OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

MEMORANDUM

May 11, 2023

TO: Evan Glass, President
Montgomery County Council

FROM: Marc Elrich, County Executive

SUBJECT: Other Post-Employment Benefits (OPEB) Trust

In the April 21st Economic Development Committee operating budget work session for the Urban Districts budget, the Council President said, "The [Urban District] fund balances are healthy, and rather than have them look good on paper, we need to put them to work." I agree with the Council President's thinking and believe that, if it applies to the $1.4 million fund balance of the Wheaton Parking Lot District, it should also apply to the roughly $730 million fund balance of the Montgomery County Government's share of the Consolidated Retiree Health Benefits Trust – more commonly referred to as the "OPEB Trust[1]."

Over the last five years, the value of the MCG portion of the OPEB Trust has grown by more than $300 million (65%) to over $750 million. It is now large enough that it regularly generates an average of over $50 million annually in investment returns. This is possible due to our prioritization of contributions to the Trust over the last 15 years. Over that time, the County has contributed nearly $500 million to the Trust, and an additional $250 million has been generated by returns on investment.

It is because of prudent fiscal planning and smart asset investment that the bi-annual valuation process conducted by the County's actuaries resulted in a negative Actuarially Determined Contribution (ADC) prefunding contribution requirement. A negative prefunding requirement

[1] The OPEB (Other Post-Employment Benefits) Trust manages contributions solely funded by County taxpayers and not our employees, unlike our pension trust. The Trust also holds funds to cover the costs of providing health insurance for the retirees of the Montgomery County Public Schools, Montgomery College, and several other small public agencies. These contributions are also solely funded by the taxpayers and not employees. Unless noted otherwise, this memo only refers to the portion of the Trust pledged to retirees of the County Government (MCG).

means that not only does the County not need to add to the OPEB Trust, but it can actually withdraw funds from the Trust to help pay for current year retiree health expenses while still maintaining the upward trajectory of the fund. Nevertheless, my FY24 recommended budget did not include this negative ADC assumption, which is $17.5 million, and those funds could be withdrawn to be used to pay for retiree health care costs. The actuary's valuation for last year also included a negative ADC, which was $12.6 million. And the approved budget for FY23 also did not include a withdrawal of these funds.

It is critical to note that the OPEB Trust is <u>not</u> how retiree health expenses are paid. There has been no such thing as "raiding the OPEB Trust." OPEB Trust funds have never been used to pay any County retiree health costs. All expenses are and have always been paid out of the Employee Group Health Insurance Fund along with the active employee health expenses, with the County's portion of contributions coming from the General Fund. The reason it is necessary to make the above point is because the financial reporting appears to paint a different picture: as required by the Government Accounting Standards Board (GASB), the OPEB Trust's financial reporting shows retiree health expenses, but these expenses are offset by a corresponding amount of contributions – both from retirees and the County's contributions from the General Fund. So, the contributions to cover retiree health expenses are reported at fiscal year-end in the County's financial statements in the OPEB Trust rather than in the Employee Group Health Insurance Fund (which contains County Contributions coming from the General Fund). However, in actuality, each fiscal year, all claims are paid and all contributions received within the Health Insurance Fund.

It is important to remember that the Trust was created to pay for all or a portion of retiree health expenses; it legally cannot pay for anything else. Declining to use the Trust for its only intended purpose will result in significant unnecessary costs. Retiree health expenses are estimated to cost an estimated $1.7 billion cumulatively over the next 15 years. If we continue to not withdraw from the Trust when the actuarial analysis calculated under the current policy indicates that we can, then <u>all</u> these expenses would be covered solely by the General Fund, even as the OPEB Trust will be growing significantly through robust investment as it has been doing. Fortunately, there is a better path forward. After nearly two decades of prudent fiscal planning, the OPEB Trust is strong enough to use some of the funds for their intended purpose – to pay retiree health care. We can and should offset as much as $300-450 million of General Fund tax dollars through the utilization of OPEB Trust assets over the next 15 years. That would translate to about $20-30 million per year that would not have to come from the General Fund.

I want to emphasize that, because of the health of the fund, this utilization would not, overall, come from the actual asset base of the OPEB Trust. Utilization amounts would be below to well below the estimated annual return on investment. In other words, the Trust will be growing faster than the amount that is withdrawn each year. The Trust will still be growing, sustainably preserving its future while also contributing to easing the burdens of today.

The good health of the OPEB Trust presents us with a great opportunity to begin to put another County fund balance to work, instead of just leaving it on paper, as the Council President insightfully remarked. And before the naysayers get too loud, let us not forget the actions of the

Council for the last eight budgets. Montgomery County Public Schools has spent $27.2 million from their OPEB Trust to pay for retiree health expenses in each of the last eight years, which is recommended and unquestioned again now for FY24.

The impact of this decision has been that MCPS's OPEB Trust has been used for its intended purpose for MCPS retirees, while allowing over $200 million in taxpayer funds to be used for critical County services. And the Trust remains healthy and has continued to grow. If the Council were to reverse this decision, we would need to add another $27.2 million in taxpayer funds this year alone – possibly adding to Maintenance of Effort - to cover actual expenses. We have been utilizing the MCPS portion of the OPEB Trust without a policy guiding us to do so for the better part of a decade and the asset base of the MCPS OPEB Trust continues to grow.

Eight years ago, we decided to use the MCPS OPEB trust fund for its intended purpose – to pay some of the MCPS retirees health insurance costs and reduce the amount required from current taxpayers. It is time to make the similar appropriate decision for our share of the Trust. By implementing this approach consistently, the Council can reduce the proposed property tax increase by one cent or 1.5 cents. We can use the healthy returns of the OPEB Trust to alleviate the burden on County taxpayers, as was intended, allow the Trust to continue to grow and fully fund my recommended budget.

I appreciate your consideration of this important issue and am happy to discuss this with the Council.