OPEB Overview

OPEB stands for other post-employment benefits offered to current and future retirees. In 2002, the State of Delaware passed legislation which established the OPEB Trust Fund and a mechanism for funding the Trust Fund. This mechanism allows the State to appropriate employer contributions to the OPEB Trust Fund managed by the Board of Pension Trustees. The assets are co-mingled with the Pension assets for investment purposes. The OPEB Trust Fund has assets totaling $646 million, but unfunded liabilities of $8.3 billion as of 6/30/22. The OPEB liability represents the present value of all future healthcare benefits expected to be paid by the employer for current and projected retirees and their eligible beneficiaries.

The unfunded liability could potentially put downward pressure on the state's bond rating. Therefore, it's responsible for the state to fully-fund OPEB in addition to possibly adjusting health benefits to reduce the unfunded liability.

In FY23, the state contributed 0.36% ($8M) of payroll to prefund OPEB. The state also paid an additional 9.21% ($300M) for current retiree healthcare also known as ay-go If the state continues the current practice, the OPEB trust will only be approximately 18% funded in 30 years. It's prudent to increase funding. SB 175 adds an additional $50M annually which will continue to grow as the budget grows.

RHBAS recently was presented with a combination of the following:

1. Funding: The state contributes 1% additional funding (SB175) and increase rate of payroll to OPEB from 0.36% to 0.5% beginning July 1, 2024 and an additional 0.5% each fiscal year thereafter until reaching a 10% funding level or ADC. (NOTE: payroll maxes out at 8.5% and rate drops significantly)

2. Eligibility: Reduce Spousal State Share Subsidy to 50% for Spouses for new hires on/after 1/1/25 AND eliminate vested retirees (those who leave state service but not immediately eligible to collect a pension) from eligibility for healthcare for new hires on/after 1/1/25

3. Benefit design: Reduce State Share from 95% to 85% and increase Pensioner share from 5% to 15% for retirees with 20+ years of service for new hires on/after 1/1/2025

This combination results in a funded status of 80.8% and reduces the liability by $14.8 billion in 2052.

Why is ADC an important target? ADC is the actuarily determined contribution that represents the cost to fund retiree benefits and the amortization of the unfunded liability. Currently, the state does not contribute the ADC which means the state is paying the pay-go portion of retiree benefits plus contributing a small amount to future OPEB benefits. This methodology will strain the state's operating budget without changes. Once the state can pay retiree benefits from the trust, then the annual cost to the state decreases significantly as indicated in the chart below (Contributions paid by State.)

FY Ending	Net Benefits Paid	Contributions Paid by Retirees	Contributions Paid by State	Trust Deposit
2023	$ 248.6	$ 16.7	$ 305.1	$ 56.5
2024	272.5	19.9	332.5	60.0
2025	296.2	23.5	361.9	65.7
2026	318.8	27.1	400.4	81.6
2027	340.4	30.6	438.6	98.2
2028	362.0	34.3	477.9	115.9
2029	383.6	38.2	518.4	134.8
2030	407.0	42.2	561.5	154.5
2031	430.8	46.7	606.3	175.5
2032	454.9	51.2	652.6	197.7
2033	480.4	56.0	701.6	221.2
2034	501.8	60.5	747.7	245.9
2035	524.0	65.1	796.0	272.0
2036	545.4	69.7	845.1	299.7
2037	567.7	74.4	896.4	328.7
2038	589.7	78.4	949.0	359.3
2039	612.5	82.4	1,004.2	391.7
2040	636.0	86.5	1,061.7	425.7
2041	660.0	90.7	1,121.6	461.6
2042	687.9	95.4	409.0	(278.9)

The state's contribution amount increases to $1,121 million in FY2041 but drops to $409 million in FY2042, resulting in $712 million savings. RHBAS has analyzed multiple options to help either fund OPEB or reduce the OPEB liability. What has become increasing clear is that additional funding is the key factor in resolving the unfunded liability issue. Just like a mortgage, the greater the earlier contribution, the greater the overall savings.