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■ *GASB Statement No. 45 may apply even if retirees pay their full healthcare premium.* GASB believes that retirees who are allowed to pay the same health-care premium as active employees are, in substance, being subsidized, and that the indirect cost of this “implicit rate subsidy” needs to be recognized as OPEB by government employers.

Once these misconceptions have been eliminated, it becomes clear that GASB Statement No. 45 really requires only that OPEB be subject to the same accounting and financial reporting used for pension benefits (i.e., the cost of benefits must be recognized as expense as benefits are earned).

### “SELECTING THE RIGHT MEDICINE”

It is important to distinguish accounting and financial reporting (i.e., form) from what they reflect (i.e., substance). GASB Statement No. 45 did not “create” the issue of OPEB. The new GASB guidance has simply spotlighted a major, ongoing issue that has challenged public sector finance officials for some time. Keeping this distinction in mind can be helpful in avoiding the very real risk of seeking an *accounting* remedy for what is fundamentally an *economic* problem. Just as the primary focus of a doctor must be on curing the disease, rather than just alleviating its symptoms, so too, government finance officers must strive to ensure that deliberations on OPEB in the wake of GASB Statement No. 45 focus on the underlying economics rather than just the accounting impact.

### “BORROWING FROM PETER TO PAY PAUL”

In the wake of GASB Statement No. 45, a number of private-sector concerns have been urging government employ-

ers to issue tax-exempt bonds to help finance the cost of OPEB. Even in the best of circumstances, the decision to issue debt to finance post-employment benefits is a difficult one, given all of the attendant risks. Thus, GFOA issued a recommended practice urging governments considering the possibility of issuing pension obligation bonds to exercise caution. In the case of OPEB, the risk factors inherent in such borrowings are only exacerbated because of the lack of experience with advance funding such benefits. Therefore, government finance officers will best serve their governments by resisting efforts to promote the use of debt to finance OPEB.

### “FAIR IS FAIR”

It is only natural, of course, that government employers would wish to re-evaluate all aspects of their OPEB, including program design, in the process of determining how best to respond to the long-term funding challenge. All the same, it clearly would be inequitable to expect hard-working government employees alone to shoulder the full burden of potential changes in plan design in the form of decreased or eliminated benefits. Few would argue that the best solution to the parental challenge of financing a child’s college education is to discourage the child from attending college; so too, it is difficult to argue that drastic benefit reductions (or the elimination of benefits altogether) alone are the best “solution” to this challenge.


### “THE OUTER LIMITS OF TRANSPARENCY”

GFOA has been a long-time leader in promoting full and timely disclosure. Thus, we firmly believe that any relevant, reliable, and timely information on OPEB should be disclosed promptly to current and potential purchasers of a government’s debt securities. Conversely, we are

concerned that the premature disclosure of purely preliminary and potentially inaccurate information could be misleading rather than helpful to investors. The GASB wisely provided a significant transition period for GASB Statement No. 45 to allow adequate time for employers to craft appropriate implementation strategies. An early step in this process is for a government to obtain a preliminary estimate of its unfunded actuarial accrued liability for OPEB. Some individuals have argued that governments with outstanding debt have a duty to automatically disclose such preliminary information as soon as it becomes available. We disagree. In our view, preliminary (and hence possibly inaccurate and potentially misleading) data are *not* an appropriate subject for disclosure unless governments are advised to do so by counsel.

### CONCLUSION

The new spotlight that GASB Statement No. 45 puts on OPEB offers state and local governments a welcome opportunity for taking decisive steps to ensure the proper funding and viability of future benefits. It also provides government finance officers a unique opportunity to exercise financial leadership. The key challenge is to avoid misinformation and focus on the underlying economic issues highlighted by GASB Statement No. 45. In doing so, governments should resist proposals to use debt to finance the OPEB. Likewise, in fulfilling their disclosure obligations to current and potential purchasers of their debt, governments should seek the advice of counsel before disclosing potentially erroneous and misleading preliminary data.



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