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Managing the Impact of GASB Statement 45

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Although most governments provide some form of retiree health care, very few prefund these benefits. Until recently, governments did not have to recognize long-term retiree health care costs in their financial statements. However, recent actions by the Governmental Accounting Standards Board (GASB) have changed all that. Under GASB's new accounting rules, state and local governments that provide retiree health care (and other nonpension postemployment benefits) will have to measure and report the long-term costs of these benefits in their financial statements. This article provides steps for facilitating a smooth process for complying with GASB standards.

For most of the last two decades, health care costs in the United States have risen much faster than inflation. While this weighs heavily on everyone, it is an even greater burden for retirees, who face higher and more rapidly rising health care costs while living on fixed incomes.

GASB's changes come at a difficult time for governments. The near recession that began this decade significantly strained governmental revenues. Combined with intense budget scrutiny, the revenue decline has resulted in considerable pressure on governments to reduce costs in all areas. At the same time, many governmental workers are approaching retirement with the understanding they will be covered under their governments' retiree health care programs.

The GASB OPEB Standards

In 2004, GASB approved new accounting standards applicable to "other postemployment benefits" (OPEBs), which are nonpension benefits provided after a person leaves employment, including retiree health care. The standards distinguish between accounting rules that apply to **employers** that sponsor or participate in OPEB plans, and rules that apply to the **plans** themselves. Statement No. 45 applies to governmental **employers** and other sponsors of OPEB benefits. Statement No. 43 applies to OPEB **plans** (i.e., trusts or equivalent arrangements) through which the benefits are funded and paid. Although the GASB standards do not require OPEB benefits to be prefunded, they do specify how OPEB costs, liabilities and funding progress are measured and displayed in state and local government financial reports.

GASB defines OPEBs as medical, dental and other health-related benefits whether or not provided separately from a defined benefit pension plan. OPEBs also include life insurance, disability and long-term care, but only if provided separately from a defined benefit pension plan. If these other OPEBs are provided through a defined benefit pension plan, the accounting rules related to defined benefit pension plans are used.

GASB's standards apply to all OPEBs, but apply differently depending on whether the benefit is provided through a defined benefit OPEB plan or a defined contribution OPEB plan. In a defined contribution OPEB plan, the plan specifies the level of contributions paid into an individual account on behalf of each employee. At retirement, an individual's OPEB benefit is based solely on the amount held in this account. The employer has no liability to provide benefits not covered by the account balance (unless there is an "implicit rate subsidy" as discussed later in this article).

The GASB accounting rules for defined contribution OPEB plans and plan sponsors are straightforward and follow the accounting rules for defined contribution plans. Employers with defined contribution OPEB plans recognize an annual OPEB expense or expenditure equal to their required contributions to the individual accounts. The OPEB liability (if any) is the difference between contributions required and contributions actually made.

GASB Standards for Defined Benefit *OPEB Plans* Under Statement No. 43

In a defined benefit OPEB plan, the plan guarantees a specific level of benefit with the employer providing the necessary funding. Often the benefit is expressed as a percent of the retiree health insurance premium that will be paid by the plan over the remaining lifetime of the participant and often the participant's spouse.

For benefits provided through defined benefit OPEB plans, GASB requires that the long-term OPEB cost be measured and reported on an accrual basis using actuarial methods and assumptions applied in essentially the same way as applied to governmental pension plans. For OPEB plans with 100 or more total members, an actuarial valuation is done to determine an employer's "annual required contribution" (ARC) associated with the benefit promise, as well as the actuarial accrued liability, actuarial value of assets and other related information. In order to comply with the GASB OPEB rules, the following requirements must be met:

- Valuations must be done at least every two years for OPEB plans with 200 or more total members, and at least every three years for plans with fewer than 200 total members.
- The valuation must use one of six actuarial methods: entry age, attained age, frozen entry age, frozen attained age, projected unit credit and aggregate. If the aggregate method is used to determine the contribution, the entry age method must be used to determine the actuarial accrued liability and unfunded liability that is reported in the notes to the employer's financial statements.
- Actuarial assumptions must conform to Standards of Actuarial Practice. The assumptions should be based on the experience of the covered group (to the extent data are available) and reflect long-term future trends. Retiree benefit projections should be based on claims costs or on age-adjusted premiums.
- The maximum period for amortizing the unfunded actuarial accrued liability is 30 years. If a significant decrease in the actuarial liability results from a change in the actuarial cost method or method used to value assets, a minimum ten-year period is used to amortize the decrease in actuarial liability.
- The actuarial value of assets must be a market-related measure, i.e., current market or a market-smoothing method.
- The investment return assumption should reflect the long-term yield on investments expected to fund the benefits. Both the investment return assumption and other economic assumptions should reflect the same inflation assumption.

GASB Standards for *Employers* Sponsoring OPEB Plans Under Statement No. 45

GASB Statement 45 requires employers that sponsor defined benefit OPEB plans to measure and report the long-term OPEB costs and the extent to which the employer has contributed to meet those costs. For these purposes, the same actuarial methods and assumptions are used for both the plan and participating employer(s).

Measurement of OPEB costs and liabilities depends, in turn, on whether the employer participates in a "single-employer" OPEB plan, an "agent multiple-employer" OPEB plan or a "cost-sharing multiple-employer" OPEB plan. A single employer plan is a plan that serves one employer. An agent plan is a plan that serves multiple employers, wherein each employer is separately experience rated. In such plans, separate actuarial valuations are done to determine the required contributions of each participating employer. A cost-sharing plan is a plan that also serves multiple employers, but the experience is pooled. Usually, a single actuarial valuation is done for all employers on a combined basis, and a single annual contribution rate is billed to all participating employers.

For governmental employers participating in single and agent OPEB plans, two key OPEB measures are calculated and included in the employer's financial statements:

1. The "OPEB cost" is the annual required contribution (ARC), with certain adjustments, determined by an actuarial valuation conforming to GASB's parameters. The OPEB cost determines the employer's annual OPEB expense or expenditure shown in the employer's annual financial statements.
2. The "net OPEB obligation" is the difference between the employer's OPEB cost and actual annual employer contributions to the OPEB plan, accumulated from the effective date of the OPEB standards. The net OPEB obligation is the basis for determining the OPEB liability (or asset) shown in the employer's financial statements. To count against the net OPEB obligation, employer contributions must be made to a trust (or equivalent arrangement) or used to pay benefits or premiums.

Unlike GASB's pension standards, under which employers had to calculate and report a net pension obligation for the ten-year period prior to the standard's effective date, GASB does not require employers to calculate a prior net OPEB obligation (also called a "transitional liability").

In addition to requiring that government employers measure and report the long-term costs of retiree health care and other OPEBs in their financial statements, the OPEB standards also require other disclosures in the employer's annual financial report, including:

- **Notes to the Financial Statements:** Summarizes plan provisions, authority for plan changes, significant accounting policies, contributions, reserves, investment concentrations, funded status, funding progress, actuarial methods and actuarial assumptions.
- **Schedule of Funding Progress:** Shows actuarial accrued liabilities, actuarial value of assets, unfunded accrued liabilities, funded ratio, covered payroll and unfunded liabilities as a percent of covered payroll for the three most recent actuarial valuations.
- **Schedule of Employer Contributions:** Shows the annual OPEB cost, the percent of the annual OPEB cost actually contributed by the employer, and the net OPEB obligation for the three most recent actuarial valuations.

GASB Standards for Employers in Cost-Sharing OPEB Plans

As noted earlier, a cost-sharing plan is a plan that serves multiple employers, under which a single actuarial valuation is performed for all employers combined. As a result, the benefits promised by individual employers are not valued separately. Instead of requiring employers in cost-sharing plans to individually value their OPEB costs, the standards require such employers to recognize their contractually required contribution to the cost-sharing plan as their OPEB expense/expenditure. In addition, the employer's OPEB liability is the cumulative difference between its contractually required contributions and contributions actually made.

Implicit Rate Subsidies

In some cases, an employer provides

Table I

Effective Dates for the GASB OPEB Standards

Total Annual Revenue of the Sole or Largest Participating Employer in the Plan in the First Fiscal Year *Ending After* June 15, 1999	OPEB Statement Will Be Effective for That *Employer* for Periods *Beginning After*	OPEB Statement Will Be Effective for That *Plan* for Periods *Beginning After*
$100 million or more	December 15, 2006	December 15, 2005
$10 million or more, but less than $100 million	December 15, 2007	December 15, 2006
Less than $10 million	December 15, 2008	December 15, 2007

retirees with access to a health care plan, but charges retirees the "full cost" of coverage, based upon pooled experience of the active employees and the pre-65 retirees. In this situation, a hidden subsidy is generated because premium rates that are based solely on retiree claims experience will usually be higher than rates based on the combined or "blended" experience of the actives and retirees. Retirees are usually older and less healthy than active employees. This is one example of an "implicit rate subsidy." Generally, any time active and retiree experience is blended to determine a single rate, an implicit rate subsidy will exist. GASB standards require that such implicit subsidies be measured and included in the accounting for the OPEB plan. This greatly complicates the process and will lead to a need for OPEB measurements in situations where employers may think that there is no plan.

Effective Dates

The OPEB standards will be phased in, with the effective dates determined by the total annual revenue of the participating employer, as shown in Table I.

Determining the Substantive Plan

Under the GASB rules, the "substantive plan" is the basis for determining the OPEB benefits to be included in the actuarial valuation. The substantive plan is not the underlying insurance plan, but rather the promise made by the plan sponsor to plan members for postemployment benefits. It is the plan "as understood by the employer and plan members" at the time of the valuation, as evidenced by written documents and communications, and including established patterns of cost sharing between the employer and members. Legal or contractual limits (caps) on the employer's share of the benefits may also be included, if the limits are assumed to be effective in light of their record of enforcement and other relevant circumstances.

In practice, it can be difficult and somewhat subjective to determine the actual substantive plan. In some cases, plan documents may be out of date, poorly worded or not defined in all situations. Clarification may require formal action by elected officials and would need to be communicated to plan members. Since it may take time to determine the substantive plan, starting the process early may save time and expense later.

To determine the substantive plan, a range of information must be collected. This includes a thorough plan description as evidenced by statutes, ordinances, agreements, and other documents and communications. Demographic and financial information is also necessary, including data about those covered by the plan, including active employees, retirees, beneficiaries and terminated vested employees. Financial data are also required, including claims and premiums, plan assets, benefit payments, contributions and funding policy. The actuary then combines this information with actuarial assumptions, including rates of retirement and mortality, trends in future health care costs and likely investment returns to determine the ARC made to the OPEB plan.

Covered population data. Basic census data in the right form can often be obtained from the employer's pension office. Usually, the pension plan and retiree health plan cover almost the same people. Insurance carriers or third-party administrators can provide enrollment data, claims data and self-supporting rate information. Sometimes, however, insurance carriers can't or won't separate out the retirees from the active members in their data.

Financial data. For a funded OPEB plan, the plan administrator will be able to provide the plan's financial statements and funding policy. For an unfunded or partially funded plan, the actuary, in consultation with the employer and the auditor, will need to develop an interest rate assumption based upon the returns on investments that can legally be made by the employer. In this case, the employer will need to provide information on legally allowed investments and prior rates of return. For plans that are partially funded, both types of information are needed.

Actuarial information. Once data have been assembled, an actuary can do the GASB OPEB calculations. While many of the larger firms and some of the smaller ones are gearing up for this work, it is not inconceivable that the demand for actuarial GASB OPEB services will initially exceed the supply. Smaller plans (those with fewer than 100 total members) have the option to use the "simplified" method instead of actuarial calculations. However, the simplified method is not very simple and it is possible that savings in actuarial fees may be offset at least to some extent by increased audit fees and frustration at the difficulty of the method.

Trust Fund Management

The GASB OPEB standards do not require the benefits to be prefunded or the funds to be held in trust. Nevertheless, the standards offer significant advantages for doing both. If OPEB assets are held in trust and the funding policy is to contribute 100% or more of the annual ARC, GASB allows the investment return assumption to reflect the diversified mix of stocks and bonds held by the trust. As a result, the assumed investment return could, depending on circumstance, be similar to that used by public pension plans, which currently averages about 8%.

However, if OPEB assets are not held in trust (e.g., are earmarked in the employer's general fund), the assumed investment return may only reflect the return on investments available to the employer, which are typically short-term, fixed income securities. At the time of this writing, the yield on short-term U.S. Treasury notes is about 4%. Consequently, OPEB costs are likely to be much higher in an unfunded plan than in a funded one, because investment return will be assumed to play a much smaller role in the funding (e.g., 4% vs. 8%).

As a result, the GASB OPEB standards provide incentives for governments to establish funding vehicles (trusts or equivalent arrangements) for OPEB benefits and to fund the OPEB costs at levels equal to the ARC. Even without such an incentive, funding OPEB benefits is a good idea. Income from investments can, in the long term, significantly offset future required contributions and can help ensure survival of the plan.

To qualify as a trust or equivalent arrangement under the GASB standards, the arrangement must be established so that (1) contributions are irrevocable; (2) assets are dedicated to providing OPEBs to retirees and beneficiaries in accordance with the terms of the plan; and (3) the assets are legally protected from creditors of the plan sponsor or administrator. If the above conditions are satisfied, contributions made by the employer can offset OPEB liabilities in the financial statements, and the actuary can use a higher rate of interest in the calculations, actually lowering the ARC.

In addition to satisfying GASB's requirements, other characteristics are desirable in a funding vehicle. It would be best if plan administration was not too complex, with minimal administrative filings. The vehicle should allow for a diversified portfolio while protecting the assets from creditors. To the extent possible, the vehicle should also provide tax advantages with regard to contributions, investment earnings and benefit payouts. Several funding vehicles are available to governments for funding retiree health care, including 401(h) accounts, voluntary employees' beneficiary associations (VEBAs) and governmental trusts, as shown in Table II. Although the use of general funds to provide OPEB benefits would not qualify as a trust or equivalent arrangement under the GASB's criteria, it is included in the table for comparative purposes.

With the exception of general funds, the funding vehicles in Table II all have the following advantages: They qualify as

Table II

Funding Vehicles for Government Defined Benefit Retiree Health Plans

	General Fund	401(h) Account	Voluntary Employees Beneficiary Association (VEBA)	Governmental Trust
Description	General funds earmarked to pay health care benefits for retired employees, spouses, and dependents.	Separate account established under IRC § 401(h) within the pension trust to provide health care benefits for retired pension plan members, spouses, and dependents.	Separate tax-exempt entity (trust) established under IRC § 501(c)(9) to provide health care benefits for active and retired VEBA members, dependents, and beneficiaries.	Separate trust established as an "integral part" of the state or under IRC § 115 to provide for essential governmental functions, including health care benefits for active and retired employees.
Administrative Complexity	Low – no separate trust fund established.	Low/Moderate – account established within the existing pension trust. 401(h) assets may be invested with pension assets but must be accounted for separately.	High – requires initial IRS approval. However, governments are generally exempt from annual filings of Form 990 (unless there is unrelated business taxable income).	Moderate – requires establishing separate trust, but does not require IRS approval or annual IRS filings. (IRS approval recommended.)
Investment Diversification	Low – typically allows only short-term fixed-income securities.	High – allows broadly diversified investment mix.	High – allows broadly diversified investment mix.	High – allows broadly diversified investment mix.
Satisfies GASB Trust Criteria	No – trust not established.	Yes – assets protected through pension trust.	Yes – assets protected through VEBA trust.	Yes – assets protected through separate governmental trust.
Tax Treatment of Employer Contributions and Investment Earnings[1]	Government contributions and investment earnings are exempt from federal taxation.	Employer contributions and trust investment earnings are exempt from federal taxation.	Employer contributions and trust investment earnings are exempt from federal taxation. Employer may also contribute "use-it-or-lose-it" sick/vacation leave on a tax-exempt basis.	Employer contributions and trust investment earnings are exempt from federal taxation. Employer may also contribute "use-it-or-lose-it" sick/vacation leave on a tax-exempt basis.
Tax Treatment of Employee Contributions	Employee contributions not allowed.	Employee contributions allowed and possibly tax-exempt under IRC 414(h)(2), if mandatory and picked-up by the government. (IRS approval strongly recommended.)	After-tax employee contributions allowed. Employee contributions may not be picked-up by the employer.	After-tax employee contributions allowed. Pre-tax treatment of employee contributions through governmental pick-up is uncertain.
Limits on Contributions	None.	IRC 401(h) subordination limit applies, and may curtail contributions needed to fund retiree health care benefits.[2]	None for government-sponsored VEBAs.	None.
Tax Treatment of Benefit Payouts	Generally, reimbursement of medical costs or insurance are excludible from gross income under IRC § 105(b) to the extent substantiated.[3]			
Asset Reversion	Assets are always the property of the government.	Upon termination and satisfaction of all liabilities, any remaining assets are returned to the employer.	Upon termination, VEBA assets may be (i) transferred to another VEBA providing similar benefits to the same group of members or (ii) distributed to VEBA members so long as highly compensated employees do not receive disproportionate benefits.	Upon termination and satisfaction of all liabilities, any remaining assets are returned to the employer.
Nondiscrimination Rules	IRC § 105(h) nondiscrimination rules possibly apply.[4]	Not applicable to governmental pension plans.	IRC § 505(b) establishes complicated nondiscrimination rules for VEBAs. However, the IRS has deemed these rules to be satisfied by a collectively bargained VEBA sponsored by a governmental employer.	IRC § 105(h) nondiscrimination rules possibly apply.[4]

This table summarizes certain features of certain retiree health care funding vehicles. It is not intended to be comprehensive or to offer legal advice or opinion.

[1] IRC § 106 provides that an employee's gross income does not include employer-provided coverage under an accident or health care plan. Treas. Reg. § 1.106-1 allows an employer to contribute by paying the premium (or portion of the premium) directly or by contributing to a separate trust which provides the accident or health benefits. Rev. Rul. 62-199 extends the exemption to retirees.

[2] IRC § 401(h) subordination limits require that the total accumulated contributions to the 401(h) account for medical expenses (and life insurance, if any) may not exceed 25 percent of total actual contributions to the pension plan (excluding contributions to fund past service credits) accumulated since the 401(h) plan's starting date.

[3] IRC § 105(b) excludes from an employee's gross income amounts received through accident or health insurance for personal injuries or sickness (as limited under IRC § 213) to the extent the payments are reimbursements for medical care of the employee, the employee's spouse, or dependents. IRC § 213(d) defines medical care to include amounts paid for "diagnosis, care, mitigation, treatment, or prevention of disease" as well as for medical insurance and qualified long-term care. Rev. Rul. 61-146 requires that to be excludible from gross income, safeguards must be in place to substantiate the medical costs before reimbursement. Rev. Rul. 85-121 extends the exclusion to retirees.

[4] IRC § 105(h) provides that reimbursements from a self-insured medical plan must not discriminate in favor of highly compensated individuals with regard to eligibility and benefits. Generally, with certain exceptions, at least 70% of all employees must benefit under the plan (or at least 80% of employees who are eligible to benefit, as long as 70% or more of all employees are eligible to participate under the plan). Benefits provided to highly compensated individuals must be provided to all participants.

a trust under GASB's criteria, allow for a broadly diversified mix of investments, provide significant tax advantages and allow employee contributions. Of the trusts, 401(h) accounts have the additional advantages of relatively low administrative complexity, the potential for pretax employee contributions and exemption from the nondiscrimination rules. However, the 401(h) subordination limit could potentially restrict contributions below the level necessary to fund the OPEB plan.

In contrast, governmental trusts and government-sponsored VEBAs are not restricted by contribution limits and so are free to receive the contributions necessary to prefund OPEB benefits. However, governmental trusts and VEBAs are administratively more complex than 401(h) accounts and are potentially subject to complicated nondiscrimination rules. Moreover, the "pick-up" rules that allow pretax employee contributions to governmental pension plans do not directly apply to governmental trusts or VEBAs. Consequently, employee contributions are best done on an after-tax basis unless IRS determines that these contributions can be made pretax. However, employers can contribute accumulated, unused sick leave and vacation time to the trust if the leave is offered to employees on a "use-it-or-lose-it" basis.

The funding vehicle must be properly established and administered. Essentially, this involves retention of legal counsel to draft trust documents, selection of trustees and a custodian, development of an investment policy, and selection and retention of consultants and investment managers as needed. This process will require a larger initial cost than earmarking general funds. However, it is a necessary precondition for crediting employer contributions against the net OPEB obligation in the employers' financial statements. Moreover, when combined with a policy of fully contributing to the ARC each year, it will allow a higher interest rate assumption to be used, thereby significantly reducing annual required contributions while enhancing benefit security for retirees.

Strategy for GASB OPEB Compliance

The following steps can help facilitate a smooth process for complying with the GASB OPEB standards:

1. Determine the substantive plan. Do not underestimate the difficulty of this step. You will need to work with human resources, labor relations, legal counsel, the finance department and others.
2. Formalize the plan document. Consider having the plan document drafted by an attorney. Be careful to provide an accurate description of the extent to which continuation of benefits is or is not guaranteed.
3. Retain an actuary to make preliminary calculations. This will help to further clarify the substantive plan and related obligations.
4. Work with the actuary to define specific data requirements. Collect the data.
5. Review preliminary calculations and potential effects on the government's financial statements and credit rating. Discuss with executive officers, finance officials, labor representatives, bond counsel, etc.
6. Depending on the results of the preliminary calculations, it may be necessary to examine a broader strategy for dealing with OPEB costs.

It is best if this is done as soon as possible. Many governments asked for preliminary estimates before the GASB OPEB statements were even in final form. Starting sooner provides time to determine what additional actions, if any, are needed.

Dealing With the Broader Implications

Health care costs have become burdensome for everyone, and especially for retirees. Moreover, there will soon be a lot more retirees, given that there were close to 80 million people born between 1945 and 1965 and that those born in 1945 are now 60. Since, in most cases, governmental retiree health care has not been actuarially funded, governments may have difficulty providing retiree health care coverage at expected benefit levels. Retirees, for the most part, are not in a position to provide it for themselves and the federal Medicare program has well-known problems. Dealing with the broader implications of retiree health care will require a comprehensive plan that deals fairly with the expectations of all stakeholders.

In plan redesign situations, it is typical to attempt to preserve expectations of present retirees as much as possible, while allowing the greatest changes to affect future hires. In a completely or nearly unfunded plan, more significant plan changes are likely to occur than in a plan with a higher ratio of assets to liabilities. Careful planning, a good communication strategy and reasonable lead times for major plan changes will facilitate acceptance by stakeholders.

Ultimately, making health care affordable will require an array of strategies, designed to reduce costs through competition, share costs among all interested parties, improve wellness generally, and effectively manage disease and chronic conditions. Some examples of these strategies follow.

Cost-Reduction Strategies

One element of a comprehensive health management plan is finding ways to reduce or avoid health care costs by using competition to promote more efficient provision of health care services. Three approaches include group buying power, vendor management and pharmacy benefit strategies.

Group buying power. Under this approach, a number of health plan sponsors work together to purchase vendor services on behalf of a larger population. This leverages competition to encourage efficient services by carriers and vendors, and brings the potential benefits of self-insurance to smaller employers. Group buying can also be used to pool investments and obtain broader portfolio diversification and lower investment management fees for OPEB assets.

Vendor management. Under this approach, information is collected to better measure and evaluate administrator/vendor performance. As more information becomes available about vendor networks, management, systems and processes, it will become easier to identify the cost-effective service providers. Such information is also helpful in setting performance guarantees based on the purchaser's goals and objectives.

Pharmacy benefit strategies. Prescription drug costs have a huge impact on overall health care costs for active employees and retirees. Careful selection of an effective pharmacy benefit manager can help lower prescription drug costs and increase fee transparency.

Cost-Sharing Strategies

Another element of a comprehensive plan is to ensure that all parties pay their fair share of the costs. This includes the federal government, to the extent health care benefits are payable under Medicare. It also includes plan members who should be responsible for a reasonable portion of the costs. Moreover, some cost sharing with plan members will encourage migration to other, less costly, available options.

Integration with Medicare. To the extent possible, it is useful to position the plan as the secondary payer for health care benefits. This approach involves encouraging participation in the Medicare medical program (Part B) and, potentially, the prescription drug program (Part D). Plans that offer prescription drug benefits that are actuarially equivalent to Part D should apply for the Medicare prescription drug subsidy.

Graded vesting. State and local government pension benefits accrue gradually over the employees' working careers. It would not be inconsistent to use a similar approach for accruing retiree health care benefits. For example, a person who works 30 years might be eligible for full health care benefits at the age of 60, while a person who works only ten years might be eligible for a reduced benefit, possibly beginning at 65.

Multiple benefit levels. Choices of different benefit levels allow people to select the level of coverage they wish to receive and how much they are willing to pay. One of the choices could be some type of catastrophic coverage so that a person who is eligible for only a small retiree health care benefit would at least get catastrophic coverage with a minimal net monthly premium.

Health Management Programs

Programs designed to improve the quality of health (and life) for participants have the potential to significantly reduce overall health care costs through smoking cessation, exercise, stress management and screening for cholesterol, blood pressure, diabetes and other potentially chronic conditions. Such programs can help to prevent chronic conditions from occurring and help mitigate them when they do occur.

Disease and Utilization Management

Once chronic conditions occur, disease/utilization management programs can help ensure proper care and prevent complications from increasing the costs of care. This approach uses evidence-based practical guidelines and evaluates clinical, humanistic and economic outcomes with the goal of improving overall health.

Conclusions

GASB's new accounting standards will likely have a significant impact on government retiree health care plan design, sponsorship and funding. It is likely that the increasing costs of retiree health care will cause employers to reevaluate plan design. Moreover, it is likely that the advantages of holding assets in trust will cause governmental employers to establish trusts for retiree health care plan assets.

The GASB OPEB standards will definitely have an impact on governmental financial statements. To the extent governmental employers that sponsor retiree health care plans do not pay the full OPEB cost each year, a net OPEB obligation will accumulate, potentially affecting the government's credit rating. This will happen somewhat gradually, and most employers will be in the same boat. However, all other things being equal, an employer with fewer or less generous OPEB plans will look better in the bond market.

Governments are also likely to seek ways to reduce the expenses associated with their health care plans. However, retirees need health care and a way to pay for it. Ultimately, the key lies in controlling health care costs. While there is no single solution, an array of strategies exists to reduce costs, share costs across interested parties, improve overall wellness, and effectively manage diseases and chronic conditions. **B&C**

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