



Steps for Defending Retiree Health Care Benefits (When You're Not a Technical Expert)

New accounting standards for school districts and state and local governments are beginning to influence labor/management discussions on retiree health care benefits — and the news is not good. That's because the new rules call for employers to calculate the value of the retiree health care benefits they've promised to active and retired workers. Although the standards do not require advance funding, the act of calculating and reporting the benefits' value is catching the attention of administrators, politicians, and the news media, and the standards are sometimes being inaccurately cited to justify *cutting* benefits. Some employers will undoubtedly seek to work with NEA affiliates to achieve the best possible outcomes, but others will try to use the standards to wrest concessions from our members.

The new standards are contained in Statement 45 of the Governmental Accounting Standards Board (GASB), a nongovernmental organization that creates accounting principles. The rules say that, in their financial statements, employers should measure, recognize, and present information on the value of non-pension retiree benefits such as health care, life insurance, vision plans, and dental coverage. These benefits are called "other postemployment benefits" (OPEB). Similar standards already exist for pension accounting. This fact sheet focuses on retiree health care benefits, given their cost. At present, most employers pay for retiree health care benefits on a pay-as-you-go basis, covering the costs for current retirees but putting no money aside to pay for the costs the employer faces in the future. The value of OPEB could be 10, 20, or even 50 times the amount paid annually to cover current retirees' health care benefits.

Even though the subject of the standards is technical, there are many things that NEA affiliate leaders and staff can do to protect retiree health care benefits. To that end, NEA Collective Bargaining and Member Advocacy has prepared this fact sheet on steps for effectively defending retiree health care benefits.

1) Be Prepared to Counter Harmful Myths about the New Standards

Misinformation about the standards can be used to justify cutting members' retiree health care benefits. Among the common myths: the new standards require the funding of benefits (they don't); the bond rating of government entities that don't fund or slash benefits will surely suffer (the bond rating process is a much more subtle process); and the standards create new mandatory expenditures that will bust school budgets (the standards deal with financial statements, not budgets).

- Be prepared to counter myths, misperceptions, and falsehoods. Incorrect information could unnecessarily put you on the defensive, rile your members, and undercut a serious approach to implementing the new standards. For further information, see the NEA Collective Bargaining and Member Advocacy fact sheet "Myths and Facts about New Accounting Standards for Education Employers."

2) Find Out Your Implementation Date for Statement 45 and Whether Early Implementation Will Take Place

Statement 45 establishes different implementation dates for government entities, depending on their annual revenues. Preparing for the new standards can be time consuming, however, and many governments and school districts are already focusing on the standards. Also, employers can adopt the rules earlier than called for by GASB. Find implementation dates at the end of this fact sheet.

- Even if you have heard nothing about the new standards, chances are that preparations to implement them are under way in your local government and school district, so consider actively exploring where things stand so you can determine the steps you need to take.

3) Determine if You Qualify for the Statement 45 Exception

GASB Statement 45 creates an exception for very small plans (those with fewer than 100 plan members) in which a single entity's workers participate. The exception allows eligible employers to calculate liabilities without conducting an actuarial valuation.

- Using the exception will still be complicated, and will likely expand the role of employer administrators; so be prepared to intervene actively in the valuation process.

4) Learn How Your Employer Is Preparing to Meet the Requirements

Regardless of their different implementation dates, employers may have already hired outside experts to determine the amount of retiree health care liabilities, and they may have developed options for funding or cutting benefits. The subject may already have been discussed at board of education meetings, city council hearings, or other venues that deal with financial concerns.

- Figure out who is heading up your employer's efforts to develop a response to the new standards. Understand what the process will be for making decisions. At a minimum, this will help you determine what to watch out for. These steps could also be invaluable in assuring your input in the process.
- Determine whether you have the right to bargain over any proposed benefit changes. If not, figure out how best to have a say in decisions on the subject.
- Check meeting minutes, financial reports, and annual reports of the school district, board of education, county, or other jurisdictions with a stake in your employer's financial issues. You could find valuable information about discussions and actions that have already taken place.
- Talk to other public employee unions to see what they've heard.

5) Strategically Educate Members and Affiliates

Both active and retired members will be hearing a lot more about the costs of retiree health care benefits. State and local NEA affiliates should expect questions.

- No matter what positions you ultimately take, ensuring that members understand and appreciate the retiree health care-related situation could make it easier for you to deal with the issue. For more information on communicating about these issues, see the NEA Collective Bargaining and Member Advocacy fact sheet "Plain Talk about New Accounting Standards for Education Employers."

6) Develop a Negotiating or Advocacy Strategy

Chances are good that the subject of retiree health care costs will come up during negotiations, legislative debates, or health plan renewal discussions. So it makes sense to have a strategy in place for dealing with retiree health care issues in the context of these new accounting standards.

- Be prepared to address retiree health care issues.

7) Understand the Impact of Plan Participant Demographics

The demographic makeup of health plan participants has a big impact on the projected costs of retiree health care benefits — in part because, as workers and retirees grow older, their health care costs generally increase.

- Knowing the demographic trends for members in the plan might help you to understand whether costs estimates for retiree health care are reasonable or exaggerated.

8) Understand the Impact of Key Actuarial Assumptions

Actuaries use multiple facts and assumptions to make estimates of employers' projected costs for retiree health care benefits over the coming decades. Their calculations are very sensitive to even slight changes. Key assumptions include the rate of return they assume employers will make on their investments and the rate at which health care costs will increase. An actuary's report will sometimes contain different sets of projections based on different assumptions.

- Be prepared to ask about the assumptions used to calculate projected retiree health care costs, and know whether the valuation contained multiple projections based on different sets of assumptions. You may need to slow discussions down in order to evaluate the reasonableness of the assumptions. If an actuarial valuation has not already been commissioned or completed, you may be able to help shape the assumptions used. For more information about actuarial valuations, see "A Non-Expert's Guide to Actuarial Valuations," an NEA Collective Bargaining and Member advocacy fact sheet

9) Research the History of Plan Changes and Competitive Bidding

Employers looking to cut costs may quickly try to impose on plan participants more of the health care tab, or may seek to change the way the plan is structured. Knowing how your current retiree health care benefit plan evolved and understanding what cost-saving options have already been explored, taken, or rejected will help. By identifying cost-saving measures that don't change benefits, you may be able to steer discussions away from benefits cuts and ensure that the process for making decisions about retiree health care benefits is as well informed as possible.

- Explore whether steps like the following make sense: an audit for possible cost-saving actions, such as implementing a prescription drug formulary; sending the plan out to bid, which could result in lower costs for an identical plan or a refund from a current provider; and seeking opportunities to merge health plans, which could take advantage of larger risk pools and cut administrative costs.

For Further Information

The NEA Collective Bargaining and Member Advocacy Department has produced a detailed report on the new accounting rules: *Defending Retiree Health Care Benefits: An NEA Guide to Understanding and Preparing for the New GASB Standards*. In addition, the department has prepared other fact sheets on the subject: "Myths and Facts about New Accounting Standards for Education Employers;" "A Non-Expert's Guide to Actuarial Valuations;" and "Plain Talk about New Accounting Standards for Education Employers." The report and fact sheets are available on the Connect website at <http://connect.nea.org/comp/retireehealthcare.htm>.

For further information on this subject, please contact the NEA Collective Bargaining and Member Advocacy Department at (202) 822-7080 or <mailto:collectivebargaining@nea.org>.

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