MEMORANDUM OF SUPPORT

A.5525 (Abbate)/S.5111 (Marchione)

Other Post Employment Benefit (OPEB) Trusts

May 18, 2015

The New York State Council of School Superintendents SUPPORTS State Comptroller Thomas DiNapoli’s proposal to authorize state government, school districts, and local governments to establish trust funds for “other post employment benefit” owed to retirees and other past employees.

Background

In 2004, The Governmental Accounting Standards Board (GASB) issued a statement prescribing accounting and reporting standards for “other post employment benefits.” GASB is the national authority which sets standards for accounting practices of public entities, including school districts. “Other post employment benefits” (OPEB) are benefits owed to past employees, other than pensions, upon conclusion of their employment. The most significant of these benefits is retiree health insurance.

The 2004 statement – “GASB 45” – requires school districts and other public entities to calculate an “actuarial valuation” of the cost of benefits owed and the annual contributions which would be needed to fund those obligations. GASB 45 did not require districts and other public entities to fund these obligations, it did require them to begin reporting these benefit obligations as liabilities on their financial statements.

Typically, public entities had reported and budgeted OPEB expenses on a “pay as you go” basis – reporting and budgeting only the cost of benefits actually paid in a given year. This practice has left many public entities with large unfunded liabilities. But currently, there is no legally authorized mechanism for school districts and local governments to save for OPEB liabilities.

This legislation would authorize the State Comptroller to establish an OPEB Investment Fund to accept and invest payments made by state government and participating local governments, including school districts. It would also authorize the state and local governments to establish OPEB trusts for the purpose of accumulating funds to pay future post employment benefit costs. Monies held in these trust funds would be invested in the state administered OPEB Investment Fund, with separate accounts maintained for each participating entity.

Reasons for Support

Retirees are depending on the benefits this legislation seeks to assure are appropriately funded and taxpayers are legally obligated to fund the benefits. The Comptroller’s proposal would provide school districts with a mechanism to assure these promises can be met without facing budgeting decisions that would someday force choices between disruptive cuts to current services, or large tax increases unlikely to gain voter approval.
School districts are contractually obligated to provide many of the covered benefits and, since the early 1990s, have been statutorily prohibited from reducing retiree health care benefits unless similar reductions can be negotiated for current employees. As GASB prescribes, OPEB liabilities are incurred each year, as employees render the service entitling them to future post employment benefits. Therefore it is fiscally responsible to set aside funds each year as the liability is incurred and avoid the prospect of facing huge future payouts with no resources to meet them.

The State Comptroller has estimated that New York State government has an unfunded liability for non-pension post employment benefits of $68 billion, and that local governments outside New York City (including school districts) have an unfunded liability also totaling roughly $68 billion.