**Review of Concepts Raised in *Standards and Reporting Subcommittee Recommendations*:[1] OPEB**

**Overview**

Michigan law does not require prefunding of retiree health care. For retiree health care, the number of plans is fewer, but most do not have any assets and are paying on a "pay as you go basis".

- **Annual reporting at local and state level based on consistent assumptions**

1. Reporting Requirements:
    a. Act 314 of 1965 (as amended by Act 530 of 2016 (effective 3-29-17)) now contains certain OPEB disclosures, however concerns exist that these OPEB disclosures may only apply to a narrow category of OPEB plans (401h plans). This would mean that few OPEB disclosures will be made outside of the annual audit and F65 process.
    b. Act 314 of 1965, as amended, will require the Department of Treasury to post an executive summary of each summary annual report, including the system's unfunded actuarial accrued liability (UAAL).
    c. Act 314 of 1965, as amended, will require an OPEB system which is less than 60% funded to post on the internet an information report outlining the steps, **if any**, the system is taking or is planning to take to reduce its UAAL. Again, it is unclear if this law will apply to most OPEB plans.
2. Require the Use of Uniform Assumptions (to allow for a uniform comparison):
    *a. Local units of government, when reporting to the Department of Treasury on retiree health benefit liabilities and funded ratios, should be required to recalculate their assets and liabilities using uniform assumptions.*
    *Specific uniform assumptions should be identified.*
        i. Economic assumptions: investment return, wage inflation, and period to pay off unfunded liabilities.
        ii. Pension's demographic assumptions will be based on actual experience and actuarial recommendations from experience study conducted at least every five years (size dependent).
        iii. Retiree health care cost trend will be based on the average of the last 3 years.
    *b. If it is undesirable to require all local units to perform recalculations based on uniform assumptions, only those local units of government with assumptions that fall outside of an Acceptable Range should be required to recalculate its retiree health benefit liabilities and funded ratios.*
    *c. Data should be submitted to the Department of Treasury showing the percent of expenditures in the most recently completed fiscal year for retiree health costs. The local government should report expenditure percent using meaningful data from both its government-wide and fund based financial statements in a manner that clearly shows how the cost of retiree healthcare compares to other government operating costs.*
    *d. This data must be reported in a separate section of the annual valuation and be published in the local unit's comprehensive annual financial report (CAFR).*

- **Notification to Local Residents and Participants**

[1] The "Standards and Reporting Subcommittee Recommendations" was prepared as a result of work by a subcommittee of the Pension Workgroup that convened in 2016. This document attempts to bring forth the original recommendations by the subcommittee, take into consideration new legislation that has since been enacted, and frame the recommendations in the acknowledgment of prior discussions during task force meetings.

3. Each local unit will communicate the funded status of retiree health care benefits to all residents at least once each year. This can be done by requiring a local unit to post the summary annual report on its website.
4. All participants and retirees are to receive an "Annual Funding Notice" on the funded status of the plan. For those 60% or less funded, what steps are being taken to become 100% funded in 20 or less years.

- **Certifying Local Unit's ability to Pay**
  *5.* The chief administrative officer and legislative body will certify or acknowledge that they can afford and will make retiree health care contributions based on projections in the annual valuation.

- **Oversight and Interventions** – *To be discussed.*

- **Best practices to be required of Local Units**
  The following best practices will be required in administering retiree health plans. *Consequences for failure to follow best practices will be determined.*
  6. All local units of government must require actuaries to follow the Actuarial Standards of Practice from the Actuarial Standards Board.
  7. Local units must conduct experience studies at least every five years to inform its demographic assumptions.
  8. Require peer audits by actuary independent from the system's actuary or rotate actuaries at least every five years.
  9. Supplemental valuations and projections must be supplied to local governing body prior to implementing any benefit changes.
  10. The public must be notified at least 60 days prior to a vote of the local governing body on any proposed benefit increase. The notification shall include specific information on the cost of the change and how it will be funded.
  11. Plans cannot increase retiree health benefits without being adequately funded.
  12. Service credit purchases must be calculated at actuarial cost and fully funded at time of purchase or interest must be applied to ensure payment of actuarial cost if payments over time are allowed.
  13. Prohibit retroactive benefit improvements.