
Affected Population	All future employees.

All current employees except (i) those with 20 years of service and within 5 years of pension eligibility as of July 1, 2013; (ii) those within 5 years of Medicare eligibility and with a minimum of 9 years of creditable service as of July 1, 2013; and (iii) teachers enrolled in Retirement Plus, upon reaching age 57 and the statutory maximum of 80%.

Recommendations and House Bill 59

Item	Recommendation
Continuing Service	Individuals who leave public service without retiring will not be eligible for contribution upon retirement unless (1) they have at least 25 years of creditable service and retire within 5 years after leaving or (2) they have at least 20 years of creditable service and are enrolled in Medicare Parts A and B.
Phase-In of New Requirements	Any current employee who, on July 1, 2013, is at least age 50 and has completed 15 years of service shall be eligible to receive a 50% premium contribution upon retirement. Any current employee who, on July 1, 2013, is at least age 55 and has completed 10 years of service, shall be eligible to receive a 50% premium contribution upon retirement.
	Implementation postponed for communities where contribution level for retirees is set by special act

Recommendations and House Bill 59

Item	Recommendation
Disability Retirements	<p>Accidental disability retirements exempted from new requirements.</p> <p>Ordinary disability retirements will be exempt from the reform until the 2014 Affordable Care Act exchange is available. At that time, ordinary disability retirees shall receive a 50% premium contribution for 10 to 20 years of service. Beyond 20 years, prorating will apply.</p>
Non-Contributory Coverage	<p>State retirees who are not eligible for contributions to coverage under the reform may continue coverage at full cost.</p>
Survivor Benefits	<p>Future surviving spouses eligible for a minimum of 50% premium share; current surviving spouses enrolled in governmental unit's coverage and paying higher share of coverage eligible for minimum of 50% premium contribution.</p>
Retired Municipal Teachers	<p>GIC administers a separate program for retired municipal teachers. This section applies the reform rules to this group.</p>

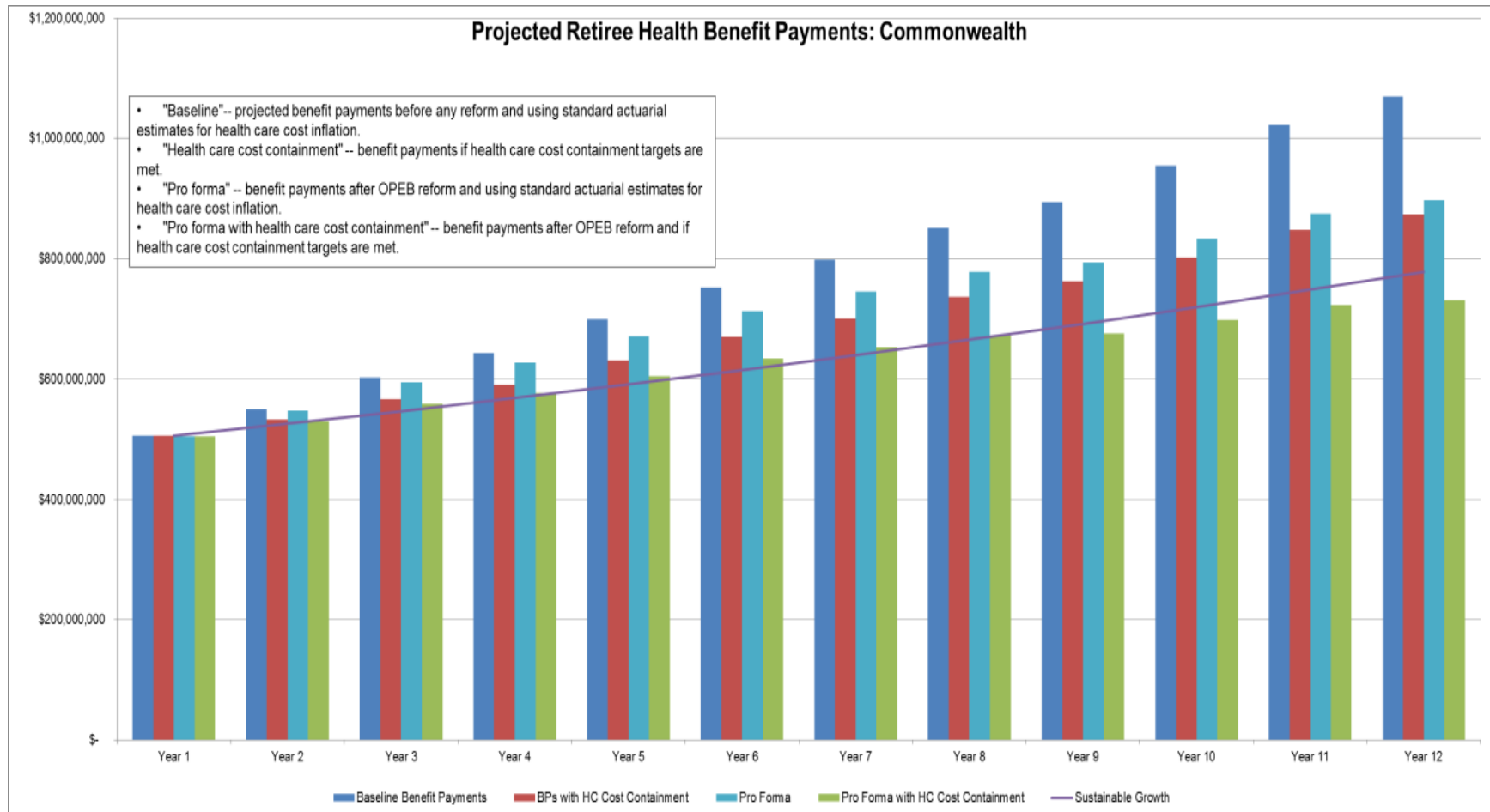
Recommendations and House Bill 59

Item	Recommendation
Future Changes to Premium Contributions	Municipal retiree contributions are “frozen” at levels as of 1/1/2013 for a period of three years, but changes adopted locally before 1/1/2013, shall be honored. Following the moratorium, the ability to reduce contributions shall be returned to local option, but any municipality that exercises this right shall hold harmless (grandfather) existing retirees at their current level of contribution at the time of implementation.
Sustainability	A&F, in consultation with Division of Local Services, GIC and PERAC shall establish a procedure for monitoring the continuing fiscal sustainability of state and local retiree health care benefits.

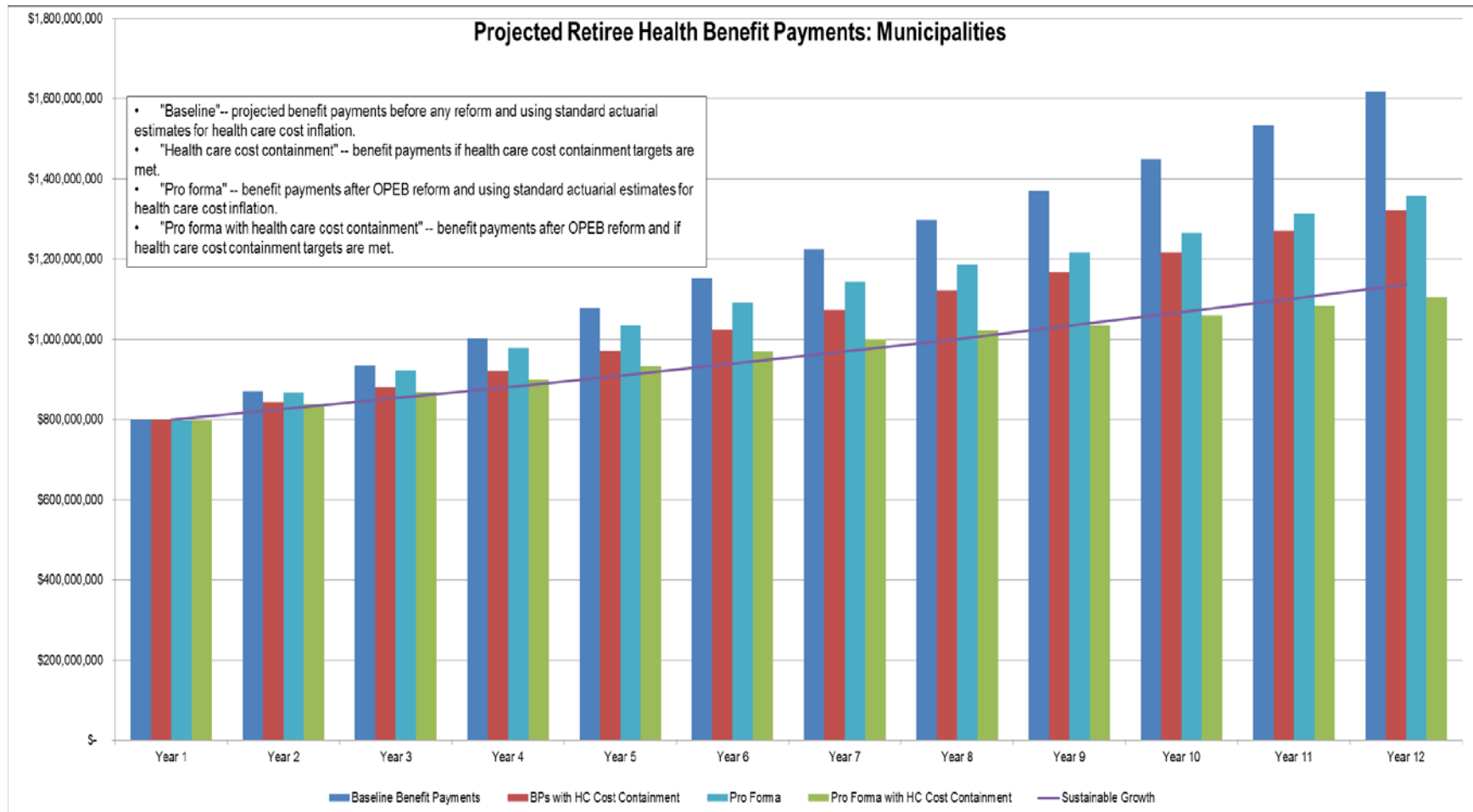
Impact of Recommendations

Total	Commonwealth	Municipalities
<p>Savings of \$15-20 billion over 30 years</p>	<ul style="list-style-type: none"> • Savings of \$6-8 billion over 30 years • Greater than 30% reduction in year 30 	<ul style="list-style-type: none"> • Savings of \$9-12 billion over 30 years • Greater than 30% reduction in year 30
<p>Savings of \$1 billion over 10 years</p>	<ul style="list-style-type: none"> • Savings of over \$400 million • 12-13% reduction in year 10 	<ul style="list-style-type: none"> • Savings of over \$600 million • 12-13% reduction in year 10
	<ul style="list-style-type: none"> • Meets ANF sustainable spending threshold in year 9 (year 3 with EGWP) 	

Commonwealth Projections



Municipal Projections



OPEB

- OPEB is “Other Postemployment Benefits” – i.e.: benefits other than pensions
- It is health care, mostly, but might also include:
 - Life insurance
 - Dental coverage
 - Prescription drug benefits
 - Vision
 - Includes beneficiary benefits
- Frequently just referred to as “Retiree Health Benefits”
- OPEB has gained attention following the release of GASB’s Statements 43 and 45 in 2004

GASB Statements 43 and 45

- GASB is the “Governmental Accounting Standards Board”
- GASB staff:
 - OPEB is “a part of the compensation that employees earn each year, even though these benefits are not received until after employment has ended. Therefore, the cost of these future benefits is a part of the cost of providing public services *today*.”
 - “...the readers of financial statements, including the public, have incomplete information with which to assess the cost of public services and to analyze the financial position and long-run financial health of a government.”
- In Statements 43 and 45, GASB requires disclosure of OPEB costs and liabilities beginning in 2008 (later for smaller municipalities).

Most Other States Have Taken Control Measures

- Raising Minimum Age Requirement
- Setting minimum service requirement at 20 or 25 years
- Pro-Rating Premiums based on years of service:
 - As a % of Total Premiums
 - As a % of dollar costs, using a pre-defined figure per person
- Dollar Cap for Employer Contributions
- Employee contributions
- Other measures:
 - Provide only “continuing coverage” for employees that are retiring directly from state and local government
 - EGWP program
 - Level of survivor coverage