

Other Post Employment Benefit Costs (OPEB)

What is it?

Employees of state and local governments may be compensated in a variety of forms in exchange for their services. In addition to a salary, many employees earn benefits over their years of service that will not be received until after their employment with the government ends through retirement or other reason for separation. The most common type of these post employment benefits is a pension. As the name suggests, other post employment benefits (OPEB) are post employment benefits other than pension. OPEB generally takes the form of health insurance and dental, vision, prescription, or other health care benefits provided to eligible retirees, including in some cases their beneficiaries.

OPEB is a part of the compensation that employees earn each year, even though these benefits are not received until after employment has ended. Therefore, as benefits accrue, they are a cost of providing public services today, and should be a part of the municipality's accounting statements.

However, most governments report their cash outlays for OPEB in the year of actual distribution, rather than in the year benefits are earned. These two amounts may be vastly different and represent the unfunded liability.

GASB 45 now requires municipalities to disclose the unfunded liability as part of their financial statements. Municipalities are required to update an actuarial analysis of the liability every other year. There is currently no requirement to fund the liability.

OPEB Liability – Most Recent Study – 6/30/21

Westwood is required to update the valuation of the liability every other year. The most recent valuation was completed in 2022 for the period ending 6/30/19. The full report is available on the Town's website.

	6/30/13	6/30/15	6/30/17	6/30/19	6/30/21
Discount Rate		7.75%	7.25%	7%	6.5%
Unfunded Actuarial Liability	\$55.9M	\$35.6M	\$39.1M	\$36.1M	\$19.8M
Funded Ratio		4.6%	11.4%	19.7%	43.8%

As shown, there has been significant progress made on the unfunded liability. This is due to the actions taken by the Town over the last few years including:

- Transition to the State GIC health insurance.
- Elimination of Medi B payment.
- Investment of trust funds with State Prit program.
- Using health care savings to provide for base \$1.35M in annual appropriation within the budget:
 - \$700K from transition to GIC in FY16.
 - \$400K from change in health plans in FY13.

The \$19.8M liability is comprised as follows:

Schools	\$12.6M
Public Safety	\$4.8M
DPW/Gen Government/Other	\$2.4M
Total	\$19.8M

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The OPEB liability has been addressed on both the revenue and expense sides. It is only through a combination of efforts on both sides that the Town will be able to address this long term liability.

Funding

- The effort to fund started in FY11, with a \$20K budget item. The \$20K was funded by the exact amount another fixed cost line item, social security, was decreasing. In the FY12 budget, we continued, within the fixed costs budget, to fund the OPEB obligation with \$26K allocation.
- In FY13, we continued the funding within the fixed cost allocation at \$38K. In addition, in FY13 significant savings from changes to the health care benefits provided for a \$435K annual contribution to the OPEB liability.
- In FY14, funding continued with a \$68K appropriation from savings in the fixed costs budget and the annual health care savings costs of \$435K.
- In FY15, a \$550K annual appropriation built into the budget continued the funding program.
- The FY16 appropriation of \$650K was supplemented at the Fall 2015 Town Meeting with the savings from the GIC conversion, calculated at \$700K, bringing the new annual appropriation to \$1.35M.
- The \$1.35M appropriation will be increased incrementally by approximately \$25K per year. The Town has continued appropriations each year per this plan.
- The FY22 appropriation was \$1.490M, and the approved appropriation for FY23 is \$1.515M.

Benefits/Expense

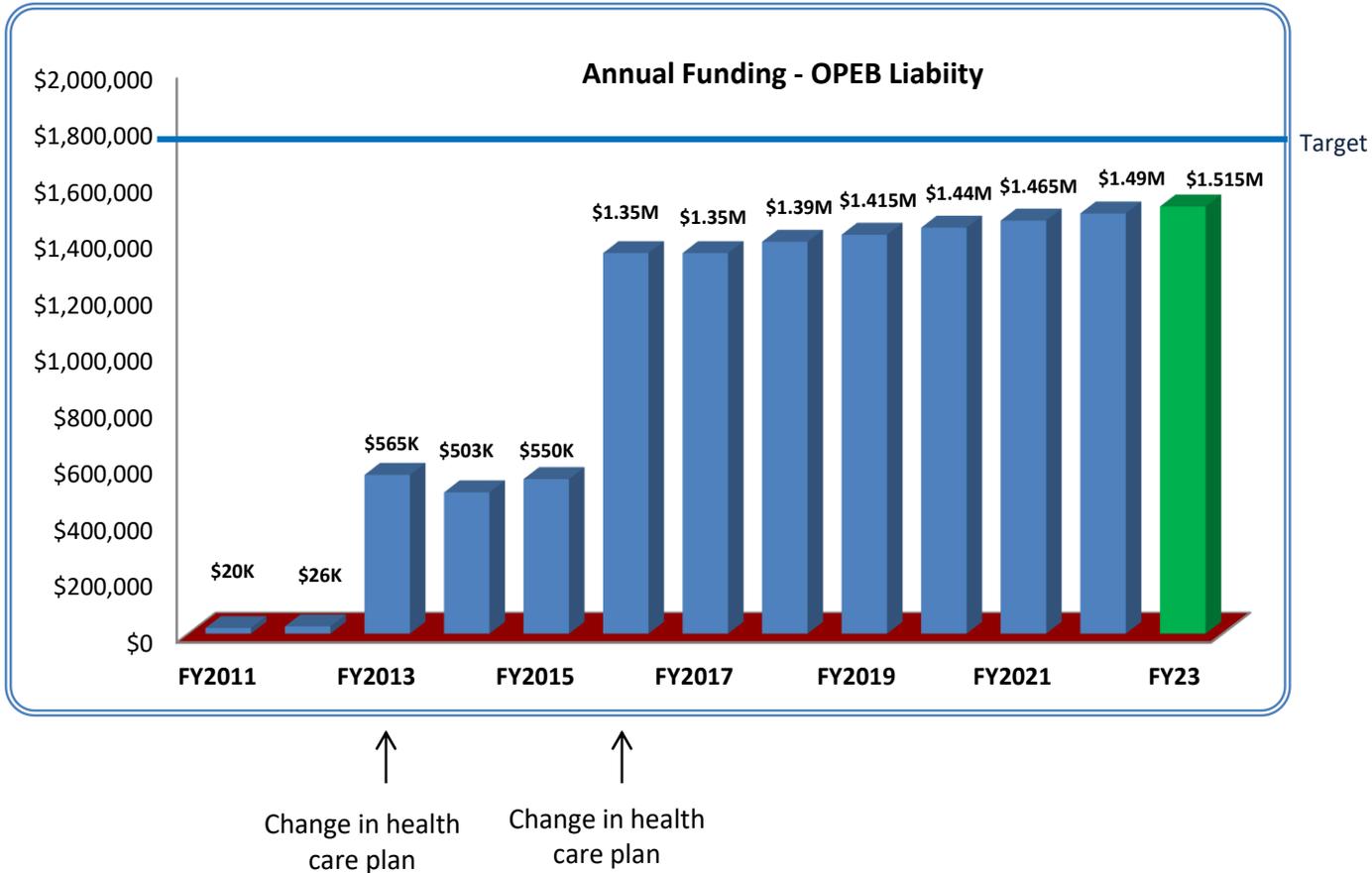
- The liability has also been addressed by making changes on the benefit/expense side.
- In FY14, the Selectmen eliminated the 50% Medicare B premium payment for all new retirees as of 7/1/2014. This action reduced the full liability by 10% or \$5M and reduces the annual funding requirement by \$400K or 25%.
- In FY15, the Board of Selectmen approved the transition of the Town's health insurance to the State Group Insurance Commission (GIC). This transition resulted in significant savings for health insurance costs for both the employees and the Town. The full amount of the annual savings was added at the Fall 2015 Town Meeting to the annual OPEB appropriation.
- The health care cost savings will also help reduce the overall OPEB liability.
- Efforts should continue on the expense side to contain costs and reduce the liability.

Investment of Funds

- In FY15, the Town Treasurer, with approval from the Board of Selectmen, transferred funding in the OPEB Trust to the State PRIM program for OPEB funds, allowing the funds to earn a greater investment return. PRIM currently invests over \$60 billion of State and municipal retiree funds and \$600M of OPEB funds. The investments match the long term nature of these funds.
- The balance in the OPEB trust fund is \$17.7M as of 12/31/21.

OPEB Liability – FY23 Funding

- The Town transitioned its health insurance program to the GIC effective July 1, 2015, and has been able to build the OPEB appropriation into the ongoing annual budget, through savings in health care costs. The appropriation now increases by approximately \$25,000 a year. The FY23 funding will be \$1,515,000.



- On target with funding plan of \$25K additional each year.
- The current balance in the OPEB trust fund account as of 12/21 is \$17.7M.