

Chairperson's Corner

Review of OPEB Research

By Steve Bryson

In keeping with our mission to advance research about publicly-funded programs, our section has awarded a contract to GRS Consulting to investigate the extent and effect of funding (or **not** funding) retiree health insurance plans that cover former employees of state and local governments throughout the U.S. I write “not funding” because, unlike public retirement systems, many public entities in the U.S. finance their retiree health plans through current appropriations only, and do not practice advance funding of future benefits to any extent.

After joining the SIPF council in the fall of 2014, it occurred to me that the actuarial community and the public at large had been giving considerable scrutiny to the funded status of public retirement systems, but not so much to the funded status of public retiree health plans. So I proposed to my SIPF colleagues that we engage in a research project similar in concept to the Society's Blue Ribbon Panel report.¹ They agreed and so the effort began. At the time, my thinking was to focus our research on certain key questions. With input from an excellent roster of colleagues², we began the drafting of our RFP to focus on these concepts:

- What is the extent of unfunded OPEB³ liabilities in the U.S., and how is that distributed by state and between state and local entities?
- What is the distribution of plans by funding percentage?
- What are the short term and long term implications of unfunded liabilities on the stakeholders? Who are the stakeholders?
- How will the changes to GASB accounting standards⁴ impact the measurement of the unfunded liabilities? Will they spur advance funding?
- What strategies are public plan sponsors implementing to mitigate the impact of liability measurements on their financial statements?
- What has been the impact of the Affordable Care Act on those liabilities?
- For those plans that are not being funded, why not?



So here we are 30 months later. We have a contract in place with GRS, and the project is under weigh. Over the next five or six months, GRS will undertake the following tasks:

PHASE ONE

- Collect publicly available financial statements of public OPEB plan sponsors and the corresponding actuarial valuation reports.
- Compile key data points from the statements and reports going back to 2008⁵ if possible.
- Identify those sponsors that successfully managed their OPEB liabilities, and measure that success.
- Compare OPEB funding (both advance and pay-as-you-go funding) to available revenues.
- Measure funding and liabilities per the resident population.
- Compare liabilities attributable to employees vs. retirees.
- Distinguish liabilities attributable to implicit rate subsidies vis-à-vis direct subsidies.
- Identify key plan features that are associated with high levels of liabilities.
- Survey state and local government finance officers about germane topics, such as plan designs, eligibility, Medicare coverage, retiree cost-sharing, asset management, retiree participation rates, etc.

PHASE TWO

- Focus on sponsors that have successfully managed their OPEB obligations.
- Research published literature.

- Survey finance officers about the key components of their success.
- Create a “blueprint for success” by investigating strategies such as:
 - Reducing offered benefits (e.g., higher deductible plans)
 - Tightening eligibility for benefits
 - Shifting from defined benefit to defined contribution designs

PHASE THREE

Attempt to forecast changes in OPEB unfunded liabilities due to the implementation of GASB Statements 74 and 75

- Due to the new restrictions on the actuarial cost method and assumptions, and
- Due to plans that transition to advance funding of future benefits,

The SIPF is hosting a breakfast at the SOA 2017 Annual Meeting in Boston. We will be presenting a digest of the results from our research. We hope you will join us. ■



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ENDNOTES

- 1 The full report can be found here: <http://www.soa.org/Content-Blocks/Blue-Ribbon-Panel.aspx>.
- 2 The Project Oversight Group includes Adam Reese, Jeff Petertil, Steve McElhaney, Jeffery Rykhus, John Robinson, Joseph Goodman, Piotr Krekora and Robert Clark. We also received help in setting up the RFP from Andy Peterson, Karen Dixon, and Vince Granieri.
- 3 “Other Postemployment Benefits”, an accounting term describing benefits other than pensions provided to former employees.
- 4 Statements 74 and 75 of the Governmental Accounting Standards Board, setting the requirements for computing and disclosing OPEB liabilities effective for plan fiscal years beginning after June 15, 2016 and for employer fiscal years beginning after June 15, 2017.
- 5 The earliest implementation of the prior accounting standard, Statements 43 and 45.