



What is OPEB?

And what does it mean?

RHBAS , April 3, 2023



Definition of OPEB

- OPEB – Other Post Employment Benefits

- Other Post-Employment Benefits are benefits (other than pensions) that public and private sector employers provide to their retired employees.
- These benefits principally involve health care benefits, but also may include life insurance, disability, legal and other services.
- State of Delaware – health care benefits only.

- OPEB Liability

- Present value of all future healthcare benefits expected to be paid by an employer for current and projected retirees and their eligible beneficiaries
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OPEB vs Pension Funding

Employers are required to report their total and net unfunded liabilities for retiree benefits.

OPEB

- Historically, most states used pay-as-you-go (PayGo)
- Beginning in the mid-2000s, government employers had to begin reporting OPEB liabilities – first as footnotes and then in 2018 on their balance sheets.
- Many states, including Delaware, began pre-funding these liabilities while adjusting plan design and eligibility.

Pension

- Most states use a method of pre-funding as determined by law or practice, although not every state fully funds their Actuarially Determined Contribution.

All Delaware State retirement benefit funds are held in an irrevocable trust to receive contributions to provide benefits and make distributions for those benefits.

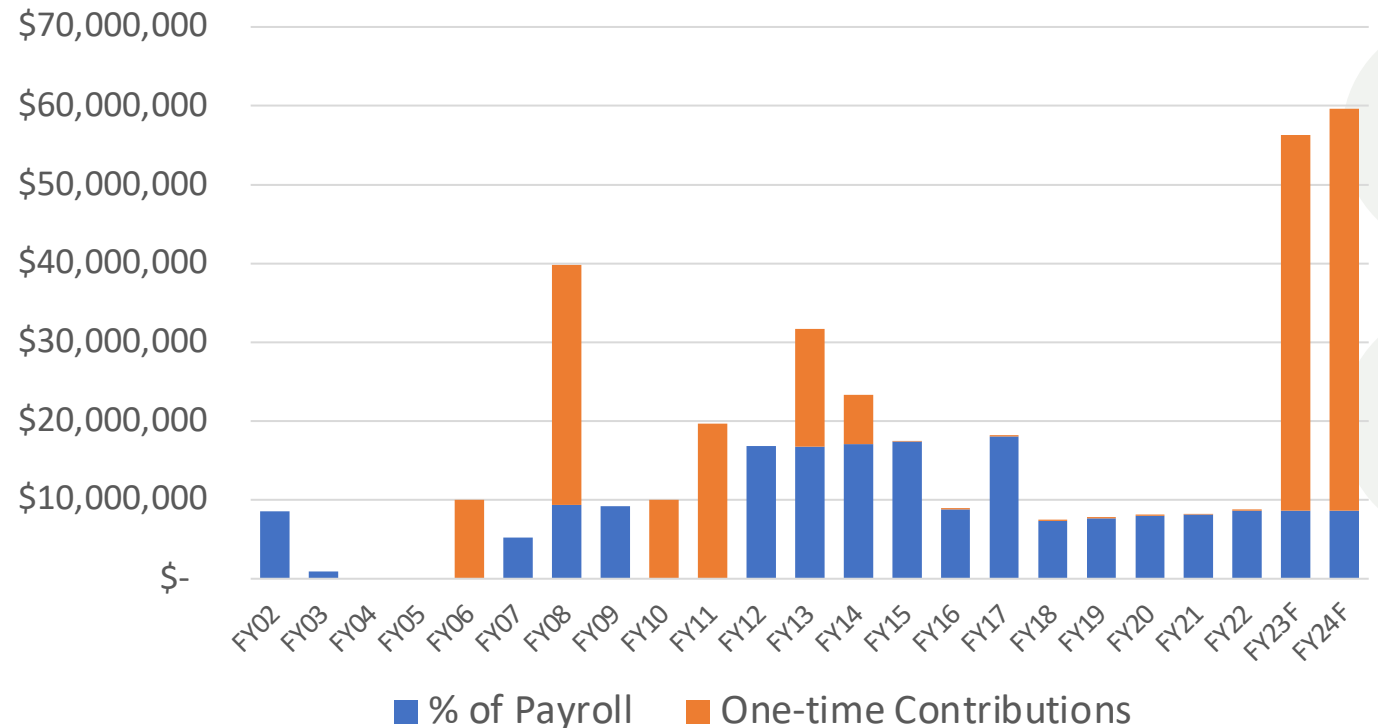
Why should employers pre-fund OPEB?

- Employers can make long-term investments to cover the future cost of these benefits through a separate trust fund that result in a lower total cost for providing postemployment benefits over time.
 - The long-term trust fund assets are determined based upon an expected rate of return on the assets in the fund. The liabilities are discounted based upon typical borrowing costs (20 Year Bond Buyer Rate) unless assets are sufficient to use an investment rate of return (likely far better !)
 - So early investments provide not only long-term savings, but also assure the long-term viability of such benefits.
 - Like pensions, the State of Delaware must provide actuarial valuations of OPEB annually.
 - First actuarial valuation was performed in 1994. The liability first appeared in the State's financial footnotes in 2006.
 - More recently, the State governments have been required to recognize the full net actuarial OPEB liability on their balance sheets.
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OPEB Funding History

- State of Delaware began contributing a percentage of payroll to the OPEB Trust Fund beginning in FY2002.
- Contributions have varied from year to year, consisting of a percentage of payroll and periodic one-time contributions.

Contributions to OPEB Trust Fund
(FY2002 Actual - 2024 Forecast)



OPEB Valuation

(As of July 1, 2022)

Table I-1		
Summary of Key Valuation Results		
(\$ In Millions)		
Discount Rate	2.16%	3.54%
	July 1, 2021	July 1, 2022
Actuarial Liability (AL)	\$ 10,773.3	\$ 8,938.0
Assets	650.3	582.7
Unfunded Actuarial Liability (UAL)	\$ 10,123.0	\$ 8,355.3
	June 30, 2022	June 30, 2023
Fiscal Year Ending		
Annual Required Contribution (ARC)	\$ 784.3	\$ 646.3
Actual / <i>Expected</i> Contribution	273.4	305.3
Actual / <i>Expected</i> Net Benefit Payments	254.5	248.9

OPEB Valuation and Estimated Growth

Assuming No Changes in Plan Design, Eligibility or Funding

	At 7/1/2022 (in millions)	Estimates at 7/1/2042 * (in millions)
Pre-Medicare	\$2,909	\$7,759
Medicare	<u>\$6,029</u>	<u>\$15,853</u>
Total Liabilities	\$8,938	\$23,612
Assets	\$583	\$2,911
Total Unfunded Liability	\$8,355	\$20,701

	At 7/1/2022 (in millions)	Estimates at 7/1/2042 * (in millions)
Actives and New Actives	\$4,641	\$14,096
Retirees	<u>\$4,297</u>	<u>\$9,516</u>
Total Liabilities	\$8,938	\$23,612
Assets	\$583	\$2,911
Total Unfunded Liability	\$8,355	\$20,701

* 2042 Projections include Actuarially Estimated New Hires After 7/1/2022

Source: Actuarial Estimates Produced by Cheiron. (<https://cheiron.us/cheironHome/>)