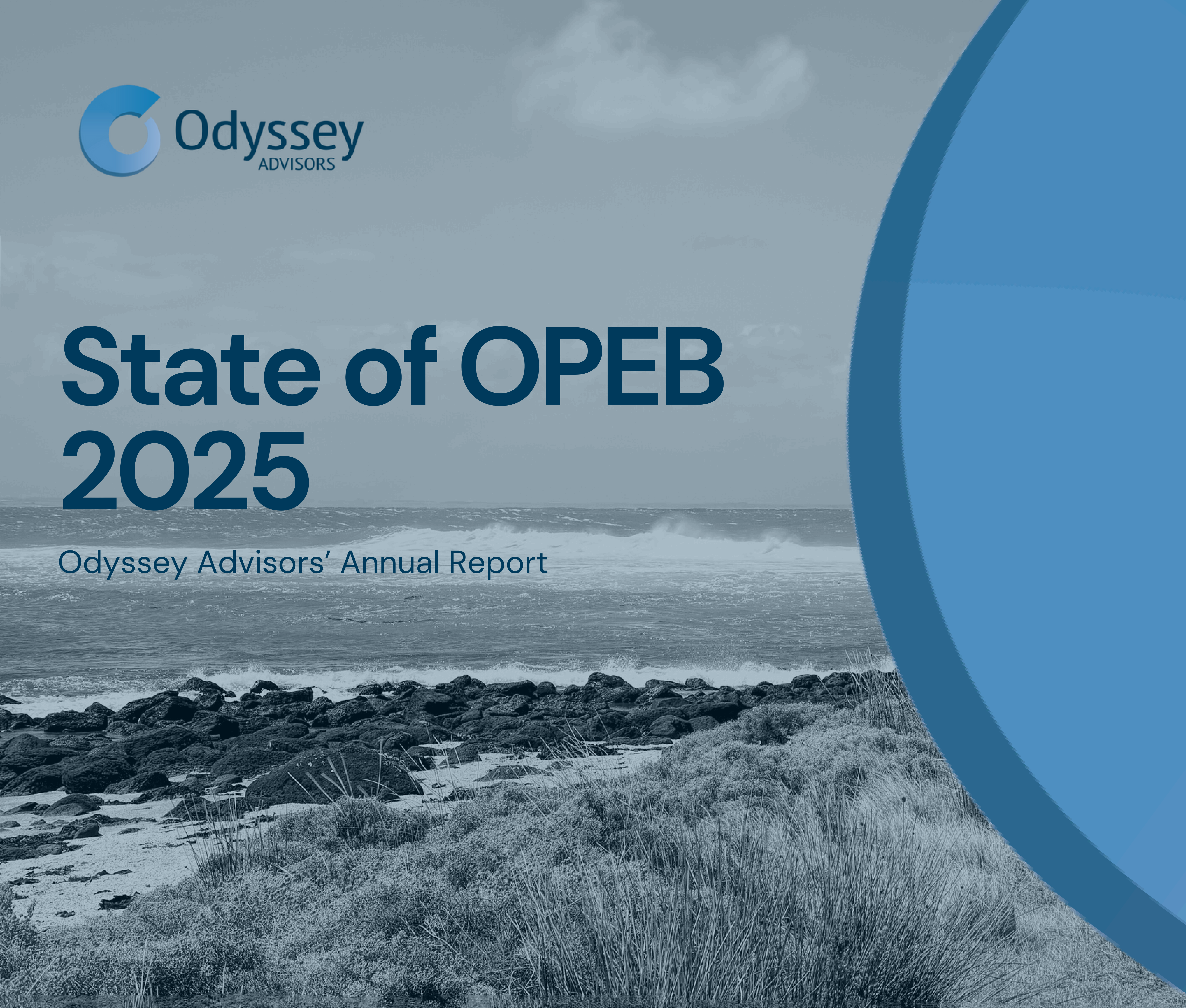
Odyssey ADVISORS

State of OPEB 2025

Odyssey Advisors' Annual Report



ABOUT
ODYSSEY ADVISORS

Founded over 25 years ago, in 1998

With over 500 municipal entities served and over 300 of those in Massachusetts, our team brings in decades of experience in both pension and OPEB consulting

Efficient, personalized, & accessible service

We have clients in 37 states, Europe & Australia. And we work with various auditors and financial advisors across the U.S.

ABOUT THE

Authors

Parker Elmore, ASA, MAAA, FCA, EA

Parker founded Odyssey Advisors (formerly Primoris Benefit Advisors, Inc.) in 1998. With a B.S. in Mathematics and multiple industry credentials, he brings decades of actuarial expertise to the firm. He's an Associate of the Society of Actuaries, a Member of the American Academy of Actuaries, a Fellow of the Conference of Consulting Actuaries, and is enrolled with the Joint Board for the Enrollment of Actuaries.

Samantha Schneider

Samantha joined Odyssey Advisors in 2018, following an eight-year career as a high school math teacher. She draws on her education background to help clients confidently navigate the complexities of retirement benefits and OPEB plans, translating technical concepts into practical insights.

Stephanie Irvin, MBA

Since joining Odyssey in 2020, Stephanie has combined her passion for writing and communication to develop clear, engaging content for clients and partners. With an MBA and a background rooted in education and strategy, she helps ensure that complex topics feel approachable and actionable.

Parker Elmore - CEO, President & Actuary

Samantha Schneider - Actuarial Consultant

Stephanie Irvin - Digital Content Manager

WHAT WE DO

Numbers

We're big believers in the numbers. Knowing where you stand can help you make the best decisions for your future.

90%

Of towns are now pre-funding
as of December 31, 2024.

19%

Of Odyssey's OPEB clients are
at least 20% funded

423

Number of OPEB valuations
we delivered in 2024

WHAT WE DO

OPEB

We help municipalities develop and implement tailored solutions for managing pension and OPEB liabilities – offering comprehensive valuations and ongoing support to meet both regulatory and strategic needs.

01

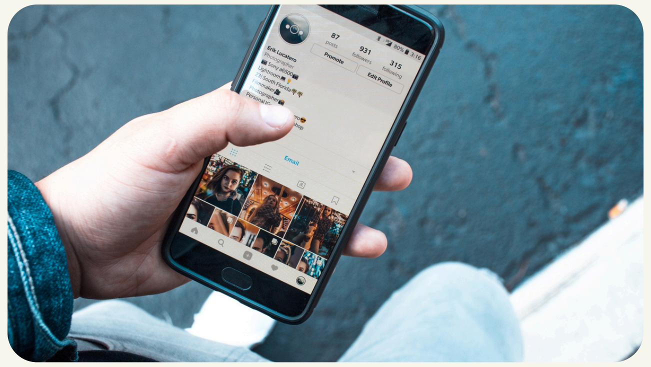
Total GASB Support

A complete, bundled solution for administration and management of retiree welfare benefit plans – from actuarial analysis to reporting and compliance.

02

Annual Valuation Services

We provide annual actuarial valuations to determine the Actuarially Determined Contribution ("ADC") under GASB 75. Each valuation includes a detailed, easy-to-understand report.



03

Special Actuarial & Consulting Services

Beyond standard valuations, we offer strategic consulting to help you:

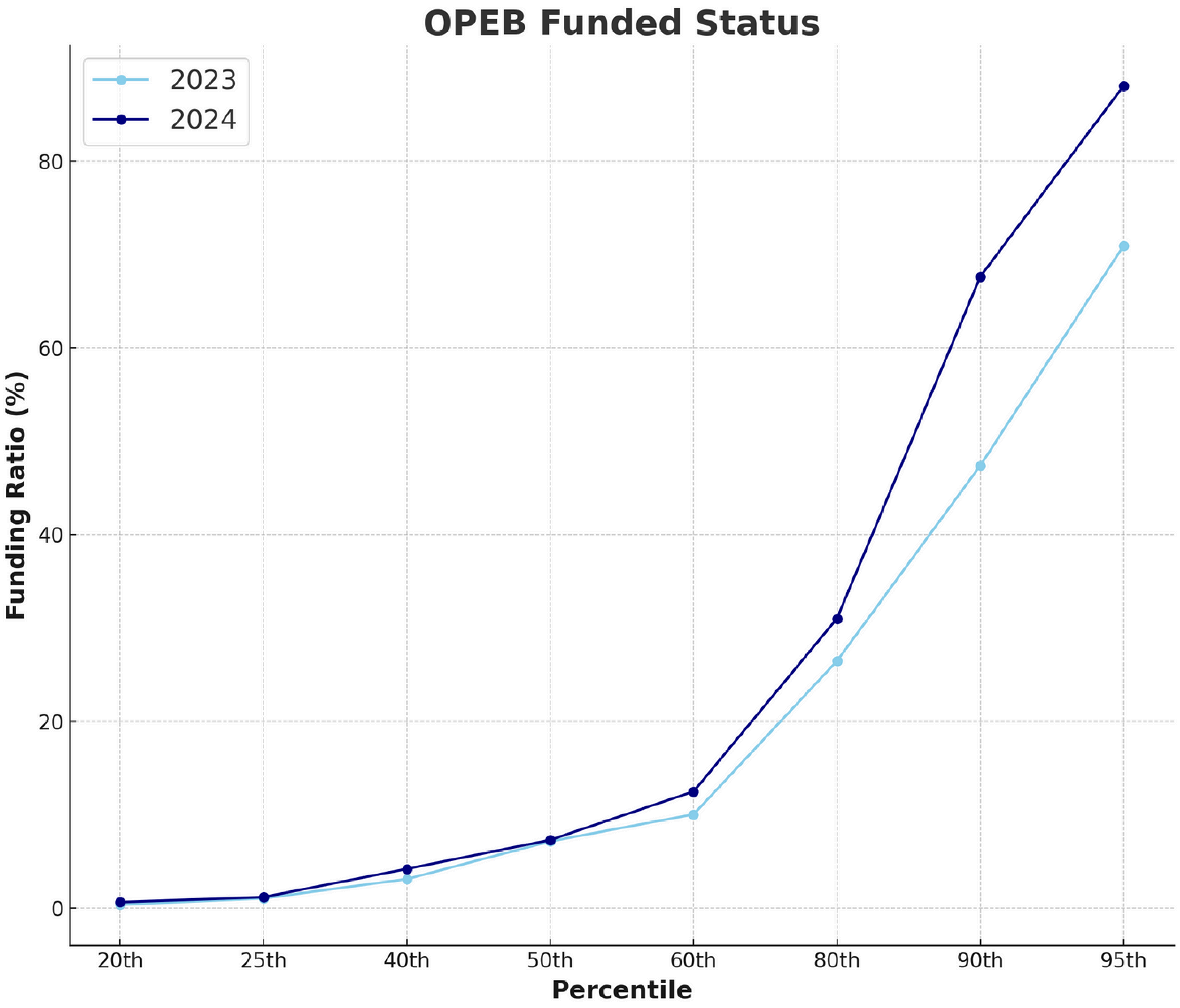
- Redesign your OPEB plan
- Evaluate funding alternatives
- Explore cost-saving strategies
- Project future benefit cash flows

... and more, depending on your unique goals and challenges.

OPEB Funding

We have seen a steady increase in the percent of municipalities and the degree to which they are prefunding their OPEB liability since the implementation of GASB 74/75.

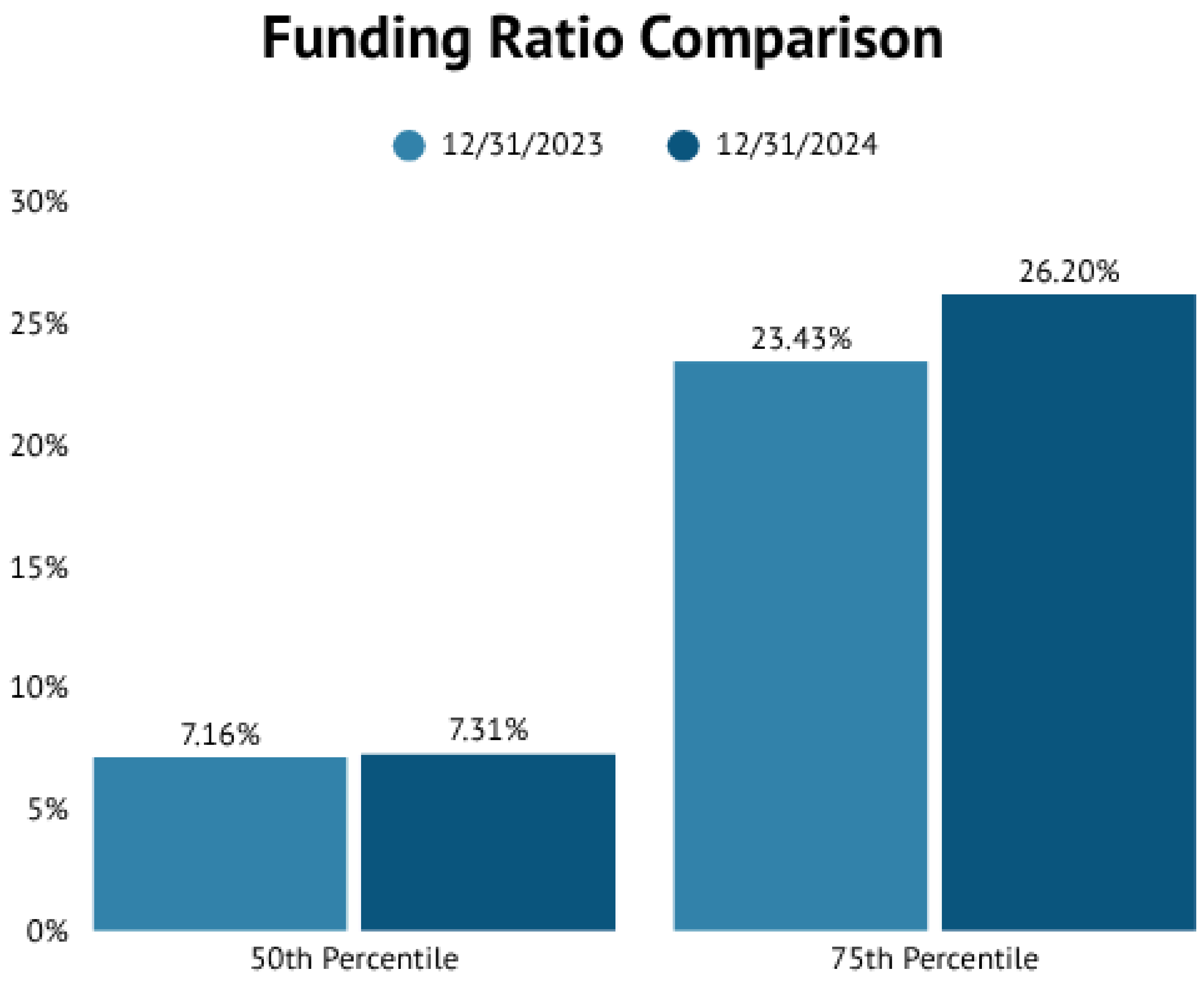
- 90% of municipalities are prefunding OPEB liability as of December 31, 2024



OPEB Funding

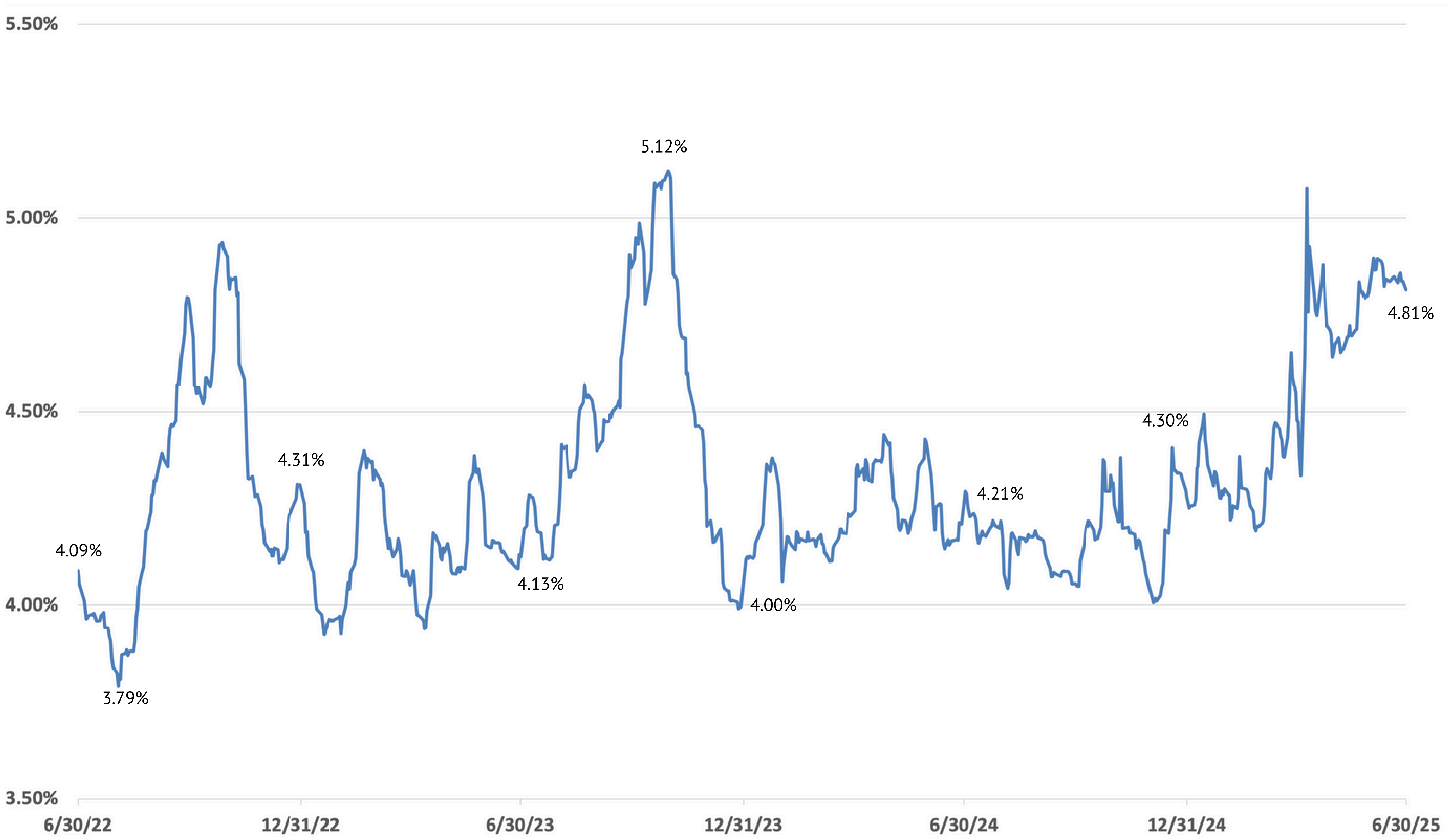
We're seeing a growing trend of "post-pension" funding, where municipalities adopt a policy to redirect some or all of the pension appropriation savings available once their pension system is fully funded (keep in mind that many systems will require some funding beyond the Normal Cost even when they reach 100% funded to build a "cushion").

When that shift occurs (typically in the next 10-15 years), we expect a noticeable jump in the number of plans surpassing the 20% funded threshold.



Municipal Bond Rate

20 Year High Grade Municipal Bond Rates



S&P Municipal 20 Year High Grade Rate Index

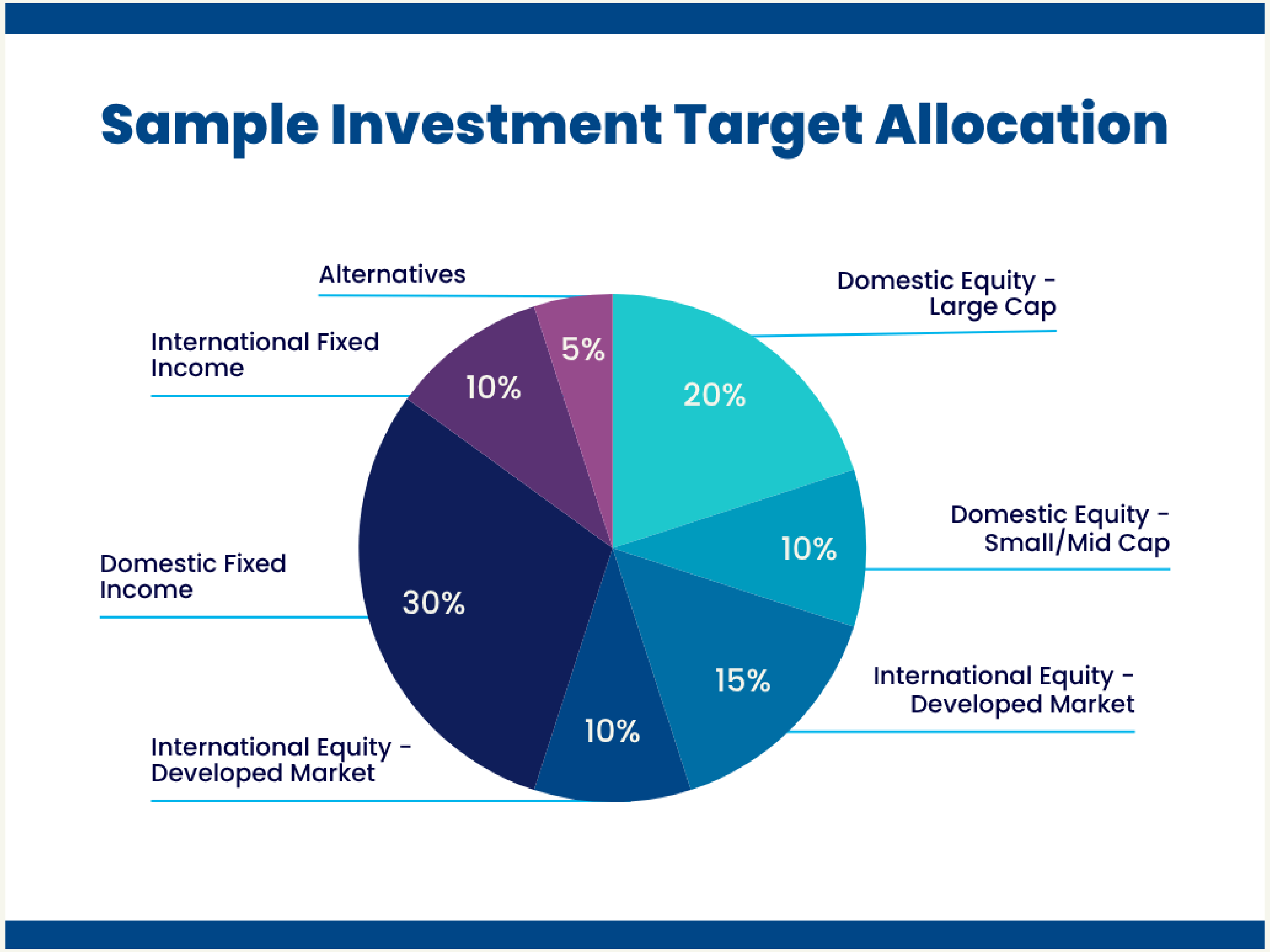
Municipal bond rates remained relatively stable in 2024, ending the year at 4.30% – a slight uptick from 4.00% at the close of 2023.

Why does this matter? Higher municipal bond rates can lead to higher discount rates, which in turn reduce the total OPEB liability reported on financial statements.

Discount Rate Drivers

As municipal bond rates climbed to 4.30% by the end of 2024, unfunded plans have generally seen an upward pull in discount rates. But for municipalities with moderate to well-funded OPEB plans, the impact has been far less noticeable.

For municipalities that are funding, the discount rate reflects a blend of municipal bond rates and expected returns on plan assets. That blend depends on factors like current assets, contributions, and expected payouts. So unless funding levels change, modest shifts in bond rates may not significantly impact liabilities.



*Asset mix is illustrative only; actual allocations may vary by trust and investment strategy

Common Allocation in OPEB Trusts

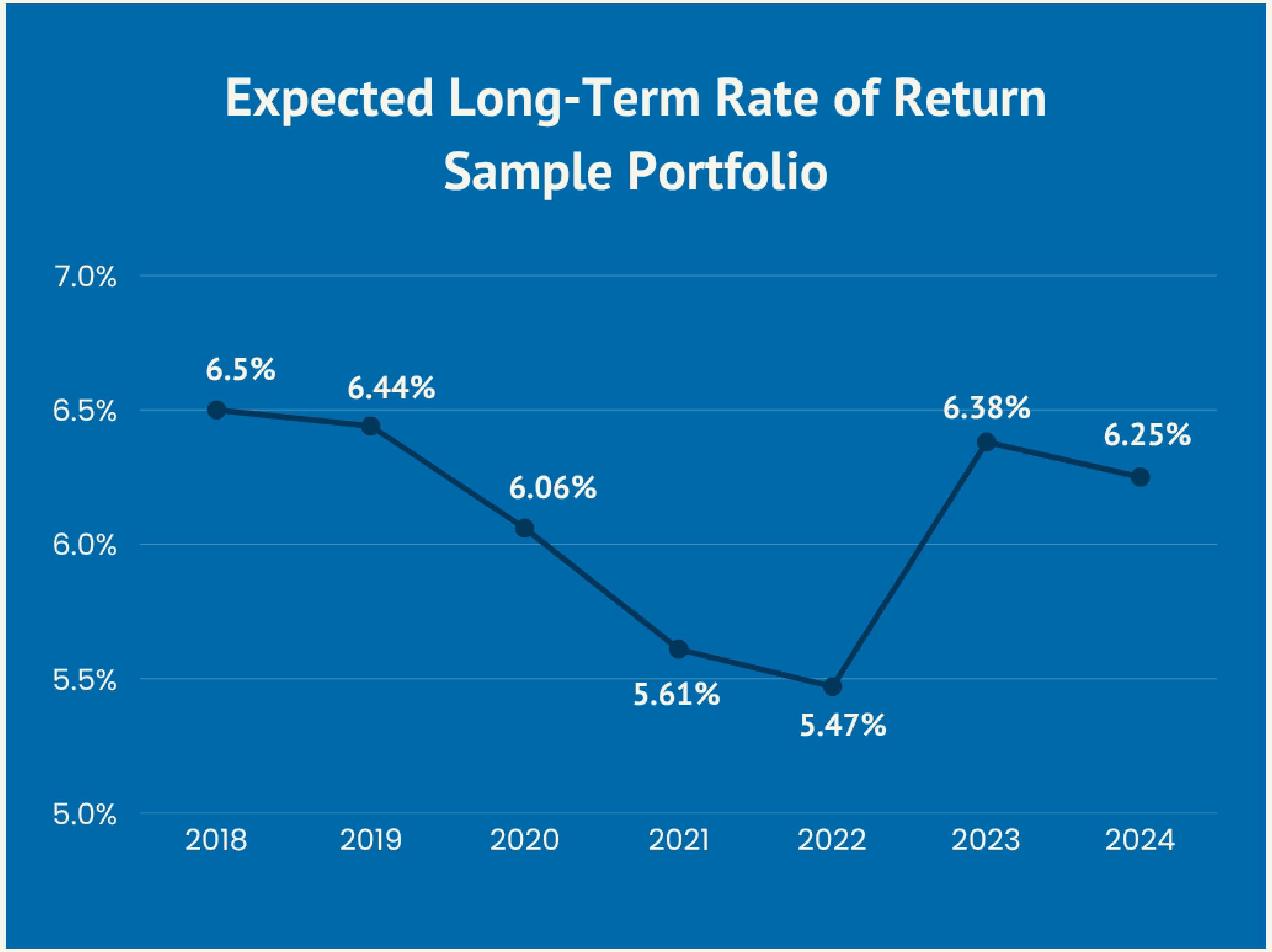
This sample portfolio is fairly typical of many OPEB Trusts. While small adjustments may occur, the overall mix tends to remain relatively consistent year over year.

Discount Rate Drivers

Expected returns can have just as much impact on discount rates as bond yields. In fact, rising municipal bond rates are often offset by declining long-term return assumptions – resulting in relatively stable liability measurements.

In our sample portfolio, the expected rate of return dipped from 6.38% in 2023 to 6.25% in 2024 – a modest shift overall. However, the effect can vary significantly depending on the specific asset allocation.

For example, projected returns for Domestic Large Cap equities fell slightly from 4.91% to 4.52%, while Real Estate saw a much steeper decline from 6.52% to just 3.73%. Municipalities with heavier allocations in asset classes like real estate may feel that impact more acutely.



Source: Horizon Survey, 2024

Expected Long-Term Rate of Return

Despite small portfolio shifts and market optimism, expected returns trended slightly downward in 2024. As always, it's important to align your funding policy with realistic return assumptions to avoid over- or under-reporting your liability.

OTHER TRENDS TO BE AWARE OF

Post-Pension Funding Momentum

We're continuing to see more communities shift their focus to OPEB funding once their pension obligations are fully-or nearly-met. This "next phase" strategy is especially common among towns approaching full pension funding and is a major driver behind the growing number of municipalities crossing the 20% OPEB funded mark.

It's important to note that post-pension funding is intended to supplement, not replace, any existing OPEB contributions. In other words, it should be viewed as an opportunity to build on what's already in place, not substitute for a consistent funding strategy.

Keep in mind that some pension systems continue funding beyond 100% to maintain a cushion, which could delay when surplus funds become available for OPEB purposes.

OTHER TRENDS TO BE AWARE OF

Stabilization Fund vs. OPEB Trust

Where you hold OPEB assets matters. While a stabilization Fund may technically hold money for OPEB, GASB rules only allow funds in an OPEB Trust to reduce the reported liability through a higher discount rate. Therefore, make sure that you've formally adopted an OPEB Trust agreement to ensure that your auditors will deem it a qualifying OPEB Trust.

For example, if a town has a $70 million OPEB liability and sets aside $30 million in a Stabilization Fund, the full $70 million still appears on the balance sheet as a Net OPEB Liability ("NOL"). But if that same $30 million is moved into an OPEB Trust with the same investment portfolio shown previously, the discount rate could shift from 4.30% (bond rate) to 6.25% (expected return), dropping the liability to around $50 million.

Bottom line: same dollars, different impact. Just remember that OPEB Trusts come with more restrictions and oversight than general Stabilization Funds.

OTHER TRENDS TO BE AWARE OF

Medicare “Buy-In” & Plan Optimization

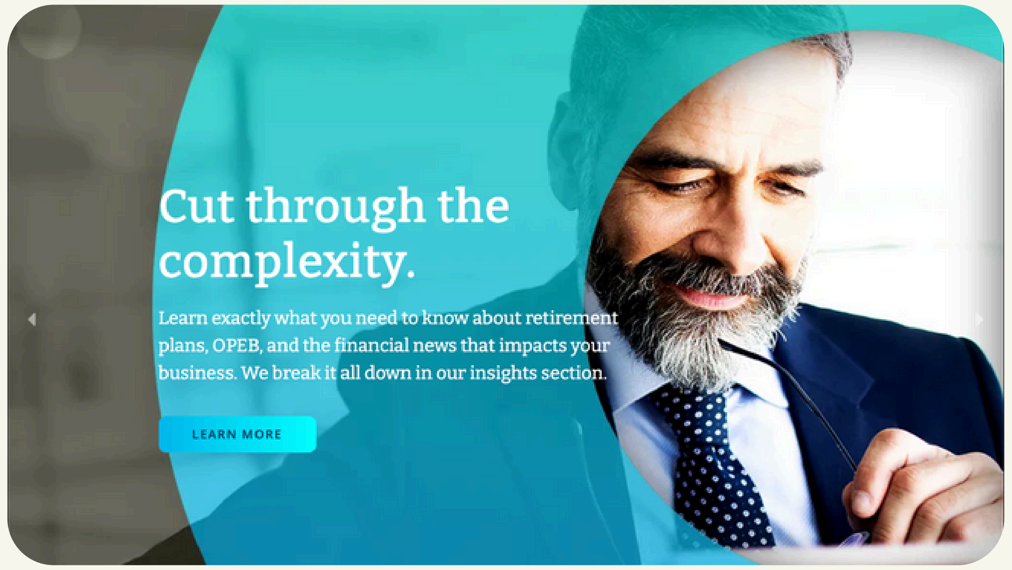
Some municipalities are exploring Medicare Advantage and Part B “buy-in” options for early retirees as a way to reduce OPEB costs. While this strategy isn’t widespread yet, interest is growing, especially in regions where private Medicare plans are gaining market share. Any move like this would directly impact liability projections, so it’s something to watch.

ADDITIONAL RESOURCES

OPEB University

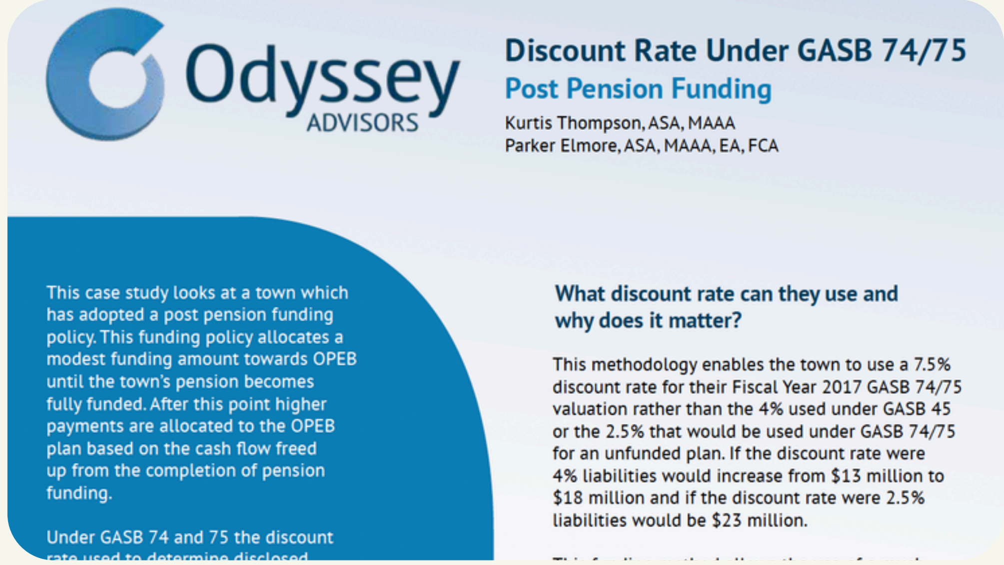
All of your OPEB questions answered. We regularly publish educational articles, reports, white papers, and videos about employee benefits management, research, and industry insights.

Webinars



Articles

Ask an Actuary



White Papers

NEXT

Thank You

Contact us to learn more
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