



Lanesborough Village Fire & Water District

Other Post Employment Benefit (OPEB) Policy

Purpose

To ensure fiscal sustainability, this policy sets guidelines for a responsible plan to meet the District's obligation to provide other post-employment benefits (OPEB) for current and future retirees.

At retirement, in addition to eligibility for a pension - funded in whole or in part by an employee's regular contributions to a pension fund while an active employee - municipal employees in the Commonwealth are entitled to receive what is referred to as OPEB, which includes post-retirement health insurance and may also include dental and life insurance. The District's share of this future benefit for current retirees, as well as the future benefit for current active employees (future retirees), if not funded annually results in an ever-increasing unfunded liability, that when it comes due can have severe impacts on a municipality's operating budget.

Background

OPEB consists primarily of the costs associated with providing health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) issued Statements No. 43 and No. 45 in 2004 to address the OPEB issue. GASB 43 required the accrual of liabilities of OPEB generally over the working career of plan members rather than the recognition of pay-as-you-go contributions, while GASB 45 required the accrual of the OPEB expense over the same period of time. The reporting requirements of GASB 43 and 45 include disclosures and schedules providing actuarially determined values related to the funded status of OPEB. This requires that the accrued liabilities be determined by a qualified actuary using acceptable actuarial methods.

Definition

1. Annual Required Contribution – An actuarially calculated amount, which if appropriated annually, will retire a municipality's unfunded OPEB liability over a prescribed schedule.
2. Governmental Accounting Standards Board (GASB) - An independent, private-sector organization that establishes accounting and financial reporting standards for US, state, and local governments that follow Generally Accepted Accounting Principles (GAAP).
3. OPEB Liability Trust Fund - A trust fund established by a governmental unit for the deposit of appropriations, gifts, grants, and other funds for the benefit of retired employees and their dependents; payment of required contributions by the governmental unit for the group health insurance benefits provided to employees and their dependents after retirement; and reduction and elimination of the unfunded liability of the governmental unit for those benefits. It is an expendable trust fund, subject to appropriation, that is managed by a trustee or board of trustees.



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Applicability

This policy encompasses OPEB-related budget (funding) decisions, accounting, financial reporting, and investment for the District's OPEB Plan and applies to the Water Commissioners in its role to recommend the proposed annual budget and the Treasurer pursuant to M.G.L. c. 32B, § 20, as custodian of the District OPEB Trust Fund, responsibility for OPEB-related activities, and role as participant in the annual budget development process.

Policy

While there is currently no legal requirement to fund OPEB, the District recognizes the importance and financial advantage of initiating early and regular funding for these long-term obligations.

It shall be the policy of the District as follows:

1. The District is committed to a disciplined and methodical annual funding of the long-term cost of OPEB due its current and future retirees.
2. The District will endeavor to appropriate one-time revenues, free cash balances above the 3 to 5 percent target and other available funds into the irrevocable trust established under MGL c. 32B, §20.
3. Careful consideration shall be given to identifying the investment vehicle that offers the best rate of return in the safest possible environment.
4. The District will engage the services of an actuary as needed to perform an updated actuarial valuation of its OPEB liability as a source of information for decision makers about progress toward funding of the liability and to comply with reporting requirements promulgated by GASB. For the purposes of financial reporting, actuarial valuation will be updated annually as necessary.
5. The District will periodically assess strategies to mitigate its OPEB liability by evaluating the structure of benefits offered and their cost drivers while at the same time avoiding benefit reductions that would place undue burdens on employees or risk making the District an uncompetitive employer.

Procedure

1. Accounting for and Reporting the OPEB Liability - Every year, the Treasurer shall transmit a document to the Water Commissioners and Law Counsel for their information and consideration.
2. Trust Management and Investment - Appropriations by District Meeting into the District's OPEB Liability Trust Fund are to be invested by the Treasurer. The Treasurer will manage the Fund in conformance with the District's Other Post Employment Benefit (OPEB) Policy and the state's prudent investor laws. Any contract or agreement relating to the operations of the District OPEB



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Trust Fund shall be for a maximum of three years. The contracts or agreements may be renewed annually for a maximum of two additional years, after which the District will seek competitive proposals.

3. Mitigation - On an ongoing basis, the District will assess health care cost containment measures and evaluate strategies to mitigate its OPEB liability. Law counsel will monitor proposed laws affecting OPEBs and Medicare and analyze their impacts. The Treasurer will regularly audit the group insurance and retiree rolls and terminate any participants found to be ineligible based on work hours, active Medicare status, or other factors.
4. OPEB Funding Strategies - To address the District's OPEB liability, the Treasurer will annually recommend a funding schedule for the District OPEB Plan to the Water Commissioners based on the most recent actuarial valuation. To the extent that funds are available, annually, the District shall endeavor to transfer to the District OPEB Trust Fund an amount not less than \$5,000.00.
5. Potential sources of funding for the annual appropriation to the OPEB Liability Trust Fund may include, but not be limited to general fund revenue, free cash, and overlay surplus. To move toward full funding (beyond the current \$5,000.00 minimum annual funding) of the actuarially derived Annual Required Contribution to the OPEB Trust Fund, the Treasurer shall periodically evaluate the potential of the following and make recommendations to the Water Commissioners on annual appropriations to the OPEB Trust Fund:
 - a) Transfer unexpended funds from insurance line items to the OPEB Trust Fund.
 - b) Appropriate amounts equal to any Medicare Part D Reimbursements received by the District.
 - c) Appropriate a percentage of any new revenue stream(s) identified and adopted after the establishment of the Trust.
 - d) Determine and commit to appropriating an annual portion of free cash.
 - e) Appropriate an annually increasing percentage of the General Fund Operating Revenues.
 - f) At a future time when the pension reserve for Lanesborough Village Fire & Water District employees as managed by the Berkshire County Retirement Board is fully funded, direct any reduction in the District's annual pension assessment to the Trust Fund.



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References:

M.G.L. c. 32B, § 20

M.G.L. c. 32B, § 20A

M.G.L. c. 44, § 54

M.G.L. c. 44, § 55

M.G.L. c. 203C

GASB Statements 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Government Finance Officers Association Best Practices: Ensuring Other Postemployment Benefits (OPEB) Sustainability and Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits (OPEB)