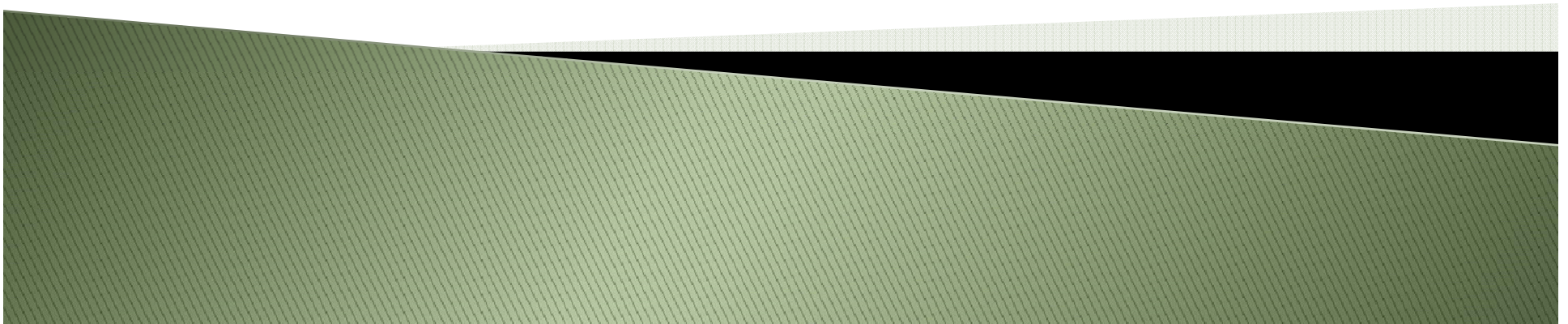


Establishing an OPEB Liability Trust Fund

Presentation to MERSD School Committee
October 15, 2013



Review: Two Types of Unfunded Liabilities

Retiree Health Insurance (aka “OPEB”)

- \$36 million est. cost of future retiree benefits *(for current/future retirees)*
- MERSD paying current costs only; not prefunding future costs
- Annual budget for retiree health = \$565K .
- **Cost/year to fully pre-fund = \$2.2 million!!**

OPEB is much larger financial challenge for MERSD

*OPEB = Other Post Employment Benefits

Pensions

- \$0 MERSD liability for teacher pensions (State pays employer share)
- \$9 million est. cost of future pensions: for non-licensed personnel only *(e.g. custodians, assistants, clerical)*
- MERSD already pre-funding pension payments to Essex Regional Retirement System
- Annual budget of \$427K will grow 8%/yr until 2020 to maintain full funding

Why Consider Pre-Funding OPEB?

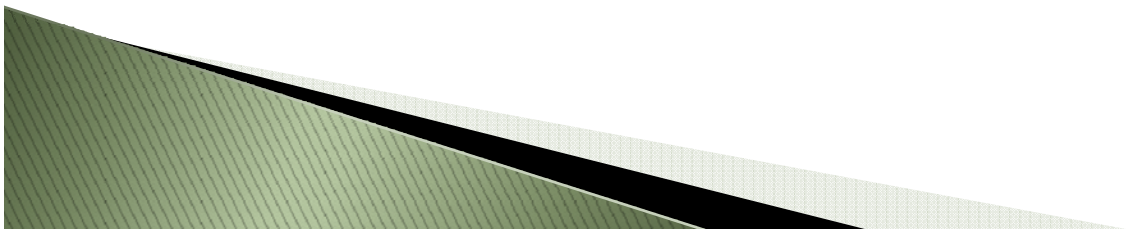
- ▶ Pre-funding today lessens the financial burden tomorrow
 - Law does not require MERSD to pre-fund but annual costs will eventually crowd out other areas of the budget
 - e.g., \$565K annual cost will grow to \$2.8M by 2040 if no change is made (6%/yr, vs. 2.5% target budget growth)
- ▶ Funds put aside can earn market rates of return, thereby limiting cost to taxpayers
- ▶ While most municipalities have \$0 set aside for OPEB, several (including Manchester and Essex) have recently begun to do so

Limitations of Pre-Funding

- ▶ MERSD must budget an additional \$1.7 million annually to achieve full-funding of OPEB
- ▶ Since this is unlikely, cost savings must also be examined to ensure that benefit levels are realistic and affordable
- ▶ Most municipalities have already moved to plans w/deductibles and higher co-pays that:
 - Could save MERSD up to \$250K/year
 - Would lower cost of long-term OPEB liability
 - Would free up investable funds today to meet retiree health care obligations of tomorrow

How Does Pre-Funding Occur?

- ▶ School Committee must vote to adopt Section 20 of Chapter 32B of MGL
 - Authorizes creation of OPEB trust fund
 - No obligation to put funds into trust once created
 - Funds put into trust can still be still used to pay current year (i.e. budgeted) costs of retiree health
- ▶ Amount to set aside, if any, can be decided as part of budgeting process
 - Must balance need to fund OPEB with need to fund core educational programs



For More Information...

- ▶ Budget area of MERSD web site has Unfunded Liabilities link including:
 - Valuations of liabilities conducted by independent actuarial firms
 - Annual letter to Manchester and Essex taxpayers explaining MERSD's unfunded liabilities in detail:
 - http://www.mersd.org/Pages/MERSD_WebDocs/Budget_Master/Unfunded%20Liabilities/AnnualOPEBLetter312013