

Other Post Employment Benefit (OPEB) Obligations

What are Other Post-Employment Benefits (OPEB)?

OPEB's are benefits, other than pensions, that employers pay to employees in retirement. They are primarily comprised of health insurance, but can also include life, dental and vision, legal, and other services.

Governmental Accounting Standards Board (GASB) OPEB Rules

In 2004, GASB set a new standard requiring that public employers for the first time:

- Value their OPEB benefits and liabilities with actuarial valuations every two years; and
- Account for OPEB liabilities as a footnote in financial statements. (In 2015, GASB further updated this standard to require OPEB liabilities be placed directly on the balance sheet, elevating the attention on these obligations).

OPEB Related Laws in Michigan

Public Act 202 of 2017, the Protecting Local Government Retirement and Benefits Act requires municipalities to:

- Report OPEB obligations annually to the Michigan Department of Treasury;
- Maintain a funding level of at least 40 percent of the total actuarial liability of their OPEB plans;
- Prefund costs associated with retiree health care for employees hired after June 30, 2018; and
- Produce Corrective Action Plans if deemed “underfunded” (less than 40 percent funded) by the Department of Treasury, which include policies and procedures that bring municipalities in alignment with the law.

Managing OPEB Costs and Liabilities

Common strategies that municipalities use to manage long term OPEB costs include cutting or reducing benefits, setting aside money for the future, or prefunding the benefits in a GASB and IRS approved trust vehicle. An OPEB trust must meet GASB, IRS, and Michigan requirements:

- Must be dedicated solely for retiree healthcare, irrevocable, and free from creditors;
- Executed trust documents are mandatory; and
- Investments must follow the Public Employee Retirement System Investment Act, MCL 38.1121 et seq.

Reasons to Prefund into an OPEB Trust

- Contributions are considered “assets” that help offset liabilities on financial statements;
- Assets can be diversely invested (in accordance with MI investment law) to reduce the liability;
- Prefunding helps to offset the financial impact of GASB 75;
- Prefunding helps combat healthcare inflation, longer life expectancies, and other external factors;
- Funds are dedicated to future OPEB costs and cannot be diverted towards other uses;
- Future taxpayers/employees will not bear a disproportionate burden of costs; and
- Credit Rating agencies look favorably upon those who prefund.

OPEB Trust Options in Michigan

In Michigan, OPEB trust options are available through the state, private providers, or may be independently established through a local bank or investment advisor.

Although there is not a one size fits all approach to managing OPEB liabilities, good accounting, budgeting, and management practices are essential. Consulting with financial and legal experts is recommended and can help determine the most appropriate strategy to maximize each municipality's long term fiscal health.

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