



Overview of state other postemployment benefits (OPEB) February 2021

Other Post-employment Benefits (OPEB) is a term that characterizes retirement benefits, other than pensions, that are offered to employees of state agencies and participating political subdivisions. The primary component of OPEB, with the most significant costs, is employer-subsidized health care for retired employees. NASRA does not have an official position on OPEB, and does not dedicate significant time to research or analysis of state OPEB plans. The limited material offered below is intended to help provide appropriate framing and context for examining OPEB plans in Vermont.

Most states provide some form of retiree health care benefit, although state OPEB plans vary with respect to benefit eligibility, access, and the characteristics of the benefit provided. Generally there are three prevailing models of retiree health care benefits:

- 1) A premium-based subsidy equal to an established percentage of monthly health care premiums.
- 2) A fixed dollar benefit, expressed as either a maximum annual benefit or fixed contribution per year of service, provided regardless of the cost of monthly premiums.
- 3) An implied subsidy resulting from an arrangement in which risk-pooling includes both active and retired members. In this arrangement retirees are generally required to pay 100 percent of their premium, with no subsidy provided. However, the total premium rate is effectively subsidized by the insurance rate premiums of the active employees in the pool, resulting in a lower rate than would be available to a retiree-only pool.

Vermont provides a premium-based benefit, which is the most common benefit type. A premium-based benefit is generally the most expensive, since costs fluctuate in accordance with the cost of health care. Subsidies can range from 10 to 100 percent of required premiums, and in most cases the level of subsidy depends on the retiree's years of service.

Like most other states, Vermont funds its retiree healthcare obligations mostly on a "pay-as-you-go" basis, meaning the sponsoring government pays from current revenues the cost of benefits claimed in a given year. As of FY 19, 34 states have collectively accumulated approximately \$67 billion in OPEB assets, though for many plans these assets are relatively small compared to their liabilities. In fact, approximately 70 percent of the assets are held by the top five states. The number of states with OPEB assets has increased incrementally over the past two years, and total asset levels have grown by 12-14 percent over the same timeframe. Vermont is among those states that have accumulated some OPEB assets, and its assets are also much lower than its liabilities, resulting in very low OPEB funded ratios. Although some state OPEB plans are well funded, most are not. As of FY 19 the median state OPEB funded ratio is 3.25 percent [meaning that the state has accumulated assets to cover approximately three percent of accrued liabilities]. In the same year Vermont's state employee and teacher OPEB plans were 4.0 percent and 0.0 percent funded, respectively.

For most states, OPEB costs remain a relatively small percentage of total state spending. The table below identifies median state OPEB costs as a percentage of state spending based on two factors: 1) the actual employer contribution to state OPEB plans, and 2) the amount of employer contributions that would be needed to equal the full state OPEB actuarially determined contribution, which is the amount required to fund current benefit levels and systematically pay off unfunded liabilities.

	All states	States with premium-based benefits structures	Vermont
Median actual employer contributions as a percentage of total state spending	1.2%	1.7%	1.6%
Median OPEB actuarially determined employer contributions as a percentage of total state spending	2.0%	3.1%	3.3%

Finally, in most states – but not all – public employers have greater legal flexibility to address retiree healthcare liabilities and costs than pension benefits. In recent years other states have reduced benefit levels, eligibility, access, or closed their retiree healthcare plans entirely, for broad groups of active and retired participants.

Resources

Several resources addressing OPEB finances and plan designs are available on <https://www.nasra.org/opeb>, including:

- OPEB Benefits by State: FY 2017 Snapshot:
<https://www.nasra.org/files/Topical%20Reports/OPEB/opebs2019.pdf>
- State OPEB Plan Designs:
<https://www.nasra.org/files/Compiled%20Resources/stateopebplandesigns.pdf>

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