

REPORT OF THE OTHER POST EMPLOYMENT BENEFITS (OPEB) COMMITTEE
TO THE
2008 ANNUAL TOWN MEETING

Your vote at the 2004 Annual Town Meeting established the Other Post Employment Benefits (OPEB) Committee, whose mission is to determine how the Town of Arlington intends to deal with its long-term unfunded liability for employee/retiree health care costs. The Governmental Accounting Standards Board (GASB) Statement 45 has made it a requirement that all state and local governments begin including in annual financial statements the actuarial valuations of their health and other post-employment benefits by, in Arlington's case, Fiscal Year 2009. In the past, Arlington and all other state and local entities only had to list what they actually paid out in health and other post-employment benefits on a "pay as you go" basis.

As of January 1, 2003, the town's actuary reported Arlington's OPEB liability to be 77 million dollars, and by the January 1, 2005 report that liability had grown to 109 million dollars. An updated actuarial report is in the process of preparation, and it is estimated that the current liability will be greater than 125 million dollars requiring an annual appropriation in excess of 10 million dollars. If Arlington should choose a "no funding option" for its health and other post-employment benefits, an actuarial liability of 200 million dollars or more would have to be included in its annual statements.

In 1997, Arlington began capturing revenues to partially fund this liability by establishing a policy of annually appropriating the difference in the non-contributory pension budget and \$500,000. Other sources of revenue added since 1997 include the amount received annually as the Medicare Part D reimbursement, and the amount representing the increased share of retiree health insurance contributions as voted by the Board of Selectmen 2006. As of FY 2007, the total amount included in this OPEB Fund, from all sources, was 2.2 million dollars.

The 2005 Annual Town Meeting voted to authorize the Selectmen to file Home Rule Legislation establishing an investment trust to accept funding revenues for this OPEB obligation. The legislation was enacted and signed by Governor Romney in 2008. Under Article 44 of this year's Annual Town Meeting Warrant, it is requested that the Town Meeting vote to transfer all funds into the Healthcare Trust Fund established by the Home Rule Legislation.

The Town Manager, under Article 46, seeks to engage the services of a consultant to evaluate the town's retiree healthcare program and develop strategies to fully fund the OPEB liability over a 30 year period. The OPEB Committee supports the passage of this article and will work with the Town Manager and the consultant to implement the goals set forth therein. Conversely, the OPEB Committee opposes the passage of Article 74 which seeks to eliminate the Medicare D reimbursement as a source of funding of the OPEB liability. The elimination of a source of funds from a program seeking to deal with a 125 million dollar liability which threatens the financial integrity of the Town of Arlington is counterproductive to the goals of the OPEB Committee.

During the coming year the OPEB Committee will continue to work toward a financial plan which will fully fund this significant liability.