

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

New York State Association
of Counties

Presented by: Lisa Cole

June 29, 2006



Moody's Investors Service

NEW RULES INTENDED TO IMPROVE DISCLOSURE OF PUBLIC PAYROLL COSTS

- OPEB disclosure captures costs that are part of government employees' total compensation package
- Costs reported as they are incurred, during the employment period
- Currently, most governments measure only the outlays associated with current retirees



OPEB APPLIES TO HEALTH-RELATED BENEFITS

- Health insurance
- Disability insurance
- Life insurance
- Long-term care insurance



GASBs 43 and 45 TO BE PHASED IN

Phase	Annual Revenues	GASB	GASB
		43	45
		Applies to FYs beginning after 12/15:	
I	\$100 million or more	2005	2006
II	\$10 - \$100 million	2006	2007
III	Under \$10 million	2007	2008



MECHANICS OF COMPLIANCE

- Actuarial Analysis
- Unfunded Actuarial Accrued Liability (UAAL)
- Annual Required Contribution (ARC)
- Net OPEB Liability (NO-PEBO)



INCENTIVE FOR COMPLIANCE

- Higher assumed discount rate allowed for plans with trust for OPEB obligations
- Resulting in lower present value actuarial liability
- Cautionary note:
 - Moody's may see funding of trusts with transfers from General Fund as reducing financial flexibility



MOODY'S BELIEVES CHANGE IS POSITIVE

- Captures government's liability on financial statements
- Improves disclosure of financial obligations
- Easier to evaluate evenly across the board



ASSESSMENT OF OPEB LIABILITY IN RATING PROCESS

- Reporting of liability does not change a credit profile—presumably these liabilities are already worked into a municipality's rating
- OPEB funding status will become a more visible factor in the credit rating process
- No wholesale rating adjustments anticipated



MOODY'S FOUR RATING FACTORS

- Debt
- Finances
- Management
- Economy/Tax Base



OPEB IMPACT ON DEBT PROFILE

- Analysis of OPEB liability is most similar to analysis of pension liabilities, BUT:
 - Government has more direct control over salary trends than medical cost trends
 - Retiree health benefits may be easier to modify than pension benefits, which may have stronger legal or contractual protection



OPEB IMPACT ON DEBT PROFILE

- Moody's views both OPEB and pension obligations as less binding than bonded debt, reflecting flexibility to:
 - alter terms of benefits
 - adjust actuarial assumptions
 - adjust amortization schedule
- OPEB and pension obligations therefore excluded from debt statistics



OPEB IMPACT ON DEBT PROFILE

- Issuance of OPEB funding bonds results in inclusion of OPEB liability on debt statement
- Bonds can be an appropriate means of funding OPEB liability, in whole or in part
 - should weigh the expected cost savings against loss in flexibility
 - should consider willingness to take on investment risk



OPEB IMPACT ON FINANCIAL PROFILE

- To the extent that the new ARC exceeds current pay-go funding levels, the funding of OPEB will create a new budgetary pressure
- Failure to fully fund OPEB will impact statement of net assets
 - inclusion of net OPEB obligation (NO-PEBO) will diminish government-wide financial position
- Transfers from General Fund to OPEB Trust will reduce operating flexibility



OPEB FUNDING DECISION IS A REFLECTION ON MANAGEMENT

- At this stage, Moody's is looking for a plan:
 - taking steps to perform actuarial valuation of liability
 - evaluating the increase in funding required as compared to current paygo funding level
 - thinking about how to cover this incremental expense
 - thinking strategically about benefits offered, union negotiations
 - legal and political willingness/pressure to fully fund, to modify benefits



OPEB FUNDING DECISION IS A REFLECTION ON MANAGEMENT

- The decision to fund OPEB should be made if it makes sense for financial, policy or legal reasons:
 - Financial – including ability to earn arbitrage
 - Policy – taxpayers should pay for benefits earned in current year
 - Legal - to comply with charter statutes



OPEB IMPACT ON RATINGS

- Key Rating considerations include:
 - Size of unfunded liability relative to payroll, budget, tax base; and relative to peers
 - Considered in analysis of debt, although not in debt ratios
 - actuarial assumptions
 - legal and political environment
 - content of adopted plan
 - adherence to adopted plan



OPEB IMPACT ON RATINGS

- In the longer term, OPEB may result in some rating changes
 - issuers with unusually large liabilities, or which take inadequate action to control growth of the liability, may be candidates for downgrades
 - Issuer with unusually small liabilities, or with advantageous funding positions, may be candidates for upgrades

