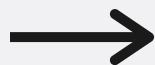


YEAR-END 2020 OPEB TREND REPORT



Another Year Gone...

Phew, good riddance!

Another year past and a new year before us which means our analysts have crunched the numbers and want to show you the top trends from 2020.



This report examines 3 main drivers of disclosed liabilities:

- OPEB Funding
- Municipal Bond Rates
- GASB 74/75 Discount Rates



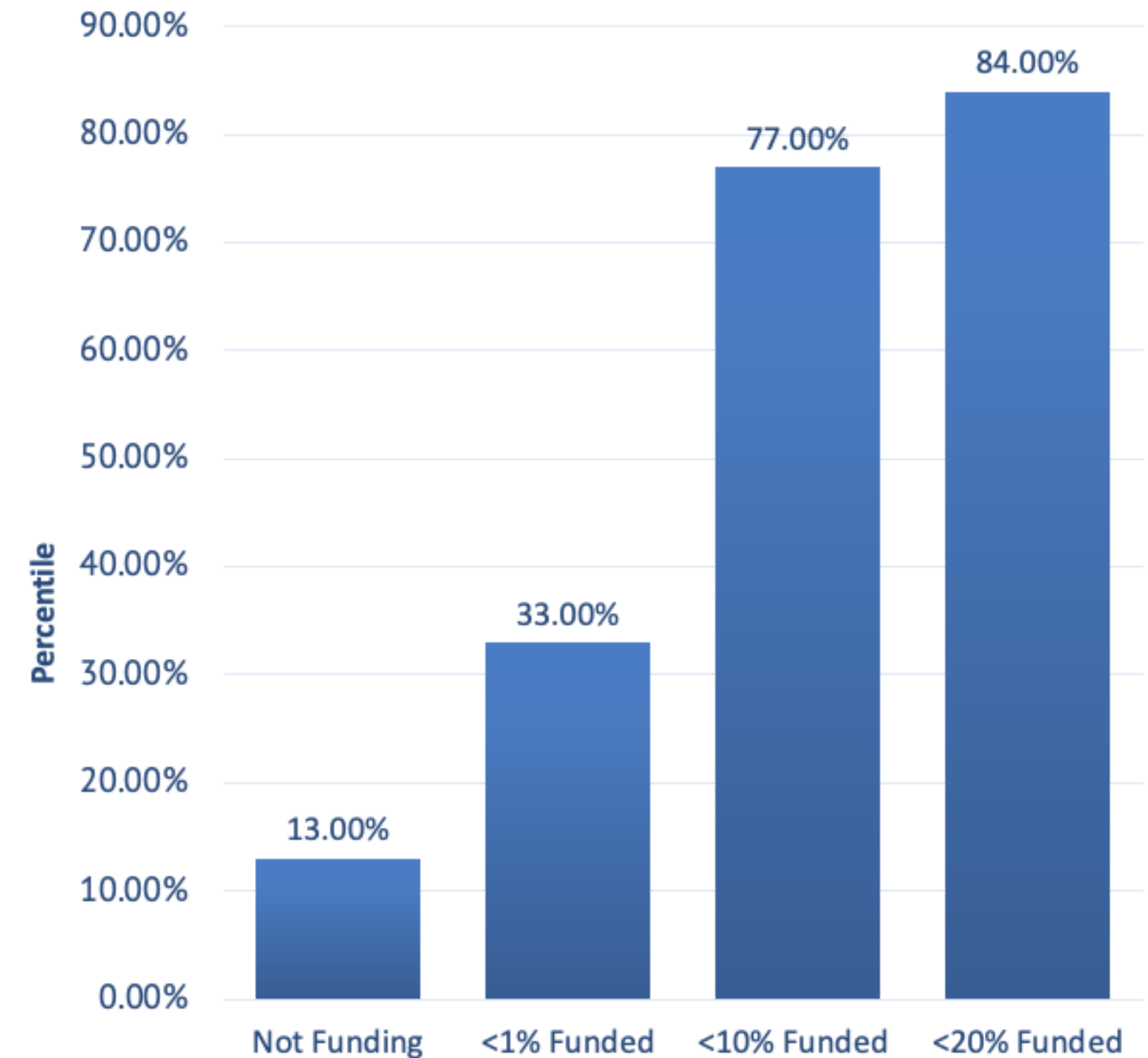
OPEB Funding

Town & City Funding Ratios

As of 12-31-2020

The percentage of municipalities pre-funding their OPEB liability has remained relatively stable.

- 87% of municipalities are pre-funding their OPEB liability as of December 31, 2020
- 88% of municipalities were pre-funding their OPEB liability as of December 31, 2019





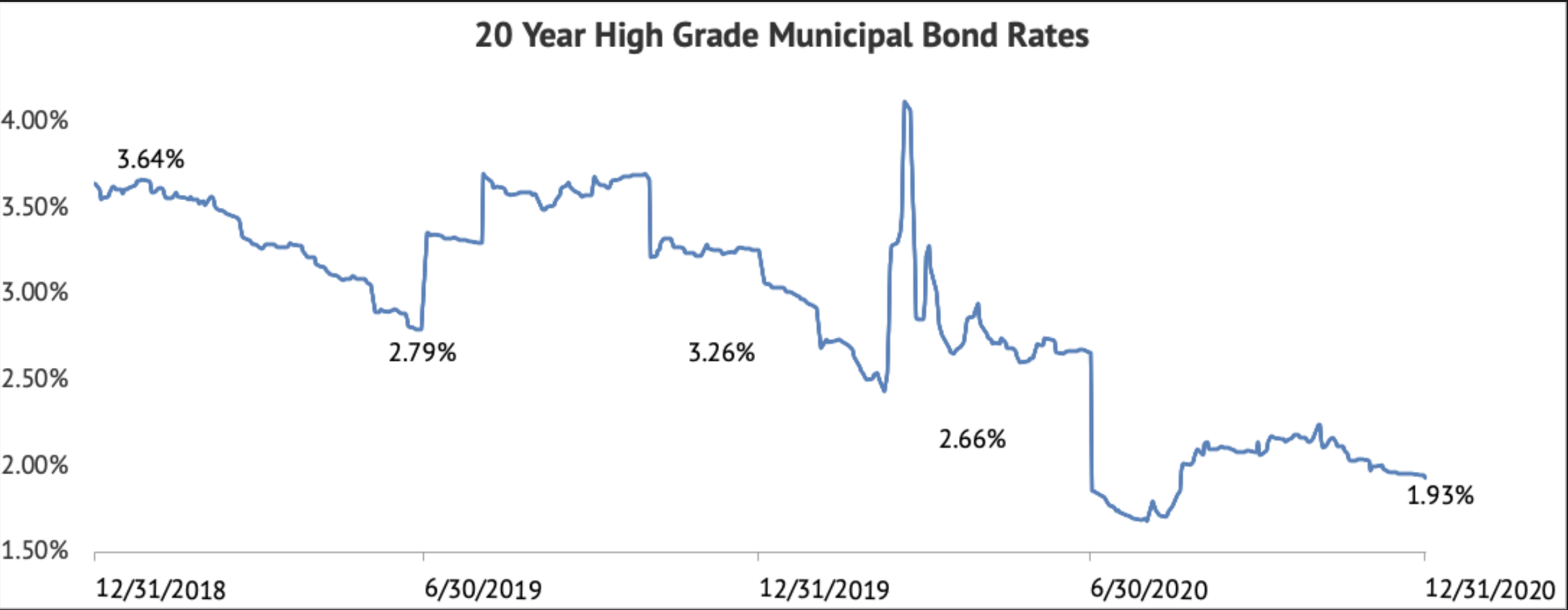
Funding Ratio Comparison

Municipalities continue to try to fund their OPEB liability, but most are still far from being fully funded.





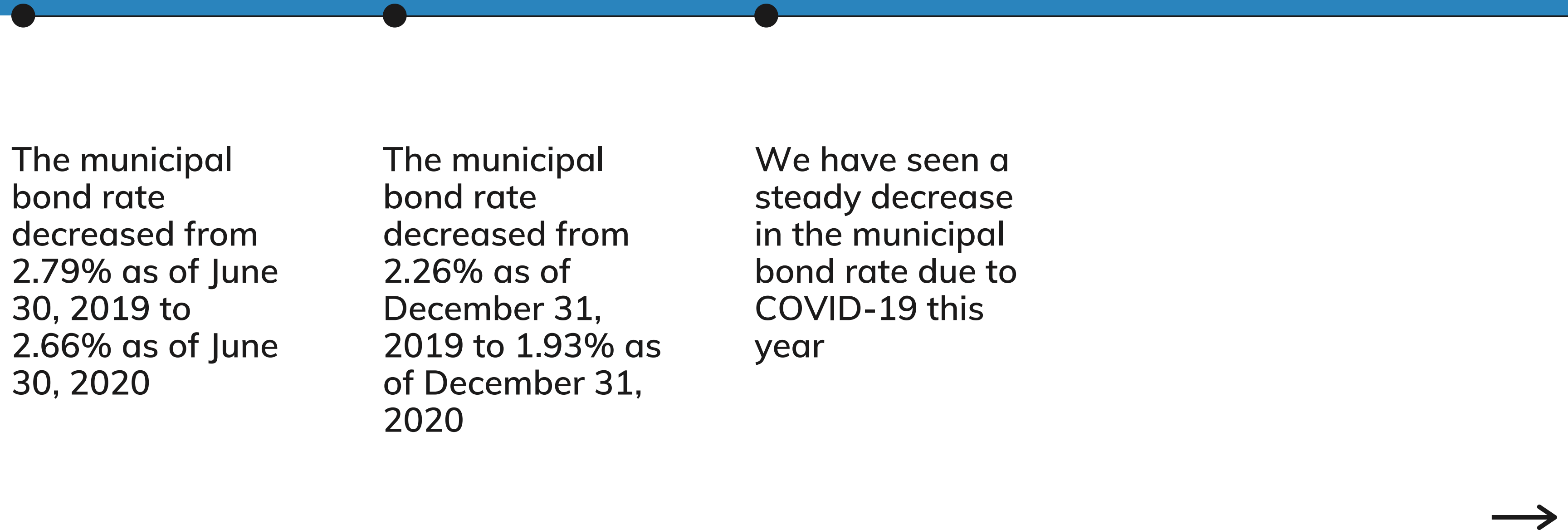
Municipal Bond Rate



Source: S&P Municipal Bond 20-Year High Grade Index – SAPIHG



Municipal Bond Rate



The municipal bond rate decreased from 2.79% as of June 30, 2019 to 2.66% as of June 30, 2020

The municipal bond rate decreased from 2.26% as of December 31, 2019 to 1.93% as of December 31, 2020

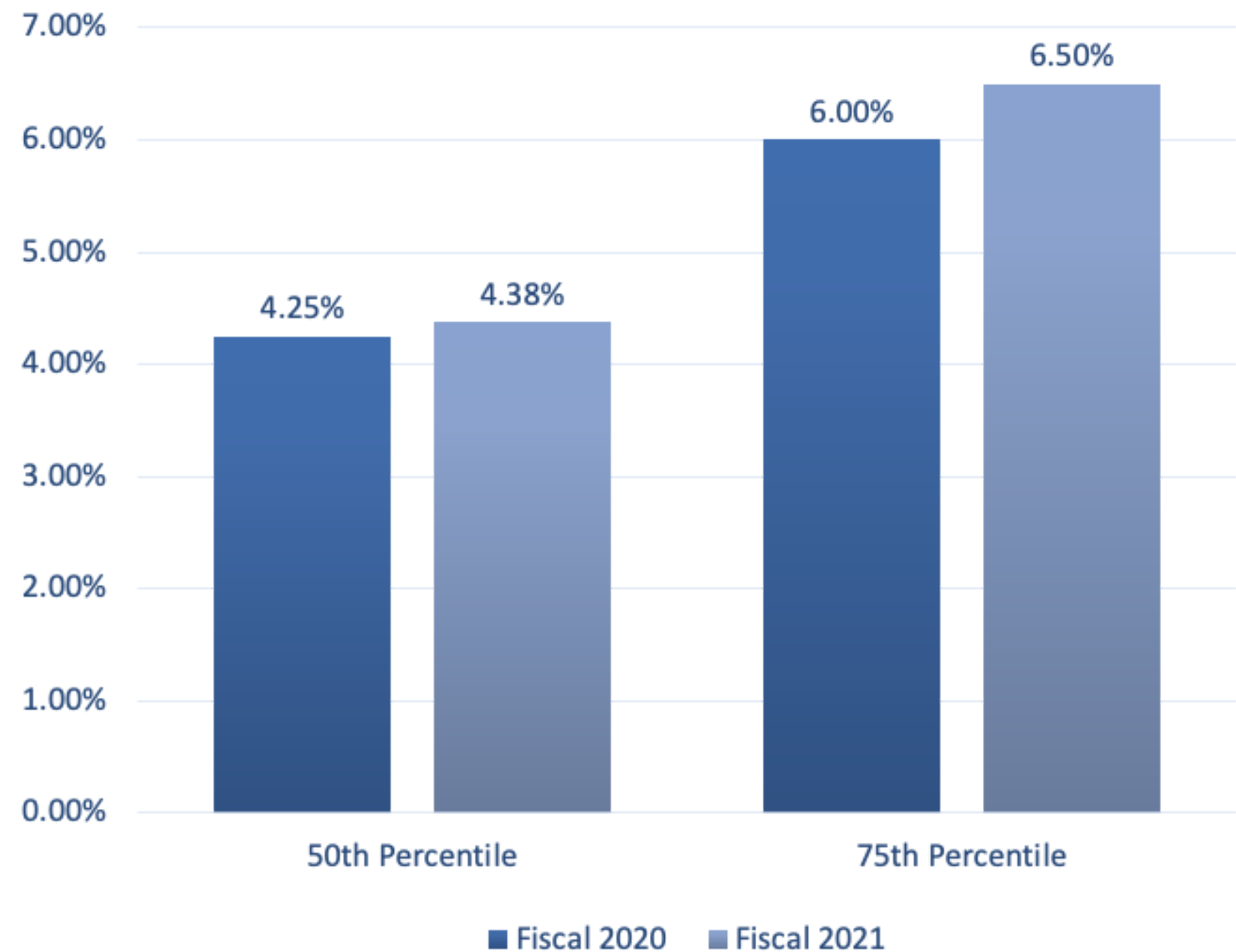
We have seen a steady decrease in the municipal bond rate due to COVID-19 this year



Discount Rate

- The decrease in municipal bond rate is acting to drive down discount rates
- This decrease in the municipal bond rate is offset by higher OPEB asset levels due to positive investment experience and a larger number of funding payments
- The decrease in municipal bond may lead to lower discount rates, increasing disclosed liabilities
- Municipalities who are funding more aggressively will be less impacted by the municipal bond rate

Discount Rate Comparison
FY 2020 to FY 2021



Other Trends to be Aware of

Medicare "Buy-In"

Last year we saw municipalities begin to talk about the idea of a Medicare "Buy-In", but few were doing it.

This year we have seen some municipalities complete Medicare "Buy-Ins".

Retirees Pushed Towards Medicare

We found numerous clients who were unaware that they had Medicare eligible retirees enrolled in Active plans and who subsequently enrolled these retirees in Medicare Supplement plans.

More Aggressive Funding Policies

We are seeing many municipalities adopt more aggressive funding policies.

All things equal, more aggressive funding policies will result in higher discount rates.

Lower Expected Investment Returns by Asset Class

Surveys of investment providers suggest that future real rates of return are projected to be less than last year's survey by about 0.25%.

Odyssey uses survey data from 39 investment advisory firms around the U.S. to develop real rates of return by asset class.



A group of five people (three men and two women) and a black dog are standing in front of a red building with white doors. The man on the far left is wearing a green jacket and khaki pants, with his arms outstretched. The woman next to him is wearing a grey sweater and black pants, with her right arm raised. The man in the center is wearing a white shirt and blue jeans. The woman next to him is wearing a black and white striped shirt and black pants. The man on the far right is wearing a white sweater and khaki pants, with his right arm raised. A black dog is sitting in front of the group. A blue banner with the text "Happy New Year!" is overlaid on the top left of the image.

Happy New Year!

While 2020 was a year for much uncertainty, we hope that 2021 will bring back some normalcy.

Of course, we will continue to monitor all things OPEB and keep you informed along the way.

If you have any questions, please feel free to reach out to our team and enjoy the New Year!

Contact Us

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