Retiree Health Survey Reveals Awareness and Concern Related to GASB OPEB

Under the first of two updated Governmental Accounting Standards Board (GASB) standards for accounting and financial reporting, state and local government retiree health plans must report liabilities for retiree health insurance and postemployment benefits other than pensions (OPEB) on their financial statements effective for fiscal years after June 15, 2016. With that date on the horizon, SALGBA and the Public Sector HealthCare Roundtable recently collaborated on a survey of plan administrators about their awareness of the accounting changes as well as actions already taken or being considered to manage those liabilities in the future.

Awareness of Changes in Accounting Methodology Is High: Most jurisdictions are aware of GASB's new OPEB requirements.

- **Potentially Use a Lower Discount Rate Assumption and to Report Assets at Market Rate**: 87% Aware
- **Move the Liability from the Footnotes to the Body of the Balance Sheet**: 91% Aware

How Retiree Health Liabilities Are Financed: As illustrated below, pay-as-you-go financing is much more common than pre-funding. Among jurisdictions that pre-fund, 82% have established a trust for the amount pre-funded.

- **Pay as You Go**: 61%
- **Pre-Fund**: 39%

Actions to Change Current and Future OPEB Liabilities: The top four plan design changes/alternative retiree health delivery methods that jurisdictions have either completed, nearly completed or partially implemented (with grandfathered groups not impacted) are noted below.

- **Adding Medicare Advantage Employer Group Waiver Plan (MA EGWP) for eligible retirees**: 57%
- **Changes to eligibility for retiree health benefits**: 43%
- **Changes to cost share for retiree member coverage**: 37%
- **Introducing high-deductible plan for retirees and/or dependents**: 34%

Potential for Making Changes: More benefit managers rate specific actions as very important than indicate they are very likely to take those actions.

- **Cut Employer Subsidies for Retiree Health Benefits**: Change Very Important 30%, Change Very Likely 18%
- **Planning to Cut Eligibility**: Change Very Important 18%, Change Very Likely 11%
- **Carve Out Retirees to a Separate Plan**: Change Very Important 18%, Change Very Likely 11%
- **Cut Benefit Levels**: Change Very Important 16%, Change Very Likely 9%
- **Shift Non-Medicare Retirees to a State Exchange**: Change Very Important 9%, Change Very Likely 5%
Considerations

There are many issues to consider before and during the transition to GASB Statement No. 74 and Statement No. 75.

How do the new statements affect my financial statements and how could this be viewed by bond rating agencies, the public and other stakeholders?

How is my funded position impacted? Should we consider alternative funding mechanisms, strategies or investment policy modifications?

Is our retiree health program sustainable? Or should we consider alternative designs and delivery methods?

Does the current retiree health program support our staffing, recruitment and retention strategies? Do younger and future employees value our benefits in the same way as our retirees and older employees?

Segal can help you assess the following strategies:

- Modify funding strategy.
- Change eligibility for retiree health benefits.
- Increase cost sharing for retirees and/or their dependents.
- Adjust benefit levels.
- Introduce a high-deductible plan for retirees and/or dependents.
- Provide a defined contribution health benefit plan to retirees and/or their dependents.
- Cover early retirees and/or dependents through a state Exchange.
- Add Medicare Advantage Employer Group Waiver Plan (MA EGWP) for Medicare-eligible retirees.
- Eliminate the retiree health care benefits.
- Communicate benefit changes and funding options.

Segal works with public plans and employers and their auditors to determine the potential immediate and longer-term impact of GASB’s OPEB requirements on plans and practices. To discuss your retiree health strategies, contact Richard Ward or J. Richard Johnson.