

Health Insurance Glossary

MGL Chapter 32- Mass general law requires that municipalities pay at least 50% of health insurance costs for employees

Fixed Costs- Costs that are legally or contractually mandated such as retirement, FICA/Social Security, insurance, debt service costs or interest on loans.
Include costs associated with municipal employee health insurance and pensions.

IBNR- “Incurred but not reported” health care services administered to employees during the fiscal year but which are not billed until later; cities and towns are required to account for these costs and pay for them from next year’s funds eventually, although they are currently allowed 3 years.

Self-insurance plan- Chapter 32B Section 3A of MGL allows cities and towns to operate self-insurance plan. At the end of 2005, over 65 cities and towns were self insured.

Joint purchase group insurance plan- Some cities and towns have adopted Chapter 32B Section 3A of Mass General Laws which authorized municipalities to become part of a joint purchase group such as one offered through the Massachusetts Municipal Association.

Group Insurance Trust Fund – holds the income for the community’s self-insurance fund, comprised of the municipal appropriation (town’s portion of the insurance), the payroll deduction from employees and recoveries from “stop loss” policies. (“Stop loss” is reinsurance the municipality purchases to cover catastrophic expenses of single cases or group overages).

Group Insurance Expenses- payment of claims, premiums on “stop loss” policies (reinsurance to cover catastrophic expenses of single cases or group overages) and administrative costs.

“New growth” is increase to property tax base contributed by new homes or added value to existing homes.

State Employee health insurance- controlled by the State Group Insurance Commission; though there is union representation, does not require all unions approve, unlike localities.

Group Insurance Commission (GIC)- autonomous 11 member group that includes administration officials, union and retiree representatives, and health policy experts; makes all decisions about State employee health insurance except the share of the premium costs paid by employees which is decided by the Legislature with Governor’s approval.

Medicare- Federal program that provides health benefits to retirees; requires contribution to system to qualify

GASB 45- Statement by General Accounting Standards Board concerning how non-pension post employment benefits should be shown in financial statements, requiring statement of unfunded liability. It will require the municipality to develop a funding plan by FY 2008, FY2009, or FY2010, depending on the town revenues. The town will have to meet the actuarial-determined contribution or have a new liability recorded.

Other Post Employment Benefits (OPEB)- Refers to non-pension benefits for employees that includes employee health insurance, and possibly vision, dental, disability, life insurance, long-term care, etc.

Health Insurance References, Graphs, Additional Reading

1. **“Revenue Sharing and the Future of the Massachusetts Economy”** Barry Bluestone, Alan Clayton-Matthews, David Soule MMA and Center for Urban and Regional Policy, Northeastern University, January 2006 ,Available at CURP website
http://www.curp.neu.edu/pdfs/MMA_RevenueSharing.pdf
2. **“Soaring Health Insurance Costs Threaten Boston’s Competitive Edge: Boston and Other Municipalities Face a Crisis of Unsustainable Cost Increases”**, Boston Municipal Research Bureau, November 2006 <http://www.bmr.org/content/upload/health2006.pdf>
3. **“Local Communities at Risk: Revisiting the fiscal partnership between the Commonwealth and cities and towns”**, From Municipal Finance Taskforce, MAPC, September 2005 Hamill Report
<http://www.ksg.harvard.edu/rappaport/downloads/metromayors/presentation.ppt>
4. **“A Mounting Crisis for Local Budgets: the crippling effects of soaring municipal health costs”**, Mass Taxpayers Foundation, July 2005
<http://www.masstaxpayers.org/data/pdf/reports/municipal%20health%20care.pdf>
5. **“Other Post-employment Benefits (OPEB)”** Technical Assistance (TA) Section, Best Practices on DOR Division of Local Services website
http://www.mass.gov/?pageID=dorterminal&L=6&L0=Home&L1=Local+Officials&L2=Municipal+Data+and+Financial+Management&L3=Financial+Management+Assistance&L4=Best+Practices+-+Technical+Assistance&L5=Reference+Library&sid=Ador&b=terminalcontent&f=dls_mdmstuf+Technic
6. **“Municipal Financial Data 35th Edition”** Mass Taxpayers Foundation, November 2005
<http://www.masstaxpayers.org/data/pdf/reports/mtf35t-1.pdf>
7. **“Condition Serious, Prognosis Uncertain: The impact of municipal employee health insurance on Massachusetts cities”** Worcester Regional Research Bureau, February 2005
<http://www.wrrb.org/reports/05-01health.pdf>

Pension Facts

- 106 separate pension systems in Massachusetts are regulated by Chapter 32.
- Retirement Boards can manage their own investments, or invest with state's PRIT which is managed by PRIM.
- Pensions must be fully funded by 2028 (Currently Acton 100% funded; Marblehead 80%)
- Each community's plan to fully fund pensions by 2028 has to be approved by PERAC
- Actuarial analysis uses salary, assumptions about raises, ages spouse information, assumed return on investment to project the future costs
- Pension liability varies from community; bigger cities tend to have larger liabilities
- Teachers contribute to state pension plan.
- Full time municipal employees have to join the system; deductions made from paycheck
- Retiree's health insurance contribution is deducted from pension payment

Areas of Concern:

- Fully fund pensions by 2028, could put pressure on budget, affect bond rating
- Local Retirement Board's returns on investment—most local retirement boards are not as effective as State's PRIT in earnings.
 - “Over the past twenty years, while PRIT earned an annual return of 11.19%, the median local return was only 10.07%. During that time, only six of the 104 local systems have earned an annual return as high as PRIT”- ---
 - from Pioneer Institute Study, cited

- Pensions Glossary

Municipal Employee Pensions- Required by Mass GL Chapter 32; must be fully funded by 2028

PERAC- Public Employment Retirement Administration Commission; charged with overseeing the 106 Retirement Boards in the state

Pension Reserve Investment Trust (PRIT)- The Public Employee Retirement System of Massachusetts; serves state employees and teachers, invests money under control of PRIM.

Pension Reserves Investment Management board (PRIM)- Manages the funds of PRIT

“Defined benefit” plan-Contributions from employee and local government; Retiree receives an amount each year that is defined by the plan

“Defined contribution” pension plans (IRA’s 401K, etc); employer contributions stop when employee retires or leave employment; primarily used in business

Actuarial Analysis- calculation of long-term cost of a program taking into account age at retirement, average life span, etc. and the projected earnings on investment for the life of the employee/retiree.

“Pay as you go”- a method for paying for current retirees out of accrued contributions and investments without doing long-term calculations. Calculated year by year.

Unfunded Pension Liability- the difference between value of **investments made from** employer and employee contributions compared to the costs of retirees today plus employees that will retire in the future.

Pensions References, Further Reading

1. **Reform Initiatives Advisory Committee Report**, 2005 from Public Employee Retirement Administration Commission www.mass.gov/perac/report/reformreport2005.pdf
2. **“Leaving Money on the Table: The 106 Pension Systems of Massachusetts”** By Ken Ardon, NO. 31 • May 2006 Public Employee Benefits Series: Part 2 Pioneer Institute http://www.pioneerinstitute.org/pdf/06_pension_paper2.pdf; also Part 1 http://www.pioneerinstitute.org/pdf/06_pension_paper1.pdf and 3 http://www.pioneerinstitute.org/pdf/06_gasb_45_elephant_in_the_room.pdf

