OPEB: Other Post Employment Benefits update

Retiree health benefits, funding, the 2026 change, and the current actuarial position | August 2026

Takeaway

Due to the recent change in retiree OPEB plans, the district's liability went down significantly and local taxpayers will pay less in levy costs.

Definitions

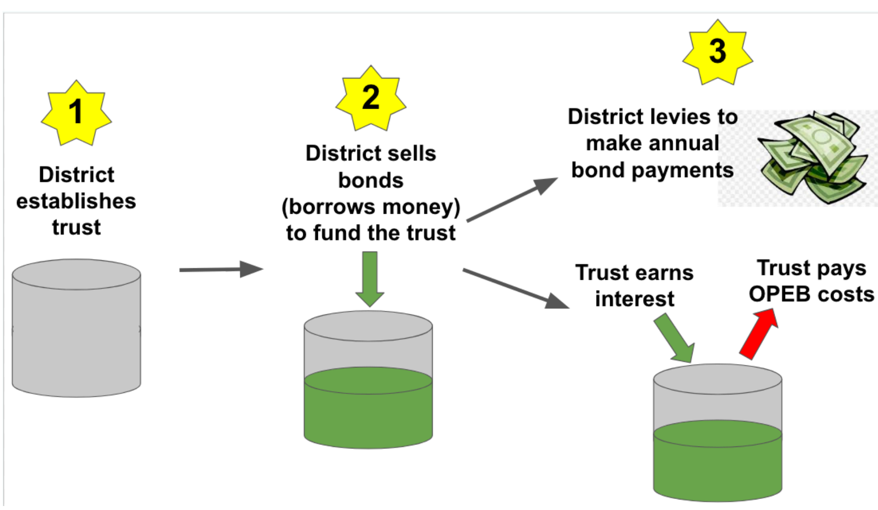
OPEB. Retiree medical and prescription benefits, separate from pensions.	**Total OPEB liability.** Estimate of benefits obligated to pay, not a bill due today.
Pay-as-you-go. Paying benefits as they come due without a prefunded trust.	**Levy.** Property-tax authority based here on eligible prior-year costs.

How the situation developed

For decades	Retiree health benefits became part of compensation through contracts and employment agreements. Medical inflation and longer lives increased the value of those promises.
2007	GASB 45 reporting made the obligation more visible. ISD 318's actuarial accrued liability was $58.605 million on July 1, 2007.
2009	Minnesota temporarily allowed OPEB bonds by board action. The district issued $35 million on May 13, 2009, about 53% of the 2007 liability, funded an irrevocable trust, and began bargaining provisions out for later hires.
2009–25	The trust paid about $51.97 million of premiums. Partial funding, rapid medical inflation, more retirees, longer lives, and lower retiree cost-sharing than assumed shortened its life.
FY2025-28	With the trust projected to be depleted, the district moves gradually to pay-as-you-go funding and a levy based on qualifying prior-year costs.

Previous bond → trust → levy model

In 2009, the district issued $35 million in OPEB bonds and placed the proceeds in a trust. The trust and its earnings paid retiree benefit costs, while a separate annual debt-service levy repaid the bonds and interest. The levy paid off the borrowing; it did not replenish the trust.



Where We Are Now

The 2026 plan transition, current liability, and the pay-as-you-go funding model

The 2026 transition

Beginning January 1, 2026, eligible Medicare-age retirees moved from the self-funded HealthPartners plan to fully insured Blue Cross Medicare group plans. The process included financial and plan analysis, retiree letters and meetings, committee review, and Board discussion. Feedback produced another comparable proposal; four implementation meetings, a recording, and enrollment support followed.

What changed and what did not

	CHANGED	DID NOT CHANGE
Plan + experience	Carrier, network rules, plan design, cost-sharing, and some benefits	District responsibility and coverage for eligible retirees. Aggregate value needed to be as good or better.
Financing	Post-65 plans became fully insured; costs became more predictable	Annual benefit costs continue

What the current actuarial report shows

ACTUARIAL MEASURE	FY2025	FY2026	CHANGE
Total OPEB liability	$126.15M	**$49.15M**	**−$76.99M (−61%)**

About $71.2 million of the decrease reflects new post-65 premium and claims assumptions; other actuarial factors account for the remainder.

This is excellent news, but 2 important facts to remember:

1) **This is not $77 million in immediate cash savings.** It is a lower long-term estimate.
2) This does **not help the district's general** fund, it **reduces taxes.**

How pay-as-you-go and the levy work

The district first pays retiree benefits as they come due. As an eligible district, we then apply for levy authority based on qualifying prior-year OPEB expenses. Because cash goes out first, the General Fund carries the timing.

1 GENERAL FUND pays benefits	2 DISTRICT documents costs	3 LEVY APPLICATION for eligible costs	4 REVENUE received later

Taxpayer Impact

- The district has been planning for a shift to full pay-as-you go for 3 years and started phasing out dependence on the trust by using some general fund dollars, then levying. This year's levy will be $2 million and we'll use approximately $2.3 million in trust. This was to ensure taxpayers didn't feel the effects of a $4+ million OPEB impact.
- The reduction in liability means the annual costs will go from approximately $4.5 million to approximately $2.5 million, a $2 million savings to taxpayers.
- The trust will have approximately $2 million left due to the phase-out approach. Continuing to phase the trust out will soften the impact on taxpayers.