

MEMORANDUM

TO: Board of Directors, Massachusetts School Building Authority
FROM: John K. McCarthy
DATE: July 24, 2013
RE: OPEB Actuarial Valuation Update

The Governmental Accounting Standards Board (“GASB”) requires all state and local government entities to recognize the liabilities related to Other Postemployment Benefits (“OPEB”) on financial statements using an accrual-basis of accounting; meaning that governmental employers are not permitted to recognize the liability when the actual cost of the provision of the benefits is realized (i.e. “pay-as-you-go” basis), but rather must recognize the estimated liability related to these benefits over the course of an employee’s years of employment.

On November 18, 2009, the Board of Directors (“Board”) of the Massachusetts School Building Authority (“MSBA”) authorized the establishment and funding of an irrevocable trust dedicated to funding the MSBA’s outstanding OPEB liability. The purpose of the trust was to enable the MSBA to prudently plan for funding the liability related to postemployment benefits (e.g. medical benefits) that are provided separate from a pension plan to MSBA employees following their retirement. During fiscal year 2010, the MSBA set aside funds for the MSBA’s OPEB liability pursuant to the November 2009 Board vote. The MSBA executed the Massachusetts School Building Authority Irrevocable OPEB Trust (the “Trust”) on June 25, 2012, and subsequently transferred the funds previously set aside to the Trust in order to fully fund the MSBA’s outstanding OPEB liability. The MSBA’s audited financial statements for the fiscal year ending June 30, 2012 reflected the full funding of the Trust, and indicated that the MSBA did not have any outstanding OPEB liability as of June 30, 2012.

Attached, please find the report of an updated actuarial valuation of the MSBA’s postemployment benefits, as of December 31, 2012, that was completed by The Segal Company on May 16, 2013. This report, which has been reviewed by members of the MSBA’s OPEB Trust Committee, indicates that the MSBA’s OPEB Trust remained fully funded through the December 31, 2012 valuation period. The report indicates that the value of the assets in the MSBA’s OPEB Trust of \$1.909 million as of December 31, 2012, were greater than the estimated OPEB liability of \$1.668 million as of that date. In addition, the report indicates that there is no projected OPEB liability through June 30, 2013. As a result of this actuarial valuation, there were not any additional contributions to the OPEB Trust by the MSBA recommended in fiscal year 2013 in order for the trust to remain fully funded. The MSBA plans to next update the estimate of the MSBA’s OPEB

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liability during the 3rd quarter of fiscal year 2014 in order to determine if there has been any change to the liability since this most recent actuarial valuation. Staff plans to communicate the results of this update to the Board during the 3rd quarter of fiscal year 2014.