



National Association of State Comptrollers

Preparing for OPEB An Introduction

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Preparing for OPEB

An introduction

- **Objective of this Session**

- Help

- Eliminate some confusion surrounding the Statements
- Identify some of the issues and pitfalls
- Identify Next Steps

Preparing for OPEB An introduction, continued

- **The ‘Talking Points’ for OPEB**
 - The OPEB Obligation for most governments is **LARGE**
 - \$500 Million to \$40 Billion
 - Michigan – \$23 Billion
 - Maryland – \$20 Billion
 - Nevada – \$5 Billion
 - Delaware – \$3 Billion
 - The OPEB Obligation will vary significantly around the country
 - Get valuation done ASAP

Preparing for OPEB An introduction, continued

- **The ‘Talking Points’ for OPEB**

- The OPEB Obligation is NOT Recorded as a Financial Statement Liability
- A Financial Statement Liability is Recorded Prospectively if Contributions are less than the ARC
- The OPEB Liability is NOT required to be funded
- The Statements do not change the underlying economics of the government

Preparing for OPEB An introduction, continued

- **What do the Rating Agencies Say**
 - Generally view OPEB liability similar to pension liability
 - Absence of action by management will be viewed as a negative
 - Interested in how liability will be managed and how growth will be controlled.
 - Rating may be affected by changes in liability over time rather than just gross number
 - Interested in reasonableness of assumptions

Preparing for OPEB An introduction, continued

- **Possible Management Mitigation Techniques**
 - Institute Benefit Cuts or Caps
 - Eliminate/Reduce Benefits for Newly hired Employees
 - Change Employee Co-Pay/Premium arrangements
 - Move to a Defined Contribution rather than Defined Benefit Plan

Preparing for OPEB An introduction, continued

- **Internal Issues**
 - Identification of the ‘Substantive Plan(s)’
 - Generating necessary employee data
 - Identification of Plan type
 - Single
 - Agent
 - Cost-Sharing

Preparing for OPEB An introduction, continued

- **Actuarial Issues**
 - Who is responsible for the valuation
 - Agent plans
 - Non-Trust Cost Sharing
 - Implicit rate subsidies
 - Plan qualification for a community rating
 - Reasonableness of assumptions
 - Discount Rate
 - Health Care Trend
 - Discount Rate Penalty for Non-Trust Plans
 - Conversion of Sick Leave Credits

Preparing for OPEB An introduction, continued

- **External Issues**

- Labor

- Force the establishment of Trust fund
- Oppose benefit and/or co-pay changes

- Political Issues

- Balance today's service needs with funding OPEB

- Legal Issues

- Challenge re: permanency of benefits (contractual vs. statutory)
- Challenge re: benefits changes

- Changes in Medicare and other Federal Regulations

Preparing for OPEB An introduction, continued

- **Possible Funding Issues**
 - Creation of a qualifying Trust/Equivalent
 - Potential Loss of Flexibility
 - Earmarking/set-asides
 - Not considered funding
 - Discount Rate Penalty
 - Can increase OPEB obligation by over 100%

Preparing for OPEB An introduction, continued

- **Possible Funding Options**
 - Operations – PAYGO
 - Recognize Financial Statement liability
 - Unfunded OPEB continues to Grow
 - Operations – ARC (w/30 year amortization)
 - 2 to 10 times larger than PAYGO
 - No Financial Statement Liability
 - OPEB Bonds
 - Trading 'soft' liability for a hard liability

Preparing for OPEB An introduction, continued

- **Next Steps**

- Get actuaries and auditors involved to avoid implementation errors
- Create internal team to gather data and explore options
 - Steps needed to establish a Trust/Equivalent
 - Analyze funding options or combinations
 - Determining number and type of Plans
- Begin to educate your state officials, especially elected officials