

Getting a Grasp on GASB 45

By Samuel H. Fleet

When you look at your book of business, it likely doesn't include big public entities which are currently struggling with how to handle their unfunded liability for retiree health care. As GASB 45 kicks in and bond downgrades, potential bankruptcy and other dire prospects loom, most public employers are turning to the large mega-brokers for help. Even small municipalities and governing boards are looking to the big guys to help them solve this gigantic challenge.

So you may not have an actual sales opportunity to pursue when all the headlines about GASB 45 come up in your conversations with customers and prospects. Nonetheless, being able to talk knowledgeably about current issues is a good way to increase the level of trust between you and your customers. Think of it as a chance to burnish your credentials as the insurance expert who knows how to make a complex situation easy to understand.

Of course, it's only an opportunity to build relationships if you know enough about GASB 45 to take the mystery out of all the fuss. What follows is a basic primer that will bring you up to speed.

What's It All About?

The Government Accounting Standards Board issued a new accounting standard— GASB 45 (pronounced Gaz-bee) — that requires public employers to show on their current balance sheets how much they are on the hook for to provide retiree health care benefits in the future. The private sector has had to do so since the early 1990s — much to the dismay of many corporate leaders who watched their stock prices nosedive as their hard-earned, black-ink profits were offset with future, red-ink liabilities.

Public employers don't worry about stock prices or profitability. But they do have to be concerned about how Moody's and Standard & Poor's look at them in terms of bond ratings. When a government agency shows a huge liability on the books with no plan in place to meet the commitments that have been made, ratings plunge — and that makes the price of borrowing money go up. And that means less dollars in budgets to spend on current workers and services to taxpayers.

Large or Small, GASB 45 is Big News

GASB 45 kicked in for large public sector employers in December 2006. Smaller entities have until 2008. But most are already busy, undertaking the actuarial work that needs to be done to calculate the cost of health care commitments to retirees and beginning discussions with government leaders about how to address the unfunded liability. The results aren't pretty. That's why so many headlines are popping up around the country. Two examples, large and small:

- In May 2007, the California State Controller announced that the state faces an unfunded liability of \$47.88 billion over the next 30 years for retiree health care benefits. If the state simply elected to cover that amount on an annual basis, it would have to spend \$3.59 billion a year. The state currently spends about \$1.4 billion, and already has a budget gap of more than \$5 billion between income and outgo.
- In January 2007, the city of Rye, population 15,000, budget \$33 million, was used as an example by a state official testifying to the New York State Legislature. Rye now pays \$1.1

million annually for retiree health costs. Its estimated unfunded liability is close to \$40 million – more than the city’s entire annual spending plan. To fully fund Rye’s commitment, city officials would have to up their annual payments to \$4.4 million a year, quadrupling their current payments and using more than 13 percent of their budget to pay for health benefits for workers are no longer on the payroll when they receive benefits.

What Are the Solutions?

The pressure is on to find answers because the problem is only growing bigger, driven by a number of factors: an aging workforce, with more baby boomers retiring each year; soaring health care costs; and longer life spans for retirees. Some of the options are less attractive than others. For example, cutting future benefits can reduce the unfunded liability – but this can be extremely polarizing in an environment that has always used generous benefits to attract and retain workers who might otherwise flee to the private sector.

Among the strategies that are emerging:

- ***Increasing annual payments and depositing them in a trust.*** This can eliminate the balance sheet liability if the payments are large enough – but it crimps the ability of the public entity to fund current activities and may be impossible if the annual payments required are immense.
- ***Controlling costs through partnerships with a third party administrator (TPA).*** Outsourcing the retiree benefit program can cut administrative expenses and leverage the advantages of consolidated plans and services.
- ***Working activity with actuaries to arrive at a reasonable liability assessment.*** By accurately documenting the benefits of a trust fund, the present value of unfunded liabilities can be reduced.
- ***Issuing bonds to cover OPEB (other post-employment benefits) costs.*** Combined with other strategies, this can bring immediate relief to a budget by leveraging market gains on additional assets.

The right strategy for each public employer depends on the circumstances. But one thing you can reassure your customers about is that solutions are coming together. As always when organizations face a crisis, the marketplace is stepping forward with creative concepts. One role you can play with the customers who place their trust in you is to help them understand both the challenges and the opportunities that GASB 45 has put into play.

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