



## Bureau Brief—Worcester's Unfunded OPEB Liability

### Worcester's Unfunded OPEB Liability 2015:

# \$727,823,149

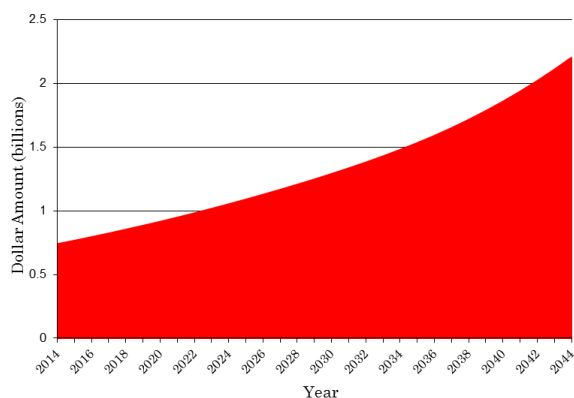
Upon retirement, Massachusetts state and municipal employees are eligible for both pension and other post-employment benefits (OPEB), such as health care. Each year, Massachusetts governmental entities must determine current costs (pension and benefits provided to existing retirees) and future costs (pension and benefits owed upon retirement to current employees, as determined by actuaries) to determine total liability.

The City of Worcester, like most municipalities, has struggled with outstanding pension and OPEB liability. In 1992, the Commonwealth of Massachusetts offered grant funding to cities and towns that committed to a schedule to eliminate unfunded pension liability. The City of Worcester accepted the offer, committing itself to full pension funding by 2028. In 2010, in light of the financial downturn, the Commonwealth offered cities and towns a waiver on the original plans, which allowed Worcester to extend its schedule to 2032. As of June 2014, the City had funded approximately 65.81% of its pension obligation.

*As a result of its failure to systematically address OPEB, the City is currently \$224,156,680 in arrears on a 30-year program to retire its OPEB liability.*

Unlike pension obligations, Massachusetts does not mandate that municipalities address OPEB liabilities. It does compel localities to follow the procedures and protocols disseminated by the Government Accounting Standards Board (GASB). GASB Statement 45 requires that municipalities calculate and report current OPEB liabilities and determine an annual payment (the "Annual Required Contribution" or "ARC") for fully funding OPEB over 30 years. While municipalities must disclose the liability, Massachusetts cities and towns are not required to make ARC payments or any other payment toward OPEB liability. The City of Worcester's current total OPEB liability—\$727 million—is essentially unfunded, with a mere \$8,364,059 (or 1% of total liability) in assets as of March 2015. The City functions on a pay-as-you-go system, with OPEB payments to retirees allocated annually as part of the City budget. The City's Five Point Financial Plan lays out the City's OPEB funding policy which commits 30% of free cash—surplus funds remaining after the end of the fiscal year—to be deposited in the OPEB Trust. If free cash is not available, no funds are deposited. To comply with ARC, the City must set aside \$50,121,354 in fiscal year 2016.

Worcester's Increasing OPEB Liability



If the City of Worcester continues with a pay-as-you-go approach, annually addressing only existing retiree health care costs instead of funding future retiree health care obligations, its liability increases each year as actuarial values rise and the actuarial value of assets remains static or declines. In 30 years, the City's accrued liability will exceed \$2.1 billion. Without addressing the current OPEB liability and transitioning to a forward funding approach, at that time the City will be obligated to allocate nearly \$55 million per year, more than double current costs and approximately one-tenth the entire current municipal budget, simply to pay annual retiree health care costs. At that time, the ARC required to address the liability will be nearly \$145 million and growing each year.

*In order to address its OPEB obligations, the City ultimately has two options: 1) increase expenditures by incorporating the ARC or its equivalent into annual budget allocations, or 2) decrease costs by increasing retiree health care contributions or working with the Commonwealth to reduce or eliminate retiree health care coverage.*