

Town of Winchester  
Spring Annual Town Meeting



## **ARTICLE 25**

To see if the Town will vote to raise and appropriate or transfer from available funds to the “Other Post-Employment Benefits Liability Trust Fund” in order to reduce the unfunded actuarial liability of health care and other post-employment benefits for which the Town is obligated, or take any other action in relation thereto.

(Finance Committee)

### **MOTION:**

**MOVED AND SECONDED**, that further consideration of Article 25 be indefinitely postponed.

### **ARTICLE 25 BACKGROUND:**

The Government Accounting Standards Board (GASB) issued a statement (GASB45) that required all cities and towns to disclose their unfunded financial liability for retiree health insurance benefits beginning in FY2009. This liability is derived using systematic, accrual-based measurement based on actuarial projections of future healthcare benefits committed by the Town for its current and future retirees. In particular, the GASB sought to address the following shortcomings in municipal financial statements, namely failures to:

- Recognize the *cost* of benefits in periods when the related services are received by the employer.
- Provide information about the *actuarial accrued liabilities* for promised benefits associated with past services and whether and to what extent those benefits have been funded.
- Provide information useful in assessing potential demands on the employer’s future cash flows.

The Town is required to perform an actuarial analysis of its other post-employment benefits every two years. The current actuarial analysis is underway. The last full evaluation was performed by Buck Consulting on June 30, 2013 and identified the Town's Unfunded Actuarial Liability at \$59 Million. Included in the consultant’s report is a table presenting the annual funding required to bring the liability to fully funded status over thirty years. This funding level is call the Annual Required Contribution (ARC) and is the sum of the normal costs (i.e., the expense attributed to the fiscal year) and a portion for amortization of the unfunded amount. Funding this ARC means paying for the current and past levels of services, rather than transferring those costs to future generations.

The ARC is funded through two separate line items in the Town's budget: retiree health care premiums (included an item in the health insurance budget line) and the GASB 45 line. When the sum of these two figures equals the ARC, the annual funding requirement is met.

As part of the FY2012 budgeting process, when this long term liability was less than 1% funded, the Finance Committee presented a plan to fully fund the (ARC) by FY 2016, putting the Town on a path to fund the liability by 2046. The GASB 45 Advisory Committee was established in the summer of 2011 to investigate ways in which the Town might decrease this large liability. This group delivered its recommendations to the Board of Selectmen and the Finance Committee in March, 2013, endorsing the Finance Committee goal of fully funding the ARC by FY2016 or sooner.

Since the June 30, 2011 evaluation, the Town has changed health plans and the Board of Selectmen has voted to move the retiree contribution percent to be in line with the State law. These changes have reduced the Town's current and future funding commitments, thereby reducing the OPEB liability and lowering the ARC. The OPEB Trust funding number recommended here reflects this change and represents the full funding of the ARC by a decline in the Town's FY2016 retiree healthcare expense.

There is always some uncertainty around the ARC. It is a moving target, like a pension or any other long-term retirement savings. Laws will change; retiree ages, expected rates of return, growth of healthcare expenses, all of these will be adjusted, some positively for the Town, some negatively. The Town's current actuarial analysis uses a favorable 8% investment growth rate assumption, and is likely to be a negative change in the future; the age to receive benefits might be increased to 60, a positive change. We will never know exactly what we'll need in the future, which is no excuse or reason not to plan. We do know we will need tens of millions of dollars, and there is no risk of overfunding OPEB this at this time.

Article 25 represents a continued annual effort to contribute funds to other post-employment benefit costs (OPEB) and the first instance of the full ARC being met. This motion funds OPEB in accordance with the Finance Committee's best estimates of where the ARC will be after incorporating all plan design and retiree premium contribution changes as of July 1, 2015.

*Majority vote required*