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HAC – State Employee and Teacher OPEB 2/23/2022 8:17 AM

Moving to prefunded systems for OPEB
$1.7b reduction in liability on state balance sheets

STATE EMPLOYEES

Current

Pension system is an ADEC - two components normal cost plus unfunded liability
Retiree healthcare is on a 'paygo' basis

Both the annual pension and paygo healthcare costs are covered by an assessment on payroll. This applies to all sources of funds paying for a state employee – current rate ~25%

Proposal

Pension – $75m UAL paydown ADEC+, cola and contributions
Retiree healthcare to prefunded system – two components normal cost and unfunded liability
*Prefunding in FY23 requires **$22m** additional funding – across all funds
FY23 - Yr1 cola and increased contributions partially offset,
FY23 - Yr1 net impact is ~**$10m** - this one time as offsets grow overtime

Same payroll assessment mechanism applies to all funds – FY23 rate is budgeted at same 25%

Since capacity is limited in TF, special funds and some federal funds the $10m onetime money is needed to help where existing budgets will not be able to absorb the increase in the payroll assessment rate increase needed to cover the net impact in FY23

TEACHERS

Current

Pension system is an ADEC - two components normal cost plus unfunded liability
Retiree healthcare is on a 'paygo' basis

Pension unfunded liability and healthcare paygo are covered by direct GF appropriation
Pension normal cost is funded by direct EF appropriation

Proposal

Pension – $125m UAL paydown ADEC+, cola and contributions
Retiree healthcare to prefunded system – two components normal cost and unfunded liability
*Prefunding in FY23 requires ~**$5.5m** additional GF for the unfunded liability portion
FY23 - Yr1 – a portion of cola impact may offset a portion of this need

Normal Cost for both Pension and Healthcare will be funded by direct EF appropriations
Normal costs in pension are offset by increased employee contributions -effects EF only

ADEC – Actuary Defined Employer Contribution