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Comptroller wants new trust for future health-care costs

By Eric Reinhardt

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New York State Comptroller Thomas DiNapoli is hoping state lawmakers will approve his plan for the creation of an investment pool to help the state and local governments manage and pay for retiree health insurance and dental, vision, or prescription benefits.

They're referred to as Other Post Employment Benefits (OPEB) — or non-pension costs.

DiNapoli says he will submit legislation this session to authorize the creation of and legal structure for OPEB trusts that state and local governments can, at their option, use to help pay for their OPEB liabilities.

Should it be approved, participation would be strictly voluntary, says William Reynolds, deputy press secretary to the state comptroller. Municipalities would fund the investment pool through a process of making actuarial calculations and determining what they would like to put in the investment pool to meet their needs, he explains.

DiNapoli says state and local governments must now begin reporting these liabilities under new accounting standards the Government Accounting Standards Board (GASB) has issued.

The state comptroller's office has already sent local governments a guide outlining the new reporting requirements, says Reynolds.

"Because the Comptroller's office traditionally has provided services to local governments, we developed this report to serve as a guide for local governments and to help them navigate through the intricacies of these new OPEB requirements," says Reynolds.

The requirements for reporting OPEB disclosures are known as GASB 45 guidelines. Previously, there was no requirement for state and local governments to report or fund these liabilities. And while GASB does not require funding of OPEB, DiNapoli said his proposal for an OPEB investment fund is an essential part of man-

aging these long-term costs.

"The state and local governments have to start preparing for these costs," DiNapoli said in a statement. "The impulse may be to push this issue aside. But more than 1 million New Yorkers are counting on these benefits."

Establishing an OPEB trust is certainly a good idea for several reasons, says Donald Rueckert, senior vice president of employee benefits consulting in the Syracuse-area office of Aon Consulting, Inc. He says monies placed in a trust, along with future investment returns on those monies, will allow the state and local governments to offset and pay for the future medical benefits to government employees upon their retirement.

"On a much more technical note, given the way the accounting rules are written, providing a dedicated trust allows the state and local governments to select much more favorable actuarial assumptions when measuring the financial obligations state and local governments have to their employees for these benefits," says Rueckert.

The proposal is the responsible thing to do and will be beneficial to government employers in the long term, says Andrew Biernat, vice president of Utica-based Meridian Group of New York, Inc.

He says employers who do not choose to fully fund these liabilities could see reportable annual expenses that are as much as twice the expense of their counterparts who have funded their obligations and have benefitted from more favorable accounting methods.

Biernat also notes that while the decision the pay for the benefits has no impact on the actual cash costs eventually paid out, the accounting process will be affected.

"Strong incentives to fund also include the fact that bond rating agencies may look unfavorably on governmental employers that do not have a plan for funding their OPEB obligations," says Biernat.

The GASB says local governments use two basic forms of post-employment benefit plans. Defined benefit plans are those that specify the amount of benefits to be

provided to the employees after the end of their employment.

Defined contribution plans stipulate only the amounts to be contributed by a government employer to a plan member's account each year of active employment, and do not specify the amount of benefits employees will receive after the end of their employment.

The GASB says, in general, post-employment benefits are financed in one of two ways. Some local governments follow an actuarial approach, which involves paying into a pension or OPEB plan an amount that is expected to be sufficient, if invested now, to finance the benefits of employees after they are no longer working for the government. This approach is commonly followed for determining pension contributions.

For OPEB, however, most governments follow a pay-as-you-go approach, paying an amount each year equal to the benefits distributed or claimed by retirees in that year.

In July 2005, then-State Comptroller Alan Hevesi sent an advisory to local governments about OPEB. It said the current financial reporting of OPEB was in line with the pay-as-you-go financing approach now followed by most governments and does not recognize OPEB expenses or liabilities until benefits are paid or provided after employees retire.

The memo also noted that, in contrast, GASB 45 established standards for accrual-basis measurement and recognition of OPEB expense and liabilities that will result in recognition of OPEB expense over periods that approximate employees' years of active service, as well as standards for note disclosures and required supplementary information.

GASB 45 also provides standards for modified-accrual recognition of OPEB expenditures and liabilities in governmental fund financial statements.

At \$50 billion, New York reports the largest unfunded state OPEB liability in the country. The state comptroller's office says the \$50 billion figure represents the

state's OPEB liability. For other local governments in New York, these liabilities will total billions more once they are quantified, according to the comptroller.

In a report, DiNapoli says a government that puts aside OPEB funds can substantially cut its long-term costs.

For example, DiNapoli says New York currently pays \$1.1 billion for retiree

health-care benefits annually. If the state commits to fully funding its OPEB liability over the next 30 years, the total unfunded liability would be reduced from \$50 billion to \$28 billion, but the annual contribution would increase to \$2.6 billion.

Reynolds says the proposal for the investment fund is still being drafted.

"Certainly this legislation will, I believe,

be given a pretty thorough airing in the legislature because it is an important subject and it's a new and innovative way to help local governments put away money so that they'll be able to have what they need to cover the cost of their OPEB liabilities."

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