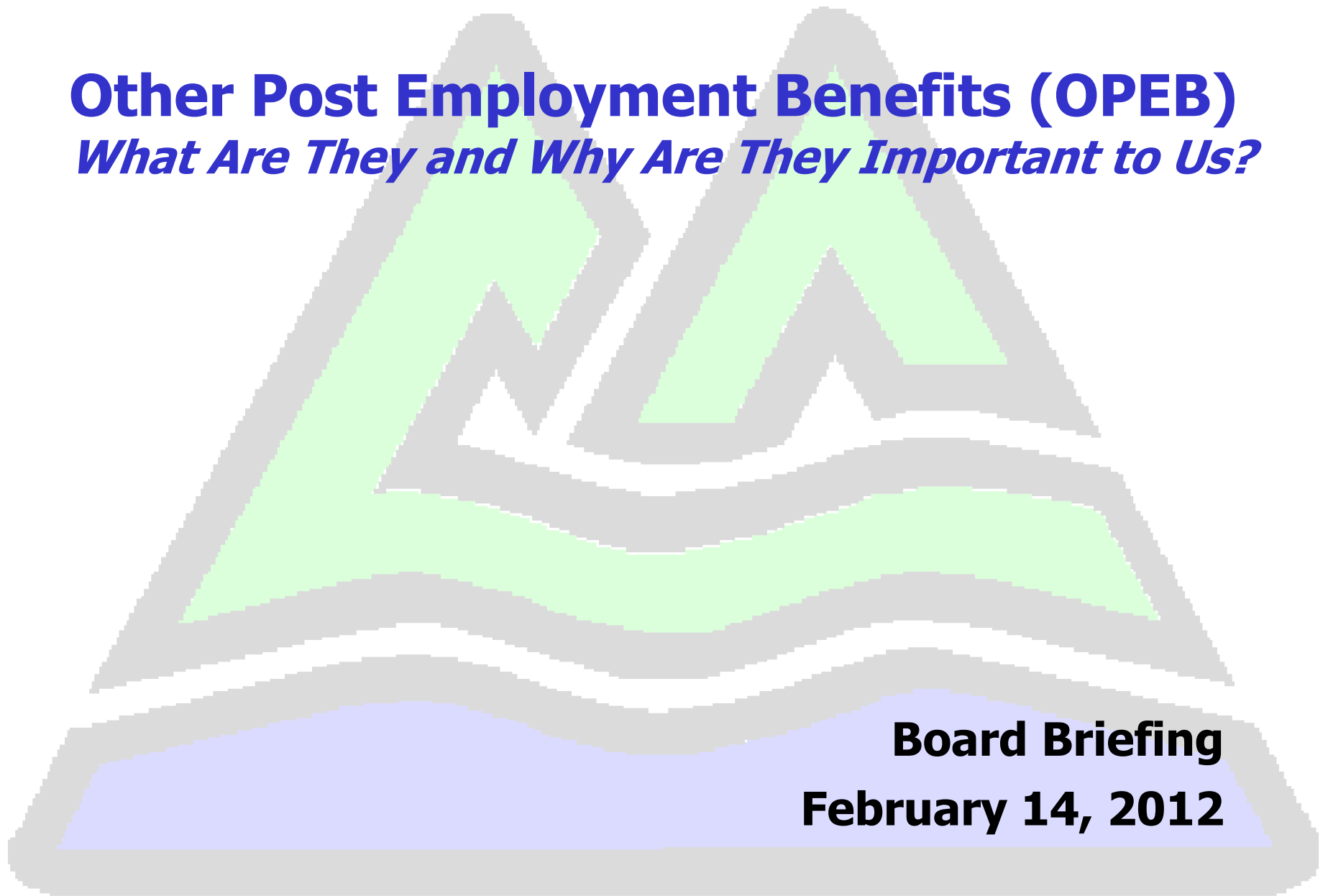


# **Other Post Employment Benefits (OPEB)**

*What Are They and Why Are They Important to Us?*



**Board Briefing  
February 14, 2012**

# What I Want To Cover

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- OPEB Overview
  - What Are OPEBs?
  - Accounting Treatment (GASB 45)
  - Current County Policy
- GASB 45 Requirements
- Relevance For Multnomah County
  - Long Term Financial Impact
  - Funding Options
  - Next Steps
- What Should We Do?
  - OPEB Mitigation Strategies
  - Additional GASB Pronouncements



# Background

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- Budget Note Requested a Briefing on OPEB and the Financial Policy on Funding the Liability
- OPEB = Other Post Employment Benefits
  - Medical/Dental/Vision
  - Life Insurance
  - Disability
  - But Not PERS
- Government Accounting Standards Board (GASB) Issued Statement # 45 in July, 2004



# GASB 45 Requirements

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- Statement Was Developed Due to Concern Over the Collapse of Large Private Pension and Retirement Health Plans
- GASB Found That Public Sector Plans Were Also Vulnerable
  - Awareness of the Cost of Long Term Liabilities
  - Clear Direction on How to Implement Standard, No Guidance on What to Do About Funding
- Specific Disclosure Requirements
  - What Are Benefits, Who Gets Them, How Many Covered?
  - Determine Actuarial Liability (Every 2 Years)
  - Report on the ARC and Identify Contributions Toward the Liability
  - Funding NOT Required Under GASB 45
- Multnomah County Implemented GASB 45 in FY 2006



# What This Means To Multnomah County

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- All County Labor Contracts Provide For Retiree Healthcare
  - County Pays 50% of Monthly Medical Insurance Premiums
  - Most Retirees Eligible From Age 58 to 65 (or Medicare Eligible)
  - 5 Years Continuous County Service Prior to Retirement
- First Actuarial Study Performed in 2005
  - Unfunded Actuarial Accrued Liability (UAAL) - \$110 Million
  - # of Retirees Receiving Benefits - 528
- Funding Options
  - Do Nothing
  - Pay As You Go
  - Dedicated Reserves
  - Establish an Irrevocable Trust



# Policy Development

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- Liability Will Continue to Grow
  - Medical Cost Inflation a Major Budget Driver
  - More Employees Becoming Eligible
  - “Do Nothing” Not a Realistic Funding Option
- Establish a Baseline
  - Changes to Existing Benefits Need to be Negotiated
  - Initial Goal Was to Evaluate Funding Alternatives
- Policy Statement
  - County Will Fund 20% of UAAL by FY 2013
  - Currently @ About 15% as of June 30, 2011
  - Rating Agencies Encourage Development of Policy



# Multnomah County OPEB Profile

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## Actuarial Study Results

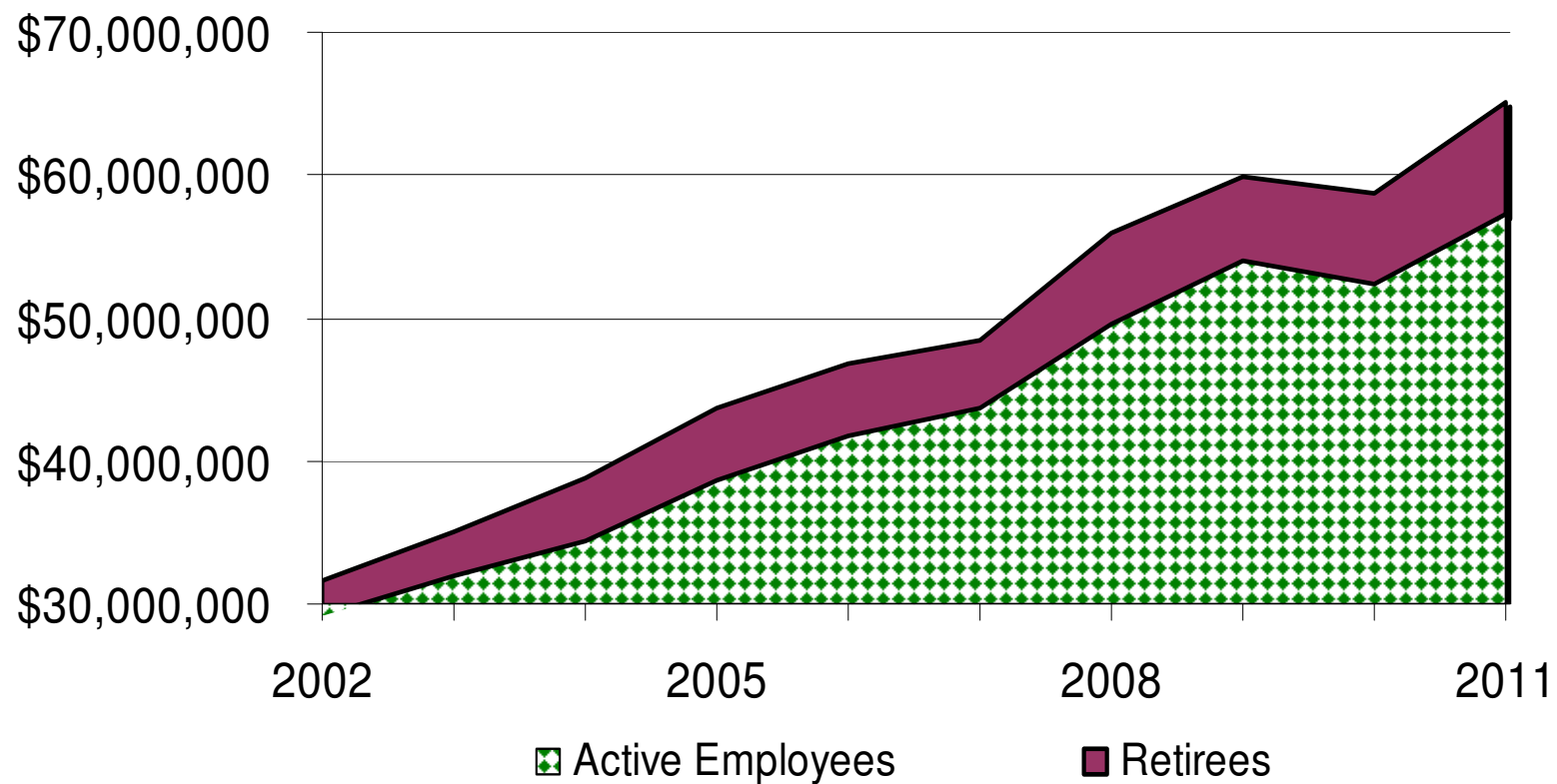
*Reports Prepared by Mercer*

	UAAL	% of Payroll	ARC	# of Retirees
FY 2005	\$109,895,000	48%	\$13,412,000	528
FY 2007	\$122,905,000	52%	\$15,696,000	598
FY 2009	\$122,605,000	47%	\$11,664,000	585
FY 2011	\$154,498,000	57%	\$14,193,000	654



# Healthcare Cost Trend

**Multnomah County  
Ten Years of Healthcare Costs**





# Current OPEB Funding

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- Combination of Pay As You Go and Dedicated Reserves
- Current Year Costs Supported by Payroll Surcharge and Retiree Contributions
  - Departments Pay 2% of Payroll (Approximately \$5.4 Million)
  - Rate Was Originally Set @ .5% of Payroll
  - Surcharge Provides for Slight Contribution to Reserve
- Two Parts to UAAL Calculation
  - Direct Subsidy – County Pays 50% of Premiums
  - Implicit Rate Subsidy
  - ALL Jurisdictions Will Have an Implicit Rate Subsidy



# Managing The Liability

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- First Decision – Fund to What Level?
  - Benefits Contractually Defined
  - Impact of Federal and State Healthcare Reform
  - Actuarial Assumptions
  
- Why Did We Recommend 20%?
  - Had Mechanism For Pay As You Go Already in Place
  - Realistic Goal – Minimal Budgetary Pressure
  - Review Best Practices Around OPEB Mitigation
  
- Policy Impacts and Level of Reserves
  - Our OPEB Liability is Manageable
  - Each Funding Option Has Pro's and Con's



# Funding Options

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- Pay As You Go
  - Direct Subsidy Will Grow Faster Than Payroll
  - ARC Represents About 5% of Current Payroll
  - Ability to Respond to Changing Economic Conditions
  
- Dedicated Reserves
  - Fund w/ Bond Proceeds
  - Requires Budgetary Discipline
  - What Level Do We Ultimately Want to Achieve?
  - Pooled Interest Earnings
  
- Establish Irrevocable Trust
  - Funds Belong to Trust
  - Longer Term Investments/Higher Discount Rate
  - Legal Complexity and Administrative Costs



## Next Steps

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- Understand Demographics and How They Impact OPEB
  - OPSRP Retirement Age
  - Model Alternative Actuarial Assumptions
- Review Best Practices
  - Plan Design Changes
  - Eligibility Requirements
  - Cost Sharing Methodologies
- Report Back to Board
  - New Actuary, Opportunity to Revisit Assumptions
  - Recommend a Funding Plan
  - Prepare for Contract Negotiations



# **OPEB Mitigation – What Have Others Done?**

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- **Plan Design Changes**
  - More Emphasis on Preventive Measures
  - Understand Experience/Target Chronic Issues
  - Incorporate a Wellness Program
- **Eligibility Requirements**
  - Make Subsidy Dependent Upon Years of Service
  - Subsidized Coverage for Retiree Only
- **Cost Sharing Methodologies**
  - Reduce Subsidy Level
  - VEBA Style Trust



# **GASB Strikes Again!**

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- New Statements on PERS and OPEB
  - More Fully Account For and Disclose Pension and OPEB Liability
  - Both Will Impact Multnomah County
  - Likely a Few Years to Implementation
- Some Important Considerations
  - Few Government Agencies Have Fully Funded Pensions
  - Even Fewer Have Funded Their OPEB Liability
  - Rating Agencies Will Need to Adjust Their Scales
- PERS System Reforms Are Working
  - GASB Statements Targeted Toward Chronically Underfunded State and Local Governments



# Summary

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- Provided Information on OPEB and Understanding of Current County Policy
- Described Impact on County Finances
  - Primarily an Accounting Methodology
  - Multnomah County Has Managed Liability Well
- Reviewed Funding Options and Potential OPEB Mitigation Strategies
  - Auditor's Recommendation
- Briefly Touched on Potential New GASB Statements

