



Township of
RADNOR
PENNSYLVANIA

Citizens Audit Review & Financial Advisory Committee

A Summary Analysis & Discussion of:

Radnor Township's Other Post Employment Benefits (OPEB) Liability



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RADNOR
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Disclosure: This presentation has been prepared for informational purposes only, based on the information CARFAC has been provided by Radnor Township's Actuary, the audited financial statements, and other sources. Any assumptions, which the CARFAC Team has made, are noted through the presentation. Importantly, any and all assumptions were deemed necessary to create an informational and educational view of various components of the OPEB program, namely future projections of / for estimating and analyzing solution options for the New Hires.

Due to the sensitive nature and possible implications of the information contained herein, CARFAC has not created this presentation for public dissemination, and is submitting all information to the Board of Commissioners under strict confidentiality.

Summary Analysis & Discussion: Other Post Employment Benefits (OPEB)

Agenda:

- OPEB Definition
 - Why OPEB?
 - Scope of OPEB
 - Key Concepts
 - The OPEB 'Problem'
(*Liability*)
- Proposed Solution Options
 - The Closed Group Options
 - The New Hires Group Options
 - Discussion & Next Steps

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Other Post Employment Benefits (OPEB)

Definition:

- **OPEB is medical, prescription, vision, and dental benefits for retired, eligible township employees**
- **Benefits activate upon retirement and cease upon Medicare eligibility or death, depending upon hiring date and employee group**

Other Post Employment Benefits (OPEB)

Why OPEB?

Municipalities, historically, have reduced current cash expense by offering a compensation package that included reduced wages in exchange for job security and a generous benefit package.

Much of these benefit packages are not funded currently.

Other Post Employment Benefits (OPEB)

Background:

- **Due to medical inflation, Radnor's OPEB liability continues to grow despite cost cutting actions taken by Management.**
- **Continued policy has been 'pay-as-you-go'**
- **Radnor has gradually built up a \$9 million OPEB Trust**

Other Post Employment Benefits (OPEB)

Scope:

- **Police:**

(Lifetime benefits, except officers hired after Jan 1, 2013 – who must go on Medicare at age 65)

- **Civilian Union**

(Lifetime Benefits, No Employee benefits for those hired after Jan 1, 2013)

- **Civilian, Non-Union:**

(Lifetime Benefits, No Employee benefits for those hired after Jan 1, 2010)

Other Post Employment Benefits (OPEB)

Key Concepts:

Inflation Terms Defined

- **‘General Inflation’ is 2.75%** (*compounded annually*)
- **‘Medical Inflation’ is 5.00%** (*compounded annually*)

Defined as:

General Inflation (2.75%) plus a expected Medical Premium (2.25%)

Other Post Employment Benefits (OPEB)

Key Concepts *(Continued)*:

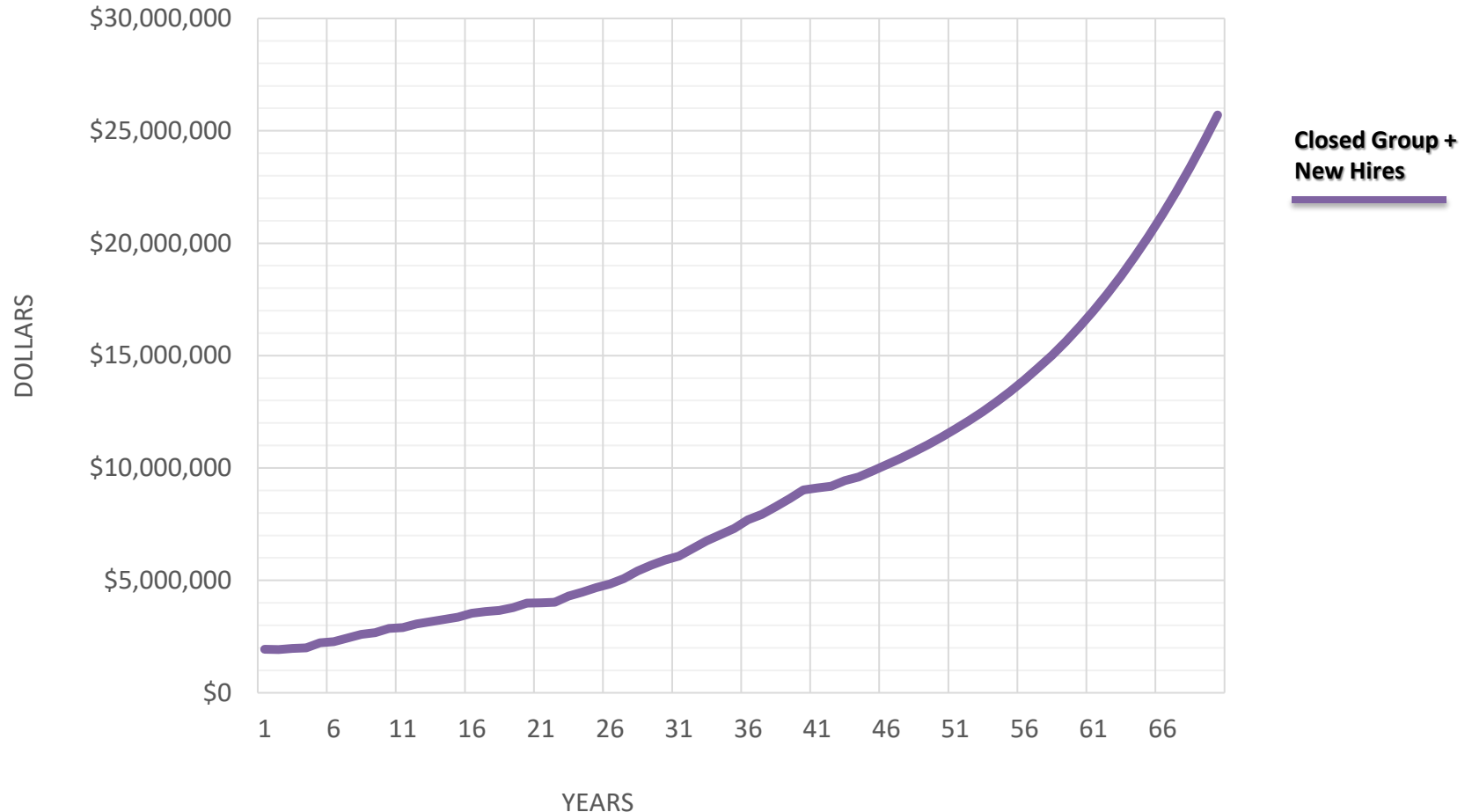
Closed Group vs. New Hires:

- **Closed Group** = all active and retired employees as of 12/31/2020
- **New Hires** = employees hired on or after 1/1/2021

The OPEB Problem *(Liability)*

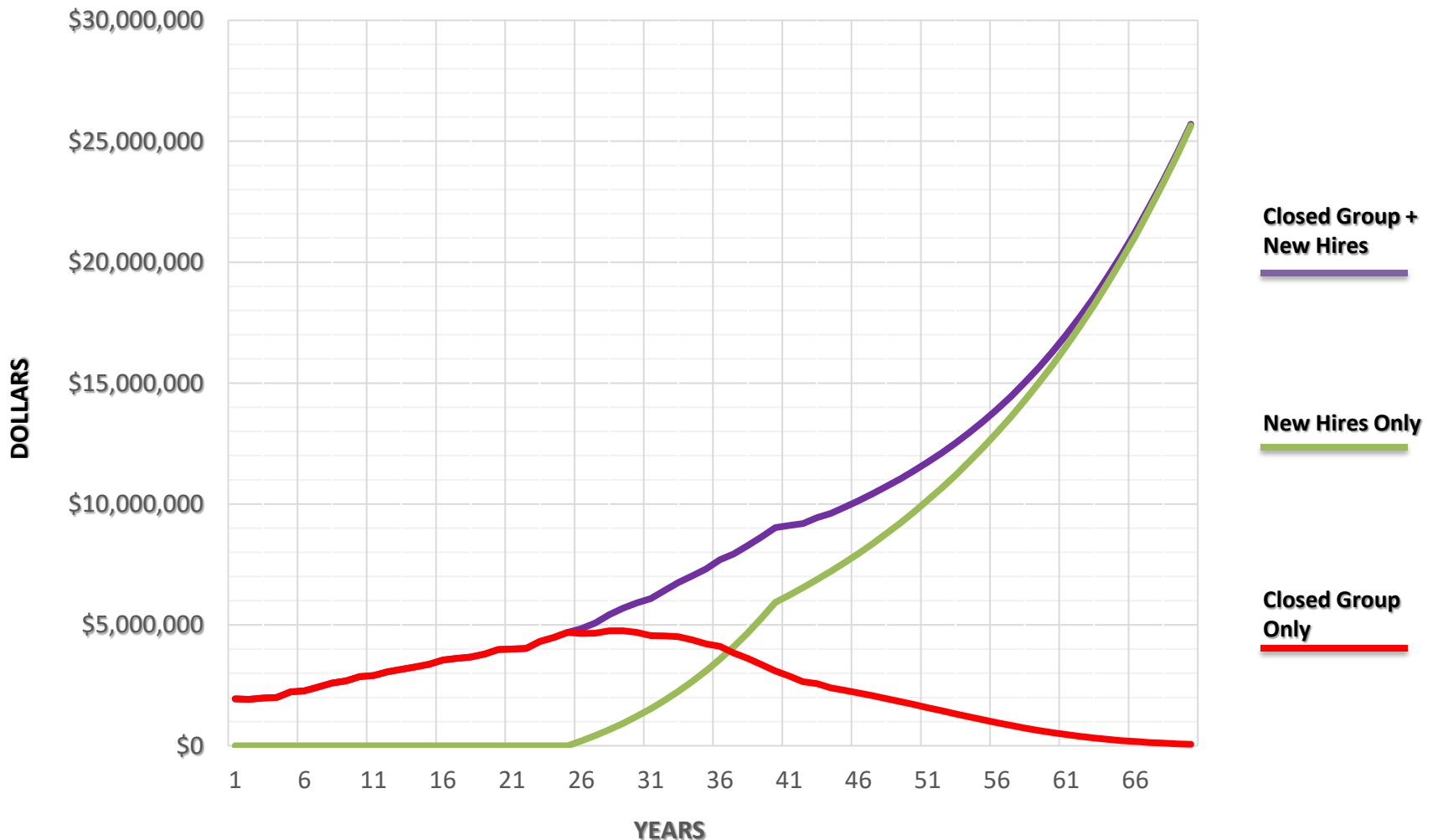
OPEB Problem (Liability):

- Annual Cash Requirements
- Combined Closed Group + New Hires 5% Medical Inflation



OPEB Problem (Liability):

- Annual Cash Requirements
- Closed Group vs. New Hires 5% Medical Inflation



CARFAC's Proposed Solution Options

**Closed Group
vs.
New Hires**

Solution Options

Closed Group:

Option #1: 'Pay-as-You Go'

Option #2: Finance via \$38M Loan

Option #3: \$29M Loan w/ \$9M Existing Trust

Option #4: Buyout Offer

New Hires:

Option #1: 'Pay-as-You Go' w/o \$9M Existing Trust

Option #2: Pay with Investment Proceeds from \$9M trust

Option #3: Scrap OPEB for New Hires, Setup HSA

Solution Options

Closed Group:

Option #1: 'Pay-as-You Go'

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CARFAC's Proposed Solution Options *(to Address this Situation)*

Closed Group:

Option #1: 'Pay-as-You Go'

Option #2: Finance via \$38M Loan

Option #3: \$29M Loan w/ \$9M Existing Trust

Option #4: Buyout Offer

CARFAC's Proposed Solution Options

Closed Group, Option #1:

CARFAC's Proposed Solution Options

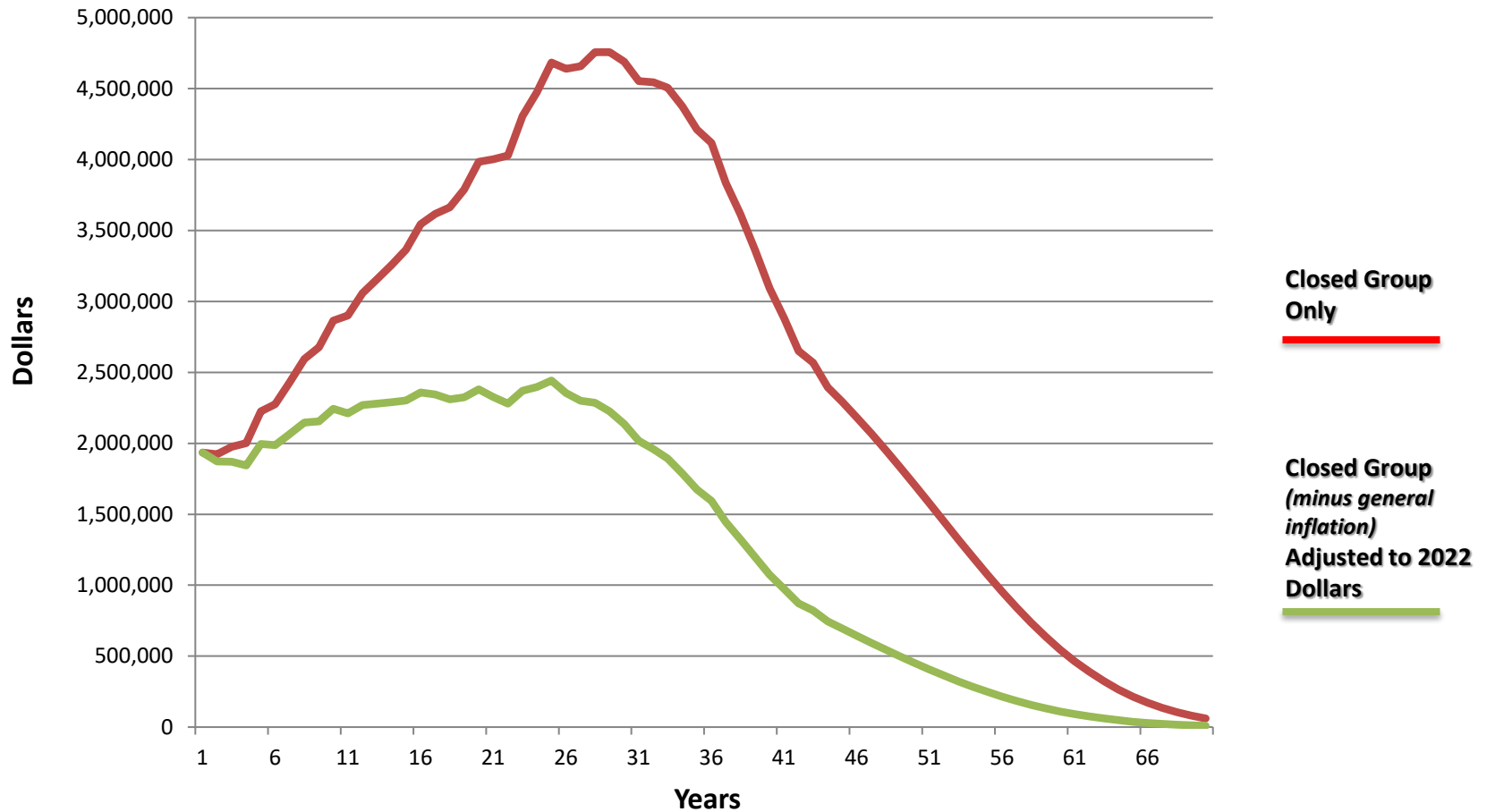
Closed Group, Option #1:

Continue the Existing...

'Pay as You Go'

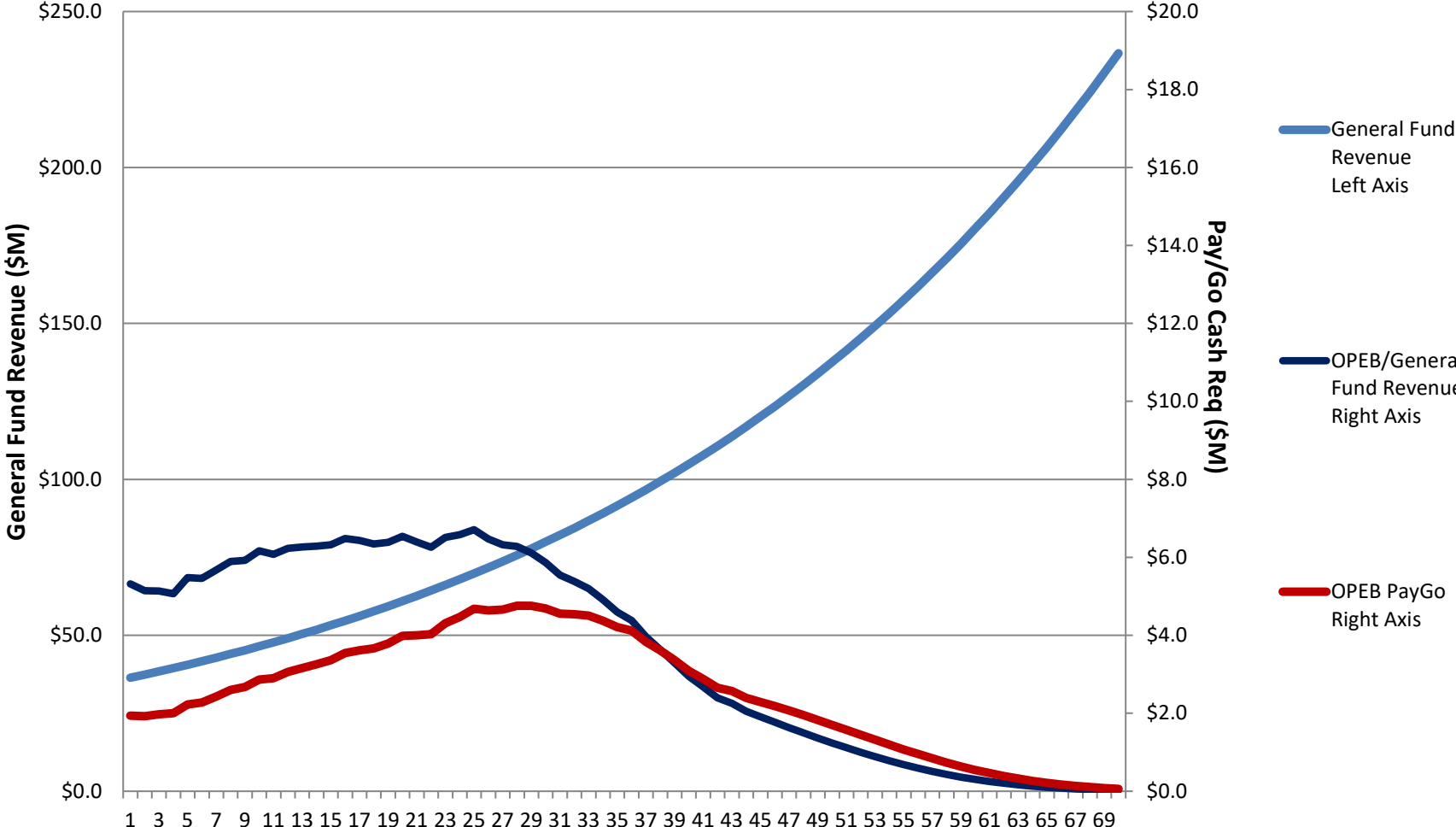
Option #1, Closed Group: Continue 'Pay as You Go' (page 1/2)

Annual Cash Requirements for Current Employees + Retirees ('Closed Group')



Closed Group, Option 1: Continue 'Pay as You Go' (page 2/2)

OPEB Pay-as-You Go Cash Requirement vs. General Fund Revenue



CARFAC's Proposed Solution Options

Closed Group, Option #2:

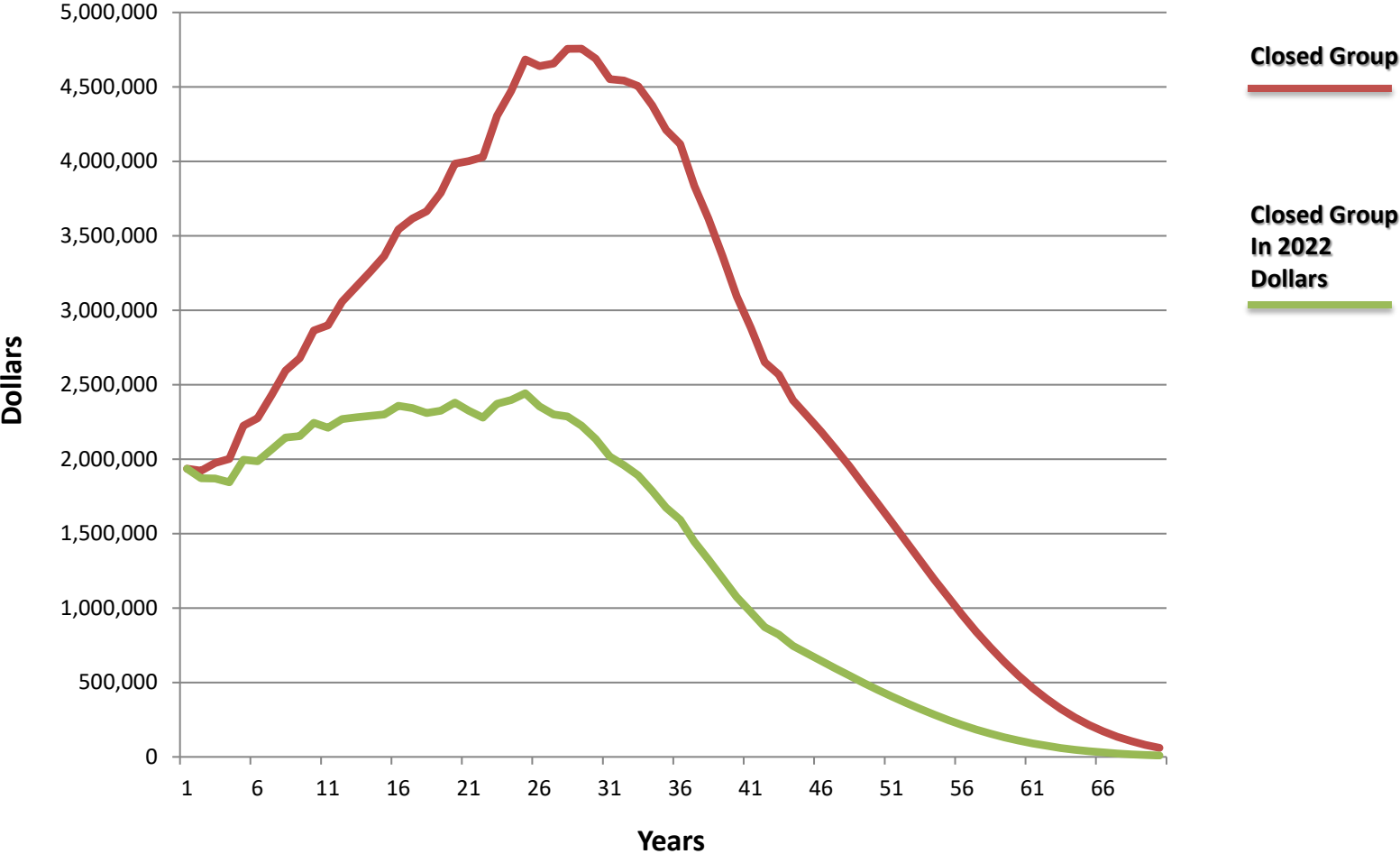
CARFAC's Proposed Solution Options

Closed Group, Option #2:

Finance via \$38 Million Loan

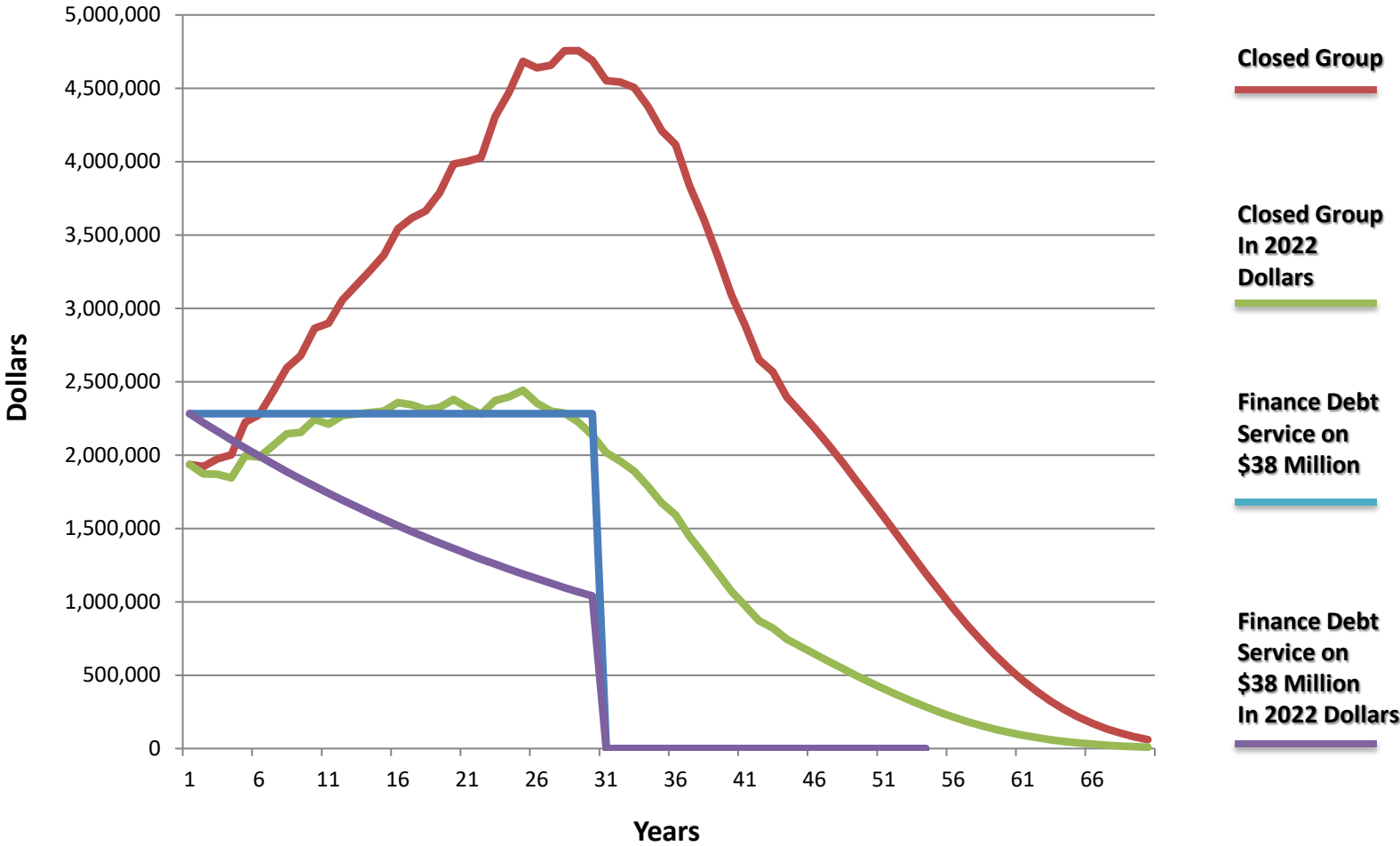
Closed Group, Option 2: Loan funding, \$38 Million

Annual Cash Requirements Closed Group



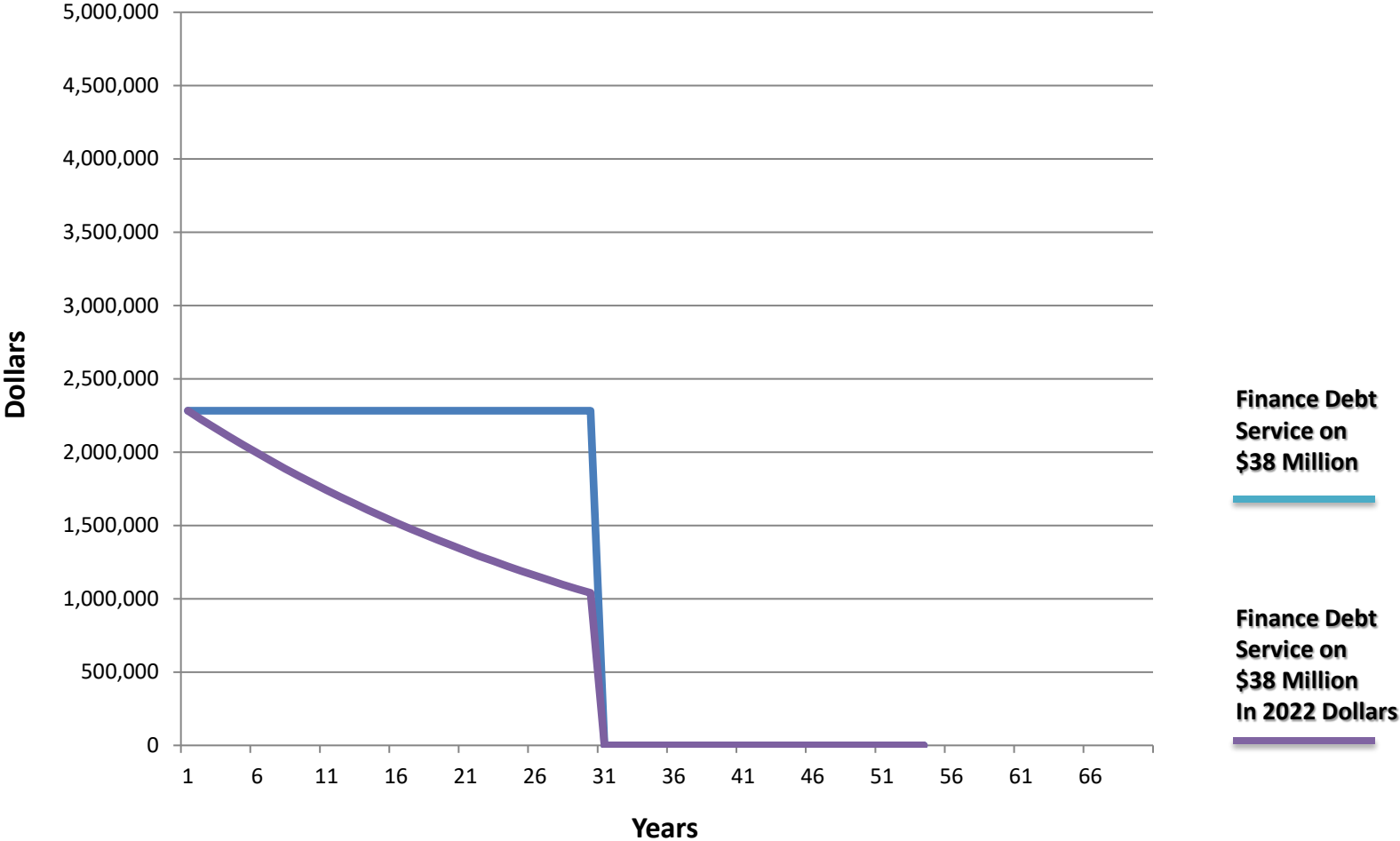
Closed Group, Option 2: Loan funding, \$38 Million

Annual Cash Requirements Closed Group vs \$2.3M Annual Debt Service



Closed Group, Option 2: Loan funding, \$38 Million

\$2.3M Annual Debt Service



CARFAC's Proposed Solution Options

Closed Group, Option #3:

CARFAC's Proposed Solution Options

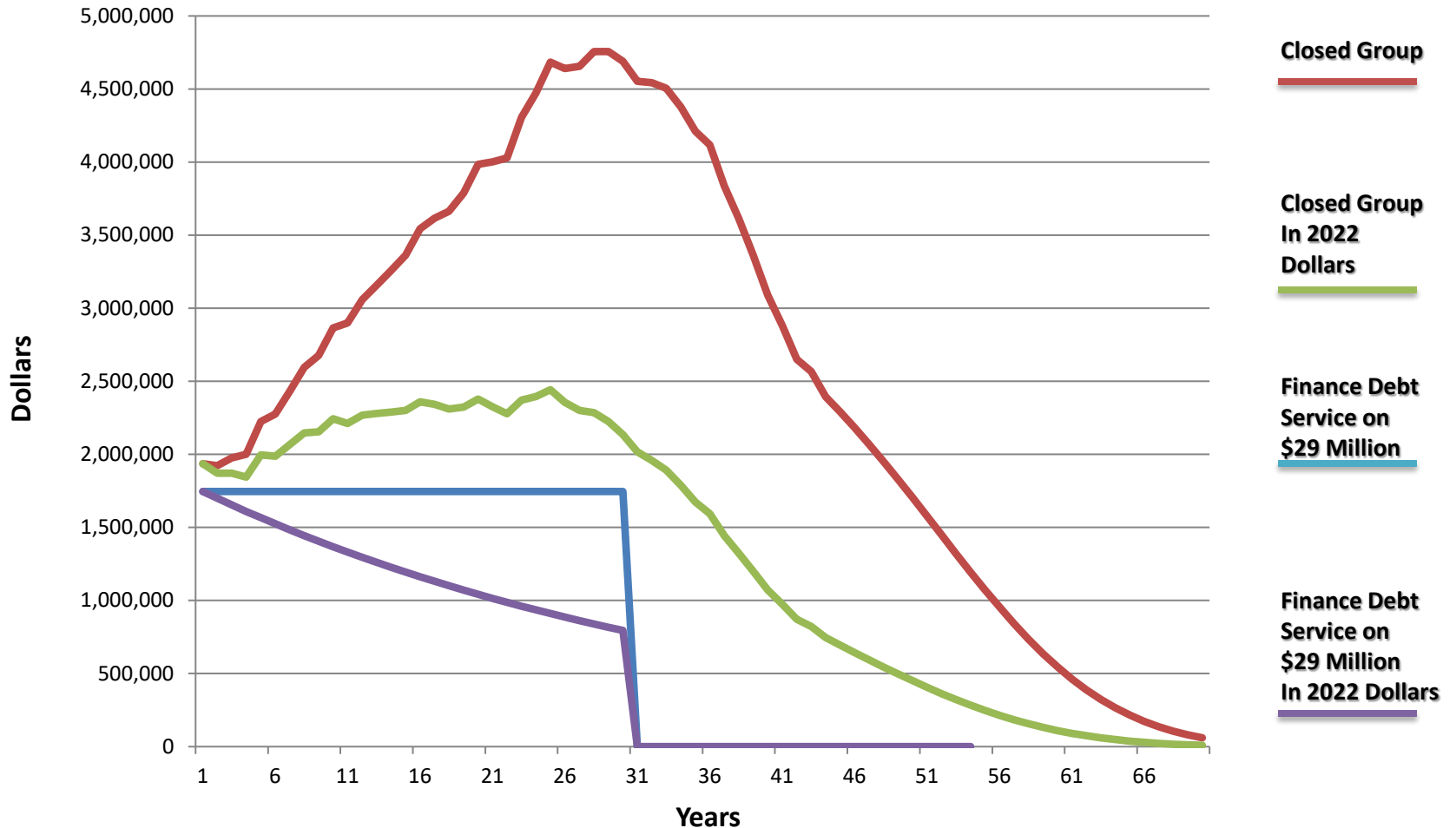
Closed Group, Option #3:

\$29M Loan Funding

Combined with Existing \$9M Trust

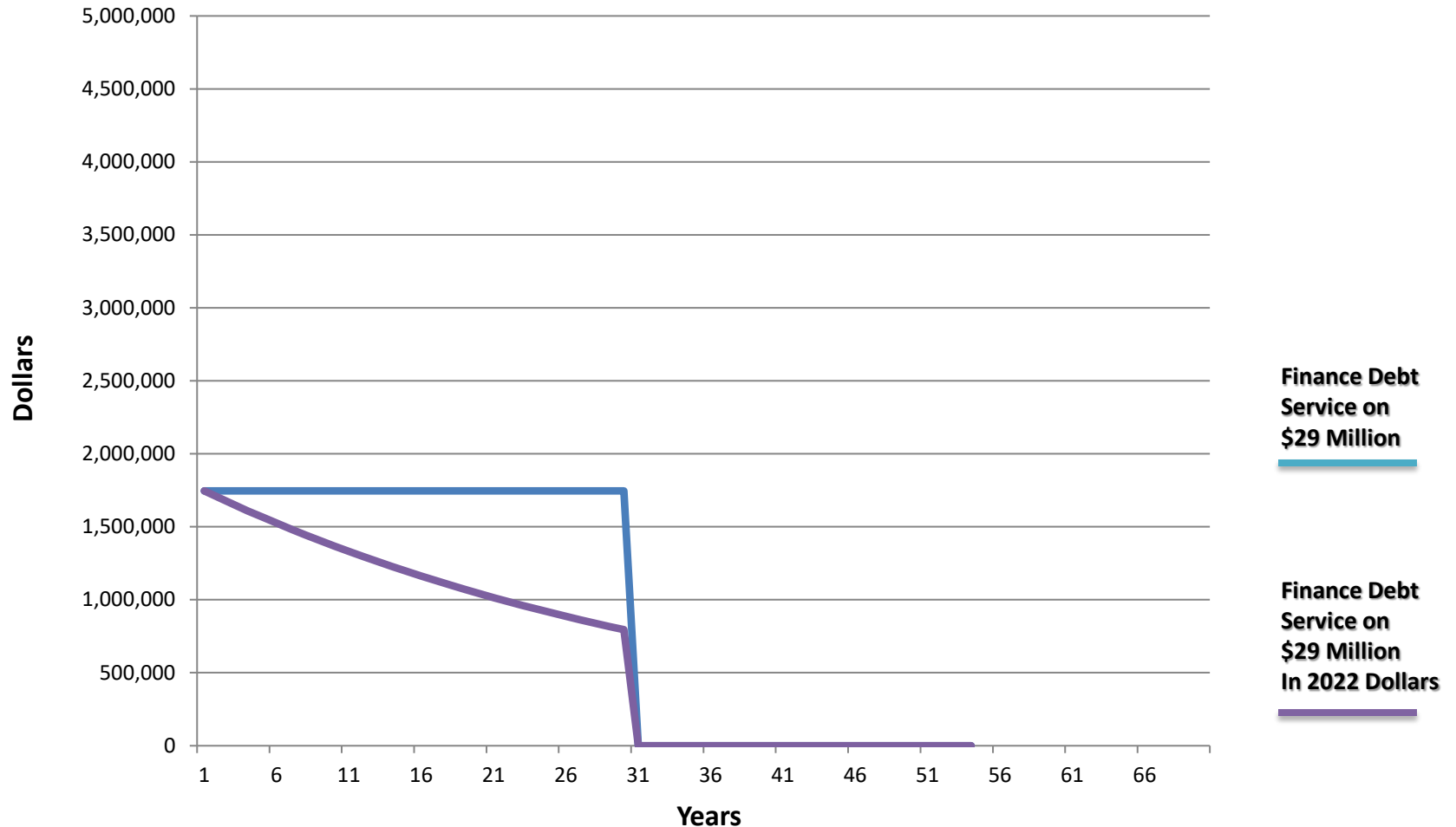
Closed Group, Option 3: Loan Funding, \$29 Million Combined with Existing \$9 Million Trust

Annual Cash Requirements Closed Group vs \$1.7M Annual Debt Service



Closed Group, Option 3: Loan Funding, \$29 Million Combined with Existing \$9 Million Trust

\$1.7M Annual Debt Service



CARFAC's Proposed Solution Options

Closed Group, Option #4:

CARFAC's Proposed Solution Options

Closed Group, Option #4:

Buy-Out Offer

Closed Group, Option 4: Buyout Offer

- Buyout offers have been occasionally studied or undertaken by various authorities with a view to trading fluctuating OPEB liabilities for fixed debt liabilities, and to achieve savings.
- For instance, in 2010-11 the City of Beverly Hills devised a plan which included an offer of cash to its employees in exchange for their retiree medical benefits, based on a calculation of the present actuarial value of the current retiree benefit. Of this amount, 20% was required to be contributed to an HSA. Funding was provided through \$4.5% taxable municipal debt.
- These buyout plans are typically complex and raise a number of economic, financial, legal, political and implementation issues which would need to be examined in great detail.

CARFAC's Proposed Solution Options

Closed Group

New Hires

CARFAC's Proposed Solution Options

The CARFAC 'New Hires' Algorithm Explained

CARFAC's Proposed Solution Options *(to Address this Situation)*

New Hires:

Option #1: 'Pay-as-You Go' w/o \$9M Existing Trust

Option #2: Pay with Investment Proceeds from \$9M trust

Option #3: Scrap OPEB for New Hires, Setup HSA

CARFAC's Proposed Solution Options

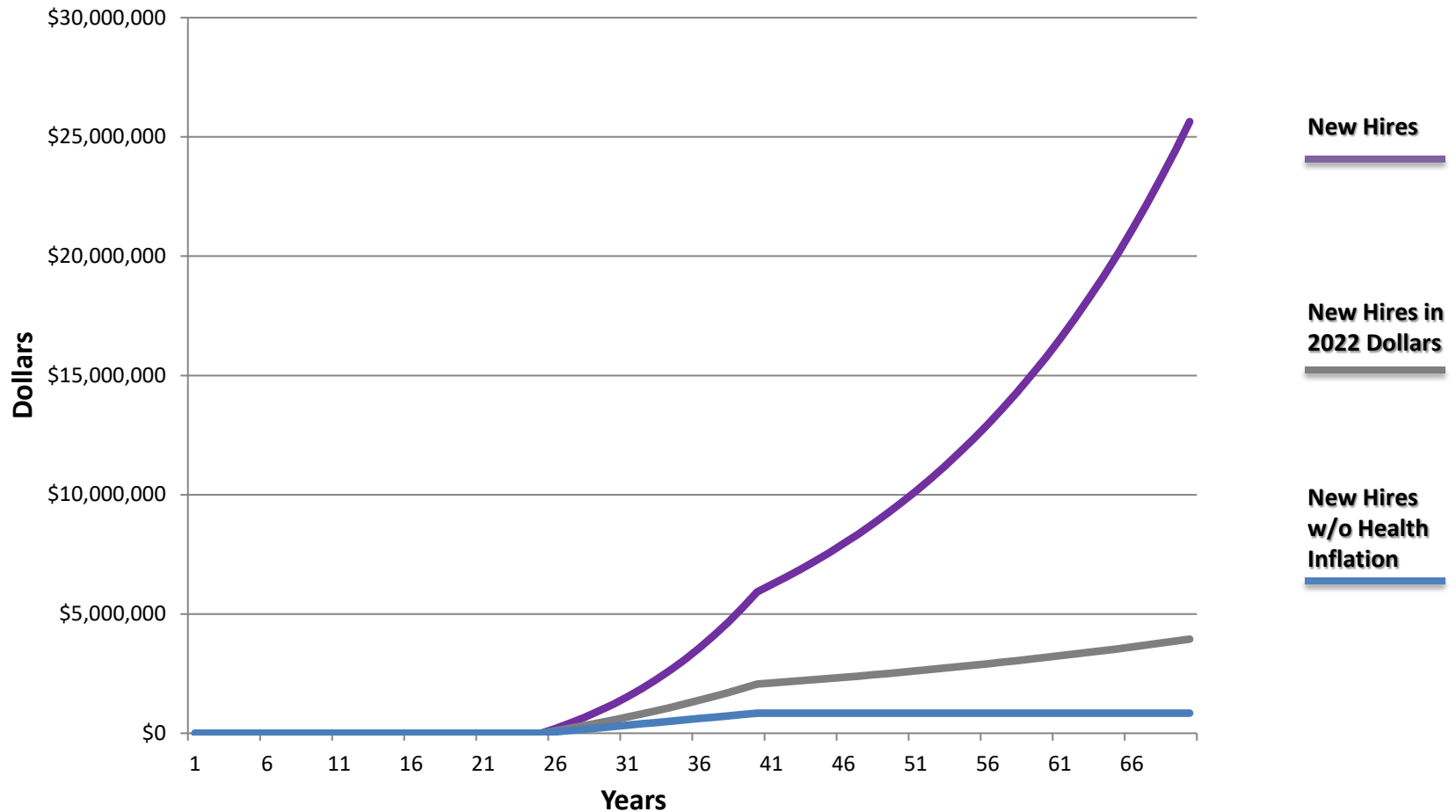
New Hires, Option #1:

CARFAC's Proposed Solution Options

New Hires, Option #1:

**'Pay-As-You-Go'
w/o existing \$9 Million Trust**

New Hires Option 1: Annual Cash Requirements (Pay as You Go) New Hires Only



CARFAC's Proposed Solution Options

New Hires, Option #2:

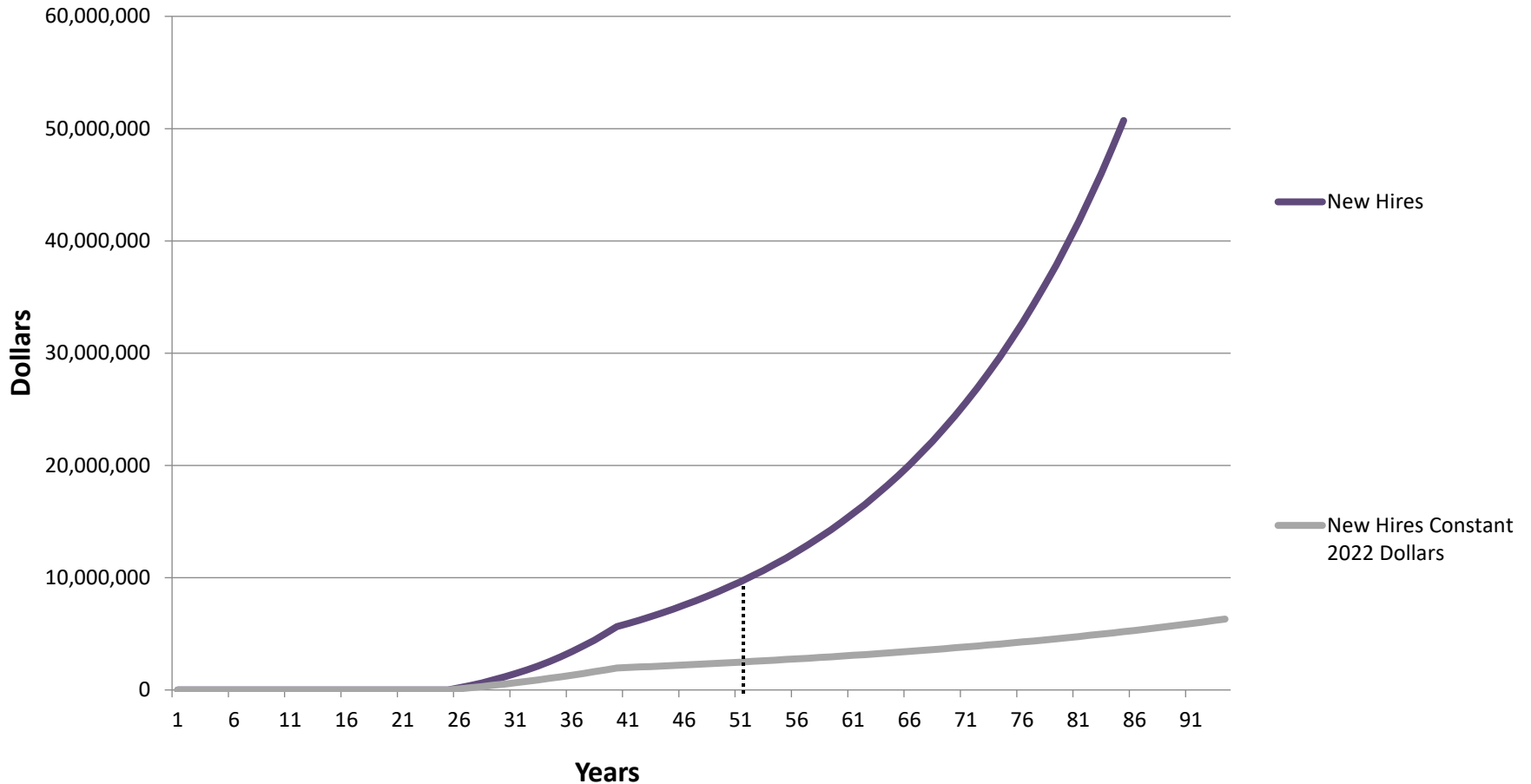
CARFAC's Proposed Solution Options

New Hires, Option #2:

Pay with Investment Proceeds
from
\$9 Million Trust

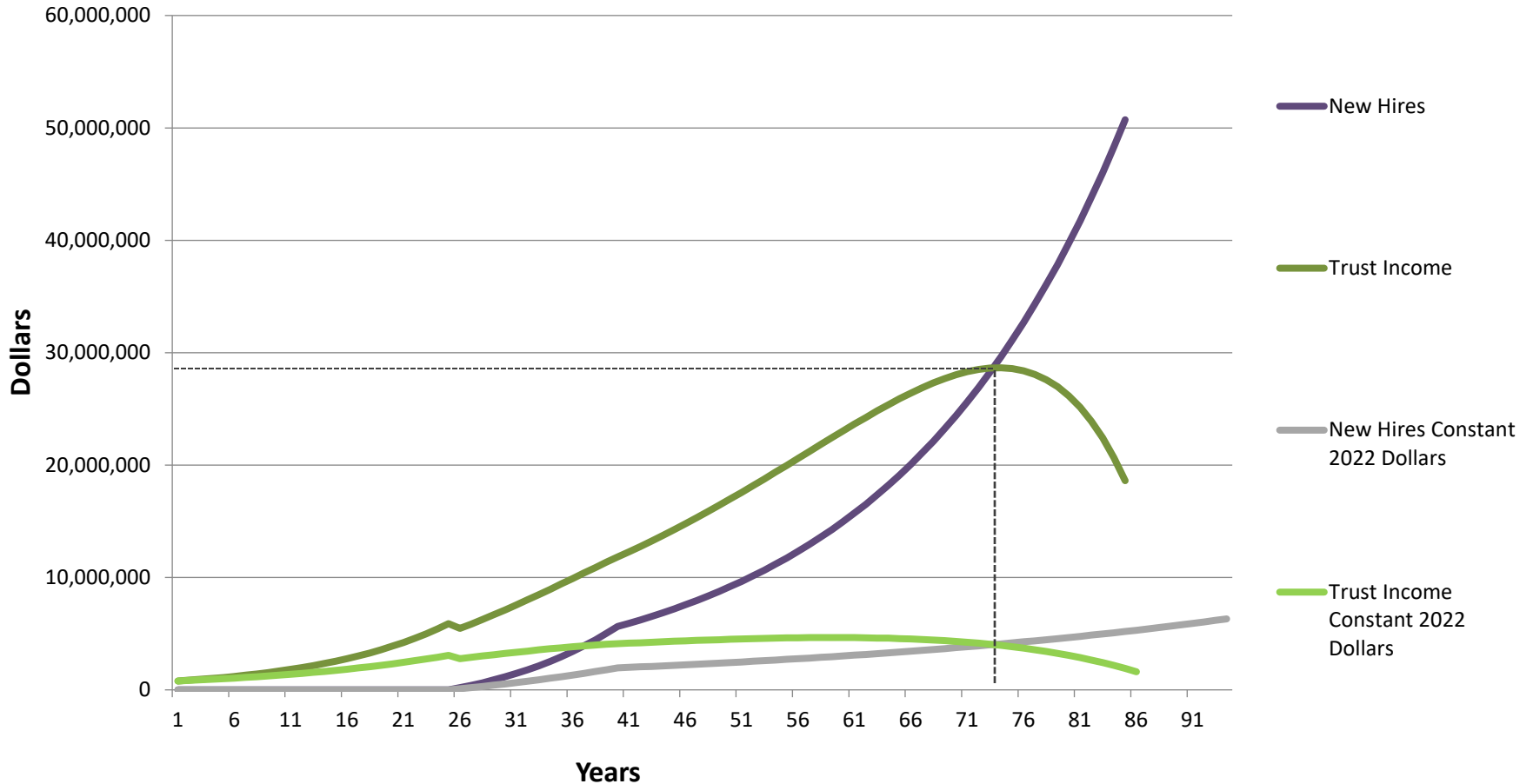
New Hires Option 2:

Finance with payments from existing \$9 million OPEB Trust Fund



New Hires Option 2:

Finance with payments from existing \$9 million OPEB Trust Fund



CARFAC's Proposed Solution Options

New Hires, Option #3:

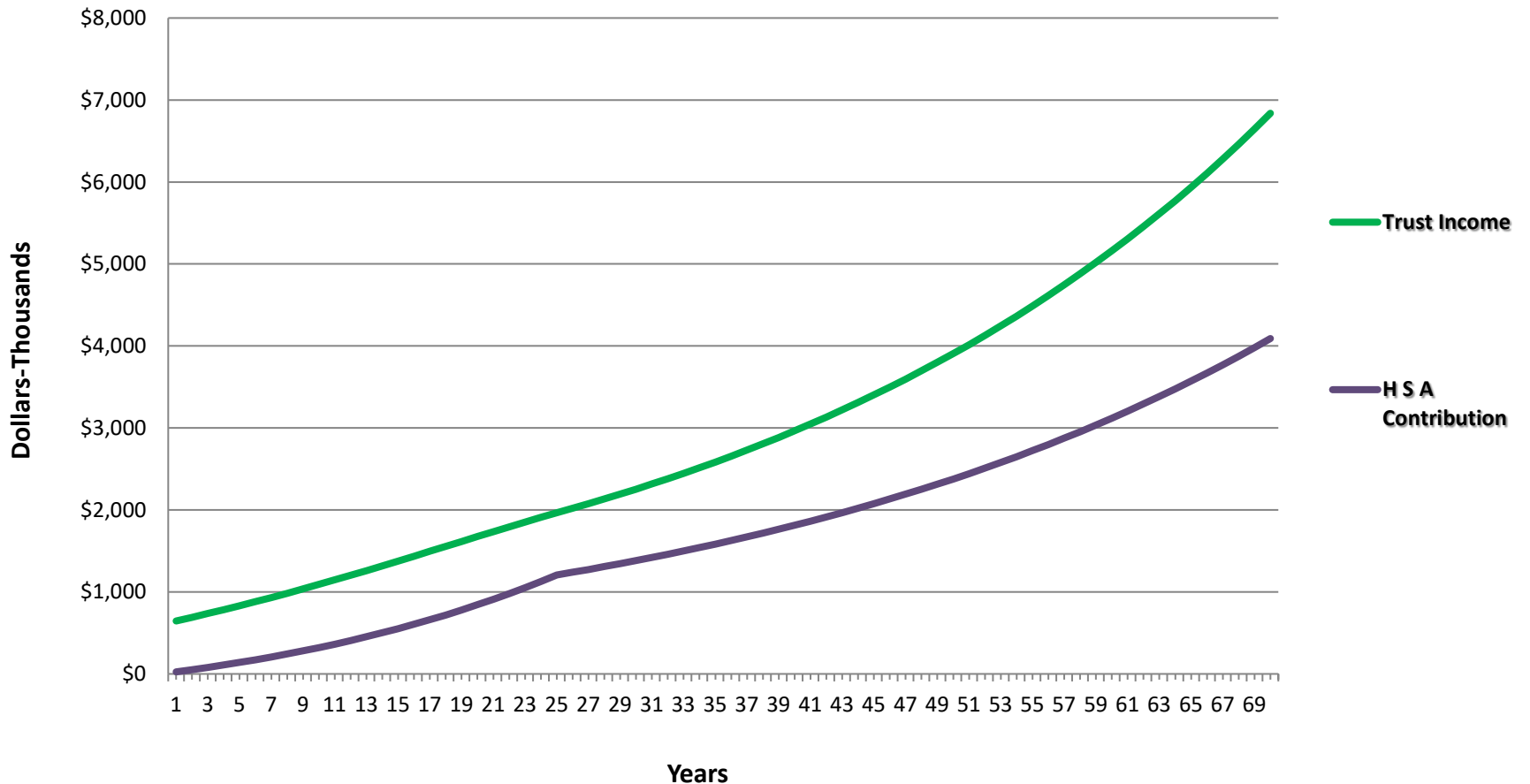
CARFAC's Proposed Solution Options

New Hires, Option #3:

**Scrap OPEB for New Hires
Setup HSA
&
Invest Current \$ 9 Million Trust**

New Hires Option 3: Scrap OPEB, Set Up HSA

Annual Trust Income vs HSA Contribution



CARFAC's Proposed Solution Options

Discussion & Next Steps

Financial Statements

as of 1/1/21

SECTION 5

Net OPEB Liability

Allocation by Employee Group

	Police	Civilian	Total
1. Present Value of Future Benefits			
Active Members	\$ 25,642,096	\$ 13,213,880	\$ 38,855,976
Retired Members	18,968,424	8,325,869	27,294,293
Total	<u>\$ 44,610,520</u>	<u>\$ 21,539,749</u>	<u>\$ 66,150,269</u>
2. Total OPEB Liability (Actuarial Accrued Liability)			
Active Members	\$ 14,577,920	\$ 10,042,130	\$ 24,620,050
Retired Members	18,968,424	8,325,869	27,294,293
Total	<u>\$ 33,546,344</u>	<u>\$ 18,367,999</u>	<u>\$ 51,914,343</u>
3. Fiduciary Net Position (Market Value of Assets)	\$ (5,726,513)	\$ (3,687,017)	\$ (9,413,530)
4. Net OPEB Liability (Unfunded Actuarial Accrued Liability)	\$ 27,819,831	\$ 14,680,982	<u>\$ 42,500,813</u>
5. Normal Cost	\$ 941,958	\$ 337,327	\$ 1,279,285