**WV OPEB Plan**

**Summary of Recent Changes**

The WV Other Post Employment Benefit (OPEB) Plan (Plan) has recently undergone many material changes. The changes summarized in this document reflect comparisons of the June 30, 2009 and June 30, 2011 valuations. However, if one were to compare the Plan as of June 30, 2012, with and without benefit changes, the difference in Actuarial Accrued Liability (AAL) would be much greater. The estimated liability without changes was projected to be $10.3 billion. The changes implemented now reflect an AAL of $4 billion as of June 30, 2012, a $6.3 billion reduction. The Plan’s report is available on the PEIA website under “Financial Reports”-“Other Post Employment Benefits (OPEB) & RHBT”-“OPEB Reports”-“OPEB Report (6-30-11)”.

The most significant change occurred in December of 2011, when the PEIA Finance Board passed a Finance Plan that placed a 3% cap on the amount participating employers (Employer) will now pay in retiree premium subsidy annual increases. By doing this, the Employer is no longer exposed to ever increasing trends in healthcare costs, significantly reducing future retiree premium subsidy costs.

With passage of SB 469 during the 2012 WV Legislature’s Regular Session, the State has also identified a supplemental pre-funding source that is assumed to begin in fiscal year 2016 at a rate of $30 million a year. This pre-funding will be to the advantage of all WV OPEB participating agencies and allow the Plan to accumulate assets.

The impact of the pre-funding is multiple in that it pre-funds future obligations and also provides a dedicated funding source. By having a dedicated funding source, the Plan will now be able to assume a higher discount rate, or interest revenue yield assumption. The new discount rate is 6.10%, up from 3.65%.

These changes have created a reduction in the Plan’s AAL by approximately $2.6 billion (OPEB Report, pg. 5). Both changes allow for reduction in the Annual Required Contribution (ARC) and the annual OPEB cost billed to Employers. Since the ARC is what sets their OPEB liability, Employers will see relief in the rate of OPEB liability accrual July 2012. The annual OPEB cost has gone from $864 million in FY 2012 to $225 million in FY 2013 (OPEB report, pg. 3).

Taking into consideration money collected for the ARC in the form of ARC Contribution payments, the remaining ARC Employers must accrue in 2013 will be approximately $79 per eligible health policy. This represents a $715 ($794-$79) decrease from the previous year’s rate of accrual.

The participating Employers with OPEB liabilities on their financial statements are currently under no obligation to fund this liability per W. Va. Code §5-16d-6. There will come a point in the life cycle of this long-term liability (approximately FY 2017) where the Plan will begin amortization of this amount off Employer books by crediting the previously billed remaining ARC.

This will occur when the Annual OPEB Cost is less than the Contributions. Contributions include Employer payments to the WV Retiree Health Benefit Trust (RHBT) and the earlier referenced $30 million. As the chart below indicates, the Plan will start to distribute credits in FY 2017.

**Key Figures and Comments**

The AAL for OPEB has been reduced from $7.4 billion (June 2009) to $3.8 billion (June 2011). (It is a $6.3 billion ($10.3 – $4.0) reduction comparing like dates of June 30, 2012, with and without benefit changes and supplemental funding.) The OPEB liability decreased because:

* Eligible participants hired after June 30, 2010, will be required to fully fund premium contributions upon retirement.
* Contractually required contributions (ARC Contributions) are capped at 3% annual increases starting in 2013. This will cause Employer retiree leave conversion costs to increase.
* State Government will contribute $30 million annually to the RHBT Fund starting in 2016 thru 2035 ($600 million total). All Employers will receive benefit of these contributions.
* The RHBT Fund transferred $165 million from the WV Board of Treasury Investments to the WV Investment Management Board, yielding higher investment earnings.
* Dedicated funding and benefit changes have allowed for a change in the discount rate from 3.56% to 6.10%.

The $3.6 billion OPEB liability reduction will impact Employers in the following manner:

* RHBT will continue to bill a significantly reduced ARC in compliance with GASB requirements to record the OPEB liability. The remaining ARC Employers must accrue in 2013 will be approximately $79 per eligible health policy.
* **Do not make payments** to RHBT for the remaining ARC.
* The OPEB liability will become funded by RHBT assets in 2040 (based upon the actions listed above).
* RHBT will issue annual credits to eliminate Employer OPEB liability.
* Contractually required contributions (ARC Contributions) will continue to be billed – and will significantly decrease when the RHBT assets begin to fund the major portion of claims payments in 2040.

Repeated for emphasis:

**Do not make payments for the remaining ARC billings to your agency.**

**RHBT assets will be used to eliminate the OPEB liability** starting in 2017 – and Employers will be issued annual credits to eliminate amounts previously billed.

GASB Statement 45 requires the OPEB liability and OPEB expense to be recognized on financial statements. The credits issued by the RHBT starting in 2017 will be a reversal of the journal entries previously entered – as OPEB expense will be credited and the OPEB liability will be debited.