

Other Post-employment Benefits (OPEB)

What are Other Post-employment Benefits (OPEB)?

Employees of state and local governments may be [compensated](#) in a variety of forms in exchange for their services. In addition to a salary, many employees earn benefits over their years of service that will not be received until after their employment with the government ends. The most common type of these post-employment benefits is a pension. Post-employment benefits other than pensions generally take the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. They may also include some type of life insurance. As a group, these are referred to as Other Post-employment Benefits, or OPEB.

What is GASB 45?

The [Governmental Accounting Standards Board \(GASB\)](#) established standards in 1994 for how public employee pension plans and governmental employers participating in pension plans should account for and report on pension benefits ([GASB Statement 27](#)), but similar provisions did not exist for OPEB. GASB believes that OPEB is a part of the compensation that employees earn each year, even though these benefits are not received until after employment has ended. Therefore, as benefits accrue, they are a cost of providing public services today, and should be a part of the municipality's accounting statements.

However, most governments report their cash outlays for OPEB in the year of actual distribution, rather than in the year benefits are earned. These two amounts may be vastly different.

Furthermore, most governments do not report information about the nature and size of their long-term financial obligations and commitments related to OPEB. Consequently, the readers of financial statements, including the public, have incomplete information with which to assess the cost of public services or to analyze the financial position and long-run financial health of a government.

The purpose of the new standard – [GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions](#) – is to address these shortcomings.[\[1\]](#) (A companion [Statement 43](#) deals with related plans.)

What Do the New Reporting Standards Mean to Accounting Officers?

Through actuarial analysis, municipalities must identify the true costs of the OPEB earned by employees over their estimated years of actual service. Similar to the implementation of [GASB 34](#), municipalities across the Commonwealth will have to be in compliance with GASB 45 according to the following schedule:

- Tier 1 ([total annual revenues in FY1999](#) larger than \$100 million): FY2008
- Tier 2 ([revenues in FY1999](#) between \$10 million and \$100 million): FY2009
- Tier 3 ([revenues in FY1999](#) less than \$10 million): FY2010

What Do the New Reporting Standards Mean to Financial Management in Government?

We expect that the implementation of GASB 45 could force noticeable changes in government practice. While the new standards require state and local governments to include a footnote in their [financial statements](#) indicating the actuarial accrued liabilities, the standard does not include a funding requirement, which would have to be implemented through Legislative action. However, once the total liability, including the amount that is unfunded, is known, taxpayers, government employees, and municipal credit rating agencies will begin to take notice.

The [Town of Wellesley](#) provides an illustration of how one municipality is navigating the impact of the future OPEB liability.

Wellesley

Wellesley became aware of the OPEB issue in the mid-nineties. Some of the volunteers on various town boards who worked in the private sector had just dealt with the requirements of [FASB 106](#), the private-sector equivalent of GASB 45, and brought it to the attention of town leaders. Knowing that prudent fiscal management involves knowledge of OPEB, town financial officials had an actuarial study performed to discover the outstanding liability. Currently, with an annual budget of about \$75 million (\$9 million on health care), the results of their last study had their OPEB liability at \$77 million – to fund the constantly increasing liability would cost at least an additional \$3 million a year for the next 30 years.

Once it became clear that the outstanding liability was huge, the town began to think about ways in which to reduce the liability and to begin to fund it. To fund it, they established a Group Insurance Liability Fund through special legislation ([Chapter 88 of the Acts of 2004](#)). The fund is to be managed by the town's contributory retirement board in a similar way to their pension trust, specifically guided by the "[prudent investor rule](#)," which allows more investing flexibility than typical government funds. As of yet, they have been unable to appropriate money into the fund, but the mechanism is in place.

They have also begun to think creatively about how their current employment practices affect their future liability, for if they gain control of current costs, it will offset the future costs. To this end, they have made the following changes:

- Early retirement adds unnecessarily to benefit costs, for the town continues to pay benefits for retirees in addition to incurring benefit costs for any new hire. Therefore, they have decided to think very seriously about any future early retirement package before they offer it.
- As part of the constant examination of rates for services provided by the municipality, they have changed the [enterprise fund](#) rate structure to include the cost of benefits for all current and retired employees of that municipal service.
- Town officials are weighing the adoption of [Chapter 32B Section 18](#).
- Wellesley does not compensate any of its elected officials, thus making those positions ineligible to receive health benefits. The one exception is the town clerk, who works full-time in town hall.

- Management will carefully examine all requests for position changes to make sure that changes aren't made that move previously non-benefited jobs into benefit eligible status.

Learning from Wellesley, municipalities can take four immediate steps to mitigate the impact of the OPEB liability. Because the largest component of OPEB is health insurance, most of these recommendations focus on reducing that cost to the municipality.

- 1) Adopt [MGL Chapter 32B Section 18](#). The implementation of Ch 32B §18 by a municipality will require all eligible retirees to enroll in Medicare Part B. In its simplest terms, this section allows a community to shift a significant portion of its retiree health care costs to the federal Medicare program. The retiree sees no loss in benefits received. Please see the [Best Practices](#) on the subject.
- 2) Examine all current positions that receive health-care benefits. According to [MGL Ch 32B §2\(d\)](#), an "employee" eligible for health-care benefits is one that receives either a salary or stipend, whether he or she is full-time, part-time, appointed or elected. Elected officials have no minimum hourly requirement, while appointed positions must regularly work at least 20 hours per week in order to receive health insurance. Therefore, municipalities must consider the long-term impact of providing health insurance to current employees receiving stipends and not working full-time in the service of government. For, once a compensated employee is "vested" in the retirement system, that employee is eligible for retiree benefits, including health care, at a significant cost to the municipality.
- 3) Make sure that the municipality is not paying more than necessary on retiree benefits. In Massachusetts, if municipalities accept [MGL Ch 32B §10](#), they are obligated to contribute at least 50% of the cost of the premiums for retiree health insurance as stipulated in [MGL Ch 32B §7](#). By accepting additional sections of [MGL Ch 32B](#), each government may choose to pay a larger percentage and provide other benefits. Different rules may apply to retirees who participate in HMO's. With the growing cost of health insurance and the demographic changes from the aging of the baby boomers, it is valuable for all municipalities to evaluate current business practices and policies with an eye for long-term fiscal feasibility.
- 4) Adopt legislation in order to create a trust for the OPEB liability. Once the OPEB liability is known, it will be prudent for the municipality to create and enact a funding plan, similar to the funding requirements for pensions. Since no blanket statewide legislation currently exists, unlike the [mechanism in place for pension funds](#), adopting legislation that allows the municipality to invest under the "prudent investor rule" is beneficial, for it allows the municipality to invest more aggressively in order to generate more substantial returns on the investment.

Marc Waldman, Treasurer/Collector in Wellesley, contributed to this article.

[1] Private sector and non-profit employers have been subject to OPEB reporting since the early 1990s under the [FASB 106](#) rules.