

December 2010

Boston's Retiree Health Care Liability Revised

Annual required contribution reduced slightly but still far above City's appropriation

The City of Boston's unfunded liability for retiree health insurance was reduced slightly in a June 2010 revision to the City's actuarial valuation as of June 30, 2009. However, the Annual Required Contribution (ARC) continues to be significantly higher than what is now appropriated each year. In this economic climate, the City is not expected to adopt a formal funding schedule but it should continue to annually increase its appropriation to the OPEB Trust for investment to reduce its retiree health insurance liability.

Since FY08, the City of Boston has been required to include in its financial statements a footnote that states its full liability and unfunded liability for other post employment benefits (OPEB) than pensions, such as health insurance for retired public employees and their spouses. The distinction of a fully-funded liability assumes adoption of full funding schedule with the ARC raised each year for greater investment. Partially-funded signifies an annual appropriation less than the ARC as is the case for the City of Boston.

After the original OPEB valuation report for 2009 was released in March 2010, two changes occurred that will reduce the overall liability.

1. The City has negotiated collective bargaining contracts that reduces its share of employee health insurance premiums by 5%.
2. The City adopted Section 18A that requires retirees to enroll in Medicare if they become eligible after July 1, 2010. Previously, the City did not require Medicare eligible retirees to enroll in

Medicare. Making this requirement prospective rather than apply the requirement to all eligible retirees by adopting Section 18 substantially reduces the potential savings.

As shown by the chart below, the revised revaluation does reduce the OPEB liability and ARC requirement but the ARC still significantly exceeds current appropriations. To put the OPEB liability in context, the State-Boston Retirement System's non-teacher unfunded pension liability as of July 1, 2010, is estimated at \$1.3B.

OPEB Financial Status

As of June 30, 2009

OPEB Liability		
\$ in Billions		
	Fully-Funded	Partially-Funded
Original	\$3.69	\$5.80
Revised	\$3.10	\$4.68

ARC		
\$ in Millions		
	Fully-Funded	Partially-Funded
Original	\$261.22	\$354.42
Revised	\$208.30	\$264.10
FY11 City Appropriation	\$143.00	\$143.00

The City's total OPEB pay-as-you-go and Trust appropriation for FY11 is \$143M which is \$65.3M (fully-funded) and \$121.1M (partially-funded) less than the ARC for FY10.