

Town of Andover

**Other Post Employment Benefits
(OPEB) Recommendations**

**Town Manager's Report
Tri-Board Meeting**

September 16, 2013

TM's OPEB Recommendations Report

- **Submitted to the Board of Selectmen on July 12th**
- **An action plan for the Town's short and long term policy decisions and objectives regarding Andover's OPEB liabilities.**
- **Complex problem to solve, requiring a long-term, multiple pronged approach.**
- **Will require ongoing collaboration, cooperation and commitment of senior staff and the boards.**

What is OPEB?

- **Retiree benefits other than pensions – health insurance, dental, vision, life insurance, etc.**
- **GASB 43 & 45 – 2004**
- **Mandated all U.S. government entities begin to publically disclose their OPEB costs and liabilities starting in 2008.**
- **Requires disclosures on financial statements, and actuarial liability projections every two years.**

Andover's OPEB Actuarial Projections

- **First OPEB actuary report done as of June 30, 2009; second as of June 30, 2011; and third due later this year.**
- **Andover's Actuarial Accrued Liabilities (AAL) were projected at \$245 million in 2009.**
- **AAL reduced by \$30 million to \$215 million in 2011 due to cost saving changes made in 2010 to employee HI plan design and shifting eligible retirees to Medicare.**
- **Annual Required Contribution (ARC) was \$15.4 million per year (\$215m amortized @ 4.5% over 30 years plus service cost, i.e. funding of current year accrual).**

Andover's OPEB Actuarial Projections

- **Anticipate further AAL reduction in 2013 report as a result of additional plan design and Medicare changes made in 2012 and moderating health care inflation.**
- **AAL will also decrease when then Town adopts a formal OPEB funding policy:**
 - **GASB standards mandate a discount rate that is based on the expected return of the Town's assets if the benefits are not funded. Currently, that assumption is 4.50%.**
 - **GASB standards mandate a discount rate that is based on the expected return on OPEB Trust assets if the benefits are funded. We expect the Trust assets to return 7.75% over the long-term.**
 - **If benefits are partially funded, the discount rate is blended.**
 - **Funding, even if only partial funding, results in using a higher discount rate which lowers the AAL and reduces the impact of OPEB on the Town's financial statements.**

OPEB Trust Fund & Appropriations

- 2010 ATM accepted Chapter 479 of the Acts of 2008 to establish OPEB trust fund; initial appropriation of \$250,000 from Free Cash and Sewer Reserves.
- Subsequent appropriations: \$300k at 2011 ATM; \$400k at 2012 ATM; \$402k at 2013 ATM.
- Current balance in OPEB trust fund = \$1.4 million

Recommend continuing to pre-fund Andover's OPEB liability as an annual fixed cost appropriation.

Recommend that a formal OPEB funding policy be adopted as part of Town's standing financial policies.

Recommend moving the Town's OPEB funds into the state's PRIT SRB Trust Fund.

State Legislation to Reduce OPEB Costs

- **Special Commission Report on Retiree Healthcare and Other Non-Pension Benefits – January, 2013**
- **Gov. Patrick Submits H. 59 “An Act Providing Retiree Healthcare Benefits Reform.” The act would universally:**
 - Increase the minimum years of service requirement from 10 to 20 years;
 - Increase the minimum age for eligibility to 60 for Group 1, and 50 for Group 4
 - Prorate benefits on a scale from 50% premium contribution after 20 years to the maximum current retiree benefit at 30 years.

Recommend working with Andover’s Legislative Delegation to support the passage of H.59.

Reducing Andover's OPEB Liability

Town Manager's Recommendations

- *Recommend working with Andover's Legislative Delegation on legislation to increase the threshold for health insurance for part-time employees from 20 to 30 hours per week.*
- *Recommend continue exploring various health insurance cost containment options that can be introduced in next cycle of employee collective bargaining.*
- *Recommend the Board of Selectmen initiate the process to re-acquire the Retired Municipal Teachers from the GIC.*

Reducing Andover's OPEB Liability (continued)

Town Manager's Recommendations

- ***Recommend the Retirement Board change their service credit for part-time employees policy to be in line with the OPEB Commission recommendation.***
 - ***Pro-rate service credit, i.e.: 20 hours per week = 6 months of creditable service***
- ***Recommend the School Committee weigh the cost/benefit of bringing certain Special Education services in-house v. contracting with outside placements, in relation to the additional cost impacts to health insurance and OPEB liabilities.***

Reducing Andover's OPEB Liability (continued)

Town Manager's Recommendations

- *Recommend all departments continue to investigate and pursue alternative options for providing services with less personnel.*
- *Recommend the Town and the PEC explore options for restructuring the existing health insurance premium contribution splits in ways that both minimize impacts to retirees and reduce Andover's long-term OPEB liability.*

Reducing Andover's OPEB Liability (Cont.)

Town Manager's Recommendation

- **Recommended 27 Year OPEB Funding Plan**
 - **Operating Budget Appropriation increase OPEB funding \$100,000 annually from General Fund and Water/Sewer Enterprise Fund.**
 - **Free Cash Appropriation – 25% of annual Free Cash into the OPEB Trust Fund. 20 year average of Free Cash is \$3.2M X .25% = \$800,000.**
 - **For FY15 it is recommended that \$900,000 be appropriated for OPEB.**
 - **See attached funding schedule.**

Town of Andover

Other Post Employment Benefits (OPEB) Recommendations

“The Town of Andover’s OPEB liability will be a complex problem to solve; one which will require a long-term, multiple pronged approach to effectively address it over the course of the next ten to twenty years. This campaign will require the ongoing collaboration, cooperation and commitment of the Town’s Executive staff, Board of Selectmen, School Committee, Finance Committee, Retirement Board, and employee groups, all working together towards the universal goal of reducing the Town’s OPEB liability.”

Buzz Stapczynski, Town Manager – July, 2012

Town of Andover - 27 Year OPEB Funding Plan

<u>Fiscal Year</u>	<u>Starting Balance</u>	<u>* Op Budget Appropriation</u>	<u>** Free Cash Appropriation</u>	<u>Total Start & Approp</u>	<u>Investment Earnings @ 7.75%</u>	<u>End of Year Balance in Fund</u>
2013						\$998,000
2014	\$998,000	\$402,000	\$0	\$1,400,000	\$108,500	\$1,508,500
2015	\$1,508,500	\$500,000	\$800,000	\$2,808,500	\$217,659	\$3,026,159
2016	\$3,026,159	\$600,000	\$800,000	\$4,426,159	\$343,027	\$4,769,186
2017	\$4,769,186	\$700,000	\$800,000	\$6,269,186	\$485,862	\$6,755,048
2018	\$6,755,048	\$800,000	\$800,000	\$8,355,048	\$647,516	\$9,002,564
2019	\$9,002,564	\$900,000	\$800,000	\$10,702,564	\$829,449	\$11,532,013
2020	\$11,532,013	\$1,000,000	\$800,000	\$13,332,013	\$1,033,231	\$14,365,244
2021	\$14,365,244	\$1,100,000	\$800,000	\$16,265,244	\$1,260,556	\$17,525,800
2022	\$17,525,800	\$1,200,000	\$800,000	\$19,525,800	\$1,513,250	\$21,039,050
2023	\$21,039,050	\$1,300,000	\$800,000	\$23,139,050	\$1,793,276	\$24,932,326
2024	\$24,932,326	\$1,400,000	\$800,000	\$27,132,326	\$2,102,755	\$29,235,081
2025	\$29,235,081	\$1,500,000	\$800,000	\$31,535,081	\$2,443,969	\$33,979,050
2026	\$33,979,050	\$1,600,000	\$800,000	\$36,379,050	\$2,819,376	\$39,198,427
2027	\$39,198,427	\$1,700,000	\$800,000	\$41,698,427	\$3,231,628	\$44,930,055
2028	\$44,930,055	\$1,800,000	\$800,000	\$47,530,055	\$3,683,579	\$51,213,634
2029	\$51,213,634	\$1,900,000	\$800,000	\$53,913,634	\$4,178,307	\$58,091,941
2030	\$58,091,941	\$2,000,000	\$800,000	\$60,891,941	\$4,719,125	\$65,611,066
2031	\$65,611,066	\$2,100,000	\$800,000	\$68,511,066	\$5,309,608	\$73,820,674
2032	\$73,820,674	\$2,200,000	\$800,000	\$76,820,674	\$5,953,602	\$82,774,276
2033	\$82,774,276	\$2,300,000	\$800,000	\$85,874,276	\$6,655,256	\$92,529,532
2034	\$92,529,532	\$2,400,000	\$800,000	\$95,729,532	\$7,419,039	\$103,148,571
2035	\$103,148,571	\$2,500,000	\$800,000	\$106,448,571	\$8,249,764	\$114,698,335
2036	\$114,698,335	\$2,600,000	\$800,000	\$118,098,335	\$9,152,621	\$127,250,956
2037	\$127,250,956	\$2,700,000	\$800,000	\$130,750,956	\$10,133,199	\$140,884,155
2038	\$140,884,155	\$2,800,000	\$800,000	\$144,484,155	\$11,197,522	\$155,681,677
2039	\$155,681,677	\$2,900,000	\$800,000	\$159,381,677	\$12,352,080	\$171,733,757
2040	\$171,733,757	\$3,000,000	\$800,000	\$175,533,757	\$13,603,866	\$189,137,624
27 Year Funding Total						\$189,137,624

* Includes general fund and water and sewer enterprise appropriations

** Proposed policy of appropriating 25% of Free Cash each year.