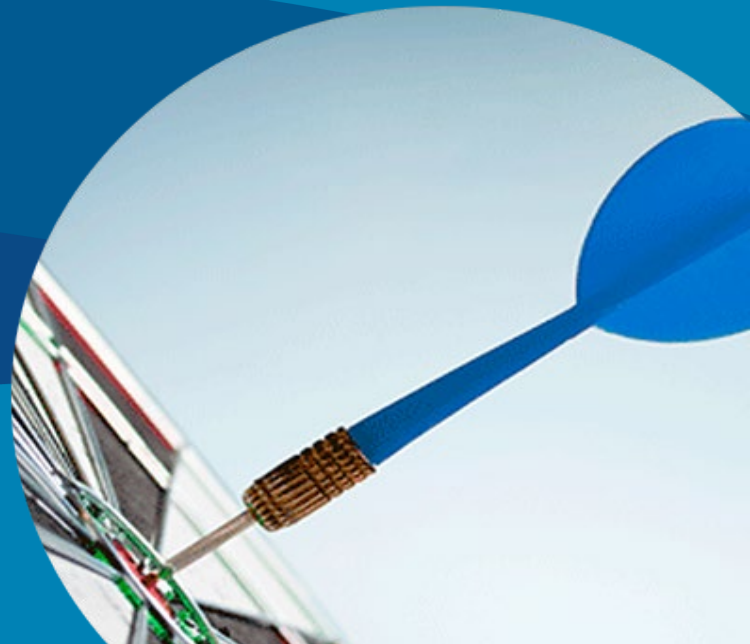
FGFOA Gulf Coast Chapter
November 2026

Sustainable Funding Practices for Defined Benefit Pension and OPEB Plans

November 6, 2026

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Agenda

1. Introduction
2. Plan Features
3. Valuation Process
4. Landscape
5. Funding Considerations
6. Sustainable Practices
7. Questions?

Introduction - Definition

Pension	OPEB
Retirement Income	Healthcare Benefits
Life Insurance*	Life Insurance^
Death Benefits*	Death Benefits^
Disability*	Disability^
	Long-Term Care

* If provided through a pension plan
^ If provided separately from a pension plan

Similarity – *Benefits are provided post-employment*

Source: GASB Statement No. 67



Plan Features

Benefits - General

Pension	OPEB
Defined Benefit (DB) – Specified Formula, benefits typically increase with service	Benefit Based on Cost of Health Care
(Typically – Mult. x Service x Final Pay)	
Defined Contribution (DC)	(Could also be a service based stipend)
Hybrid – Mix of DB and DC	

Benefits – OPEB Implicit Component

- OPEB Benefit Typically Includes Implicit Subsidy
  - Implicit subsidy is a form of a cross-subsidy between different cohorts of covered population
  - Caused by cost increase for older members
  - This portion of benefits accrues in one step (no gradual benefit accrual)

Benefits - OPEB Implicit Component

- Implicit Subsidy Example
  - Total Enrollment: 3,690
  - Average Annual Cost for all members: $6,000 ($500 per month)

	Active Enrollment		Average Member Cost		Retired Enrollment		Average Member Cost	
Age	Male	Female	Male	Female	Male	Female	Male	Female
< 20	50	20	2,347	2,755				
20-24	80	75	1,850	2,935				
25-29	100	125	1,925	4,330				
30-34	200	200	2,416	5,472				
35-39	225	250	3,034	5,636				
40-44	225	250	3,780	5,769				
45-49	250	300	4,773	6,336				
50-54	200	200	6,286	7,454	10	20	6,286	7,454
55-59	150	200	8,172	8,617	50	50	8,172	8,617
60-64	100	50	10,487	10,254	100	100	10,487	10,254
65-69	50	50	13,081	12,292				
70+	10	0	15,675	14,495				
Total	3,360		5,659		330		9,471	

Benefits - OPEB Implicit Component

- Implicit Subsidy Example (continued)
  - Average Blended Cost: $6,000
  - Average Retiree Cost: $9,471 or 158% of the blended average
    - Retiree pays the “full” premium
    - Average retiree costs $3,471 per year more than pays in premiums
  - Active Employee Cost: $5,659 or 94% of the blended average
    - Average employee costs $341 per year less than stated premium

Benefits - OPEB Implicit Component

- Implicit Subsidy Example (continued)
  - The insurance company is “over-charging “ by $341 per year for actives,
  - And using the excess to supplement the “under-priced” retiree contribution
  - The overcharge is the implicit subsidy paid by the employer
  - The Employer’s cost is $9,471 (will depend on ratio of actives to retirees)
  - Retirees contribute $6,000 (cost sharing)

Benefits - Eligibility

Pension	OPEB
Common Conditions	Sometimes the Same as Pension
- Age and Service	- If different, generally more restrictive
- Service Only	- May not cover death
- Rule of Points	- May only cover select beneficiaries
- Benefit non-forfeitable after vesting	- Benefits available only immediately upon retirement (with some exceptions, benefits are forfeited if terminating prior to retirement)

Benefits - Cost Sharing

- Type

Pension	OPEB
Member Contributions	Pay a Portion of the Premium

- Timing

Pension	OPEB
During Active Employment	During Benefit Receipt

Benefits - Benefit Adjustments

- Type

Pension	OPEB
Varies: from automatic Cost of Living Adjustment (COLA) to no adjustments	Varies: Typically correlated with medical trend but some feature fixed discounts

- Timing

Pension	OPEB
During Benefit Receipt	During Benefit Receipt

Benefits - Other

- Benefit Levels

Pension	OPEB
Minimum Benefits Required for Public Safety to receive State Distributions	Access to Group Plan is Guaranteed

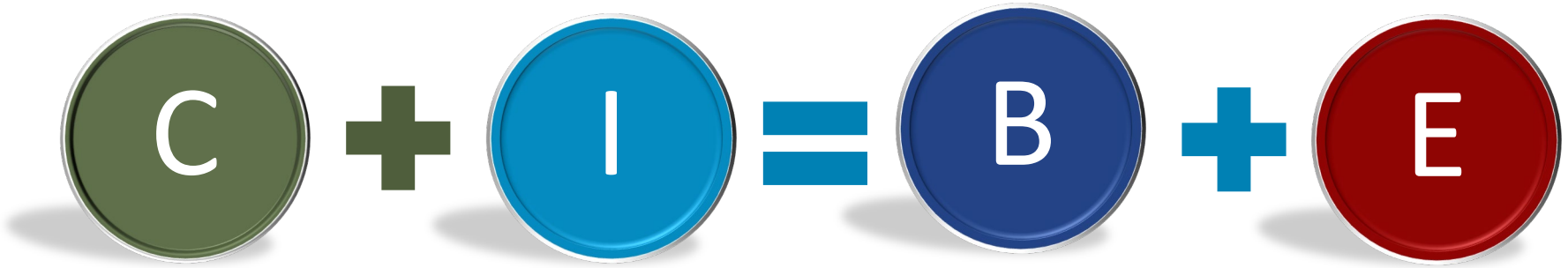
- Prefunding

Pension	OPEB
Required by State Statutes	Not Required



Valuation Process

Valuation Process - Basic Retirement Funding Equation*



Contributions	Investment Income	Benefits	Expenses
• Funding Policy	• Investment Strategy	• Plan Design	• Administrative Policy

*“Net Money In = Money Out”

Valuation Process – Big Picture

Member Data



Financial Data



Actuarial Valuation

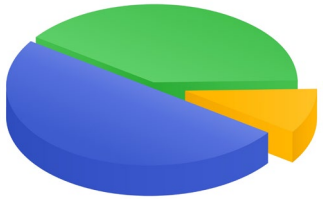
Plan Provisions



Actuarial Assumptions



Actuarial Cost Method



Valuation Process – What are Our Obligations?

Present Value of Future Benefits

- Present Value (PV) of all Future Benefits payable to current participants (active, retired, terminated vested)

Actuarial Liability

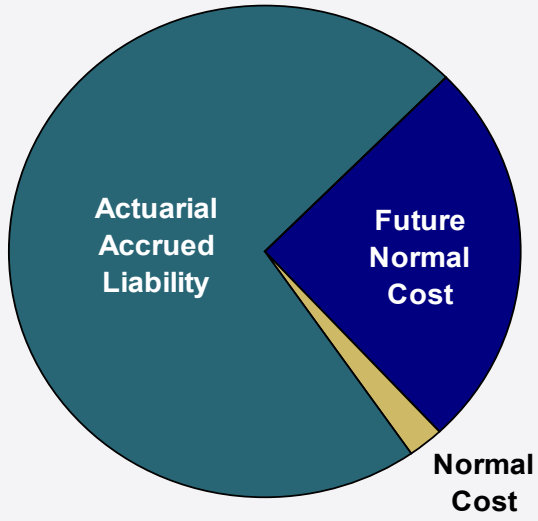
- Portion of PV of Future Benefits allocated to prior years

Normal Cost

- Portion of PV of Future Benefits allocated to current year

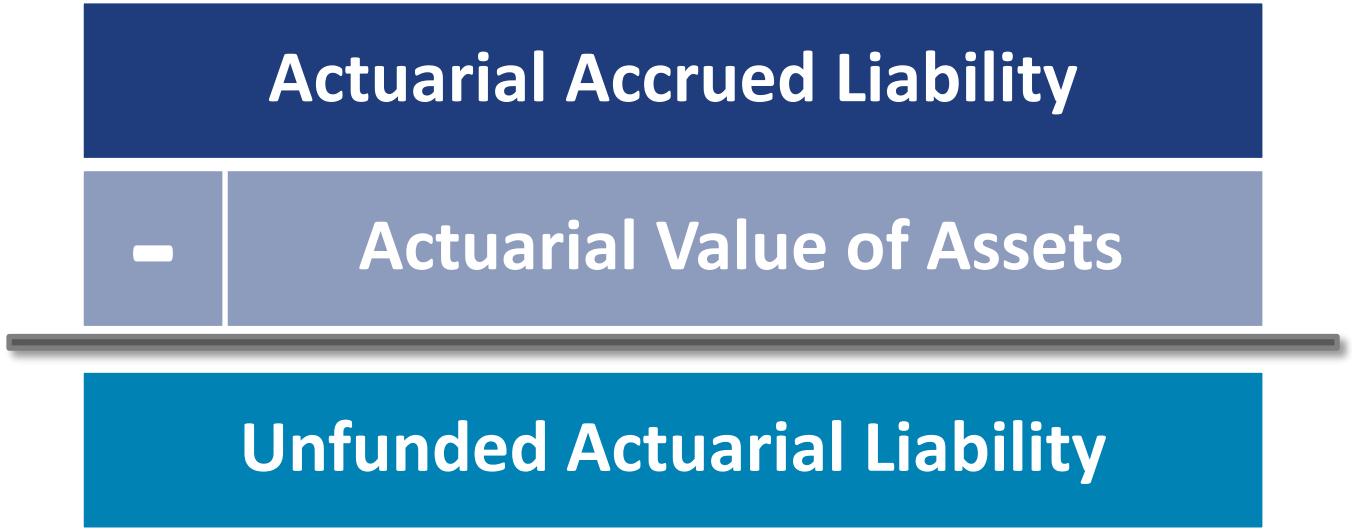
Future Normal Costs

- Portion of PV of Future Benefits allocated to future years



Present Value of Future Benefits

Valuation Process – How Do We Pay for It?



Actuarially Determined Contribution	=	Normal Cost	+	Amortization of Unfunded Actuarial Liability

Valuation Process - Actuarial Assumptions

Primary Risks	
Demographic	**Economic**
Normal Retirement	Price Inflation
Early Retirement	Wage Inflation
Death-in-Service	Investment Return
Disability	
Other Separations	
Pre and Post Mortality	
Merit and Longevity Pay Increases	

Assumptions are reviewed at regular intervals, typically an experience study every 3-5 years

Valuation Process – OPEB-Specific Assumptions

- Election Percent Assumption
  - What type of coverage will future retirees elect upon retirement?
  - Typically depends on current retiree data

- Health Care Cost Trend Rates
  - How much will health care costs increase in the future?
  - Typically based on national/regional trends in health care costs
    - Plans are too small to have credible trend data

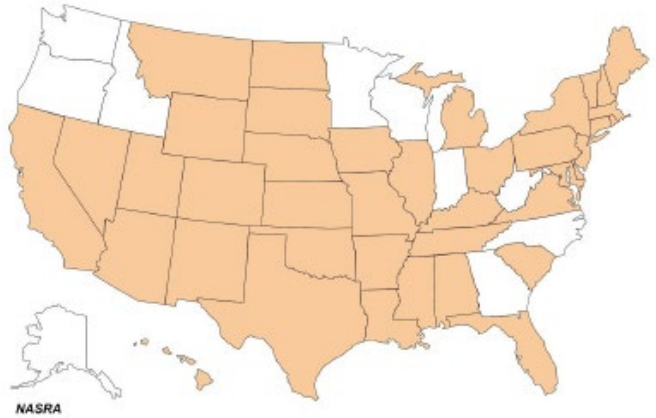


Landscape

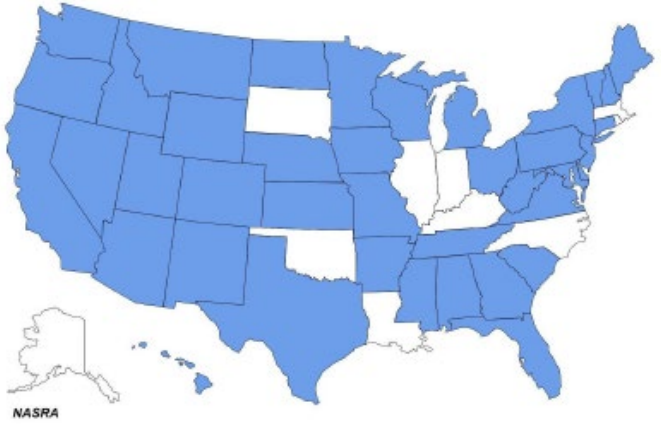
Plan Design Changes - Pension

- Historical Changes
  - Reduced benefit multiplier
  - Implement a new tier
  - Higher employee contributions
  - Introduction of hybrid plans
  - Closing defined benefit pension plans
- Current Changes
  - Reversion to a previous tier
  - Plan re-opening
  - Implementation/Extension of DROP

States that reduced pension benefits since 2009



States that increased employee contribution rates since 2009



Plan Design Changes - OPEB

- Historical Changes
  - Adjusting the level, or expected level, of benefits overall
    (i.e., the underlying medical plan, or as part of total plan overhaul)
  - Adjusting eligibility conditions for health care benefits
    (Generally more restrictive)
  - Increased cost-sharing
  - Flat dollar (stipend)
  - Closing retiree health care plans
- Current Changes
  - Re-open retiree health care plans
  - Implementation/Enhancements to Retiree Health Reimbursement Arrangements



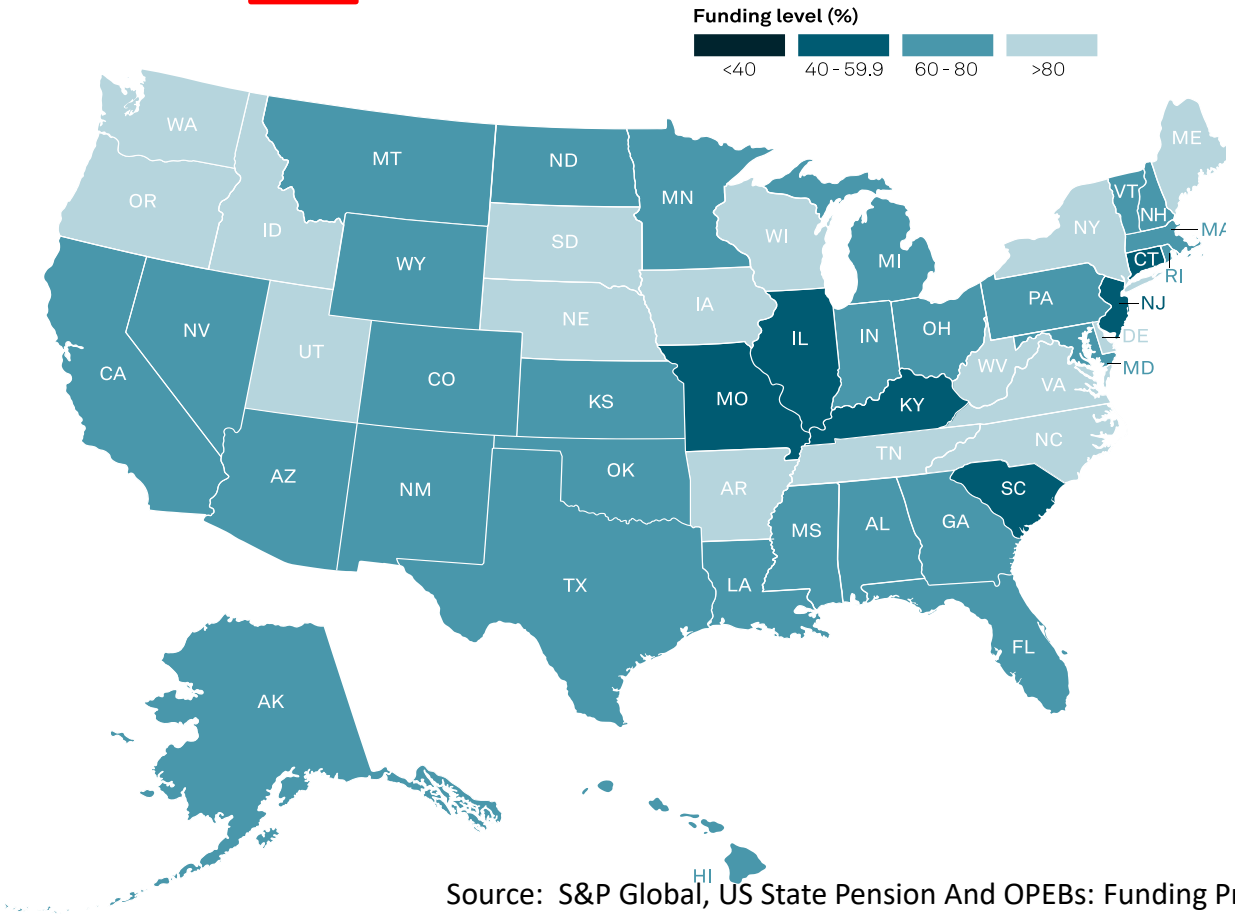
Funding Considerations

Economic Value of Pre-Funding

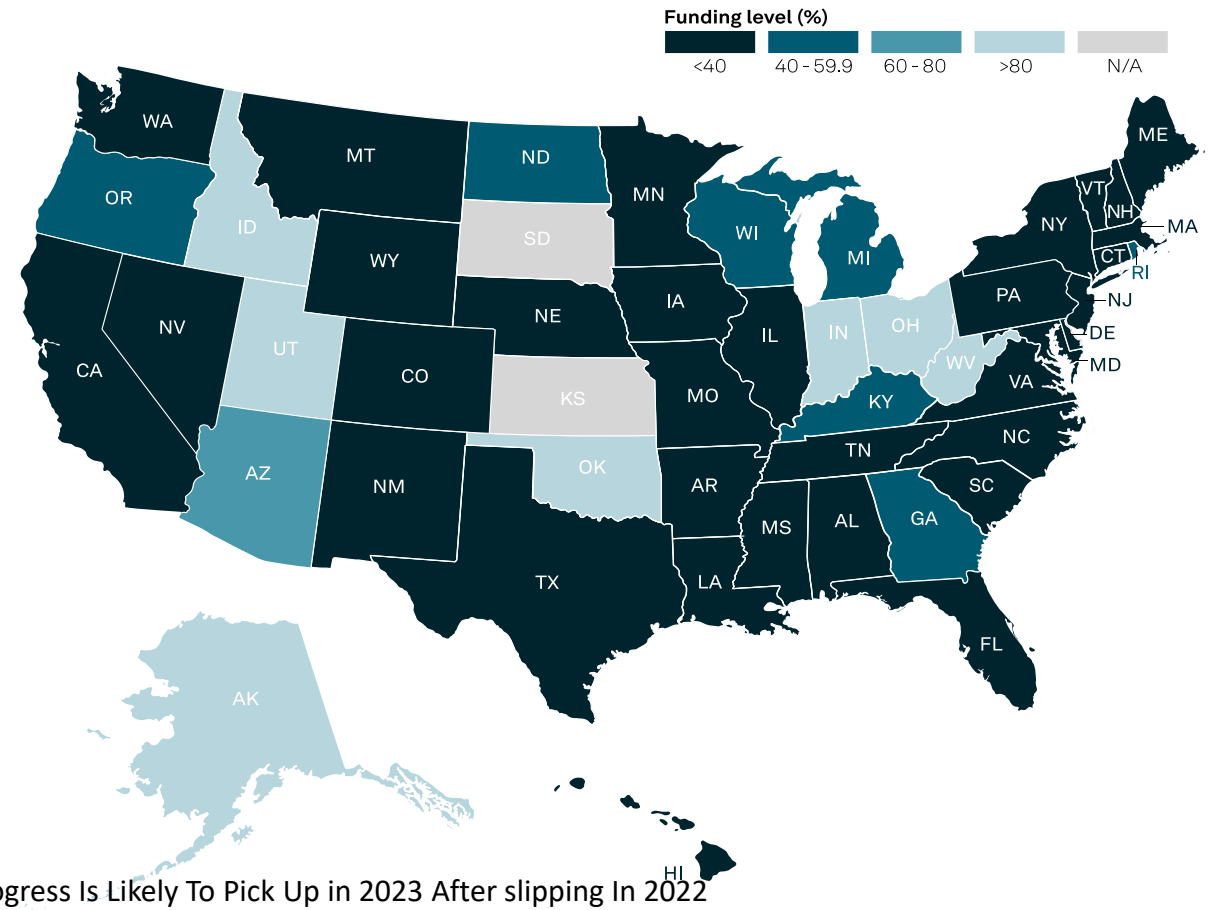
- Prefunding is a way to fulfill a promise to the taxpayer that their money will be used to efficiently provide retirement benefits (health care or otherwise) to public sector workers
- There is a “most efficient” way to use taxpayer dollars to fulfill the retirement promise, and there is a “least efficient” way
- The “least efficient” way requires more taxpayer dollars to fulfill the same promise

The State of State Pre-Funding

Aggregate U.S. state pension funded ratios 2022



Aggregate U.S. state OPEB funded ratios 2022

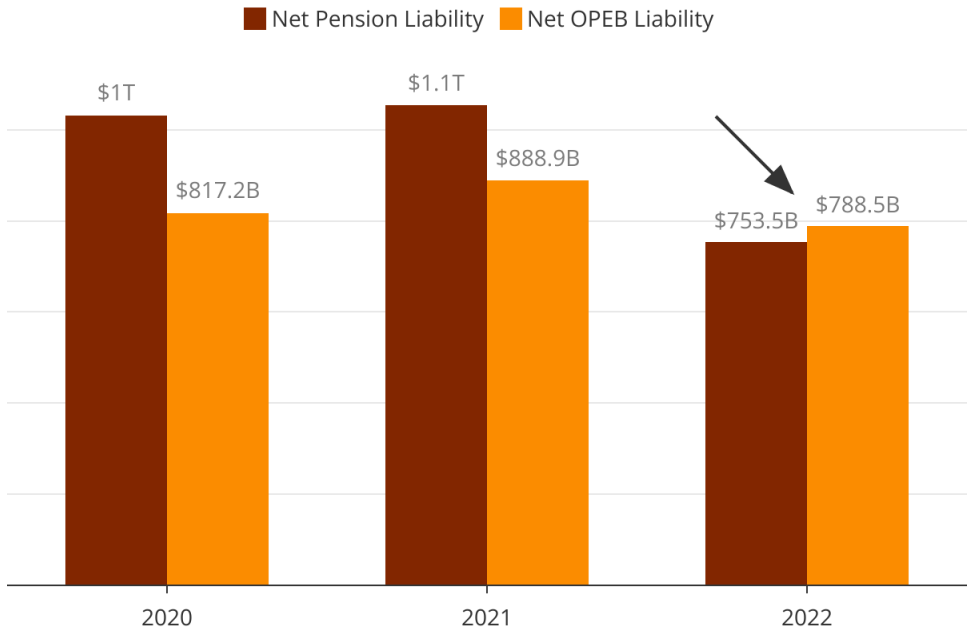


Source: S&P Global, US State Pension And OPEBs: Funding Progress Is Likely To Pick Up in 2023 After slipping In 2022

OPEB Is Coming to Focus

Unfunded Municipal And State Healthcare Retirement Benefits Surpassed Pension Debt For the First time in 2022

Figure 1: Sum of unfunded OPEB liabilities and unfunded pension liabilities (NPL) declared by all US States, and the 100 most populous cities, counties, and school districts.



Source: "Debt Trends for America's Largest Governments" initiative at the Reason Foundation

- Plan sponsors made great progress towards reducing pension obligations
- Public is becoming aware of OPEB obligations

Economic Value of Pre-Funding OPEB

- Potential consequences of underfunding
  - Insufficient assets to pay benefits
    - Claims would need to paid from general revenue
    - Risk of increased pressure on benefit cuts
  - Unpredictable contributions
    - Without the trust, plan sponsor is exposed to claim volatility
  - Introduces uncertainty and distrust amongst workforce
  - Exposes employers to downgrades by bond rating agencies
  - Shifts the cost of the benefits to future generation of taxpayers

Economic Value of Pre-Funding OPEB

- Arguments for pre-funding:
  - Long-term savings – investment earnings are significant over time
  - Balance sheet impact – a higher discount rate
  - Helps address unfunded balance sheet liabilities
  - Provides benefit security
  - Intergenerational equity – fund benefits while they are being earned
  - Signal to credit rating agencies
  - Pre-funding is considered a best practice by the GFOA

Economic Value of Pre-Funding OPEB

- Arguments against:
  - Employers often desire flexibility, not commitment
  - Ties up capital that could be used for other purposes
  - It may take years before the employer contributions are less than PayGo costs
  - Gives the perception the benefit is guaranteed
  - What if the benefits change significantly in the future?
    - Assets revert to employer if benefit obligation becomes zero
    - Many employers have settled into their retiree health care strategy by now

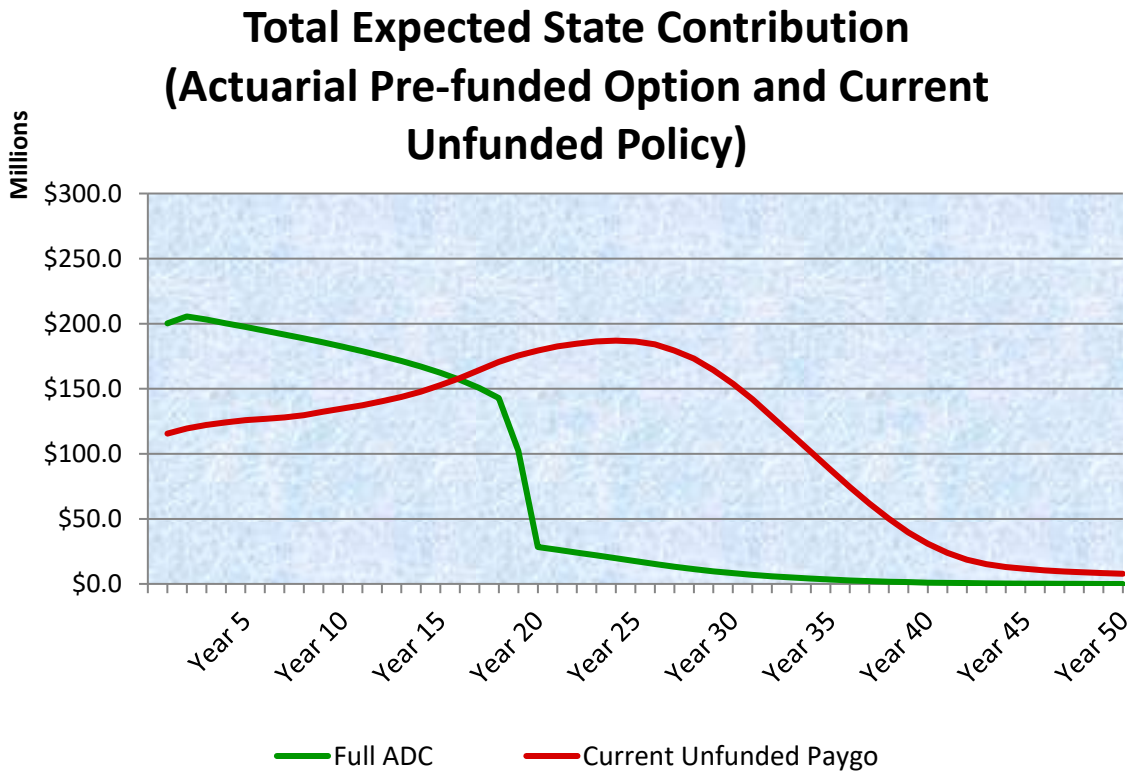
It is difficult to argue against saving money for future benefit costs that are currently being earned

Economic Value of Pre-Funding OPEB

- Case Study
  - A state desired to manage their OPEB liability
  - Considered two-prong approach
    - Close the plan to future employees
    - Start funding existing promise
  - Benefits available only until Medicare eligibility

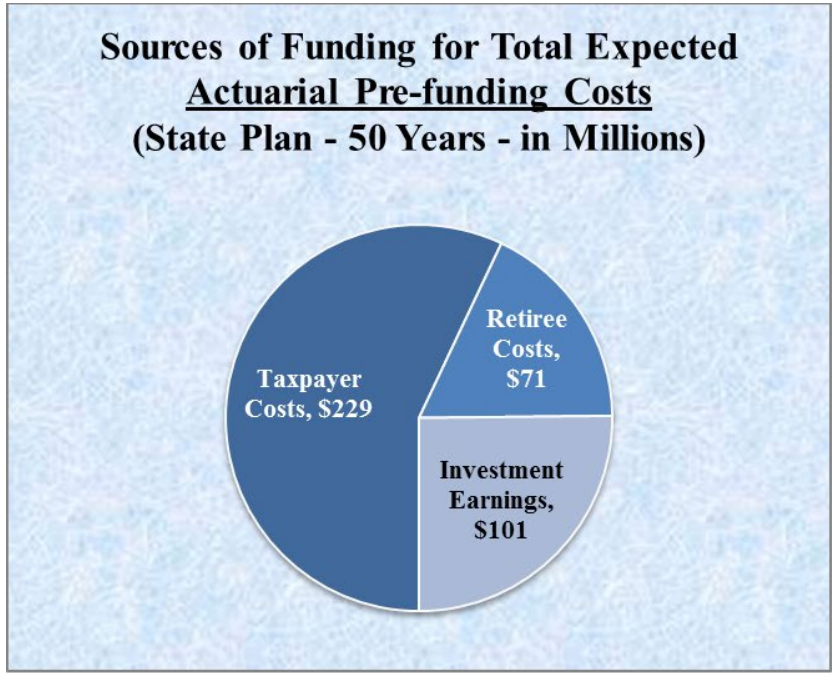
Economic Value of Pre-Funding OPEB

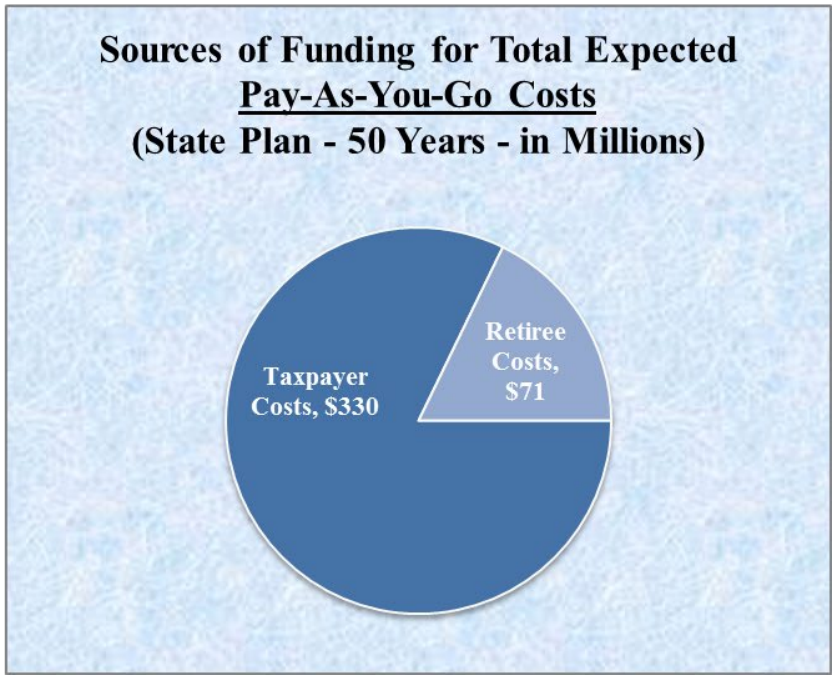
- Benefits of establishing a sound funding policy
  - Funds deposited while benefiting employees provide services to tax payers
  - Decreased cash demand in the future
  - A significant portion of benefits can be paid from investments income



Economic Value of Pre-Funding OPEB

- Benefits of establishing a sound funding policy
  - A significant portion of benefits can be paid from investment income
  - Closed to new Employees
  - Pre-65 Benefits Only
  - Pay As You Go until now
  - Higher proportion would be paid from income if trust established earlier, or if left open for incoming Employees





Do You Try to Pre-Fund Both Pension and OPEB at the Same Time?

- Many pension plans currently have large contributions, with a majority of the contribution going to amortize UAAL from the past
- Adding in a full pre-funding strategy on the OPEB that also finances the past liabilities would take significant resources over potentially the same time frame
- Although this would yield the greatest amount of savings over time, it may not be practical



Sustainable Practices

Preliminaries

- What qualifies a Pension or OPEB plan as “defined benefit plan (DB)”?
- How does funding differ from accounting?
- How do we define “sustainability”?
  - Affordable is short-term; sustainable is longer-term
  - Eye of the beholder; there is no bright-line test or definition
  - As percent of pay? As percent of revenue?
  - Assessing risk tolerance
- Five key do’s and don’ts for sustainability . . .
  1. Benefit Levels
  2. Actuarial Assumptions
  3. Funding Contributions
  4. Actuarial Analytics
  5. GFOA Best Practices

Defined Benefit plans vs. Defined Contribution plans

- A defined Contribution (DC) plan:
  - Examples: IRC Section 401(k), 457, 401(a) plans
  - Has account balances in the name of each member, invested in actual investments;
  - The investment earning (or interest) credited to the account is based on the actual performance of the underlying investments;
  - The ultimate benefit paid to members comes solely from their account balance;
  - Contributions by the employer are fixed (or “defined”).
- A Defined Benefit (DB) plan – our subject for today
  - Pays a formula-driven monthly amount for life, with survivor options available;
  - The formula is usually a multiplier times average monthly pay times years of service;
  - All assets are pooled with no separate account balance assigned to members;
  - DROP plan balances and share plans within a Defined Benefit pension program are sometimes treated as a DC plan within a DB program

The GASB Divorced Accounting From Funding

- Under old pension and OPEB rules, accounting was virtually the same as funding
  - The accounting expense was the same an Actuarially Required Contribution (ARC);
  - The balance sheet liability was the shortfall when the employer failed to contribute the full ARC;
  - Often, in Florida, there was no balance sheet liability for pensions because the employer contributed the ARC,
  - While there had been a small but growing balance sheet liability for OPEBs because most employers did not pre-fund their OPEBs with an ARC deposited into a trust;
  - But that all changed with GASB Statement No. 68 (for pensions).

The GASB Divorced Accounting From Funding

- GASBS 68 (for pensions) and 75 (for OPEBs) --
  - Accounting calculations for expense and balance sheet liabilities are very different from
  - Funding calculations for contributions and accrued liabilities;
  - Both are calculated by actuaries, but have very different rules;
  - Some actuaries present all their numbers in separate reports for accounting and funding,
  - While other actuaries load up a single report with both funding and accounting information;
  - Nowadays, there is usually a significant balance sheet liability for pensions and for OPEBs;

Do's and Don'ts for Sustainability – Benefit Levels

- Don't: Over-promise on benefits
- Beware: Of pressure to improve benefits during collective bargaining
- Avoid: Retroactive benefits and abuse-prone provisions (spiking, overtime, short FAE period)
- Beware: Of misplaced optimism for a quick-fix; e.g., over-selling freezing or closing a DB plan in favor of a defined contribution plan
- Don't: Adopt benefit improvements just because they look affordable for next year
- **Do**: Roll-back benefits if the costs and liabilities look unsustainable over time; waiting and hoping only makes it worse
- **Do**: Consider roll-backs and improvements incrementally, rather than all at once
- **Do**: Adopt benefit improvements for adequacy and competitiveness
- **Do**: Consider variable benefit designs to share risk



Do's and Don'ts for Sustainability – Actuarial Assumptions

- Don't: Adopt unrealistic actuarial assumptions; they create new unfunded liabilities
- Don't: Kick the can down the road
- Don't: Let your current budget drive your actuarial assumptions (not a lever)
- Don't: Let the past returns drive your assumptions about the future
- Don't: Look to other pension boards to drive your assumptions
- Don't: Pressure your actuary to keep investment return assumptions high
- **Do**: Adopt assumptions that lie in the mainstream of forecasts from independent experts, reflecting your own asset allocation and expected benefit cash flow
- **Do**: Adopt a return assumption that is the best estimate of the portfolio's future compound investment return (not a lever)
- **Do**: Revisit your economic assumptions every year, but employ smoothing/averaging to avoid large increases and decreases in a given year
- **Do**: Revisit your demographic assumptions every 3-5 years





Do's and Don'ts for Sustainability – Funding Contributions

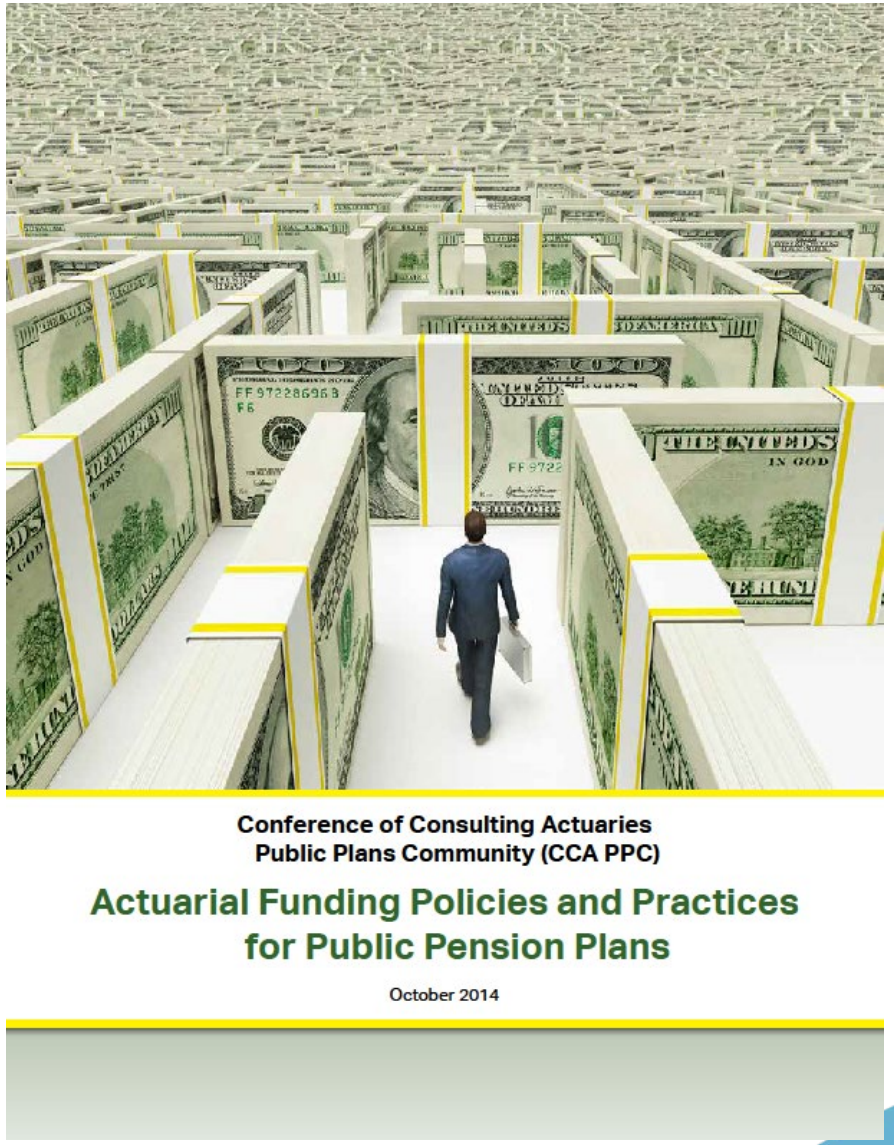
- **Do:** Follow the GFOA Best Practices on funding pension and OPEB plans
  1. When and why establish an OPEB trust for OPEB programs
  2. For any substantial liability, GFOA recommends pre-funding the OPEB obligation
  3. Govts should contribute the full actuarially determined contribution
  4. Adopt a funding policy to:
     a. Commits the employer to contribute based in actuarial valuation standards
     b. Target a 100% funded ratio
     c. Provide a reasonable assurance the cost is equitably and sustainably funded
  5. Ensure pension and OPEB are sustainable over the long term

  Links to these and other Best Practice appear at the end of this slide deck

Do's and Don'ts for Sustainability – Funding Contributions

- **Do:** Follow the GFOA Best Practices on funding pension and OPEB plans
- **Do**: Follow the funding policies in the Conference of Consulting Actuaries' White Paper on *Actuarial Funding Policies and Practices for Public Pension Plans*
  - https://www.ccactuaries.org/docs/default-source/papers/CCA-Actuarial-Funding-Policies-for-Public-Plans-2-Final-8-2024.pdf

Do's and Don'ts for Sustainability – Funding Contributions



- Primary funding objectives
  1. Actuarial benefit security
  2. Intergenerational equity
  3. Control contribution volatility
  4. Accountability and transparency
  5. Governance matters
     a. Avoid agency risk
     b. Sustained budget commitment from employer(s)

Do's and Don'ts for Sustainability – Funding Contributions

- **Do:** Follow the GFOA Best Practices on funding pension and OPEB plans
- **Do**: Follow the funding policies in the Conference of Consulting Actuaries' White Paper on *Actuarial Funding Policies and Practices for Public Pension Plans*
- **Do**: Adopt a written funding policy (as board adopts a written investment policy)
- Don't: Extend the amortization period too far out into the future
- Don't: Adopt "open amortization periods" (more can-kicking)
- Don't: Contribute less than interest on the unfunded liability
- **Do**: Contribute sufficient funds to make the unfunded liability go down
- Don't: Be always thinking of ways to reduce contributions; most plans need more money put in (not less)
- **Do**: Fund new unfunded liabilities over 10-20 years

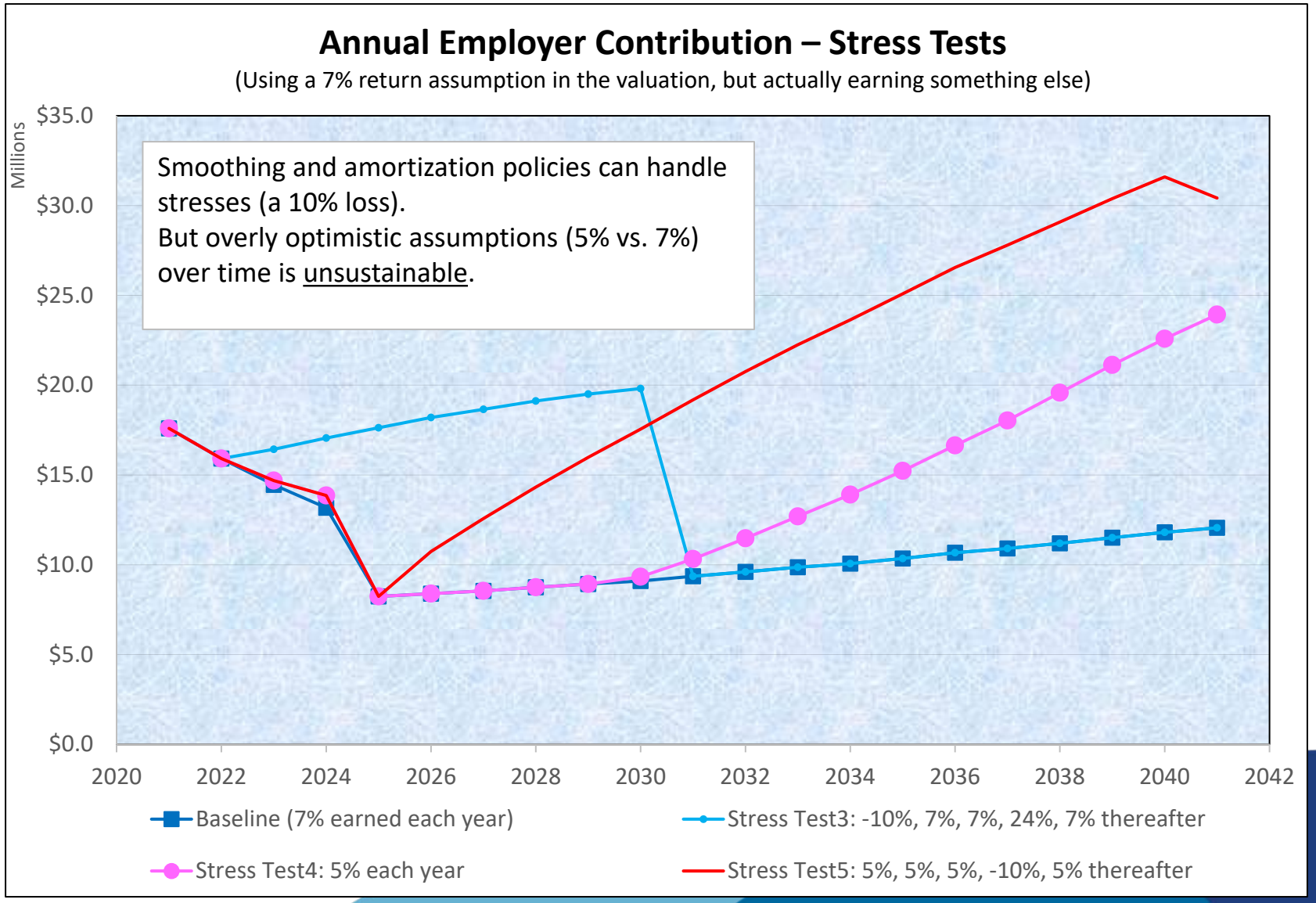


Do's and Don'ts for Sustainability – Actuarial Analytics

- Don't: Accept just an "opinion" from your actuary or investment consultant
- **Do**: Insist that your actuary undertake a robust process before recommending or accepting a return assumption (refer to bullet points on Actuarial Assumptions above)
- Don't: Accept just the one-year statutory Actuarial Impact Statement for proposed benefit improvements; that is inadequate for planning
- **Do**: Multi-year forecasts (10-30 years) on benefit improvements
- **Do**: A careful assessment of your risk tolerance; you bear the risk, so you should have input as to how much investment risk is being taken
- **Do**: Stress-tests and sensitivity-tests in your multi-year forecast of future employer contribution rates, funded ratios, and balance sheet liability -- to see what happens if investment performance does not go so well



Do's and Don'ts for Sustainability – Actuarial Analytics



Do Consider: – GFOA Best Practices

- **Do:** Consider - *Ensuring Other Postemployment Benefits Sustainabi*lity
  - https://www.gfoa.org/materials/ensuring-other-postemployment-benefits-opeb-sustainability
- **Do:** Consider - *Establishing and Administering an OPEB Trust*
  - https://www.gfoa.org/materials/establishing-and-administering-an-opeb-trust
- **Do**: Consider - *Sustainable Funding Practices for Defined Benefit Pensions and Other Post-Employment Benefits (OPEB)*
  - https://www.gfoa.org/materials/sustainable-funding-practices-for-defined-benefit-pensions
- **Do**: Consider - *Sustainable Benefit Tiers*
  - https://www.gfoa.org/materials/sustainable-pension-benefit-tiers
- **Do**: Consider - *Ensuring OPEB Sustainability*
  - https://www.gfoa.org/materials/ensuring-other-postemployment-benefits-opeb-sustainability
- **Do**: Consider - *Responsible Management and Design Practices for Defined Benefit Pension Plans*
  - https://www.gfoa.org/materials/responsible-management-and-design-practices-for-defined

Do Consider: – GFOA Best Practices

- **Do**: Consider - *Core Elements of a Funding Policy*
  - https://www.gfoa.org/materials/core-elements-of-a-funding-policy
- **Do**: Consider - *Developing a Policy for Retirement Plan Design Options*
  - https://www.gfoa.org/materials/developing-a-policy-for-retirement-plan-design-options
- **Do**: Consider - *Long-Term Financial Planning*
  - https://www.gfoa.org/materials/long-term-financial-planning
- **Do:** Consider - *OPEB Governance and Administration*
  - https://www.gfoa.org/materials/opeb-governance-and-administration
- **Do:** Consider - *Design Elements of Defined Benefit Retirement Plans*
  - https://www.gfoa.org/materials/design-elements-of-defined-benefit-retirement-plans

Do's and Don'ts for Sustainability – GFOA Best Practices

- GFOA Best Practices on funding pension and OPEB plans
  1. When and why establish an OPEB trust for OPEB programs
  2. For any substantial liability, GFOA recommends pre-funding the OPEB obligation
  3. For pensions and OPEBs, govts should contribute the full actuarially determined contribution
  4. Adopt a funding policy to:
     a. Commit the employer to contribute based in actuarial valuation standards
     b. Target a 100% funded ratio
     c. Provide a reasonable assurance the cost is equitably and sustainably funded
  5. Ensure pension and OPEBs are sustainable over the long term

Wrap Up

- Pension and OPEB have similarities, and differences.
- Contributions and intergenerational equity is always dependent on the extent investment earnings can help pay the benefits.
- Make sure to consider the impact to the pension/OPEB if a change is proposed to the OPEB/pension.
- Follow best practices on funding pension and OPEB plans for achieving and maintaining program's sustainability.
- Questions?

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- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- Readers are cautioned to examine original source materials and to consult with subject matter experts before making decisions related to the subject matter of this presentation.
- This presentation does not necessarily express the views of the Florida GFOA, the Gulf Coast Chapter or Gabriel, Roeder, Smith & Company; and may not even represent the opinions of the speakers