

Town of Andover  
OPEB Sub-Committee Report  
Summary

November 24, 2014

# What Does OPEB Refer to?

OPEB refers to the set of benefits, other than pensions, that employees receive after they retire. The most significant of these is **health insurance**, which has become **the most costly** aspect of retirement compensation.

# What Does OPEB Refer to?

Consider the following:

- Employees & their spouses are eligible for lifetime retiree health care, currently mandated by State Law:
- After 10 years of service, as early as age 55.
- A minimum of 20 hours per week, for 10 years, earns full benefits.
- Spouses retain lifetime coverage upon death of retiree

# Our Findings

- **OPEB expenses are growing at an unsustainable rate**
- **OPEB liabilities are significantly underfunded**
- **There is a major disconnect between our growth in OPEB expenses and our growth in revenues**

**Impact: Continued strain on Municipal Budget to maintain current level of services and jobs**

# Recommended Actions:

- The Town Manager to include in the operating budget - the OPEB total liability for every department going forward
- In future budgets – in the budget expense health insurance line item, separate out retiree expense from current employee expense
- BOS to adopt a more realistic OPEB policy as part of the town’s financial policies, and implement meaningful measures to reduce our liability.
- Move the town’s OPEB Trust Funds to a higher yielding fund with a proven track record (e.g. the State Retiree Benefits Trust Fund)
- Increase part-time employee eligibility requirements for health care benefits
- Create a new framework for collective bargaining that the Board of Selectmen and School Committee use going forward

# Recommended Actions:

- Reduce the town's share of health care premium contribution – to be in line with area communities
- Explore alternative employment methodologies such as outsourcing for current and future jobs that are not mission-critical to the delivery of town and school services
- Better understand how the Retirement Board's decisions affect the town's operating costs and OPEB liabilities
- Explore opportunities to eliminate existing positions that are not mission-critical to the delivery of town and school services
- Be diligent in restricting the addition of new town employees
- Urge our State legislative delegation to support House Bill 59 and petition the legislature to support passage

# Recommended Action #1:

The following actions reduce OPEB liabilities & expenses and increase awareness – and **are within the control** of the Board of Selectmen, School Committee and Town Manager/Collective Bargaining (See Attachment A / Health Benefits Grid)

**The Town Manager include in the operating budget - the OPEB total liability for every department going forward:**

The Unfunded Actuarial Accrued Liability, currently estimated at \$160,000,000, and  
The Annual Required Contribution/ARC (\$12.7M)

Impact: Increases transparency and understanding of the enormity of the liability being encumbered by the community.

Our current liabilities are based on a favorable investment return rate of 5.75% AND an assumed 5% medical inflation rate.

Our assumptions may be optimistic – thus potentially reducing the actual accrued liability.

## Recommended Action #2:

**In future budgets – in the budget expense health insurance line item, separate out retiree expense from current employee expense**

Impact: Increases transparency and understanding that taxes are funding significant annual retiree health care expenses.

The town's current pay-as-you-go health insurance budget is \$15.67M, which includes \$3.3M for FY15 retiree health insurance costs (\$1.6M of this is for retirees under the age of 65 who are not yet Medicare eligible).

# Recommended Action #3:

**Board of Selectmen to adopt a more realistic OPEB policy as part of the town's financial policies, and implement meaningful measures to reduce our liability**

Impact: Controls the increase in our liability – to ensure that our unfunded liability doesn't spiral out of control.

The Town Manager currently recommends the following cost reductions together with increased pre-funding:

- Work with employees to find ways of reducing the overall cost of health insurance and explore options for re-structuring premium contribution splits.
- Work with the Retirement Board to change the service credit for part-time employees.
- Work with Town and School Departments to ensure that decisions to add employees include consideration of the impact on Health Insurance Costs and OPEB Liabilities.
- Work with Andover's Legislative Delegation to support passage of state legislation changing eligibility for benefits.

## Recommended Action #3:

Town Manager's recommended funding plan currently includes:

- Increase budget appropriation by \$100,000 annually
- An annual appropriation of 25% of Free Cash
- Full funding of the Annual Required Contribution (ARC) for Water and Sewer Department employees

Any future increase in pre-funding should be adopted, **ONLY**, upon successful implementation of one or more of the Town Manager's recommended actions to reduce costs.

## Recommended Action #4:

**Move the town's OPEB Trust Funds to a higher yielding fund with a proven track record (e.g. the State Retiree Benefits Trust Fund)**

Impact: Grows the town's OPEB Trust Fund

## Recommended Action #5:

**Increase part-time employee eligibility requirements for health care benefits**

Impact: Reduces the cost of long-term benefits by having fewer part-time employees eligible for health insurance.

We currently have employees working less than 20 hours per week, who are eligible for health care benefits, who will potentially qualify for lifetime health care upon retirement, after 10 years of service.

## Recommended Action #6:

**Create a new framework for collective bargaining that the Board of Selectmen and School Committee use going forward**

Impact: Brings changes in plan design and/or premium contributions – that reduce the town’s OPEB liabilities.

In the collective bargaining process, COLAs and health care benefits should be included in employee compensation discussions. And the Boards need to gain an understanding of the significance of the PEC, as it relates to effecting changes in plan design and premium contributions.

## Recommended Action #7:

**Reduce the town's share of health care premium contribution – to be in line with area communities**

Additionally, the town should review the “new hire” policy, perhaps offering incentives such as HSA with higher deductibles.

Impact: Reduces annual operating costs and OPEB liability.

While the minimum required is 50%, Andover contributes 71% - 76.9%, depending upon the status of the beneficiary. (See Attachment B.) Andover consistently contributes above the average, when compared to 18 area communities.

## Recommended Action #8:

**Explore alternative employment methodologies, such as, outsourcing for current and future jobs that are not mission-critical to the delivery of town and school services**

Impact: Reduces the number of employees eligible for OPEB benefits.

# Recommended Action #9:

## Employee Retirement Board Actions

**Better understand how the Retirement Board's decisions affect the town's operating costs and OPEB liabilities.**

Communities are considering ways to increase the hours an employee has to work, per week, to be eligible in the retirement system. The town should have a discussion about this topic.

# Recommended Action #10:

Explore opportunities to eliminate existing positions that are not mission-critical to the delivery of town and school services

# Recommended Action #11:

Be diligent in restricting the addition of new town employees

# Recommended Action #12:

**Urge our delegation to support House Bill 59** (See Attachment C), and gain an understanding of the critical importance of retiree healthcare benefits reform (e.g. increasing the minimum years of service from 10- 20 years for all groups, a modest request).

Passage of most, if not all of the recommendations in House Bill 59, is key to addressing our OPEB liability in any meaningful way.

The Sub-Committee recommends that the Board of Selectmen, School Committee and Finance Committee petition the legislature to support passage of HB 59.

**Petition the legislature to support passage of House Bill 59.**

A valuable resource to increase understanding of this complex issue is:

*“Retiree Health Care: The Brick that Broke Municipalities’ Backs: Massachusetts Taxpayers Foundation.”*

[http://www.masstaxpayers.org/publications/public\\_finance/budget/fy\\_2012/20110215/retiree\\_health\\_care\\_brick\\_broke\\_municipalities%E2%80%99](http://www.masstaxpayers.org/publications/public_finance/budget/fy_2012/20110215/retiree_health_care_brick_broke_municipalities%E2%80%99)

# Reporting Requirements:

Government Accounting Standards Board (GASB) has issued reporting requirements that will significantly affect the accounting and reporting requirements for Pensions and OPEB. These new standards are starting to phase in and will substantially impact the Town's financial statements.

The new GASB requirements on reporting our OPEB liability will have an even more prominent place on our balance sheet.

# Options for Pre-Funding / MMA:

Some popular options for **Pre-Funding** include:

- Set aside revenue from the Meals and/or Hotel and Motel tax
- Use savings from Municipal Health Insurance Reform
- Using Medicare Part D Federal reimbursements
- Earmark Tax Revenue
- Some Cities and Towns have indicated that they will look to divert funds currently being set aside for pensions once that liability is fully funded, although for most communities, that is at least a decade away

# Concluding Remarks:

The Subcommittee's recommendations offer initial steps that can be taken to reduce the town's OPEB liability. The town currently has \$3.1M designated toward OPEB expenses. The work ahead will require a consistent and consolidated effort from all stakeholders, so that we fulfill our obligations to our future retirees and to our future taxpayers.

# Attachment A

<b>OBEP</b>					Prepared: August 18, 2014
<b>RETIREMENT/HEALTH BENEFITS GRID</b>					
	Collective Bargaining	Retirement Board	Board of Selectmen	Legislature	
<b>Years of Service</b>		X			Refers to the creditable service earned for working less than full time. Currently Andover awards one year of service for every 12 months regardless of whether the employee works full time or part-time
<b>Hours of Work</b>		X			Refers to the number of hours an employee must work each week to be a member of the retirement system. Currently any employee who works 20 or more hrs per week must become a member of the retirement system.
<b>Premium Contribution Split</b>					
<b>Active</b>	X				Refers to the % of the premium paid by the employee and the Town.
<b>Retirees</b>			X		Refers to the % of the premium paid by the retiree and the Town.
<b>Retirement Age</b>				X	Governed by MGL Chapter 32. Employees hired before April 2, 2012 can retire with 20 years of service or age 55 with 10 years of service. Employees hired after April 1, 2012 must have 10 years of service and be age 60 or older (Group 1)

# Attachment B

## Health Insurance Percentage Contributions - Andover Comparables

Municipality	Avg Active		Avg Active Retiree		Avg Medicare supplement	Do you offer surviving spouse benefits?	If Yes, contribution
	Individual Plan	Family Plan	Individual Plan	Family Plan			
ACTON	66.7%	66.7%	50.0%	50.0%	50.0%	Yes	50.0%
<b>ANDOVER</b>	<b>73.1%</b>	<b>71.0%</b>	<b>73.1%</b>	<b>71.0%</b>	<b>75.7%</b>	<b>Yes</b>	<b>76.9%</b>
ARLINGTON	82.5%	82.5%	82.5%	82.5%	80.0%	Yes	50.0%
BARNSTABLE	50.0%	50.0%	50.0%	50.0%	50.0%	Yes	0.0%
BEDFORD	83.0%	61.0%	83.0%	61.0%	50.0%	Yes	50.0%
CANTON	75.0%	75.0%	75.0%	75.0%	75.0%	Yes	75.0%
CONCORD	62.0%	53.5%	58.0%	53.5%	50.0%	Yes	50.0%
DUXBURY	75.0%	75.0%	50.0%	50.0%	50.0%	Yes	50.0%
HINGHAM	50.0%	50.0%	50.0%	50.0%	50.0%	Yes	50.0%
LEXINGTON	85.0%	85.0%	85.0%	85.0%	80.0%	Yes	80.0%
MARBLEHEAD	83.0%	83.0%	83.0%	83.0%	75.0%	Yes	75.0%
NATICK	62.5%	62.5%	62.5%	62.5%	50.0%	Yes	50.0%
NEEDHAM	67.0%	60.9%	67.0%	61.7%	50.0%	Yes	0.0%
NORWELL	74.7%	74.7%	74.7%	74.7%	50.0%	Yes	0.0%
SUDBURY	62.5%	62.5%	50.0%	50.0%	50.0%	Yes	50.0%
WAYLAND	62.0%	57.0%	62.0%	57.0%	50.0%	Yes	69.0%
WELLESLEY	70.7%	68.7%	70.7%	68.7%	50.0%	Yes	50.0%
WESTWOOD	58.0%	58.0%	58.0%	58.0%	50.0%	Yes	50.0%
WINCHESTER	62.5%	62.5%	50.0%	50.0%	50.0%	Yes	85.0%
<b>Average</b>	<b>68.7%</b>	<b>66.3%</b>	<b>65.0%</b>	<b>62.8%</b>	<b>57.1%</b>	<b>Yes</b>	<b>50.6%</b>

# Attachment C

ADDENDUM C

## Summary of Retiree Healthcare Benefits Reform (House Bill 59)

Section Number	Item	Recommendation
1,8	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)
1,8	Minimum Years of Service to Receive Benefit	Minimum years of service increased from 10 to 20 years for all groups
2,3,5,9,10,11	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
1,8	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%.
1,8	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.
2,10, 19	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
1,2,8, 10	Disability Retirements	Accidental disability retirements exempted from new requirements.  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.
4	Non-Contributory Coverage	State retirees who are not eligible for contributions to coverage under the reform may continue coverage at full cost.
6, 12-18	Survivor Benefits	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.

# Attachment D

7	Retired Municipal Teachers	GIC administers a separate program for retired municipal teachers. This section applies the reform rules to this group.
10	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.
20	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.

## Summary of Exemptions of Certain Individuals from Proposed Reform

The legislation as drafted exempts certain categories of people who are retired, or near retirement. These categories include:

- Current retirees
- Employees and former employees who, on July 1, 2013, are within 5 years of eligibility for superannuation retirement under chapter 32 and have received a minimum of 20 years of creditable service;
- Employees and former employees who, on July 1, 2013, are within 5 years of eligibility for Medicare and have received a minimum of 9 years of creditable service;
- Individuals who are members of the Teachers Retirement System or the State-Boston Retirement System who participate in the alternative superannuation retirement benefit program established under subsection 4 of section 5 of chapter 32 and are at least 57 years old and eligible for a retirement benefit of 80 per cent;
- Individuals receiving an accidental disability retirement under section 7 of chapter 32; and
- Individuals receiving an ordinary disability retirement under section 6 until access to healthcare benefits through a Health Insurance Exchange becomes available to qualified individuals under the Patient Protection and Affordable Care Act, Public Law 111-148.

Additionally, the following employees, though not fully exempt, are entitled to a 50% contribution from the state:

- An employee who, by July 1, 2013 is at least 50 years old and has completed 15 years of creditable service;
- An employee who, by July 1, 2013, is at least 55 years old and has completed at least 10 years of creditable service; and
- An ordinary disability retiree with between 10 and 20 years of service.