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**OPEB UPDATE**  
An Auditor's Perspective  
Franklin Regional Council of Government's  
Selectboard Essentials Workshop  
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Presented by: Patrice Squillante, CPA  
413-773-5405  
[psquillante@melansonheath.com](mailto:psquillante@melansonheath.com)

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**What is OPEB?**

- OPEB (Other Post Employment Benefits) is the set of benefits offered to a retiree, other than pension – primarily health insurance.
- The OPEB liability recorded in your financial statements is the present value of the government's share of retiree benefits for those who have retired AND those who have a right to retire in the future.

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**GASB Standards**

- Government Accounting Standards Board (GASB) Statements No. 43 and 45
  - Statement No. 43 relates to OPEB plans; Statement No. 45 relates to employers
  - Effective between 2008 – 2010, depending on size (revenues)
  - Set standards for reporting OPEB liability
  - GASB requires the liability to be reported but cannot / does not require that it be funded

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### GASB Standards

- GASB 45 requires an actuarial valuation
  - every 2 years for plans with 200 or more plan members (active, terminated and retired employees);
  - every 3 years if less than 200 plan members
- If under 100 plan members, option to use a simplified method instead of an actuarial



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### Genesis of GASB Standards

- The GASB standards were adopted
  - To provide more complete information, including all financial implications of current benefit structure
  - To provide standards of measurement and footnote disclosure information, since this was not consistently reported nationwide
  - Since most plans are “pay as you go” and had no actuarial valuation, the future cost of these benefits had not been quantified



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### OPEB Liability Calculation

- The actuarial calculates the future cost of post employment benefits for current and future retirees and using various assumptions;
- The actuarial creates a funding schedule to pay that liability over a period of up to 30 years.
- Currently the reported liability is the difference between what should be paid per the funding schedule and what you’re actually paying for retiree’s insurance (as part of your current health insurance bill).



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### OPEB Liability Reported

- Under the current standards, this liability will generally increase each year because most communities are not paying the full amount required per the funding schedule.
- A new GASB standard, expected to be effective in FY 2018 will require the entire unfunded liability to be reported in one fell swoop.
- Similar to what will be required of the pension liability in FY 2015 under GASB No. 67/68.



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### The OPEB Burden

- Virtually all Mass communities pay at least half of the premiums for fairly generous benefits; most pay a much higher percentage
- Health care costs are rising faster than revenues
- Baby boomers retiring in large numbers
- No equivalent in the private sector; according to the Agency for Health Care Quality and Research, in 2013 only 7.3% of Mass private sector establishments offer health insurance to retirees.



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### The OPEB Burden in Mass

- Massachusetts liability is above the national average. Per S&P, the average is almost \$11 billion; Mass is \$17.4 billion
- The unfunded liability for municipalities is approximately \$30 billion
- The unfunded liability for OPEB is twice that of pension for a number of reasons
  - Communities pay OPEB for teachers but the State pays their pension
  - Eligibility criteria for OPEB is much less than for pension



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### The OPEB Burden in Mass

- According to a September 2014 report by the Massachusetts Taxpayers Foundation:
  - Between 2009 – 2013 the total cost of retiree health insurance rose 24% while property taxes increased at only half that.
  - For 9 communities studied (lowest per capita income / pop over 10,000), retiree health care costs averaged 15% of property tax levy and average homeowner pays at least \$400/year to fund these costs.



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### Funding Options and Incentives

- Effective 7/1/11 MGL Chapter 32B Section 20 enabled municipalities to establish an OPEB Trust fund as a way to accumulate funds to pay this liability.
- Rate setting agencies have begun viewing the existence of an OPEB Trust as a necessity for municipalities.



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### Containing OPEB Costs

- Adopt MGL Ch. 32B Section 18 requiring eligible retirees to enroll in Medicare
- Review benefits to part-time employees
- Several studies / reports recommend legislative reform
  - Increase eligibility criteria from 10 yrs. service to at least 20 yrs.
  - Tie benefits provided to years of service
  - Pro-rate benefits for part-time employees



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Melanson Heath  
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