

	<p>Defined Benefits and Other Post Employment Benefits</p>
	<p style="text-align: center;">Midwestern Intergovernmental Audit Forum April 25, 2007</p> <p>Norm Cummings Director of Administration Waukesha County ncummings@waukeshacounty.gov</p>

	<p>Management and Long-Term Financial Planning Implications of Non-Pension Post Employment Benefits (OPEBs)</p>
	<ul style="list-style-type: none"> ■ GASB statement 45: debate leading to accounting standard revealed fiscal stability problems ahead for some governments ■ Bond rating agencies pressing for information on cash flows and long-term pressures on budgets ■ More emphasis required in valuation and limits of proposed future benefits in labor negotiations

	<p>Compensation/Budget Pressures in Government</p>
	<ul style="list-style-type: none"> ■ Inflation and other salary increases grab the headlines ■ Non-salary compensation gets less media attention when proposed due to complexity, deferred costs ■ "Time bomb" benefits cost little in initial budget years ■ More emphasis needed in balancing need for government to be competitive in attracting new staff versus retaining existing talent pool ■ During economic recessions/downturns, government can be schizophrenic <ul style="list-style-type: none"> - Private sector business down, public's up - Workload up, pressure to reduce costs including compensation impairs ability to retain staff at critical time

	<p>What are OPEBs (Relative to GASB 45)?</p>
	<ul style="list-style-type: none"> ■ Post employment benefits included in compensation for services by employees ■ Benefits are earned and obligations accrue or accumulate during employment, but benefits are not available until after employment ■ Usually employer subsidized health and/or life insurance (like private sector) ■ Typically expensed each year (unlike private sector) and pay as you go financed

	<p>OPEB Example: Accumulated Sick Leave Conversion Credit Benefit (ASLCC) State of Wisconsin</p>
	<ul style="list-style-type: none"> ■ 1971-73 State Budget: Plan to provide health insurance benefit to retiring state employees with a credit for sick leave accumulated <ul style="list-style-type: none"> – Estimated \$120,000 for first biennium ■ 1972-75 Legislation: Plan extended to state elected officials based on sick leave accrual formula ■ October 1975 Legislation: UW system faculty and academic staff added to program <ul style="list-style-type: none"> – Fiscal note estimated costs for 1975-77 biennium – Fiscal note further estimated biennial costs in 1985-86 simply by multiplying 1975-77 costs by ten

	<p>ASLCC 1979 Program Audit – ASLCC Today</p>
	<ul style="list-style-type: none"> ■ Major findings: <ul style="list-style-type: none"> – Costs of program increased from \$117K in 1972 to \$2.23M in 1978 – Increasing variables include: participants, wages, cost of insurance. Mortality not a major factor for foreseeable future – Sick leave accrual plan advanced to elected officials and other employees who may not have occasion to use sick leave ■ Major recommendations: <ul style="list-style-type: none"> – Begin actuarial analysis of future costs – Consider changing benefit basis or develop alternative plan for groups where sick leave accrual is not consistent with program – Establish trust fund or reserve to begin to prefund similar to pensions

	<p>GASB Statement 45 Major Objectives (Issued June, 2004)</p>
	<ul style="list-style-type: none"> ■ Recognize OPEB costs (expense) systematically over periods approximating employees' years of service (versus pay as you go recognition) ■ Provide relevant information about: <ul style="list-style-type: none"> – Unfunded actuarial accrued liabilities – The annual cost of OPEB and its impact on the total cost of government services – The progress made in funding the plan

	<p>GASB 45: "Implicit Rate Subsidies": the Stealth OPEB</p>
	<ul style="list-style-type: none"> ■ Employers contribution includes "implicit rate subsidies" that permit retirees to continue participating at a price less than the cost of coverage (blended into active's rate) ■ Employers may not be aware of subsidy if fully insured ■ Waukesha County discovered subsidy when implementing self-insurance health plan <ul style="list-style-type: none"> – Three year, five year plans to eliminate subsidy not successful – Developed separate (consumer driven type) health plan for retirees insured with self-supporting premium structure

	<p>GASB 45 Myths Exposed</p>
	<ul style="list-style-type: none"> ■ Does not require changes in how OPEBs are funded ■ Will not cause fund balance deficits or liabilities to be recorded immediately ■ However, funding vs. reporting issues need to be sorted out

	<p>Options for Mitigating Future Liabilities</p>
	<ul style="list-style-type: none"> ■ Eliminating or phasing out certain OPEBs ■ Lowering benefit levels or plan access ■ Capping employer provided benefit <ul style="list-style-type: none"> – Convert from defined benefit to defined contribution – Waukesha County contributes to a voluntary Employee Benefits Association (VEBA) (IRS 501 (c) (9)) on behalf of active employees similar to deferred compensation account except can be used after termination (tax free) for qualified health care expenses or premiums

	<p>What are Bond Rating Agencies Looking for from GASB 45 Compliance?</p>
	<ul style="list-style-type: none"> ■ Transparency of full liabilities and costs of OPEBs in future years ■ Potential effects of future benefit agreements when agreed to, not after ■ Identification of OPEB impacts to current/impending cash flow issues ■ Viewed similar to debt obligation ■ Similar to FASB 106 for private sector OPEB accounting and reporting (1990)
