Other Post Employment Benefits (OPEB) Primer

What is OPEB?

- Other Post Employment Benefits (OPEB) are benefits that employers provide to their retirees, other than pension benefits. They are usually composed of retiree health care benefits but can also include life insurance and other services.
    - Does not include pension plans or compensated absences

Who is covered through OPEB plans?

- VSTRS (RTHMB) and VSERS - Active employees eligible to receive those future benefits, terminated employees who have accumulated the benefits but are not yet receiving them, and retired employees (or their beneficiaries) currently receiving benefits.

How do we pay for it?

- Pay-As-You Go: No assets set aside. Instead benefits/premiums are paid by as they come due for payment. Generally paid out of current revenues.
- Prefunding: Setting aside funds to pay for future benefits to employees. These assets are invested and the proceeds are used to pay benefits in the future.

While we have some accumulated assets for the OPEB's, we currently only Fund the Pay-Go

Pre-Funding has many benefits

- **Invest** - Assets in the trust can be invested and diversified for a potentially greater rate of return
- **Reduce Liabilities** - Actuaries can use a higher discount rate for prefunded assets when calculating the OPEB liability
- **Improve Credit** **-** Actively addressing future obligations can be a positive factor with Rating Agencies and credit ratings
- **Reduce Risk** - Prefunding can help hedge against health care inflation, longer life expectancies for retirees and the "baby boom" retirement surge
- **Plan for the Future** - Prefunding now means that future taxpayers/employees will not bear a disproportionate burden of the costs
- **Preserve Funding -** Funds put into an OPEB Trust are dedicated for future OPEB costs and protected from diversion for other uses
- **Strong Fiscal Management** - Prefunding is a fiscally prudent measure that is considered a "best practice" by Government Finance Officers Association

Adapted from https://www.pars.org/2019/04/top-10-reasons-to-prefund-your-other-post-employment-benefits-2/

Pay-Go versus Pre-Funding?

PAY - Go

Contributions
- VSTRS - $35.1M

Premium Payments (Benefits)
FY 22 Gov. Budget
- VSTRS - $35.1M

All Contributions are used for Benefit Payments

Est. OPEB Liability in FY22
- VSTRS - $1,480,695,611

Why?

Investment Proceeds Create Savings
$821,846,460

Pre-Funding

Contributions
- VSTRS - $41.8M + 13.3M One-Time

Premium Payments (Benefits)
FY 22 Gov. Budget
- VSTRS - $35.1M

Excess Contributions are Invested for Future for Benefit Payments

Est. OPEB Liability in FY22
- VSTRS - $658,849,151

Pre-Funding is simply committing to pay more than the Pay-Go so that investment earnings can fund Future Benefits