**POLICY BRIEF**

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**Uncovering the True Cost of Government Retiree Benefits**

State and local governments across the nation are coming face to face with the true cost of post-retirement benefits thanks to an accounting rule change mandated by the Governmental Accounting Standards Board (GASB). Under GASB Statement 45 of 2004, governing bodies have to disclose and determine the long term liabilities associated with post-retirement benefits other than pensions, also referred to as OPEB.

The liabilities have always existed: it is just that governments have recorded the costs when they made payments to retirees (often from operating funds on a "pay-as-you-go" basis) instead of when the benefits were actually earned. GASB felt since governing bodies "failed to account for costs and obligations incurred as governments received employee services each year for which they had promised future benefit payments" the accounting standard had to be changed and, as a result, the long term obligations were revealed. One initial estimate on the combined U.S. state and local government unfunded OPEB liabilities was over $1.5 trillion.

The reporting of OPEB will now look a lot like the reporting of pension benefits—there will be an actuarial valuation measuring plan assets, liabilities, and the over or under funding of the OPEB plan. The implementation of the GASB rule was phased in over three years: governments with revenues of $100 million or more went first in December 2006; those with revenues of at least $10 million up to $100 million in December of 2007; and those with revenues of less than $10 million have to complete the valuation by December of this year.

OPEB valuations for the City of Pittsburgh and Allegheny County have been released in the Comprehensive Annual Financial Reports for each and reveal a combined $393 million in unfunded OPEB liabilities. Most distressing is that the City, with its existing unfunded pension liability and debt level, represents 81 percent of this combined total.

The City's OPEB package includes life insurance, provided at the City's cost, for all retirees (2,900 in 2007) and retiree health care for police and fire employees (1,846 in 2007) that are paid by partial retiree contributions and the remainder from the City's general fund.

The City's long-term valuation of OPEB shows no assets, which again is not at all uncommon among plans across the country since very few state or local governments pre-funded their OPEB, and liabilities of $320.6 million. Since there are no assets, the $320.6 million is treated as entirely unfunded.

The County's burden is not nearly as severe, most likely because it does not have nearly as many retirees receiving health care coverage. The County, like the City, provides life insurance for all retirees (3,656 in 2007). It provides retiree health care to certain types of employees, approximately 118 County police, jail officers, and sheriff employees (the City has 15 times that number in retired police and fire beneficiaries). And it has major medical for people who retired prior to 1994 (222 in 2007). The County's valuation shows no assets and liabilities of $73.3 million.

**OPEB Valuations**

| Governing Body | Assets | Liabilities | UAAL (Liabilities-Assets) | Covered Payroll | UAAL/Payroll |
|---|---|---|---|---|---|
| City of Pittsburgh | 0 | $320,637,000 | $320,637,000 | $172,624,000 | 183% |
| Allegheny County | 0 | $73,313,000 | $73,313,000 | $264,631,900 | 27% |

Assets are the funds set aside for the benefits, liabilities are the present value of promised and earned benefits. Unfunded actuarial accrued liabilities (UAAL) are the liabilities minus the assets. Payroll is the payroll expenditure and the UAAL/payroll measures the relative impact of the unfunded liabilities to the payroll.

The valuations also take into account the burden of unfunded liabilities against the covered payroll of the governing body. As shown in the table, Pittsburgh's liabilities represent 183 percent of payroll expenditure. The County is almost the exact opposite, with unfunded liabilities representing a quarter of payroll. The difference in per capita burden is just as stunning (about $61 for the County vs. $1,027 for the City).

Looking at these numbers, taxpayers should have a sense of the burden and the impact of too generous benefits (witness the issue of retiree health care in the ongoing Port Authority contract dispute), the question becomes "what will be done?" Some analysts have suggested that governing bodies could either minimize the obligation and/or set aside more assets. Options like raising taxes, selling assets, issuing OPEB bonds (much like pension bonds), requiring higher retiree contributions and others will all be up for consideration.

Unfortunately for Pennsylvania, Act 111 gives public safety unions the strong upper hand in contract negotiations and allows them to secure generous retirement benefits. That has had a significant impact on the City of Pittsburgh and its efforts to stabilize its short- and long-term finances. Unless this act is reformed, Pittsburgh will resume its path toward financial calamity.

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