



Retiree Health Benefits and GASB 45: Fiscally Responsible Approaches that Preserve Retiree Health Security

Since GASB 45 is being implemented nationwide, public agencies everywhere are exploring the myriad of fiscally responsible ways to meet health care commitments that have been made to

employees. Methods have included developing dedicated trusts, investing available resources, taking out bonds, or using budgetary funds to pre-fund a portion of retiree health care liability.

Public agencies like the BART, the County of Los Angeles, and New York City have worked in partnership with employee unions to ensure that benefits remain consistent and the financial health of the agency is preserved.

Bay Area Rapid Transit District (BART)

Negotiations between BART and Amalgamated Transit Union 1555 and Service Employees International Union Local 790 were among the first in the country to address and resolve the long-term funding of OPEB liabilities. They reached the following agreement on health benefits¹:

- To maintain all benefits for active and retired employees, including full family coverage and choice of medical plans offered through CalPERS;
- To limit employee and retiree copays to \$75 a month, effective January 1, 2006, with annual 3 percent increases thereafter, and, under certain conditions to permit the diversion of up to 1.627 percent of payroll that would otherwise have gone to employees' Money Purchase Plan accounts beginning 2013;
- BART to fully fund a Retiree Health Benefit Trust within 30 years, with trust assets exclusively and irrevocably dedicated to the provision of health benefits for BART retirees; and
- To establish a Trust Review committee with union participation.

County of Los Angeles

The County of Los Angeles engaged with the labor unions in the County to jointly develop an approach to the unfunded GASB liability, which was determined to be \$21 billion.

Working in partnership with the unions, the County agreed to pre-fund its post-retirement trust to pay for retiree health benefits. With pre-funding of the trust, the post-retirement liability dropped from \$21 billion to \$13 billion. Short-term costs, however, were expected to increase. The projected set aside for pre-funding was estimated to be between \$300-400 million. The parties agreed that the County pension plan, LACERA, would provide accounting and investing services for the post-retirement trust.

New York City

New York City complied with GASB 45 requirements earlier than required. New York's post retirement benefit liability was estimated to be in excess of \$56 billion.

New York has opted to continue how it pays for retiree health benefits – to “pay as you go” year by year. New York established a post retirement trust, which they are pre-funding. New York also extended the period for employee vesting from 5 to 10 years, which was offset by a reduction in employee contributions and an increase in COLA (cost of living adjustment) for employee pensions.



¹Peter W. Saltzman, “Successful BART Negotiations Over Retiree Health Benefits...” CPER Journal, June 2006.

*The Coalition for Pension Reform (CPR) includes:
IAFF Local 798, IBEW Local 6, IFPTE Local 21, Machinists Local 1414, MEA, Plumbers Local 38, POA, SEIU
1021, SFBTC, TWU Local 200, and TWU Local 250-A.*