

**INTERIM REPORT  
OF THE  
OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDING ADVISORY  
GROUP**

February 2016  
Town of Belmont, MA

**Purpose and Duties**

Under the direction of the Board of Selectmen, this temporary working group will evaluate and make recommendations on the Town of Belmont's OPEB strategy. Members will be asked to evaluate the current policy, and consider whether it is prudent to adopt alternative operating and funding alternatives for the Town's unfunded OPEB liability

Members appointed by the Selectmen are Elisabeth Allison, Christine Doyle, Ralph Jones, Geoffrey Lubien, Richard Waring, and Michael Widmer. The Committee elected Ralph Jones to serve as Chair.

**Summary of Activities**

The working group met from September through December 2015. Our work included background research into the town's OPEB program, the past four actuarial reports on OPEB, and the Town's actions (and options) to control retiree health care costs. We also sought information from other communities who are facing the same issues as Belmont.

However in the absence of key cost data we could we not fully complete our charge. As explained below, we believe that additional research is needed, and we are willing to continue our work if authorized by the Selectmen.

**Summary of Work to Date**

- We adopted a research plan that focused on the creation of a cash-flow model of retiree health care costs. This is a significant departure from the more common focus on estimated costs as presented in the estimates of liabilities. The working group chose this focus for two reasons.
  - First, in examining the assumptions that drive the actuarial calculations, we discovered that they are largely based on state-wide data, not Belmont specific data. While communicating with other communities, we found one (Wayland) that had devoted the time and effort to obtain its actual cost and demographic data. It then used these data to obtain a revised actuarial estimate of its unfunded OPEB liability.

The revised actuarial estimate – grounded in Wayland’s actual cost and demographic data -- reduced the town’s unfunded liability more than 20 percent (a reduction from \$103 million to \$80 million). This reduction occurred without any other changes to its policies, plan design or operations. We believe that a similar or even more significant outcome is likely in Belmont. As of July 1, 2014 Belmont’s unfunded actuarial liability totaled approximately \$171 million, so a 20% or 30% reduction would be material to the Town’s balance sheet.

- Second, while actuarial costs pose issues for the Town Treasurer when dealing with rating agencies, it is annual cash costs that impact the dollars available to meet other needs of Belmont residents.
- We learned that Belmont does not currently disaggregate its health care costs so as to generate data on the costs of pre-Medicare retirees. Thus we were able to obtain information on average costs per individual and family by plan, (\$6010 and \$16,282 for Harvard HMO, for example), but not the costs for the early retirees as a group. In the most recent year for which we were able to obtain information, (FY2012), OPEB costs for early retirees were approximately \$1.9 million. (See Attachment A)
- We confirmed the fact that the Town’s management of increases in its health care costs has been far better than most organizations. The average rate of increase FY2012 – FY 2016 has been 0.1%. This very low rate of increase makes OPEB cost substantially more manageable; as long as health care cost increases continue to be near zero, the cash costs of OPEB will grow, as a first approximation, at the rate of growth of the Town’s labor force, which is financially manageable.
- We sought assistance from other Massachusetts cities and towns of comparable size. Weston, Needham, Wellesley, Newton, Wayland, and Andover are studying their OPEB policies and options. We discovered that of these towns, only Needham had actual cash flow data on the cost of retiree health care. All of the rest did not, until a study group like our committee collected cash flow information in Wayland.
- The working group was charged with evaluating the impact of alternative financing approaches on OPEB costs. However, without data on the cash costs of pre-Medicare retiree benefits, it is not possible to model the impact of alternative funding approaches.
- The working group has assembled a substantial amount of information on other towns, on comparisons between Belmont’s plans and other plans, recommendations for OPEB management from outside group, and some Town statistics provided by the Town Administrator. An inventory of the resource material other towns and outside organization is provided in Attachment B. An inventory of Belmont financial and statistical information obtained is provided in Attachment C.

## Recommendations for 2016

- One of the axioms of cost management is, “What you can’t measure, you can’t control.” Thus it is the strong and unanimous recommendation of this group the Town immediately begin to segregate data on the health care costs of pre Medicare retirees so that a model of future cash payments can be developed. On the basis of Wayland’s experience, we believe that use of actual data on health costs for retirees could substantially reduce the actuarial estimate of the Town’s unfunded liability for OPEB and provide the basis for evaluating changes in both plan design and funding strategies.
- The members of the working group unanimously would like to continue the work of this temporary committee, if we are directed to do so by the Selectmen. We believe that with FY 2016 data, we could largely address the issues enumerated in the statement of purpose and duties.

Respectfully submitted,

Ralph T. Jones, Chair

Liz Allison

Chris Doyle

Geoff Lubien

Richard Waring

Mike Widmer

Attachment A: OPEB Costs for pre Medicare Retirees, (provided Dec 2010)

FY12 RETIREE HEALTH COSTS FOR TOWN  
ESTIMATES 12-1-10

FY12 Dept	Not Medicare eligible or Retirees under 65 policies		Medicare Policies		Total - 6% Increase		%	5% increase
	#	\$	#	\$	#	\$		
Buildings	0		5	14,929	5	14,929	1.0%	14,780
Elections	1	6,042	2	8,132	3	14,174	1.0%	14,032
Accounting	2	12,085	3	9,498	5	21,583	1.5%	21,367
Assessors			5	20,342	5	20,342	1.4%	20,139
Admin	2	12,073	5	18,988	7	31,081	2.1%	30,750
HR			2	8,137	2	8,137	0.6%	8,056
Planning			1	4,068	1	4,068	0.3%	4,027
Treasurer			8	28,487	8	28,487	1.9%	28,202
E911			8	29,840	8	29,840	2.0%	29,542
Fire	27	307,700	64	240,076	91	547,776	37.2%	542,298
Police	25	254,312	50	188,533	75	442,845	30.0%	438,417
Cemetery	1	6,042	1	4,068	2	10,110	0.7%	10,009
DPW	13	109,526	17	58,336	30	167,862	11.4%	166,183
Engineering			1	4,068	1	4,068	0.3%	4,027
Health	1	16,371	5	20,342	6	36,713	2.5%	36,346
COA	2	22,413	2	6,783	4	29,196	2.0%	28,904
Library	3	18,127	10	36,620	13	54,747	3.7%	54,200
Recreation			2	8,137	2	8,137	0.6%	8,056
<b>Total Town</b>	<b>77</b>	<b>764,691</b>	<b>191</b>	<b>709,384</b>	<b>268</b>	<b>1,474,075</b>	<b>100.0%</b>	<b>1,459,334</b>
Teachers	94	950,052	142	501,926	236	1,451,978	83.1%	1,437,458
Other School	9	85,332	57	210,245	66	295,577	16.9%	292,621
<b>Total School</b>	<b>103</b>	<b>1,035,384</b>	<b>199</b>	<b>712,171</b>	<b>302</b>	<b>1,747,555</b>		<b>1,730,079</b>
Light Enterprise	7	52,603	18	65,111	25	117,714		116,537
Sewer Enterprise	2	22,402	4	13,567	6	35,969		35,609
Water Enterprise	3	18,127	16	59,681	19	77,808		77,030
<b>Grand Totals</b>	<b>192</b>	<b>1,893,207</b>	<b>428</b>	<b>1,559,914</b>	<b>620</b>	<b>3,453,121</b>		<b>3,418,590</b>

## Attachment B: Resource Material, Other Towns and Outside Organizations

### Interviews with representatives from the Towns of (as of 2/1/16)

Andover  
Needham  
Newton  
North Andover  
Wayland  
Wellesley  
Weston  
Winchester

### Reports and Materials from OPEB Committees and OPEB Reviews

Andover  
Needham  
Newton  
North Andover  
Wayland  
Wellesley  
Weston  
Winchester

Fitch Ratings (6/11/14)	6/11/14	U. S. State OPEB Liabilities
Standard & Poor's Ratings Services	11/1/14	Diverging Trends Underlie Overall Stable U.S. State OPEB Liability
NASTA	12/1/14	Spotlight on Retiree Health Care Benefits for State and Local Employees in 2014
Massachusetts OPEB Commission	9/20/12	Discussion at PERAC's Forum
Massachusetts OPEB Commission	1/11/13	Final Report
MA GIC	7/1/15	GIC Benefit Decision Guide

## Attachment C: Resource Material, Belmont Financial and Statistical Data

Average costs per individual, family and Medicare by plan

Total OPEB headcounts by plan

Historical cost schedule by plan

Retiree pension information – counts, age and retirement date

OPEB Annual Costs excluding contribution to reserve fund (2006-2010)

Description of Town Retiree Benefits

Belmont OPEB Funding formula