The Research Bureau

A Prescription for Retiree Health Care: How Worcester can vanquish its OPEB liability while keeping its workforce happy and healthy

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EXECUTIVE SUMMARY

When the Governmental Accounting Standards Board in 2004 required governments to disclose their future payouts for retiree health benefits, it exposed a potentially catastrophic problem. Had cities and states continued their pay-as-you-go approach to this quietly burgeoning debt, they would have awakened to insolvency in the not-so-distant future. The forced revelation of the billions of dollars that have been promised to the nation's retirees has enabled cities like Worcester to avert fiscal disaster by starting to enact changes in paying for these obligations.

The most successful policies for managing post-employment benefits, commonly called OPEB, require substantial reforms. The Research Bureau has examined the genesis of retiree benefits, their runaway growth, and their threat to municipal solvency, and determined that new policies are needed to fulfill old promises. To ensure the fiscal health of the City, while continuing to make health care affordable and obtainable for Worcester's workers and retirees, The Research Bureau makes the following suggestions:

- **The City Council should follow through with the City Manager's recommendation to establish and aggressively fund a city-managed trust for the estimated $656 million in benefits that have already been promised to retirees. The allocation of $5 million for FY13, with an increase of 7.5 percent in subsequent years, is but a start to secure the funding that is needed.**

- **To control a spiraling expense that, if unchecked, could consume one-third of Worcester's budget within a decade, the City Manager should pursue bold reforms to its existing catalogue of retiree benefits. These include reducing the portions of premiums it pays for retirees and their spouses, pro-rating benefits based on length of service and hours worked, and tightening eligibility requirements when allowed by the Massachusetts General Laws.**

- **Acting on recommendations from a statewide commission on retiree benefits, Governor Deval Patrick has proposed changes to the Commonwealth's laws that concern OPEB eligibility and premiums. If and when the governor's bill is adopted by the State Legislature, Worcester will be unable to make changes to its catalogue of retiree benefits for at least three years. The City Manager should review current policies and recommend needed changes, so as not to be constricted by the new law and a moratorium it will impose on making those changes for three years.**

- **With the goal of ultimately divorcing the OPEB liability from the City's books and bond rating, the City Manager should explore and encourage the creation of retiree medical trusts (RMTs) managed by workers' associations. These would enable workers to have a tax-free vehicle for both the worker and the City to fund health-care expenses in retirement. These trusts would be different from the trust established and managed by the City, and would be run by employees and their representatives.**

- **While making changes that are both prudent and sustainable, the City should craft a staggered timeline for implementation to ensure that current retirees and those soon to retire are not financially crippled by a sudden change in long-promised benefits.**

The financing of retiree benefits is, some believe, the most challenging issue in governance today, affecting not only the health of workers and retirees, but the economic health of our cities, states, and ultimately, the nation.

To assist city leaders as they weigh available options, and to help the citizens of Worcester understand the burden and responsibility that is our OPEB liability, this report by The Research Bureau analyzes the bills coming due for Worcester's current and future retirees, summarizes the state's policy and recommendations concerning these debts, examines the actions of similarly-sized municipalities, and suggests the most prudent course of action for Worcester in light of these findings.

INTRODUCTION

Like a superficial scratch, the acronym "OPEB" is bland and unthreatening; most taxpayers don't even know what it means. But beneath the benign letters lurks a threat that has been growing like an undetected cancer for years – one that, unchecked, will require much greater revenues, decimate the most basic of city services, and would drive even the most financially healthy cities and towns toward bankruptcy.

The threat that is OPEB translates simply to "Other Post-Employment Benefits." These are the collection of generous assurances (other than pensions) that public employers have long offered workers to protect them in their so-called golden years. They include health coverage for retirees, as well as other benefits they enjoyed during employment, such as life insurance, dental and vision coverage, and long-term care policies.

For decades, municipalities, including Worcester, have extended these benefits to workers and covered the current cost of them in their yearly operating budgets. The pay-as-you-go-system, the municipal equivalent of an individual living "paycheck to paycheck," seemed to work well enough, so long as no one looked beyond the current fiscal year.

Ahead, however, loomed disaster: a catastrophic meeting of well-meaning promises, a growing pool of workers to whom these promises were made, and an ever-lengthening average life span that significantly increased the number of years that these benefits must be paid. At the same time, the tax base was diminishing, even as the demands on it multiplied. Local governments were expected to finance pensions and retiree benefits even as they continued to provide and improve upon day-to-day services expected by the taxpayers who foot the bills.[1]

Over the past few decades, the sum owed to future government retirees has climbed to staggering levels, creating a future financial tsunami that municipalities cannot continue to ignore. Nationwide, it is estimated that

these promissory notes exceed $1 trillion, and already, they're taking their toll.[2] The Chapter 9 bankruptcies of Central Falls, R.I., and Stockton, CA, among others, were blamed on declining revenue coupled with the crippling weight of pensions and retiree benefits.

Many other municipalities would have marched blindly into Chapter 9, too, had not the Governmental Accounting Standards Board (GASB) trumpeted a warning nine years ago. Concerned at the lack of attention to a growing threat – a worry shared by bond-rating agencies – the Board issued two statements urging states and municipalities to publicly disclose their current OPEB costs and future liabilities. And local governments sat up and paid attention.

While local governments are not legally obligated to follow the recommendations of GASB, most do. The non-partisan, non-profit board is the bellwether of public accounting, and many states and commonwealths, including Massachusetts, require compliance with its edicts.

Today, the term OPEB has entered the vernacular of governance and has become both a clarion call and lightning rod, as actuaries, auditors, and city leaders struggle to set aside today's dollars for tomorrow's expenses, even as other pressing needs go unmet. But the solution is not as simple as setting money aside, because trusts started 20 years too late are but a thimble in a matter that requires a bucket. Nor will adjustments in benefits for future retirees suffice; changes made today will not affect budgets in any meaningful way for decades.

The satisfactory resolution of the OPEB quandary requires the involvement and cooperation of a wide range of players: not only the city leaders, but its citizens; not just its retirees, but its current employees; not just the workforce, but the unions that represent it. The OPEB burden belongs to everyone.

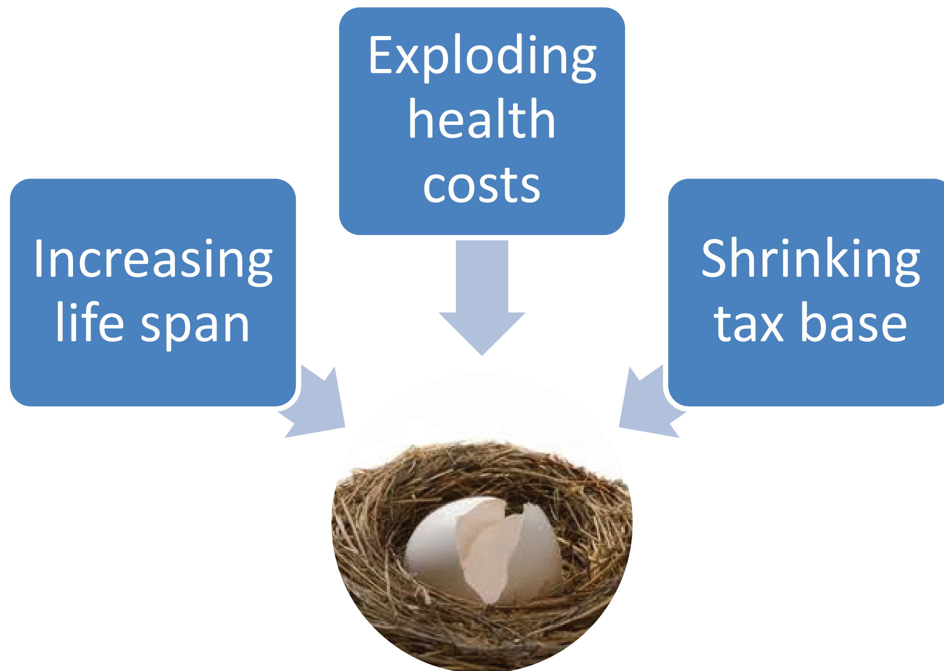
HISTORY

Employers have offered benefits to their retired workers as far back as colonial days. In 1636, Plymouth Colony offered a military retirement program for settlers.[3] But 300 years passed before such programs became commonplace and expected.

The heady years after World War II brought expansion to the United States, both in population and economy. From 1945 to the mid-1970s, the nation experienced a period of sustained prosperity called "The Long Boom," with economic growth surpassing three percent each year. Simultaneously, a surging birth rate delivered the demographic group known as the Baby Boomers, the generation of 76 million born between 1946 and 1964. As the nation's economy was growing, so was its tax base. A national mood of buoyancy ensued, and at its heart, a workforce flush with prosperity's rewards. In this culture, there emerged a new model of employment: a workplace that functioned like a spouse. In exchange for labor and loyalty, employers promised to protect and provide for their workers until death did them part.

It's an idea that now seems quaint and impractical, but to labor leaders a half-century ago, the practice made perfect sense. The Great Depression had dimmed in the national memory, and continued economic expansion seemed a given. To attract the best workers, employers reasoned, the best possible benefits must be given. Moreover, at times when unions could not negotiate substantially higher wages for their workers, OPEBs and pensions looked like a panacea, a way to keep current expenses in check while sweetening compensation packages

with generous perks for life after work. Even better, the costs of these benefits were comfortingly distant. OPEBs were like fistfuls of penny candy thrown to the future, to which both public and private employers succumbed.



In fact, the distance between promise and payout was so great that employers magnanimously began to extend retirement benefits to spouses, even as it became easier to qualify. The typical pension required long-term service before vesting, while typical OPEBs did not. In many cases, an employee with 10 years of service was entitled to health benefits in retirement, long before he or she earned a pension.

For a while, the generosity of employers paid off. OPEBs helped with recruiting and retention. They gave younger workers an incentive to remain in their jobs. They gave older workers an exit strategy, allowing them to retire early and yet remain covered by the company plans until they reached Medicare eligibility at age 65. Later, they served as a supplement to Medicare, cushioning the out-of-pocket expenses that could devastate an aging household subsisting on a fixed income (especially before Medicare added a prescription drug benefit which went into effect in 2006).

Best of all, OPEBs were free. Or at least, it seemed that way. A vehicle of deferred compensation, they were "free" like a purchase on a credit card is "free" – free until the bill comes due. With no requirement to pre-fund the promised benefits, the liabilities grew larger each year. They grew even as the workforce did, along with its lifespan.

In 1930, the average life expectancy of an American male was 58. In 1950, it was 68. Now, it's just shy of 80 and, for most

demographics, still climbing, according to the Centers for Disease Control and Prevention. The age-adjusted death rate has declined steadily for two generations and is now 45 percent lower than in 1960.[4]

While burgeoning longevity is good news for individuals and society at large, it's a problem for those who balance the OPEB books. Longer life spans translate to more years of benefits that municipalities must provide, even as the costs of health care and insurance rise to unprecedented levels. In the past 20 years, the cost of medical services and commodities has risen more than 300 percent, twice the rate for consumer prices overall, and it is expected to surge another 13 percent in 2013.[5] Without treatment, it's a prescription for disaster.

Today, decades of promissory notes for these bills are beginning to come due, right at the time when Baby Boomers have begun to retire at a rate of 8,000 a day. Meanwhile, the new GASB accountability standards have forced cities, towns, and states to reveal the massive deficits that their previously opaque books had concealed. In urging cities to report not only their yearly OPEB expenses but their unfunded, accrued liabilities, GASB effectively ended the "pay as you go" approach, which had become a precarious Ponzi-like scheme that threatened not only the security of retirees, but the delivery of the most basic governmental services.

Compliance with the new GASB standards does not require pre-funding of all promised benefits. However, the disclosure of distant liabilities allows governments to plan so as to avert disaster, not only through inability to fulfill promises to their retirees, but also through across-the-board insolvency that cannot be forestalled by tax hikes. Citizens unwilling to pay more in taxes for trash pick-up or police protection will not cheerfully fund the health care of retirees, particularly when few of them enjoy the same lifelong coverage.

In 1990, the private-sector equivalent of GASB's Statement 45 was issued by the Financial Standards Accounting Board; it became effective in 1993. This standard, called FSAB Statement 106, required the accounting of all non-pension benefits owed to private-sector retirees, and it caused the same ripples of worried action among private employers as Statement 45 did among public entities.

Citizens unwilling to pay higher taxes for trash collection will not cheerfully fund the health care of retirees, especially if they won't enjoy the same benefits.

Unburdened by laws requiring that they offer OPEBs to their employees, many private employers began eliminating them for new hires. Only a third of large private employers now offer post-employment health benefits, while most public employers still do, because as in the case of Massachusetts, it is required by state law.[6]

No matter how compassionate he may be, the minimum-wage taxpayer struggling to pay his own doctor bills, and those of his children, is not likely to be happy about paying for health coverage for the retired

teacher or policeman next door. Further, while Worcester is the second-largest city in New England, its residents are among the Commonwealth's poorest, with per-capita income just over $18,000, a little more than half the average per-capita income of $35,051 in the state.[7] Clearly, solutions to the OPEB quagmire must be found.

PRESCRIPTIONS FROM THE STATE

The taxpayer with no retirement benefits of his own is likely to invoke Occam's razor and suggest that the simplest solution is best: Eliminate OPEBs altogether. Indeed, The Center for Retirement Research at Boston College has studied the effects of eliminating retiree health coverage and found this option would not prove catastrophic. Some public employees, the study found, would choose to work for more years, and others would create a new market for pre-Medicare policies that insurers would quickly step forward to provide. The complete demise of OPEBs, then, may be like objects in a rearview mirror, looming much closer than everyone thinks.[8]

For now, though, the elimination of OPEBs for public employees in Massachusetts is illegal. Chapter 32 of Massachusetts General Laws guarantees health-care benefits for public employees who retire after 10 years of service, provided they've worked 20 hours a week and are at least 55 years old. The amount of the coverage varies among jurisdictions. The Commonwealth itself pays 80 percent of premiums for its workers. The portion paid by municipalities and tax districts varies. By state law, municipalities must pay at least 50 percent.

With about 500,000 public workers and retirees in the Commonwealth, that adds up to an unfunded OPEB liability of about $46 billion, of which more than two-thirds – $30 billion – falls on the frail shoulders of municipalities.[9] And that's just for retiree benefits. The OPEB debt borne by the Commonwealth and local governments is even more troubling when viewed alongside its equally burdensome twin, pensions. To date, Massachusetts has a total liability (OPEBs and pensions) of $80.5 billion: $63.9 billion for pensions, $16.6 billion for OPEBs, with only two percent of the latter currently funded.[10]

While the Bay State's ledgers are not as dire as those in neighboring Rhode Island, where drastic cuts in pensions and benefits are being challenged in court, the Commonwealth cannot be said to be in good shape. Its two-percent funding is well below the national average of eight percent, and its reserves are insignificant compared to what analysts recommend. A fiscally sustainable system is said to be one that is 80 percent funded.[11]

Although the OPEB liability is smaller than that of pensions, it is even more difficult to address because the future costs of health benefits seem much less certain at this point than estimating return on pension fund investments. Defining the liability is not so much a calculation as a guess. Like Worcester, many cities have already taken steps to make OPEB costs more manageable by setting aside funds and investing them. But significant reform must come from the Commonwealth's legislators and judges,

who will ultimately decide what changes in retirement systems are legally permissible – perhaps as early as this year.

In February, Governor Deval Patrick filed legislation that, if approved, would give local governments more freedom to devise benefit packages that are sustainable in the long term. These reforms, if passed, would not apply to current retirees, or certain other subsets of workers, including those within five years of retirement who have accumulated 20 or more years of service. In making the announcement, Patrick said the changes could save the Commonwealth and its municipalities $20 billion over the next 30 years.

The governor's proposal mirrors the recommendations of an 11-member commission that was established to study options for health care and other non-pension benefits for Massachusetts retirees. Employing two actuarial firms, the Commission studied OPEB liabilities of the Commonwealth, two cities, four towns, and a regional school district, then analyzed the data and drew conclusions applicable to municipalities across the Commonwealth. In its final report, submitted in January of 2013, the Commission noted that municipalities are under increasing strain because of OPEB spending. Between 2001 and 2010, the report observed, spending on retiree healthcare jumped from 13.5 to 20 percent of municipal budgets.[12] "Without further action, the Commonwealth and its municipalities will have increasing difficulty paying for retiree health benefits while adequately funding other investments, including transportation infrastructure and education," the report concluded.

The legislation proposed by the governor adopts the key reforms proposed by the Commission. They include:

- Requiring 20 years of service, instead of 10, before employees are eligible for retiree health benefits.
- Adding five years to the minimum age at which former employees become eligible for OPEBs.
- Pro-rating the amount of premiums based on the length of service, from a 50-percent contribution after 20 years to 80 percent after 30 years.

The Commission has also recommended that the Commonwealth and its municipalities offer retiree benefits only to individuals who are in public service at the time of their retirement. And it urged the adoption of a "sustainability road map" to monitor each municipality's liabilities in the future.

If the reforms are enacted, the Department of Revenue's Division of Local Services would bi-annually review OPEB liabilities and sound an "alarm" when spending exceeds sustainable revenue. When this occurs, a consortium of analysts from the Group Insurance Commission (GIC), the Public Employment Retirement Commission, and the Commonwealth's Administration and Finance Office will propose solutions, using metrics and benchmarks established to evaluate a municipality's performance over five years.

This oversight by the Commonwealth would apply even to municipal governments that, like Worcester, do not participate in the GIC. The recommendations, however, would not be binding, but "form a public record and source of information for policymakers to evaluate whether and how to manage OPEB growth."

The passage of the Governor's 14-page bill, while expected, is not guaranteed, as portions have been criticized by the Massachusetts Municipal Association and the Massachusetts Taxpayers Foundation.

The groups object to a section that freezes the portion municipalities pay for retirees' premiums, which is now mandated to be a minimum of 50 percent, and will be locked in for the life of the retiree, under the Governor's bill, regardless of how much health-care costs should rise.

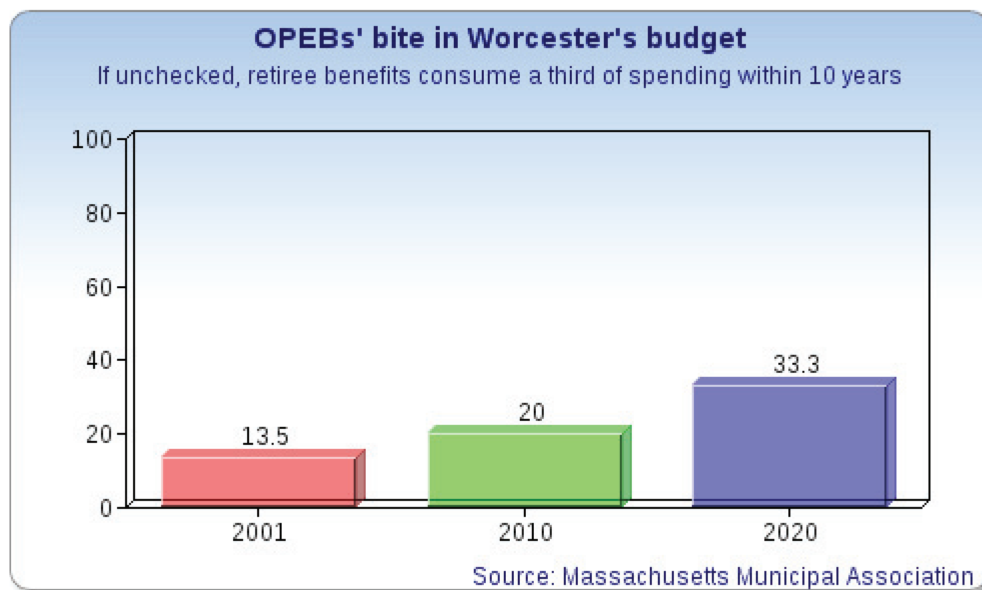
They also object to a three-year moratorium on changing contribution rates for all employees. Municipalities may not reduce the percentage of premiums that they pay, even within the allowed amount, until Jan. 1, 2016, if the bill passes as written.[13]

WHAT WORKS FOR WORCESTER?

Tracy Gordon of the Brookings Institution envisions a future in which taxpayers are predominantly funding "yesterday's teachers, firefighters and cops."[14] In Worcester, that day is alarmingly near. In 2011, for the first time ever, the City had more retirees than active workers. Worcester has 4,873 retirees and 4,154 employees – and the gap is expected to grow in coming years.[15] (That does not translate into higher health-benefit costs for retirees than employees, however, since retiree costs are for one or two persons, while many current workers have policies that cover families.)

For health benefits for both retirees and current employees in 2012, the City paid $68 million, $22 million of which went to retirees. The City began 2013 with an unfunded OPEB liability of $656 billion, more than twice what it owes for pensions. If health-care costs continue to rise and a viable OPEB plan is not put into place, fully one-third of Worcester's revenue will go to retiree benefits by the year 2020, according to data from the Massachusetts Municipal Association.

In other words, the check the taxpayer writes won't cover his police or fire services, his children's education, trash collection, or the plowing and salting of city streets, but will go toward dental exams and prescription medicines for his retired neighbors. Meanwhile, Worcester's public retirees will be living in fear that the benefits they've long been promised will vanish at the time they need them the most. And there's a third shoe to fall in this scenario: Worcester's goal to become a bright, vibrant hub in the New England economy will wither under ever-mounting debt.



Cognizant of this fiscal nightmare in the making, the City has already taken several steps toward managing its OPEB liability. After GASB released Statement 45, Worcester moved to negotiate a series of changes to existing health plans. These required current employees and retirees to pay a greater portion of the premiums, increasing contributions from 10 to 25 percent, while at the same time, raising co-pays and deductibles. The City also required all eligible retirees to move from the City plan to Medicare while continuing to cover the remainder of what Medicare does not cover. These changes cut Worcester's estimated liability from $1.2 billion in 2004 to $756 million in 2010, and lopped off another $100 million over the course of the next year.

Then, in 2011, City Council approved the City Manager's recommendation to appropriate $5 million from the coming year's surplus funds to seed a trust for OPEB expenses, as authorized in July by an addendum to Chapter 32 of Massachusetts General Law. The City Manager has also asked the Council to increase the allocation to the trust fund by 7.5 percent each year. This strategy works, of course, only if there is a surplus from which to draw funding.

A bolder strategy would be to work with employees and their representatives to establish a retiree medical trust, or RMT. An RMT provides a tax-free stream of income for health-related expenses in retirement. Money can be deposited regularly by the employee and employer to be withdrawn in retirement for health-related expenses.[16]

Such a system would not be run by the City, but by employee associations; therefore, it poses no risk to taxpayers or the City's long-term fiscal health. Similar systems are in place or under way in New Hampshire, New Jersey, Florida, Oregon, California and Washington state, according to Shana Saichek, an attorney with offices in Washington D.C. and San Diego, whose firm implements and provides legal counsel for such trusts.

Worcester cannot create an RMT on its own, but it can encourage and assist in its creation. A worker's association would elect a board of trustees comprised of employees, who would establish and administer the fund. Employees would contribute a fixed amount to the fund, which would come from pre-tax dollars. The City could elect to contribute, as well; otherwise, its sole role would be to collect the contributions through payroll deduction. Monies received would be deposited into investment pools, and trustees would select the fund advisors.

According to a report on OPEB management issued by the Empire Center for New York State Policy, RMTs resemble Voluntary Employee Beneficiary Associations, which provide OPEBs for unionized workers in the private sector.[17] Typically, multiple trusts are established within a city, serving different groups of workers, such as firefighters, police and city-government employees.

While benefits cannot be guaranteed but will fluctuate according to the fund's earnings, Retiree Medical Trusts can provide a generous income stream. The chart below illustrates the range of contributions and benefits for eight associations that are using RMTs for retiree benefits. In one category, a career city employee (a person who works for the city for 20 years or more) contributes $216.67 monthly in pre-tax dollars into the trust, and can expect to have a monthly benefit of $630.00 upon retirement.

SAMPLE CONTRIBUTION AND BENEFITS FOR PARTICIPANTS IN A RETIREE MEDICAL TRUST

WORKER ASSOCIATION	*MONTHLY CONTRIBUTION DURING EMPLOYMENT*	*MONTHLY BENEFIT DURING RETIREMENT FOR CAREER EMPLOYEES*
Association 1 (Police)	$157.00	$435.00
Association 2 (Police)	$267.00	$850.00
Association 3 (Firefighter)	$256.00	$540.00
Association 4 (Firefighter)	$75.00	$280.80
Association 5 (Police)	$100.00	$321.60
Association 6 (City employees)	$142.00	$275.00
Association 7 (College employees)	$30.00 to $220.00 (2% of salary)	$350.00
Association 8 (City employees)	$216.67	$630.00

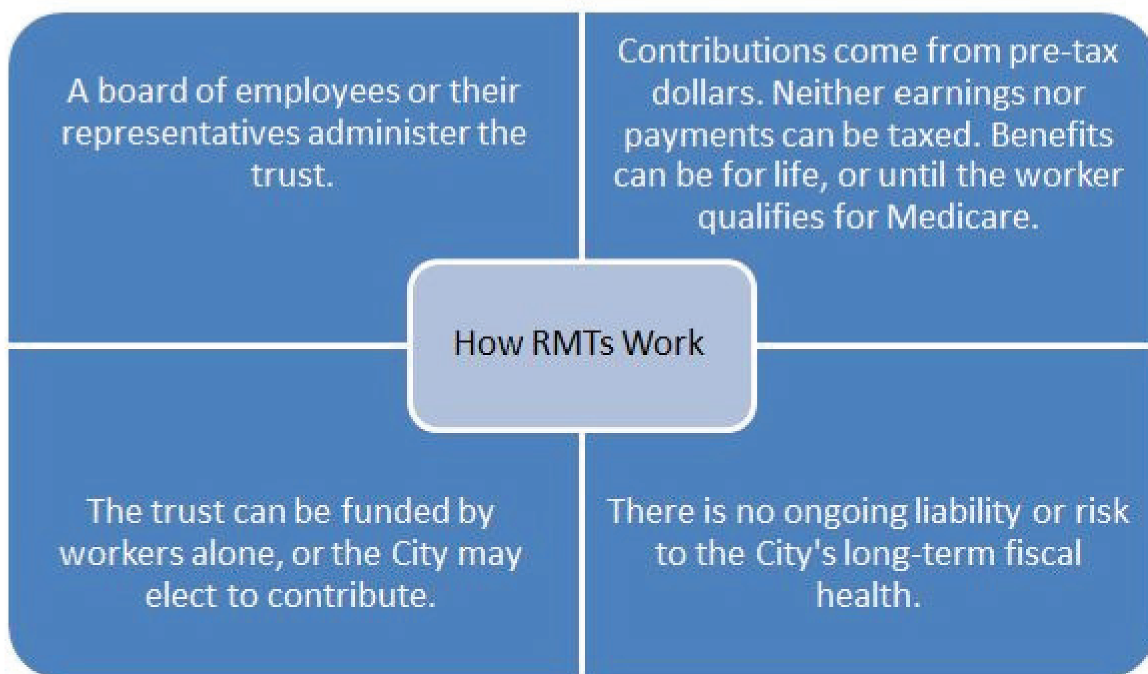
SOURCE: SAICHEK LAW FIRM Data based on clients of Saichek Law Firm

Each RMT is designed to fit the needs of a particular employee association, and the benefits can be for life, or until medicare eligibility, as designated by the RMT's trustees. The contribution can be either a set amount or a percentage of salary. They can offer continued benefits to a surviving spouse and/or dependents. Retiree Medical Trusts can be set up so that when the employee and spouse die, remaining benefits go to dependent children for medical reimbursements. If the employee and/or surviving spouse have no dependent children, the money forfeits into the Trust.

However, all members of the group would have to participate in the trust for its contributions and benefits to be tax-free.

With required contributions by employees, RMTs initially may not be attractive to the generation of workers who began their careers when retirement benefits were generously financed by employers and employees' input was little, if any. Within the perfect storm that is the nation's unfunded OPEB liability, however, Retiree Medical Trusts are a safe haven, a chance for workers to retain retirement benefits that might otherwise be lost when local governments are unable to pay them. They have been endorsed by the National Council on Public Employee Retirement Systems as a "cost-effective solution" to the OPEB dilemma. As Worcester wrestles with $656 billion in unfunded OPEB liabilities, it should begin to envision a future in which retiree benefits are assured, not assumed, and for that future, RMTs deserve serious consideration.

The Commonwealth's OPEB Commission looked into employee contributions for Massachusetts and its municipalities, but stopped short of recommending the RMTs, instead suggesting further analysis on feasibility and legality.



SUGGESTIONS FOR OPEB REFORM

In addition to the steps that Worcester has already taken to reduce its OPEB burden, The Research Bureau suggests the following:

- **The City Manager should negotiate a reduction in the portion of premiums the City pays for retiree benefits to 50 percent, the minimum required by law.**

Currently, the City pays 75 percent of premiums for both current employees and retirees. Worcester can make changes to the portion it pays of premium at this time, but will not be able to do so, if and when the Governor's proposed legislation is enacted.

- **The City Manager should negotiate an increase in the years of service required for employees to qualify for health benefits in retirement.**

Currently, anyone who works for the City for 10 years qualifies for health benefits in retirement. (If workers retire before age 65, they may remain on the City plan; if they are enrolled in Medicare when they retire, the City pays 75 percent of supplemental coverage.) The minimum time before eligibility should be 20 years, as with pension eligibility. Enabling legislation must be passed by the Commonwealth before this can be done.

- **The City Manager should pro-rate the level of coverage based on length of service and the number of hours worked per week.**

Currently, coverage is uniform; a part-timer with 12 years of service receives the same benefits as a retiree who worked full-time for 30 years. Worcester should offer the maximum benefit to those who worked for the City for much or all of their careers, and a lesser proportion for those who served Worcester for fewer years. Enabling legislation must be passed before this can be done.

- **The City Manager should increase the minimum age at which employees become eligible for health benefits in retirement.**

Worcester should add five years to the minimum-age requirement, making this standard consistent with the minimum age at which employees can begin receiving pension benefits. The base age for retirement benefits should be 60. Again, enabling legislation must be passed to make this change possible.

- **The City Manager should require that workers eligible for health benefits be in the employ of the City at the time of their retirement.**

Currently, retirees are eligible for health benefits from the city even if they worked elsewhere for a decade or more before they retired. (Any change in this regard should ensure that the worker, at a minimum, receives what he or she invested into the system, should a medical trust or set-contribution system be instituted.) Enabling legislation must be passed before this can be done.

- **The City Manager should consider decreasing benefits for surviving spouses.**

The City pays 75 percent of premiums for the surviving spouses of retirees under current law. Worcester can eliminate this

benefit altogether, or reduce its share of premiums paid to 50 percent. If and when the Governor's bill is made law, the City will no longer have the option of eliminating the benefit, and will have to wait a minimum of three years before it can adjust the premium rate.

- **The City Manager and employees should explore and support the creation of a retiree medical trust (RMT) that will provide tax-free health benefits for retirees.**

Once established, the City's only involvement would be to transfer payroll deductions of participating employees – along with any contribution of its own – into the trust. Since such plans are run by employee associations, there would be no long-term liability for Worcester.

Employee contributions and withdrawals are not taxed, and the worker stops paying into the fund upon retirement but may receive benefits for life, depending on the plan's structure. The employee associations that set up the trust decide if the benefit will last until Medicare coverage begins, or for life, and retain authority to adjust the length of the benefit stream.[18]

CONCLUSION

For these changes to produce a significant reduction to Worcester's OPEB liability, they cannot apply only to future hires, but must affect a large percentage of current employees as well. The City must, however, be mindful of those workers who are nearing the age of retirement and have not had time to adjust their financial planning to accommodate the changes that prudent OPEB management requires. Therefore, The Research Bureau, like the Commonwealth's OPEB Commission, recommends that employees within five years of retirement be exempt from changes to the City's retiree benefit plan.

By restructuring its health plans and seeding a retiree-benefit trust, Worcester established itself as a leader among the Commonwealth's municipalities in willingness to do battle with the OPEB beast. But new strategies are needed so the City can fulfill old promises. Further reforms to its catalogue of benefits, aggressive funding of the City's new OPEB trust, and exploration of retiree medical trusts run by employees are the most effective prescriptions for ensuring Worcester's fiscal health.

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[14] "Are Pensions Busting Local Government Budgets?" Tracy Gordon, The Brookings Institution. http://www.brookings.edu/research/opinions/2012/03/13-pensions-states-gordon

[15] "Worcester City Council Commits to Funding Retirees' Benefits, *Telegram & Gazette*. http://www.telegram.com/article/20121002/NEWS/121009831/1116

[16] "Creating a Retiree Medical Trust," National Conference on Public Employment Retirement. http://www.ncpers.org/Files/HealthCare/RMTreports_2Ed.pdf

[17] "Shrinking the Retiree Health Care Iceberg." E.J. McMahon, Empire Center for New York State Policy. http://www.empirecenter.org/Documents/PDF/empire.ideas.5a.web1.pdf

[18] Ibid.

SAVE THE DATES

Thursday, May 23, 7:45-9:15 AM

Improving Worcester's Competitiveness for Attracting Development

Four experts will share their views.

Notices will be emailed shortly.

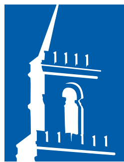
Wednesday, June 5, 4:30 PM
DCU Center

The Research Bureau's 28th Annual Meeting and Reception

Featured Speaker: **Professor Edward Glaeser**, Harvard University economist, Director of the Rappaport Center for Greater Boston, and Boston Globe columnist

Invitations will be mailed shortly.

Mission Statement:
The Research Bureau serves the public interest of the Greater Worcester region by conducting independent, non-partisan research and analysis of public policy issues to promote informed public debate and decision-making.



The Research Bureau

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