Other Post-Employment Benefits (OPEB)

Worcester Regional Research Bureau

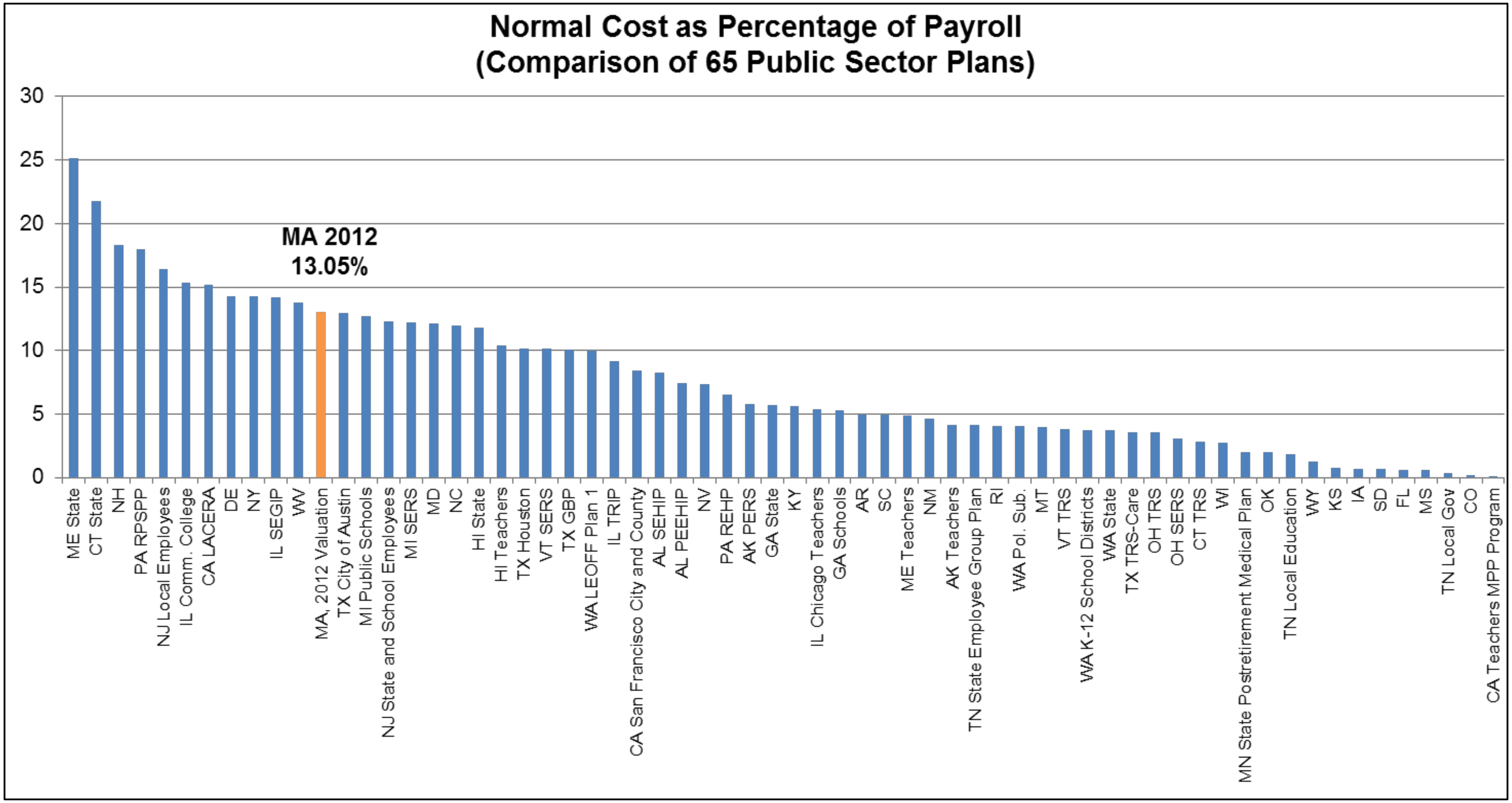
November 6, 2013

***Note: Charts and much of the data contained within this presentation are taken from the final report of the Special Commission to Investigate Other Post-Employment Benefits**

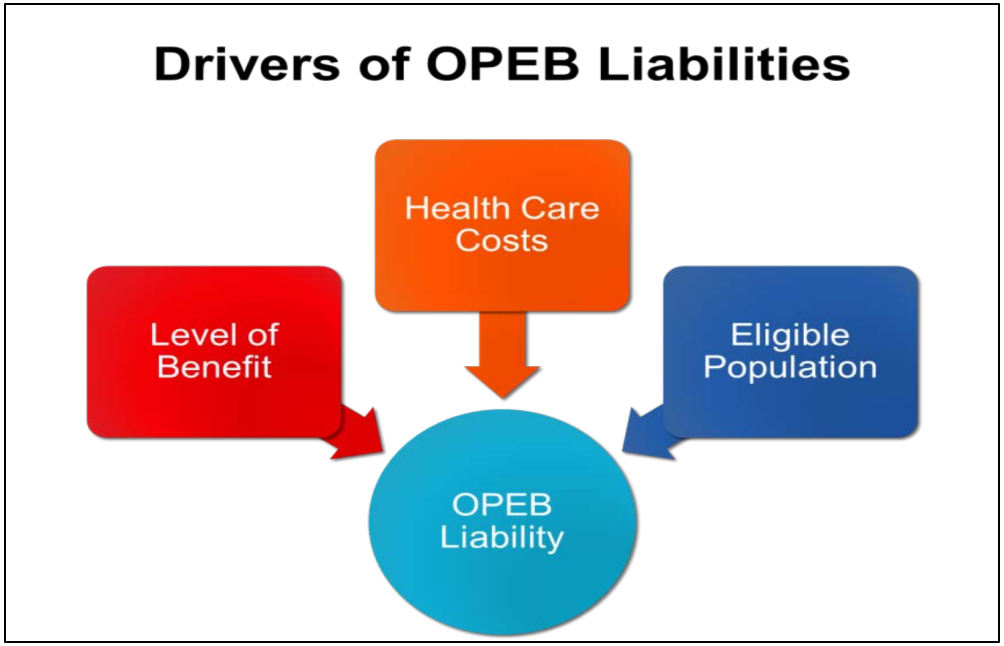
Findings

- The Commission found that the problem is real and carries a price tag that is not sustainable.
  - The Commonwealth's ARC is $1.3 Billion but current costs are budgeted at $415 Million.
  - The 50 largest municipalities have an ARC of $1.2 Billion with current costs budgeted at $500 Million.
  - Unfunded Actuarial Liabilities among many cities and towns are greater than their entire annual tax levy and without reform will continue to grow at a rapid rate.
  - In January 2012, the annual cost for a state employee was $10,620 (< age 65) and $4,780 (≥ age 65). Retiring at age 60 and living to age 80 = $77,000 assuming 0% inflation.

- The cost of retiree health care in Massachusetts is among the highest in the Country.



- The Commission found that there are three drivers of OPEB Liabilities.



Research

- The Commission read much material that provided information on the nature of our challenges here in the Commonwealth, and in the other 49 states. The Commission also considered information about what is occurring in the private sector in Massachusetts (8.2% < 65 & 7.4% ≥ 65).
- At least 40 states have already enacted one or more cost containment measures in recent years that fall into the categories of
  - Benefit Eligibility
  - Cost Containment
  - Pre-Funding Strategies

- The Commission also considered the impact of recent state and federal legislation in the form of the Municipal Health Care Reform law that became effective in July of 2011, the Pension Reform Law enacted in November of 2011, the health care cost containment legislation adopted in August of 2012 and the Affordable Care Act.

- Before acting on its recommendations the Commission first adopted guiding principles.

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

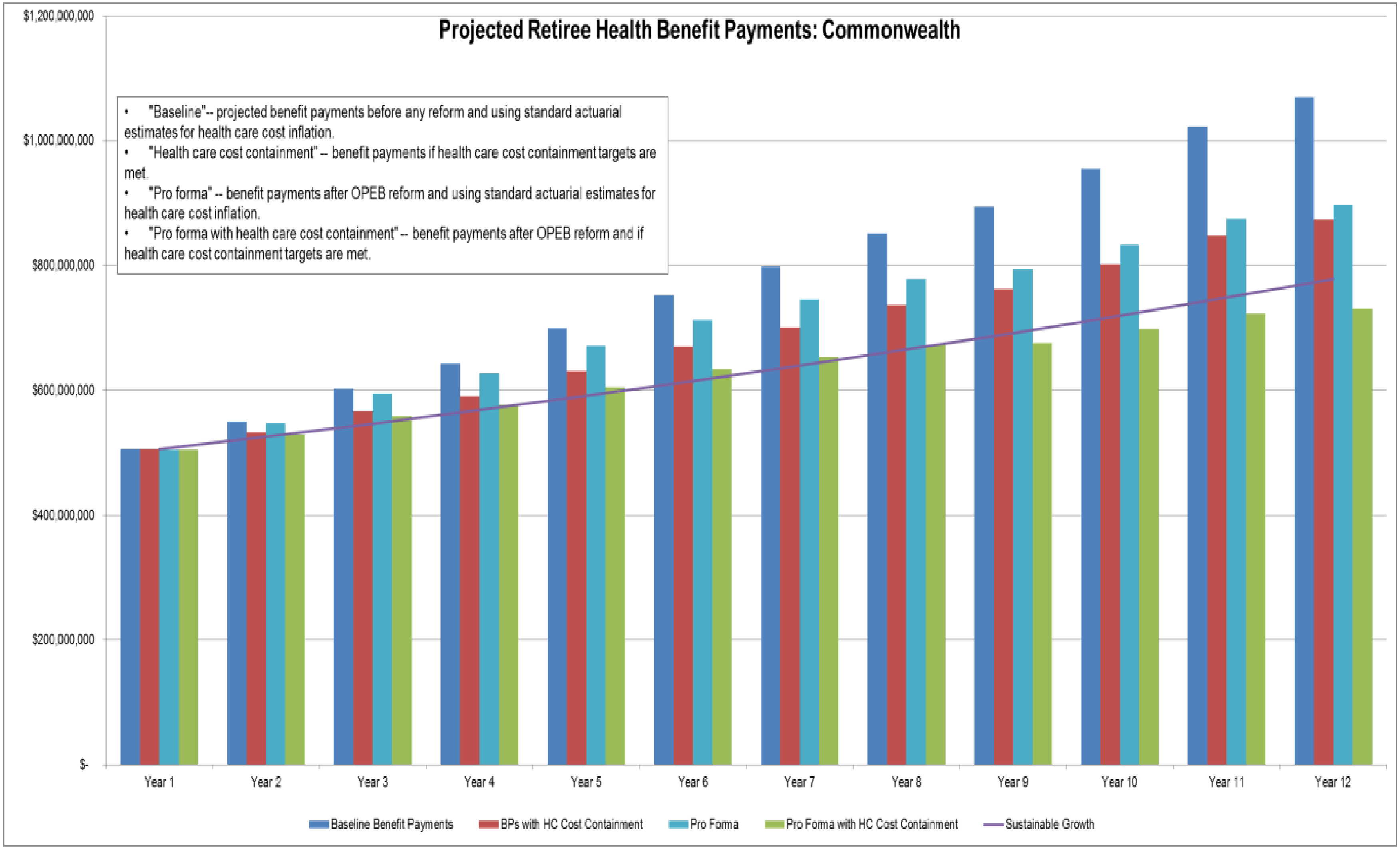
Prudent Allocation of Taxpayer Dollars Among Critical Services
- Transportation, education, benefits, etc.
- Maintenance of credit ratings

Alignment with Recent Changes to State and Federal Health Care Programs
- With a focus on access and cost control

The Recommendations

- As part of the process of working towards its final recommendations, the Commission looked at various strategies:
  - Benefit Eligibility – YOS, Minimum Age, Continuing Service, Survivor Benefits
  - Level of Benefit – Pro-ration of benefits and Part-time Service
  - Cost Reduction – EGWP and Procurement
  - Cost Containment – Metrics/actions to control growth
  - Pre Funding – Payments during period of active employment

- To assist in this process of study the firms of Aon Hewitt and Segal Company were retained to provide analysis on how certain reforms would result in reductions of liability.
- Aon handled the Commonwealth while Segal focused on a selected group of municipalities (Boston, Holyoke, Wellesley, Acton, Acton-Boxborough, Falmouth & Barnstable).
- A benchmark for “sustainable spending growth” was established (4% - Commonwealth/3.25% Municipalities).


Projected Retiree Health Benefit Payments: Commonwealth
• "Baseline"-- projected benefit payments before any reform and using standard actuarial estimates for health care cost inflation.
• "Health care cost containment" -- benefit payments if health care cost containment targets are met.
• "Pro forma" -- benefit payments after OPEB reform and using standard actuarial estimates for health care cost inflation.
• "Pro forma with health care cost containment" -- benefit payments after OPEB reform and if health care cost containment targets are met.
$1,200,000,000
$1,000,000,000
$800,000,000
$600,000,000
$400,000,000
$200,000,000
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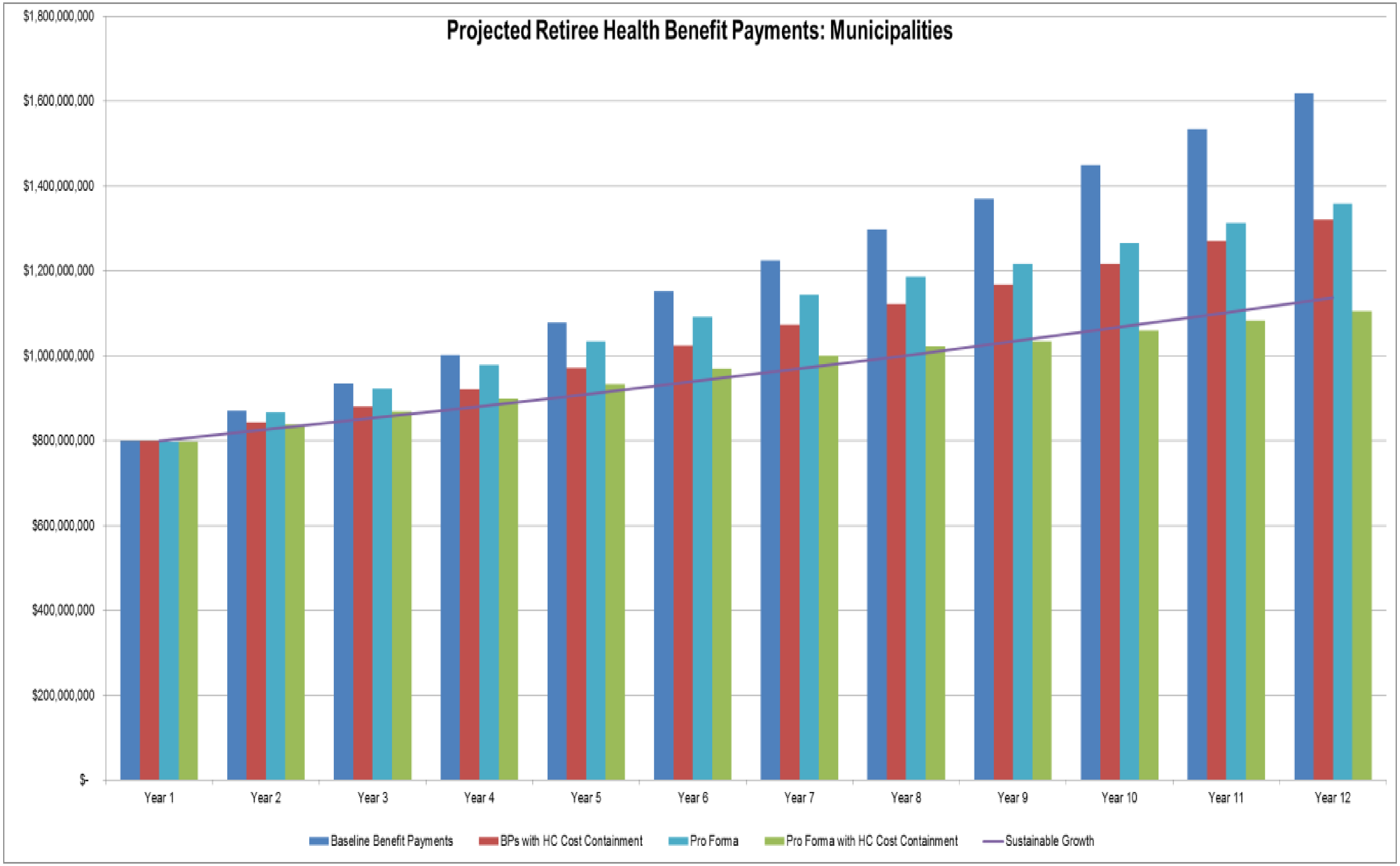
Year 1
Year 2
Year 3
Year 4
Year 5
Year 6
Year 7
Year 8
Year 9
Year 10
Year 11
Year 12
Baseline Benefit Payments
BPs with HC Cost Containment
Pro Forma
Pro Forma with HC Cost Containment
Sustainable Growth


Projected Retiree Health Benefit Payments: Municipalities
$1,800,000,000
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Year 10
Year 11
Year 12
Baseline Benefit Payments
BPs with HC Cost Containment
Pro Forma
Pro Forma with HC Cost Containment
Sustainable Growth

- The Commission tested many different reforms trying to balance the impact upon retirees, active employees and taxpayers.
- Focus relative to reductions in liability were at the ten year mark and thirty year mark.
- The entire Commission worked diligently in a professional and determined fashion with tremendous give and take throughout the process.
- The Commission was extremely ably lead by its Co-Chairs and staffed competently and professionally by the staff of A&F and several other agencies and filed its report on January 11, 2013, on a vote of 11-1.

- The projected reductions in liability based on the recommendations in the report.

Total	Commonwealth	Municipalities
• **Savings of $15-20 billion over 30 years**	• Savings of $6-8 billion over 30 years • Greater than 30% reduction in year 30	• Savings of $9-12 billion over 30 years • Greater than 30% reduction in year 30
• **Savings of $1 billion over 10 years**	• Savings of over $400 million • 12-13% reduction in year 10	• Savings of over $600 million • 12-13% reduction in year 10
	• Meets ANF sustainable spending threshold in year 9 (year 3 with EGWP)	

The Resulting Legislation

- On February 12, 2013, the Governor filed “An Act Providing Retiree Healthcare Benefits Reform” which tracked the recommendations of the Commission (HB 59).
- The legislation is under review to identify any shortcomings or omissions.
- Hearing was held last week

MMA Summary of HB 59

Minimum age for eligibility ("Qualified Retiree"):	• Group 1: age 60 (55) • Group 2: age 55 (50) • Group 4: age 50 (45)
Minimum years of service for eligibility	• 20 years of service
Grandfathering provisions to "Qualified Retiree"	• Individuals retired before July 1, 2013 • Employees with 20 years of service and within 5 years of retirement (age 50 for Group 1) • Employees with nine years of service within 5 years of Medicare eligibility (age 60) • Teachers enrolled in Retirement Plus who have reached the statutory maximum of 80 percent of their pension could retire at age 57 • Employees receiving an accidental disability retirement and employees receiving an ordinary disability retirement (until eligible for insurance under the health insurance exchange under the ACA)

Phase--in provisions	• **Employees who are age 50 with 15 years of service would be eligible to receive a 50% premium contribution** • **Employees who are age 55 with 10 years of service would be eligible to receive a 50% premium contribution**
Pro--rating: to reward employees with longer years of service	• **20 years of service: 50% premium contribution** • **23 years of service: one--third the difference between 50% and the Maximum Available Benefit (MAB)** • **27 years of service: two--thirds the difference between 50% and the MAB** • **30 years of service: 100% MAB**

Continuous Service: if an employee is not working for the state or municipality at the time of retirement, they are still eligible for health insurance if:

- Employee has at least 25 years of service and applies within 5 years of leaving public employment
- Employee has at least 20 years of service and is enrolled in Medicare Parts A&B

Surviving spouses: covered at 50%

- Survivors currently on the municipal plan paying 100% of their premium
- New survivors as of date of enactment

Moratorium: 3 years	• **Municipality cannot change percentage contribution rates in effect from January 1, 2013 to before January 1, 2016**
Permanent freeze	• **Once an employee has retired, their contribution rate can never be changed**
Not a Local option	• **The changes recommended in this legislation would not be local option. Communities that do not currently offer retiree health insurance but have accepted any part of 32B would be required to offer retiree health insurance at least 50%**

OPEB Commission suggested best practices:

• Municipalities adopt the Commonwealth’s definition of creditable service providing pro-rated credit for part time service based on hours /week worked (i.e.: 20 hours/week = 6 months of service).
• Municipalities periodically competitively procure health coverage.
• Changes to Chapter 32B, Section 9A1/2 to make it easier for municipalities to charge back other municipalities for a portion of a retiree’s health insurance.
• Changes to make the State Retirement Benefits Trust Fund more accessible for municipalities choosing to pre--fund.

Reaction

- Much concern particularly by those that are near retirement which is entirely understandable.
- In some cases there is denial that a problem exists at all.
- There is however wide agreement that something must be done and done soon understanding that we must be thoughtful, respectful and cognizant that some people will be affected very adversely.

My Thoughts to Consider

1. How do we convince all stakeholders that change must be made quickly and decisively to avoid great financial difficulty and collapse of the benefit?
2. Do we have the political will to change a statutory structure that provides employee benefits more akin to 1963 than 2013?
3. How long can we expect the public to continue to financial support a benefit package that is so far out of step to that most nonpublic employees now or will ever receive?

On-Line Materials

http://www.mass.gov/anf/opeb-commission.html

http://www.mma.org/labor-and-personnel/7421-governor-files-opeb-reform-bill

dmorgado@shrewsburyma.gov

Questions