

Budget Questions and Requests for Information 2013-14 Recommended Budget QUESTION #7

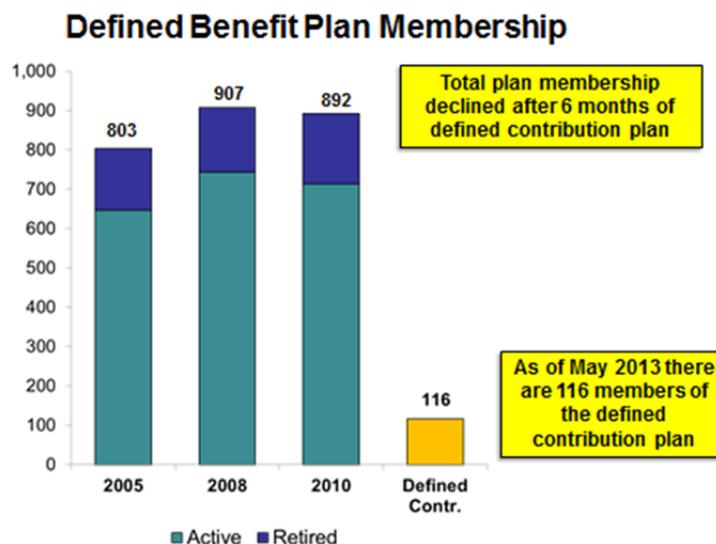
QUESTION: How much is the Town's OPEB (retiree healthcare) liability?

RESPONDENT: Kenneth C. Pennoyer, Business Management Director

RESPONSE: The OPEB liability is expressed in two ways in the Town's annual Financial Statements. Both numbers are calculated by the Town's actuarial consultant on a biannual basis:

- the unfunded actuarial accrued liability (UAAL) that, as of the last valuation date (12/31/10), is \$64,319,378. This number represents the present value of providing healthcare to all employees that are members of the plan.
- the annual required contribution (ARC) which is the amount the Town would need to contribute annually to fully fund the OPEB liability within 30 years. For the last actuarial valuation (12/31/10) the ARC was \$6,826,000.

The Town is pursuing several strategies to reduce the unfunded retiree healthcare liability. In 2010 the Council approved a defined contribution plan for all new employees starting after July 1, 2010. The defined contribution plan does not create a future liability for retiree health for employees covered under that plan. This stops the growth in the Town's liability resulting from increases in the number of covered employees in the defined benefit plan. Although the defined contribution plan was only in effect for 6 months before the last actuarial valuation, plan membership in the defined benefit plan dropped by 15 members between the 2008 valuation and the 2010 valuation. This is in contrast to a growth of 104 members of the defined benefit plan between the 2005 and 2008 valuations. The defined contribution plan currently has 116 members. If Council had not approved the defined contribution plan, these 116 employees would have increased the membership of the defined benefit plan, significantly increasing the long-term liability.



As discussed at the May 22nd budget work session, the FY14 budget recommendation includes establishing a post 65 retiree medical plan separate from the plan that covers the rest of the Town's employees. By making this split the Town will be making more efficient use of the Medicare system while providing approximately the same level of benefits that retirees currently have. This change saves \$205,000 in the FY14 Budget and reduces the Town's retiree health (OPEB) liability by about 20%.

In FY14 staff will be reviewing the possibility of moving all employees that are not vested in the defined benefit plan to defined contribution, further reducing the membership of the defined benefit plan and eliminating the liability for long-term healthcare for those employees. Employees with less than 5 years of service are not vested in the defined benefit plan and, therefore, could potentially derive more benefit from the portability of the defined contribution plan. If such a plan is approved, moving to the defined contribution plan would be mandatory for all employees in the designated group.

The size of the Town's OPEB liability relative to our budget makes it difficult to approach the problem effectively from a direct funding perspective. In past years the Town has contributed \$400,000 over and above the amount needed for pay-as-you-go OPEB expenditures as a contribution to reducing our liability. Annual contributions of this magnitude have little impact on our liability and although we must ultimately resume direct funding, we believe that our efforts should be concentrated on the strategies described above that will have a significant effect on lowering our liability in the near-term.