



TOWN OF WEST BOYLSTON BOARD OF SELECTMEN POLICY

OTHER POSTEMPLOYMENT BENEFITS LIABILITY

PURPOSE

To provide the basis for a responsible plan financial commitment for meeting the Town's obligation to provide other postemployment benefits (OPEBs) to eligible current and future retirees. This policy provides guidelines designed to ensure OPEB sustainability and achieve generational equity among those called upon to financially support OPEBs, thereby establishing a mechanism to reserve for costs associated with OPEB liabilities today; thus eliminating the need to transfer said costs into the future.

APPLICABILITY

This policy encompasses OPEB-related budget decisions, accounting, financial reporting, and investment. It applies to the Board of Selectmen, Town Administrator and Finance Committee in their budget decision-making responsibilities. The policy also applies to the OPEB-related duties of the Town Accountant, Treasurer/Collector and Trustees of the Town's OPEB Trust Fund.

BACKGROUND

In addition to salaries, the Town of West Boylston compensates employees in a variety of other forms. Many earn benefits over their years of service that they will not receive until after retirement. In addition to a pension, there is another set of retirement benefits including insurance plans for health and life. These non-pension benefits are collectively referred to as "other postemployment benefits" or OPEBs.

OPEBs represent a significant liability for the Town that must be properly measured, reported, and planned for financially. As part of a long-range plan to fund this obligation, the Town authorized the establishment of an OPEB Trust Fund, which allows for long-term asset investment at higher rates of return than those realized by general operating funds.

POLICY

The Town of West Boylston is committed to funding the long-term cost of the benefits promised its employees. To do so, the Town will accumulate resources for future benefit payments in a disciplined, methodical manner during the active service life of employees. The Town will also periodically assess strategies to mitigate its OPEB liability. This involves evaluating the structure of offered benefits and their cost drivers while at the same time avoiding benefit reductions that would place undue burdens on employees or risk making the Town an uncompetitive employer.

A. Accounting, Reporting, and Investment

The Town Accountant will obtain actuarial analyses of the Town's OPEB liability every two years and will annually report the Town's OPEB obligations in financial statements that comply with the current guidelines of the Governmental Accounting Standards Board.

As custodian, the Treasurer/Collector will be responsible for investing the fund's assets and for managing its associated bank account and any subaccounts. The Treasurer/Collector will manage the OPEB Trust Fund in conformance with the Town's Investment policy and the state's prudent investor laws. The Treasurer/Collector or assigned Trustees will maintain oversight of the fund by reviewing the banking and investment activity. On an annual basis, the Town will analyze its option to invest its OPEB trust with the State Retiree Benefits Trust Fund or

other alternatives. (Note: Section 238 of Chapter 218 of the Acts of 2016 (Municipal Modernization Act) specifically provides that OPEB funds established before the effective date of the Act, November 7, 2016, will continue as originally established, unless the community "reaccepts said section 20 of said chapter 32B after the effective date of this act." Therefore, to operate an OPEB fund under the amended section 20, town meeting would have to vote to reaccept MGL c. 32B, sec. 20 after November 7, 2016.)

The Town Accountant shall ensure that the Town's independent audit firm reviews compliance with the accounting, reporting, and investment provisions of this policy as part of its annual audits and will report on these to the Board of Selectmen and Town Administrator.

B. Mitigation

On an ongoing basis, the Town will assess healthcare cost containment measures and evaluate strategies to mitigate its OPEB liability. The Town Accountant shall monitor proposed laws affecting OPEBs and Medicare, and analyze their impacts, and shall regularly audit the group insurance and retiree rolls and drop any participants found to be ineligible based on work hours, active Medicare status, or other factors.

C. Funding

To address the OPEB liability, decision makers shall analyze a variety of funding strategies and subsequently implement them as appropriate with the intention of fully funding the obligation over time. The Town shall derive funding to invest in the OPEB trust from taxation, free cash, and any other legal form or source.

Achieving full funding of the liability requires the Town to commit to funding its annual required contribution (ARC) each year, which is calculated based on actuarial projections. Among strategies to consider for funding the ARC additional unfunded liabilities are:

- Transfer a portion of unexpended funds from insurance line items to the OPEB trust
- Appropriate amounts equal to the Town's Medicare Part D reimbursements - if applicable.
- Determine and commit to appropriating annual portions of free cash
- Appropriate a percentage of ongoing revenues that is increased incrementally each year
- Once the pension system is fully funded, on a subsequent annual basis, appropriate to the OPEB trust amounts equivalent to the former pension-funding payment

REFERENCES:

M.G.L. c. 32B, §20

M.G.L. c. 44, §54

M.G.L. c. 44, §55

M.G.L. c. 203C, §3 Chapter 218 of the Acts of 2016

West Boylston Investments Policy

GASB Statement 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, July 2016.

GASB Statement 45: Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, June 2004. This statement will be replaced by Statement 75 effective July 1, 2017.

GFOA Best Practice: Ensuring Other Postemployment Benefits (OPEB) Sustainability

GFOA Best Practice: Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits (OPEB)