



State Health Benefits for Retired Employees

Fiscal Brief

March 23, 2007

Recognition of Long-term Liabilities Under New Governmental Accounting Standards for Other Post-Employment Benefits

Executive Summary

The Governmental Accounting Standards Board (GASB) has adopted new standards that significantly change how public employers must measure, expense and disclose obligations for other non-pension post-employment benefits. These new standards require public employers to use actuarial valuation methods and accrual accounting conventions — similar to the way pension obligations are measured and reported — to acknowledge the accumulation of Other Post-Employment Benefit (OPEB) liabilities. The most significant OPEB for the State of North Carolina is health benefit coverage provided to retired employees of State agencies and departments, university institutions, local public school agencies, and local community college institutions.

This change is significant. The State currently uses cash basis accounting to expense the annual premium charges to fund this benefit on a pay-as-you-go basis. Pay-as-you-go funding results in the annual premium charges for benefit coverage being expensed and reported as it is paid each year during a former employee's retirement term. The new GASB standards alternatively use accrual accounting to expense in current dollars an actuarial estimate of the projected future costs for the benefit as it is earned over the employee's working career or employment term.

The State's first formal actuarial valuation of retired employee health benefit coverage reports a \$23.786 billion unfunded liability as of December 31, 2005. This liability represents, in today's dollars, the unfunded benefit obligations already earned by current retirees, active employees, and inactive former employees eligible to retire at some point in the future.

To reduce this unfunded liability the State has the option to annually fund this obligation as a series of yearly amortized payments over the next 30 years. Moreover, to avoid accruing additional liability the State would also have to begin pre-funding the yearly normal cost of future benefits as they are earned by active employees over their working careers. The funding of these costs creates an asset that along with investment returns is available to fund future benefit costs as they come due. If the State chooses not to pre-fund these future costs, then the expense accrues as an unfunded liability.

The sum of these normal and unfunded liability costs would require annual outlays for retired employee health benefit coverage to increase from the current pay-as-you-go amount of \$476.8 million per year to nearly \$1.7 billion per year on an actuarial and accrual accounting basis (as of December 31, 2005). If these projected expenses are fully funded, there may be an immediate negative impact to the State's other budget priorities. If not funded, then the current unfunded liability will continue to grow possibly adversely affecting bond rating agencies' views of the State's creditworthiness over time.

The purpose of this brief is to inform the NC General Assembly about GASB's new standards and to discuss relevant issues regarding the potential impact to the State, if any, these new requirements may hold.

Introduction

The State funds retired employee health benefits by paying the annual premium charges necessary to secure coverage for eligible retired employees of State agencies and universities, local public schools, and local community college institutions. This annual expense is funded on a pay-as-you-go basis for budgetary purposes and reported on a cash basis of accounting for financial disclosure purposes.

On a pay-as-you-go basis the cash expense for retired employee health benefit coverage is recognized only when premiums are paid, and no accumulated liability for providing future benefit coverage is measured or reported. In effect, the expense for benefit coverage is recognized as it is paid each year during a former employee's retirement term.¹

New Governmental Accounting Standards Board (GASB) requirements differentiate between when benefits are funded and the cost of providing such benefits. Under the new standards, the State must begin to measure projected future benefit costs — valued in today's dollars and based on current health benefits offered — to provide benefit coverage for an employee over their future retirement term.

This projected cost is then expensed and disclosed over the employee's working career or employment term.² The result is a significantly higher reported annual expense than on a pay-as-you-go basis.

Accounting by Type	
<p style="text-align: center;">Cash Basis</p> <ul style="list-style-type: none"> – Expense premiums paid to secure benefit coverage – Pay-as-you-go -- Financial reporting recognizes expense when paid not earned – No recognition of future liability – Recognizes expense during retirement term 	<p style="text-align: center;">Accrual Basis</p> <ul style="list-style-type: none"> – Expense in current dollars projected future benefit costs – Financial reporting recognizes expense when benefit is earned – Recognition of unfunded liability if expense is not funded when benefit is earned – Recognizes expense during employment term

The State can continue to use a pay-as-you-go approach to fund annual cash expenses for premium

charges paid to support health benefit coverage for retired employees. However, the new accounting requirements to actuarially measure and report expenses on an accrual basis of accounting results in the State acknowledging a significant unfunded liability for these benefit obligations. These are benefit obligations already earned to date by current employees, existing retired employees, and inactive former employees eligible to retire at some point in the future.

Moreover, this unfunded liability will likely grow as the costs to provide health benefit coverage in retirement is expensed in the present over the employment terms of current employees rather than in the future over their respective retirement terms. Although this initial unfunded liability will not be recognized on the State's balance sheet, it must be measured and reported as required supplementary information in official documents that represent the State's financial condition.³ Included in these disclosures must be an indication of the progress the State makes in accumulating assets to offset this now formally acknowledged liability.

What is an OPEB?

Benefits other than pensions for retired employees generally fall under the financial reporting category of other post-employment benefits or the more commonly used acronym OPEB. OPEB extends beyond just retired employee healthcare benefits to other types of benefit coverage such as disability income, dental insurance, life insurance, long-term care, etc.

Benefits provided in retirement including pension benefits are generally considered to be deferred compensation earned by an employee during their active service employment and then redeemed once they transition to an eligible retired employee. Healthcare benefits for retired employees are typically the most significant recognized OPEB component.

Who is GASB?

Accounting standards are the domain of two organizations whose missions are focused on

accounting standards: the Financial Accounting Standards Board (FASB) for private sector entities and its public sector counterpart, the Governmental Accounting Standards Board (GASB) for governmental entities.

Established in 1984, under the Financial Accounting Foundation, GASB operates as a non-profit entity that researches and sets public agency standards for meeting the requirements of Generally Accepted Accounting Principles (GAAP). GASB's mission is to "establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports."⁴

Public agencies that follow uniform financial reporting standards required by GASB typically facilitate clearer audit opinions and please important outside parties such as bond rating agencies.⁵ Auditors, whose stated Code of Professional Conduct (issued by the American Institute of Certified Public Accountants) "requires auditors to note any departures from GASB standards when they express an opinion on financial reports that are presented in conformity with generally accepted accounting principles," also pay attention to GASB standards.⁶

GASB does not have the authority to require conformance with its standards. However, it does have a persuasive effect because public agencies who issue bonds find that rating agencies and issuers of public debt expect government-wide financial reports to follow GASB standards.⁷

Rationale for OPEB Standards

GASB began researching and developing new accounting standards for OPEB reporting soon after FASB, its sister organization, issued new standards in 1993 for private sector entities. GASB signaled its OPEB intentions in "exposure drafts" released in February 2003 and then finalized in formal "statements" in April and June 2004, respectively. GASB accounting standards are generally incorporated into what the organization refers to as statements.

In the case of OPEB there are two relevant GASB statements:

- **Statement No. 45** is the reporting guidance provided to public employers who substantively have committed or agreed to provide benefits that meet the OPEB definition; and
- **Statement No. 43** is the reporting guidance for the qualified trust or administering entity that provides the "stewardship" for managing the financing of OPEB.⁸

GASB's stated rationale for issuing these Statements is to "provide more complete, reliable, and decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide postemployment benefits other than pensions (OPEB) as part of the compensation for services rendered by their employees."⁹ GASB's view is that an employer must report OPEB obligations on an accrual basis such that an employer's financial statements will accurately recognize the true cost of other post-employment benefit obligations as they are earned by an employee.¹⁰

Just as salary compensation is earned and paid to an employee, so is an OPEB obligation. The difference however is the OPEB obligation is earned in the present but payment of the compensation (or benefit) is deferred to the future after the employee has retired from active service to the employer. Thus, GASB's OPEB standards cause public employers to acknowledge that other post-employment benefits are compensation earned in the present, and though not requiring an immediate cash outlay, do constitute a current expense that, if not pre-funded, accumulates as an unfunded liability payable in the future.

Public Employer OPEB Requirements

For a public employer to meet GASB's OPEB requirements under Statement Nos. 43 & 45, at a minimum the following actions are generally required:^{11,12,13}

- Actuarially determine the present value of "unfunded" OPEB type benefits previously earned by existing retired employees, active employees, and inactive employees during their respective employment terms; this unfunded liability is formally known as the **Unfunded Actuarial Accrued Liability (UAAL)**;

- Determine an annual OPEB cost called an **Annual Required Contribution (ARC)** comprised of the normal cost plus one year's amortization of the UAAL for benefits already earned but not funded. The normal cost is the cost to fund the amount of future benefits earned by active employees in the current year;
- Determine an annual **Net OPEB Obligation (NOO)** which reflects a net amount that is the cumulative difference between the annual expense determined by the ARC plus adjustments for any over/under funding made in prior years plus investment returns. This number is designed to reflect over time the progress in accumulating assets to offset the UAAL. The NOO captures the difference in the benefit costs under the new standards and the amount funded by a public employer;
- Disclose in government-wide financial statements an annual net OPEB expense to the entity's income statement, and if not funded, record to the balance sheet any accumulated OPEB liabilities (unless deemed a cost-sharing multiple employer arrangement);
- Government-wide financial statements must also include detailed notes and required supplementary information including but not limited to a public employer's annual net OPEB liability, detailed plan information including changes to the benefit plan between required valuations, actuarial methods used to measure the State's net OPEB liability, historical information on employer contributions and funding progress towards asset accumulation, discount rates assumed, and other descriptive information regarding the State's OPEB obligations;¹⁴
- Secure subsequent OPEB actuarial valuations at least every two years;
- Recognize in the OPEB actuarial valuation cost methodology any implicit subsidies that exist in providing coverage to retired employees; and
- Establish a dedicated qualified trust fund, not subject to action by creditors, to accumulate assets and pay required premiums for retired

employee health benefit coverage; and, if benefits are pre-funded, to be able to assume a typically higher long-term investment rate of return on accumulating assets.

There are many requirements to the GASB OPEB standards that go beyond those summarized above. These other detailed requirements deal with many of the intricacies of how the actuarial valuations for OPEB plans are conducted as well as differences in how employers may be classified in terms of revenue, consolidated plans, various requirements for what is reported in a government-wide financial statement, etc. For discussion purposes those detailed requirements go beyond the scope of this fiscal brief, which is intended to summarize the more remarkable issues.

Effective Date of Standards	
Public Employer Revenues	Effective Date
\$100 million +	First Plan Year after December 15, 2006
\$10 - \$100 million	First Plan Year after December 15, 2007
<\$10 million	First Plan Year after December 15, 2008

The State's OPEB Actuarial Valuation Results for Calendar Year 2005

Aon Consulting, the consulting actuary for the Teachers' and State Employees' Comprehensive Major Medical Plan (State Health Plan), issued an actuarial valuation of the State's OPEB liabilities for projected total retired employee healthcare benefits per the standards set forth in GASB Statement Nos. 43 & 45. This actuarial valuation estimates that the State has an UAAL of \$23.786 billion for total projected benefits for the calendar year period ending December 31, 2005.

This number represents the \$23.925 billion present value estimate of total OPEB liability for health benefit coverage earned by current retired employees, current active employees, and inactive former employees eligible to retire at some point in the future minus approximately \$139.175 million in current assets as of the valuation date.

Aon Consulting's actuarial valuation also reports the ARC. The ARC includes the normal cost to fund the portion of health benefits earned by current employees for calendar year 2005 plus the amount required to amortize the already accrued unfunded liability over a period of 30 years.

The ARC for the State based on the 2005 actuarial valuation is \$2.39 billion annually. This number comprises \$850 million to amortize a year of the existing UAAL plus \$1.54 billion in normal costs for benefits earned by current employees. This ARC, based on a 4.25 percent discount rate, is projected to fund the State's accrued obligations plus normal costs. Amortization of the UAAL is based on a level percent of pay – the amount is projected to increase each year with increases in covered payroll.

GASB allows the funding of OPEB benefits by making funded contributions on a level dollar amount or on a level percent of pay method. The State already uses the level percent of pay method to fund benefits on a pay-as-you-go basis. This approach allows the State to efficiently collect contributions on a percentage of payroll basis from employing units supported with multiple fund sources.

Programs that are funded with non-General Fund sources must fund their proportionate share of OPEB costs if they have employees funded with these resources. Without this type of allocation the General Fund would potentially carry a significantly larger financial burden.

The current percent of pay contribution rate for the 2005-2006 fiscal year is equal to 3.8 percent of payroll and has generated a reported \$476.9 million for this fiscal period.¹⁵ An estimated 19.3 percent of payroll would be required to support the \$2.39 billion ARC as determined in the State's actuarial valuation of retired employee health benefits.

Discussion Issues

1) Financial Recognition and Disclosure

The State as a public policy began providing paid health benefit coverage for retired employees in 1978 and began funding this benefit on a self-insured basis in 1982. Thus the seeds for the unfunded liability accumulated to date began more than two decades ago.

However, the significance of this liability was never a major financial issue until the onset of sustained rising health care costs over the last decade. Rising costs due to medical price inflation and greater utilization of medical services significantly affect any calculation of future health care costs. As ever evolving technological advances in diagnosis and treatment of medical maladies continue, cost pressures will likely continue in the near term.

This growth in health care costs in part framed GASB's initiative to set standards that cause public employers to measure and report OPEB liabilities, and to encourage advanced funding of these obligations.

2) Funding Beyond Pay-As-You-Go

Pre-funding is the accumulation of assets for OPEB in excess of the annual pay-as-you-go requirements needed to maintain current benefits. Conceptually, pre-funding would allow the State to begin depositing additional funds into a qualified trust where these funds could be invested on a long-term basis. Earnings generated by investments would in part fund

Actuarial Valuation of Post-Employment Health Benefits for Retired Employees	
Summary of Principal Results	
Valuation Date	December 31, 2005
Number of Active Members	333,404
Annual Salaries	\$12,359,975,359
Number of Inactive Members and Dependents	191,618
Assets	\$139,174,878
Unfunded Actuarial Accrued Liability	\$23,785,963,864
Amortization Period (years)	30
Annual Required Contribution (ARC)	
Normal Cost	\$1,540,208,977
Amortization of Unfunded Accrued Liability	<u>\$849,373,961</u>
Total	\$2,389,582,938
<small>Source: Aon Consulting, December 2006</small>	

Currently the State's General Fund accounts for approximately 80 percent of costs associated with compensation while 4 percent is from the Highway Fund and 16 percent from other special fund sources. This latter amount comprises funds ranging from bank examination fees to federal funds supporting in part or whole various State operated programs.

any estimated unfunded liability. Under pre-funding the State would make contributions at a rate that equals the ARC.

The challenge to this approach is that a \$1.7 billion ARC is 3.5 times greater than the current pay-as-you-go contribution of \$476.9 million. Immediately increasing funding to these levels would have a significant negative impact on available budgetary resources for other priorities.

Impact of Discount Rate Assumption (\$Billions)				
	Assumed Discount Rates			
	4.25%	5.25%	6.25%	7.00%
Accrued Actuarial Liability (AAL)	\$23.93	\$20.21	\$17.30	\$15.50
	PAYGO →			PRE-FUND

Source: Aon Consulting, January 2007
Table Prepared By: Fiscal Research Division, NCGA

A secondary issue occurs as the payroll contribution rate increases, resources from non-General Fund agencies will be impacted in ways that would not necessarily be obvious in the normal budget deliberation

Under GASB's OPEB requirements a public entity that pre-funds its benefit obligations by depositing those funds into a qualified trust for OPEB purposes, can assume longer-term rates of investment return. The higher long-term rates of return will lower any projected unfunded liability.

process given the predominant focus on the General Fund. Increasing the rate requires non-General Fund sources of funds to be re-allocated to this purpose and may require fee increases or reductions in other budgetary items to cover the increased OPEB related expenses.

Funding Scenarios (\$Billions)		
Year	Pay-As-You-Go	Pre-Funded
2005	\$0.5	\$1.6
2006	\$0.7	\$1.7
2007	\$0.8	\$1.8
2008	\$0.9	\$1.8
2009	\$1.1	\$1.9
2010	\$1.2	\$2.0
2011	\$1.2	\$2.0
2012	\$1.3	\$2.1
2013	\$1.4	\$2.2
2014	\$1.5	\$2.3
Discount Rate	4.25%	7.00%

Source: Aon Consulting, November 2006
Table Prepared by: Fiscal Research Division, NCGA

On the other hand partial funding would be any amount in excess of the annual pay-as-you-go requirements needed to fund health benefits for current retired employees. Partial funding would allow the accumulation of some assets for funding future benefits though at a rate less than the ARC. Partial funding could potentially be part of a transition strategy to increase contributions over time to the level of the ARC.

Either funding strategy would allow the State to begin depositing additional funds into a qualified trust where these funds could be invested on a long-term basis to generate investment earnings that would in part fund any benefit costs. Partial funding does lessen the immediate budgetary impact.

3) Bond Ratings

Recognition and disclosure of the cost and accrued liability to support retired employee health benefit coverage is information most relevant to the major bond rating agencies who assess the State's creditworthiness. While OPEB costs and liabilities will not be an income statement or balance sheet entry for the State, the detailed disclosure of OPEB data in the notes to the State's financials are available to those interested in the State's financial health.^{17,18}

The current actuarial valuation pegs the State's estimated ARC to fund already accumulated unfunded liabilities plus normal costs at \$2.39 billion as of December 31, 2005. If the State were to pre-fund benefits at a rate of \$1.7 billion annually the State's unfunded liability is estimated to drop to approximately \$15.4 billion with an assumed 7.0 percent rate of investment return¹⁶.

Published comments about OPEB from the major bond rating agencies consistently note that an individual government's specific financial situation will affect how the disclosure of an OPEB liability may alter their view of a public entity's creditworthiness at any given point in time. In a July 2005 "Special Comment" brief about GASB's OPEB changes, Moody's Investor Services explained that the agency "does not anticipate that the disclosures required by the new rules will cause immediate and widespread rating adjustments. It is more likely that rating levels will be affected by observation of changes in OPEB funding measures over time."¹⁹

Moody's comments are especially timely as the agency has just upgraded the State's status to a Triple A rating, the last of the major rating agencies to do so.²⁰ It appears the initial OPEB actuarial valuation has not adversely affected the State's creditworthiness which mirrors Moody's comments about short-term impact to credit ratings from disclosing OPEB liabilities being minimal.

Moreover, the State's well-funded pension plan which currently has no unfunded liability is a positive for the State. A well funded pension plan removes a competing source for benefit dollars appropriated in the State's budget as well as eliminates another potential liability for those who are concerned about the State's creditworthiness.

4) Benefit Changes

Cost Shifting. Reducing the value of health benefit coverage for retired employees can also affect the unfunded liability and required contribution levels necessary to fund retired employee health benefits. Cost-shifting premiums and out-of-pocket liabilities to retired employees can reduce the State's requirements.

The challenges faced under this approach are that active employees and retired employees are under the same group health benefit plan structure. The result is that any reduction in benefits for retired employees similarly affects active employees.

Separating active and retired employees into different benefit plans to avoid adverse affects on active employees would create a negative impact on retired employees. One of the fundamental purposes of a group health benefit plan is to utilize the positive underwriting gains on some plan members to offset the

underwriting losses on other plan members. This is done with the objective to provide, on average, affordable access to health benefit coverage without regard to health or demographic factors of selected groups or individuals within a health benefit plan.

Premium Contribution. Another form of benefit change is charging a premium to retired employees for health benefit coverage provided. Since the State does not have a minimum retirement age, and an employee can retire at any age with 30 years of service, the State does have a significant number of pre-Medicare retired employees. Many of these employees retire at ages when their healthcare utilization is more frequent, costly, and not subsidized by Medicare. Charging a premium, however, would have to be evaluated from a legal viewpoint as to the State's ability to assess a partial premium in light of prior court cases over changing post-employment benefits.²¹

Eligibility Changes. The NC General Assembly in the 2006 Short Session took a step to limit a portion of future liabilities for retired employee health benefits. Senate Bill 837 (S.L. 2006-174) modified eligibility for non-contributory (i.e., State paid) health benefit coverage as a retired employee for future employees first hired on and after October 1, 2006 and members of the NC General Assembly first taking office on and after February 1, 2007. Under this change non-contributory coverage for health benefits would be provided to future employees who become an eligible retired employee after earning a minimum of 20 years of retirement service credit

The bill further requires future employees upon retirement who earn less than 20 years of retirement service credit to pay a premium contribution for their health benefit coverage under the plan. Future employees upon retirement who earn 10 up to 20 years of retirement credit service would be required to pay a partially contributory premium equal to 50 percent of the required premium, while those with 5 up to 10 years of retirement credit service would be required to pay premiums on a fully contributory basis equal to 100 percent of the required premium.

The legislation will have no near term impact on retired employee health benefit coverage expenses and liabilities given the prospective application of the bill to employees first hired on or after October 1, 2006. However, it will have a small but measurable impact far out into the future. It also reflects an initial step

taken by the NC General Assembly to acknowledge the reported future obligations for this benefit.

5) Cost-Sharing Multiple-Employer Plans and Irrevocable Trust

GASB's OPEB requirements specifically direct individual public employers to record to their income statement annually the NOO expense they accrue in a year. This expense occurs when an employer funds their OPEB obligation at a rate less than the ARC determined in the actuarial valuation. This expense is then added to any previous unfunded liability they have recorded on their respective government-wide balance sheet.

An exception to the rule, however, exists where recording OPEB expenses and liabilities to a government-wide income statement and balance sheet is not required. This exception is significant because it applies to the State and has even more importance to local public school agencies, local community college institutions, and the university system.

Although expenses and liabilities will not accrue to the State's income statement or balance sheet, there are substantive and very detailed disclosures that must be included in the government-wide financial statement regarding any OPEB expenses and liabilities. The more significant impact is that each of the 115 local public school agencies, 58 local community college institutions, and 16 member institutions of the UNC System do not have to procure separate actuarial valuations by entity, nor accrue OPEB expenses and liabilities to their respective individual income statements and balance sheets.

Under this exception GASB allows cost-sharing multiple-employer plans to forgo the income statement and balance sheet recording of OPEB expense and liability if they meet the following conditions:

1. To meet the definition of a cost-sharing multiple-employer plan, there must be multiple public employers participating in a single plan; all participating employers must share all "risks, rewards, and costs", and be subject to the same contribution rate, and use a single actuarial valuation;²² and

2. The cost-sharing multiple-employers must administer the plan as a formal qualified trust where contributions made by the participating employers are irrevocable, assets accumulated from contributions and investment earnings are dedicated to provide benefits to retired employees and their beneficiaries, and lastly assets of the plan are legally protected from creditors of the participating employers.²³

To meet the latter requirement the NC General Assembly established a qualified trust under G.S. 135-7(f) that meets GASB's OPEB requirements (see House Bill 1414, S.L. 2004-124).

G.S. 135-7(f):

Retiree Health Benefit Fund. – The Retiree Health Benefit Fund is established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries as provided by this Chapter. The Retiree Health Benefit Fund shall be administered in accordance with the provisions of subsection (a) of this section. Employer contributions to the Fund are irrevocable. The assets of the Fund are dedicated to providing health benefits to retired and disabled employees and their applicable beneficiaries as provided by this Chapter and are not subject to the claims of creditors of the employers making contributions to the Fund.

The Retiree Health Benefit Fund, housed in the Department of State Treasurer, was created for the purpose of collecting and accumulating contributions from employing agencies for the subsequent provision of health benefits for retired and disabled employees including their applicable beneficiaries.²⁴ The Retiree Health Benefit Fund by statute incorporates the GASB trust requirements for irrevocable contributions, protection from creditors, and a dedicated purpose to provide health benefits to retired employees.

The other requirements of a cost-sharing multiple employer plan are met by the participation of employing units from State agencies and universities, local public school agencies, and local community college institutions under a single OPEB plan where there are common benefit and risk requirements.

Final Synopsis

It is clear that new governmental accounting standards for Other Post-Employment Benefits significantly change the State's financial reporting requirements for retired employee health benefit coverage. From this point forward sitting governors and other executive officials will need to routinely share with the NC

General Assembly the opinions and comments received from bond rating agencies about the long or short-term impact, if any, the valuation of OPEB obligations has on the evaluation of the State's creditworthiness.

Beginning to advance fund retired employee health benefits in some amount, and carefully reviewing future benefit changes, will likely be a necessary element of any current or future Governor's budget recommendation, and the subsequent budget review and appropriation process conducted by the NC General Assembly.

The State Treasurer in January 2007 has stated that: "Bond rating agencies consider OPEB liabilities as 'soft' and have assured us that such liabilities will not impact the State's credit rating in the short term. We do, however, need to develop effective strategies to manage our OPEB liability over the long term."²⁵ These comments seem to indicate that the State should not view these new requirements as an immediate crisis or emergency, but rather a significant issue that will require thoughtful discussion and action from this point forward.

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ENDNOTES

- ¹ Mark Hartman, Hartman and Associates, Actuary's Comments, Lexington, NC, January 2007.
- ² Ibid.
- ³ *Other Postemployment Benefits: A Plain Language- Summary of GASB Statements No. 43 and No. 45*, pp 8-9, Governmental Accounting Standards Board, August 2005.
- ⁴ Governmental Accounting Standards Board, website at www.gasb.org, January 2007.
- ⁵ Middaugh, Kris, *The Great GASB*, Government Technology, Page 1, October 13, 2003, found at www.govtech.net
- ⁶ GASB, *Other Postemployment Benefits: A Plain Language- Summary of GASB Statements No. 43 and No. 45*, Page 12.
- ⁷ Ibid., Page 12.
- ⁸ *GASB Statements 45 & 43 on Accounting for OPEB*, Governmental Accounting Standards Board, Karl Johnson, Project Manager, Norwalk, CT, as presented in a Videoconference to the State of Hawaii, Page 6, November, 17, 2005.
- ⁹ *GASB Statement 45 on OPEB Accounting By Governments – A Few Basic Questions and Answers*, found at www.gasb.org, pp. 1-2, January 9, 2007.
- ¹⁰ Ibid., pp. 1-2.
- ¹¹ *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 43 of the Governmental Accounting Standards Board," Governmental Accounting Standards Series, Governmental Accounting Standards Board of the Financial Accounting Foundation, No. 229-B, April 2004.
- ¹² *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions*, Statement No. 45 of the Governmental Accounting Standards Board, Governmental Accounting Standards Series, Governmental Accounting Standards Board of the Financial Accounting Foundation, No. 231-D, June 2004.
- ¹³ GASB, *Other Postemployment Benefits: A Plain language- Summary of GASB Statements No. 43 and No. 45*.
- ¹⁴ Annual OPEB cost and any net OPEB obligations would be recognized and disclosed in government-wide financial statements. Additional information to be disclosed includes descriptive information about defined benefit OPEB plans, the funding policy followed, contributions in relation to annual OPEB costs, changes in net OPEB obligations, changes in assets from contributions, investment earnings, paid benefits, benefits payable, and administrative expenses, how contributions are determined, the funded status (funded ratio) for the valuation date, unfunded actuarial accrued liability as a percentage of covered payroll, actuarial valuation methods and assumptions, and other required supplemental information. Required supplemental information includes the funding progress of the OPEB plan and factors that significantly affect trends, such as changes in benefits, and changes in the size and composition of the population covered by the plan.
- ¹⁵ *Comprehensive Annual Financial Report, For the Fiscal Year ended June 30, 2006*, Office of State Controller, State of North Carolina, Robert L. Powell, State Controller, Page 13.
- ¹⁶ Aon Consulting, *State of North Carolina GASB 43/45 OPEB (Health Only) Evaluation*, Presentation conducted at the offices of the State Health Plan, Raleigh, N.C., pp. 7 & 11, November 16, 2006.
- ¹⁷ Under the GASB Standards, the State qualifies as a "multiple employer cost sharing arrangement." This designation is significant because it allows the State to not accrue any Net OPEB Obligation (NOO) to its income statement nor balance sheet. This designation allows the "contractually required contribution."
- ¹⁸ Office of State Controller, Staff comments, State of North Carolina, February 2007.
- ¹⁹ *Other Post-Employment Benefits (OPEB), New Accounting Requirements to Shed Light on Cost of State and Local Retiree Health Benefits; Funding Pressures Expected to Vary Widely*, Special Comment, Moody's Investors Service, Global Credit Research, Page 4, July 2005.
- ²⁰ *Moody's Restores N.C. Bond Rating to Triple A*, Triangle Business Journal, January 12, 2007, found at <http://triangle.bizjournals.com/triangle/>.
- ²¹ Diane Juffras, Editor, *When Can A Public Employer Reduce Employee Benefits?*, Institute of Government, University of North Carolina at Chapel Hill.
- ²² GASB, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions*, Page 42.
- ²³ Ibid., Paragraph 22(a), Page 15.
- ²⁴ G.S. 135-7(f), General Statutes of North Carolina.
- ²⁵ Letter to a Member of the General Assembly, Richard H. Moore, State Treasurer, State of North Carolina, January 29, 2007.