

REPORT TO THE 2007 ANNUAL TOWN MEETING POST EMPLOYMENT BENEFITS COMMITTEE

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 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. This liability is presently estimated to be greater than 125 million dollars and would require an annual appropriation in excess of 10 million dollars under a full-funding scenario. At the present time there is no requirement that this liability be funded. However, if Arlington should choose a "no funding option" for its health and other post-employment benefits, an actuarial liability of greater than 175 million dollars would have to be included in its annual statements.

In order to prevent its bond rating from plummeting under the weight of this huge OPEB liability, Arlington has established an investment trust to accept funding revenues for this obligation. The 2005 Annual Town Meeting voted to authorize the Selectmen to file Home Rule Legislation to establish such a trust and this legislation was enacted and signed by Governor Romney on December 8, 2005. Under Article 57 of this year's Annual Town Meeting Warrant, it is requested that the Town Meeting vote to establish a Healthcare Stabilization Fund as a preliminary step to the transfer of funds into the healthcare trust at the 2008 Annual Town Meeting.

In 1997, Arlington began capturing revenues to fund this liability by establishing a policy of annually appropriating the difference in the non-contributory pension appropriation and \$500,000. The current balance in this account is \$1,419,068. This year under Article 57 the town meeting will appropriate an additional \$310,223 to that fund.

In looking to fund this huge liability, the OPEB Committee has sought, and will continue to seek to avoid adversely impacting existing revenues. For example, recently the Selectmen voted to increase from 10 to 15 percent the allocation that some retirees pay toward the cost of their health insurance and dedicate the additional five percent to the long-term health care fund. In addition, under Article 57 the Finance Committee supports the OPEB Committee recommendation that the annual amount received from the Federal Government for the Medicare Part "D" subsidy be dedicated to the long-term fund.

In summary, the committee recommends that the following revenue sources be earmarked for the funding of his long-term liability:

1. Continue the practice of appropriating the difference in the non-contributory pension and \$500,000.
2. Vote under Article 57 to dedicate the revenue annually received from the Federal Government for the Medicare Part “D” subsidy.
3. Vote under Article 57 to dedicate the five percent allocation that some retirees pay toward the cost of their health insurance.
4. Dedicate any one-time revenues to the long-term health care fund.
5. Determine the obligation that enterprise funds should bear toward this long-term fund and charge that amount in future appropriations.

During the coming year the goal of the OPEB Committee is to continue to identify revenue sources similar to those listed above in order to protect the town’s credit rating by narrowing the current 6-7 million dollar gap in the full funding of this significant liability.

Respectfully submitted,

John Bilafer, Chairman
Nancy Galkowski
Stephen Gilligan
Kenneth Hughes
Ruth Lewis
Judie Phelps