



Massachusetts Municipal Association

MMA BEST PRACTICES SERIES

Recommendations for Effective Local Government Administration and Management from MMA Policy Committees

January 2017 • Volume 2 • Number 3

MMA Policy Committee on Personnel and Labor Relations

Best Practice Recommendation: Managing Health Insurance Plan Design to Reduce OPEB Liability

BEST PRACTICE: Make use of available tools as soon as possible to slow the growth of Other Post-Employment Benefits (OPEB).

Cities and towns face a \$30 billion OPEB liability, and this liability will continue to grow at an unsustainable rate if no action is taken. Implementing plan design changes for active employees and “active retirees” is an important step in managing future OPEB liabilities. Municipalities should also review contribution ratios and compare them with the statewide average to determine if there are potential savings to be had by adjusting their ratios. Municipalities should also consider implementing systems to allow current employees to invest in private retirement savings accounts.

The 2011 municipal health insurance reform law (Chapter 69 of the Acts of 2011) provided cities and towns with tools to contain municipal health insurance costs. Since its passage, this law has helped municipalities avoid \$1 billion in health insurance-related expenditures. Under the law, municipalities can implement plan design changes to adjust copays and deductibles up to the standards used for state employees in the Group Insurance Commission benchmark plan. Making plan design changes for plans that cover active employees is an effective way to address OPEB costs because a large number of individuals on these plans are “active retirees” – the pre-65 early retirees who are not yet Medicare eligible. Municipalities that have not used the 2011 reform law, or other methods, to implement plan design changes should consider doing so as an important step in reducing the future OPEB liability that taxpayers would have to fund.

Another approach to containing municipal health insurance costs and reducing OPEB liabilities is reviewing the savings that would result from adjusting the contribution ratios for retiree plans. State law allows municipalities to set the taxpayer-retiree ratio at 50-50. The statewide average is approximately 75-25. A best practice is to conduct an analysis of existing contribution ratios and examine the potential reduction in the long-term OPEB liability, especially if the municipal contribution rate is higher than the state average. Unfortunately, municipalities that used Chapter 69 to implement plan design changes may have to wait until 2018 to implement retiree ratio changes, due to a temporary moratorium imposed by state lawmakers. Since OPEB savings decline with delays, communities should consult with counsel to determine whether the moratorium applies to their circumstances and take action as soon as feasible.

(continued, next page)

Finally, as benefit packages change over time, municipal managers should consider developing systems for new and current employees that encourage employees to save for their health care needs in retirement, beyond the benefits provided by cities and towns. Private health savings accounts offer employees the benefit of lowering their taxable income, and they can use their savings and investment returns to supplement any of the benefits they are entitled to receive in retirement.