



OPEB Liability and the Local Government Plan

Presented by
Laurie Lee
Executive Director, Benefits Administration
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Goals for Today's Presentation

- Present Local Government plan retiree insurance rules
- Explain Other Post-Employment Benefits (OPEB) financial statement liability for pre-65 retiree health insurance coverage
- Identify factors to consider with retiree health insurance
- Describe proposed Local Government Plan rule change
- Seek your feedback regarding proposal
- Outline next steps

Disclaimer

- Your agency may have unique retiree health insurance arrangements or commitments to your employees and retirees that may affect your decisions about retiree health insurance
- Each agency should consult with legal and accounting advisors to determine what is best for your agency and the potential OPEB impact to your agency
- No information in this presentation is to be relied upon as legal or accounting advice

Local Government Plan Overview

- Governed by Local Government Insurance Committee
 - Commissioner of Finance and Administration
 - Comptroller of the Treasury
 - State Treasurer
 - Member appointed by the Tennessee Municipal League
 - Member appointed by the Tennessee County Services Association
- Contracts with insurance companies, claims administrators and other organizations for insurance benefits or services
- Sets premium rates
- Determines eligibility rules within parameters of state statute



Local Government Plan Retiree Insurance

- General Assembly passed legislation this year that removed the requirement that employees first hired on or after July 1, 2015 are not eligible for pre-65 retiree health insurance
 - The state does not contribute to the local government retiree health funding; therefore, has no financial obligation for the local government agencies
 - How retiree health benefits are structured is best left to the Local Government Insurance Committee and participating agencies
- The Local Government plan currently permits eligible retirees to continue in the active retiree health insurance plan until they become entitled to Medicare (pre-65 retirees) as long as they meet the criteria for retiree coverage
- They may also continue health coverage for their eligible dependents until the dependents become eligible for Medicare or otherwise cease to meet eligibility requirements

OPEB Background

Other post-employment benefits (OPEB) are the benefits that an employee is eligible to receive at the start of retirement, other than pension benefits.

Total OPEB Liability

- Total OPEB liability (i.e., accrued liability) is the employer's proportion of the projected benefit payments attributable to employees' past service
- Includes
 - Employer premium contributions for retirees
 - Difference in retiree health costs as compared with active employee costs for all eligible employees



OPEB Reporting Requirement

- Before FY18, OPEB was listed as a liability in the notes to the CAFR (Comprehensive Annual Financial Report); (reported since 6/30/2008)
- The Governmental Accounting Standards Board (GASB) is an independent private sector organization whose standards are recognized as authoritative by state and local governments
- Starting this year (FY18) and going forward, under GASB 75, public entities are required to recognize net OPEB liability in financial statements
- Results in increase in financial statement liability for agencies

Multiple Factors Affect an Agency's OPEB Liability

- Factors are unique to each agency
- Number of eligible active employees and retirees associated with the agency
- Number of years of service for each individual
- Age of each individual
- Benefit option and benefit level (i.e., employee only or family) in which the member is enrolled
- If agency makes a contribution toward the retiree premium
- Agreements the agency may have with employees and retirees regarding retiree health insurance eligibility



What Generates pre-65 OPEB Liability?

- Number of retirees in the plan
- Contribution amount, if any, that the agency makes toward retiree health coverage
- Number of active employees eligible for retiree coverage
 - Pre-65 retirees are in the same plan as active employees with the same premium
 - Retiree health costs are higher than the active employee costs
 - Active employee premiums are subsidizing the retiree premiums
 - GASB requires this “hidden” cost to be reflected in the accounting cost
- Those agencies without retirees in the plan also have a liability because their active employees are eligible in the future for retiree coverage, according to current rules of the Local Government Plan

What Generates other OPEB Liability?

- The Tennessee Plan (POMCO) supplemental medical insurance for retirees with Medicare
 - Agencies that passed a resolution authorizing contribution to the premium (Medigap resolution 31) have an OPEB obligation
 - The State provides this additional liability information in a separate actuarial study
 - If an agency does not contribute to the Tennessee Plan premium, there is no OPEB liability for the agency
 - Local Government employees hired on or after July 1, 2015, are still not eligible to enroll in The Tennessee Plan
- Other sources of OPEB liability
 - Any additional financial commitment your agency makes toward retirement coverage (e.g., other post-65 retiree health coverage, defined contribution, contribution toward dental and/or vision premiums for retirees, etc.)
 - The State does not provide any additional liability information for these other sources of OPEB liability

Local Government Plan Pre-65 Retiree Facts

- 373 Local Government agencies with 24,219 members
- 54 (14%) of our agencies have retirees participating in the plan
- 29 (8%) agencies pay a portion of the retiree premium
- Retirees make up 1.3% of our plan population
- The plan document states that actives who meet certain eligibility requirements are **eligible** to continue in the plan upon retirement
- Even those agencies that do not have retirees in the plan and do not want to offer retiree coverage have an OPEB liability due to the fact that some of their active employees are eligible

Factors to Consider with Retiree Health Insurance

- Many agencies want to offer the retiree health option in order to recruit and retain employees
- Those agencies that want to continue to offer retiree health coverage will have an OPEB liability
 - If agency is contributing to the retiree premium, can mitigate liability by reducing contribution or fixing contribution level
- If the Local Government plan document is changed as proposed, those agencies that do not want to offer retiree coverage can opt-out of the State Group Insurance Program retiree coverage
 - If the agency has existing retirees in the plan, will have some liability until retirees age out
 - If no retirees in the plan, will eliminate OPEB liability going forward

Local Government Plan Proposal

- Change the Local Government Plan rules to permit agencies to opt-in or opt-out of retiree coverage
- Those with retirees as of 7/1/18 in the plan are “in” for FY19
- Going forward, must opt-in or opt-out for retiree health
- If opting in now, can opt-out at a later date
- Once opted out, however, cannot opt back in for retiree health later

Survey

- Email survey to webinar participants immediately following webinar.
- Survey responses are non-binding so please complete this week.

Q. Do you want to offer pre-65 retiree health insurance coverage in the future?

Q. Do you support a rule change that would permit participating agencies to permanently opt-out of pre-65 retiree health insurance coverage in the future?

Next Steps

- Based on survey responses, finalize proposed retiree health rule change to Local Government Insurance Committee in December
- Based on Local Government Insurance Committee decision, we will follow-up with specific instructions to participating agencies

Questions?

Contact: benefits.info@tn.gov

