

Explanation of amendment to budget item Department 909 Health Insurance

I have been asked by a thoughtful and long-serving member of Town Meeting to put an explanation of my amendment to the budget on the Virtual Table.

I refer you to the Massachusetts Taxpayer Foundation report of a decade ago indicating the nature of the **unfunded liability of the Other Post-Employment Benefits (OPEB)** that Massachusetts Municipalities face. Here is the website location for that report.

https://www.masstaxpayers.org/sites/default/files/publications/2020-04/The%20Brick%20That%20Broke%20Municipalities%27%20Backs_Feb%2025%202011.pdf

Municipalities pay annually for the post-employment benefits of their retirees. The information further down on this page explains in detail the unfunded liability issue. **But a synopsis for Stoughton is that we have an OPEB unfunded liability of \$198,333,124 as of 6/30 2021; and have \$352,000 in the OPEB trust.** **Our bond rating is affected by our fund balance in our reserve accounts. The Stabilization Fund is one of those reserve accounts. And we can use the money in our Stabilization Fund account as we choose, when we choose.**

If we were to decide to fully fund our OPEB we would have to increase our taxes by a huge amount, depending on our planning horizon to complete that funding. To throw \$35,000 into the OPEB account makes no sense. If this were an article to spend \$35,000 to provide a service to the town, we would evaluate the service and see the payback for the expenditure. We have none of that.

Explanation of the OPEB unfunded liability.

The term OPEB refers to all benefits, other than pensions, that retirees receive. For public employees in Massachusetts, OPEB largely consists of retiree health insurance but also includes life insurance. As with pension benefits, employees are entitled to these benefits after meeting certain eligibility requirements, such as a vesting period and minimum retirement age.

The increased focus on government OPEB obligations comes partly as a result of requirements issued by the Governmental Accounting and Standards Board (GASB) in June 2004. Referred to as GASB 45, these standards require all government entities to report their annual OPEB obligations, unfunded liabilities, and various assumptions in annual financial statements. GASB 45 brought governments in line with private sector reporting requirements that have existed for 20 years.

Under GASB 45, governments must disclose the present value of their incurred OPEB costs for both current retirees and active employees already eligible for benefits. The liability defines how much the governments need to set aside today in order to continue to provide these benefits over time, based on a variety of assumptions. Such reporting also helps to gauge the true cost of employee compensation by forcing governments to quantify the present value of a future retirement benefit, even though an employee may not receive that benefit for many years.

Lou Gitto Precinct 4 Town Meeting Representative.