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6th Edition

# OTHER POST-EMPLOYMENT BENEFIT LIABILITIES

## THE CONTINUING NEED FOR OPEB REFORM

ALEC
FIFTY YEARS - FIFTY STATES

# OTHER POST-EMPLOYMENT BENEFIT LIABILITIES

American Legislative Exchange Council

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**Other Post-Employment Benefit Liabilities, 6th Edition**
**The Continuing Need for OPEB Reform**

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*Other Post-Employment Benefit Liabilities, 6th Edition* was published by the American Legislative Exchange Council (ALEC) as part of its mission to discuss, develop, and disseminate model policies that expand free markets, promote economic growth, limit the size of government, and preserve individual liberty. ALEC is the nation's largest nonpartisan, voluntary membership organization of state legislators, with more than 2,000 members across the nation. ALEC is governed by a Board of Directors of state legislators. ALEC is classified by the Internal Revenue Service as a 501(c)(3) nonprofit, public policy, and educational organization. Individuals, philanthropic foundations, businesses, and associations are eligible to support the work of ALEC through tax-deductible gifts.

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# INTRODUCTION

Other post-employment benefits (OPEB), also known as the "trillion-dollar acronym," covers all the benefits a retired public employee is eligible to receive in retirement that are not a pension. These benefits include health insurance, life insurance, Medicare Supplement Insurance, and other benefits.[1]

*Other Post-Employment Liabilities, 6th Edition* measures unfunded OPEB liabilities, now totaling over $1.14 trillion, just under $3,500 for every man, woman, and child in the United States. While it is difficult to estimate future liabilities because of variables like health care costs and mortality rates, calculating the present value of future liabilities can provide an estimated valuation of those future liabilities today. Unfunded OPEB liabilities have increased since the previous edition of this report. This is largely caused by the change in measurement of the OPEB liabilities.[2] Given that OPEB reporting by states lags two years behind the current fiscal year, the expectations that unfunded OPEB liabilities would increase in the previous edition of this report were correct.[3]

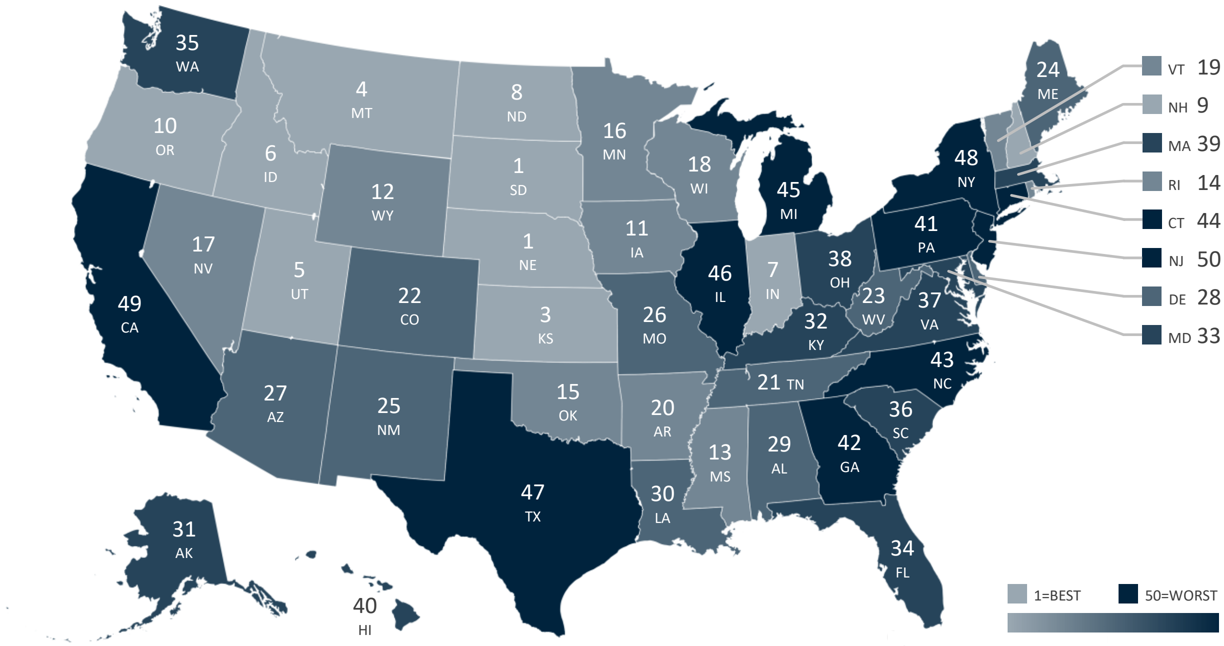
This study uses a risk-free discount rate, a percentage that assumes the state's inability to default on promised benefits, that is lower than the discount rates used in many states' financial documents by at least two percentage points. The discount rate is the rate used to determine the monetary value today of the amount an OPEB plan must pay retirees in the future, also known as the present value of future OPEB liabilities.[4] Generally, the higher the discount rate, the lower the present value of future OPEB liabilities; the lower the discount rate, the higher the present value of future OPEB liabilities.

This year the risk-free discount rate decreased from 2.34% to 1.13%. The risk-free discount rate used to measure pay-as-you-go OPEB plans also decreased from 0.18% to 0.11%. These two decreases have increased the present value of OPEB liabilities. The risk-free discount rate changes year over year. To control for those changes, this report uses a 4.5% fixed discount rate. This report also uses a weighted-average of all OPEB plans observed to measure liabilities. In this edition, the weighted average of all OPEB plan discount rates was 3.95%.

Section 2 further explains how a risk-free discount rate is calculated and why it is used to determine the value of OPEB liabilities. Section 2 also explores the lack of information regarding Actuarially Determined Contributions (ADC). Many states did not provide ADC information for OPEB plans, omitting important information for how the plans were funded. For this reason, the ADC rankings in this edition have been omitted.

State OPEB plans face many of the same problems as public sector pension plans. Without real reforms, defined benefit OPEB plans will place a severe burden on taxpayers. By offering a range of defined contribution options as well as implicit subsidies by pooling retirees together with active employees, states can keep the promises made to both public employees and taxpayers.

**Figure 1, Table 1** **Total Unfunded OPEB Liabilities, 2022**




## UNFUNDED LIABILITIES

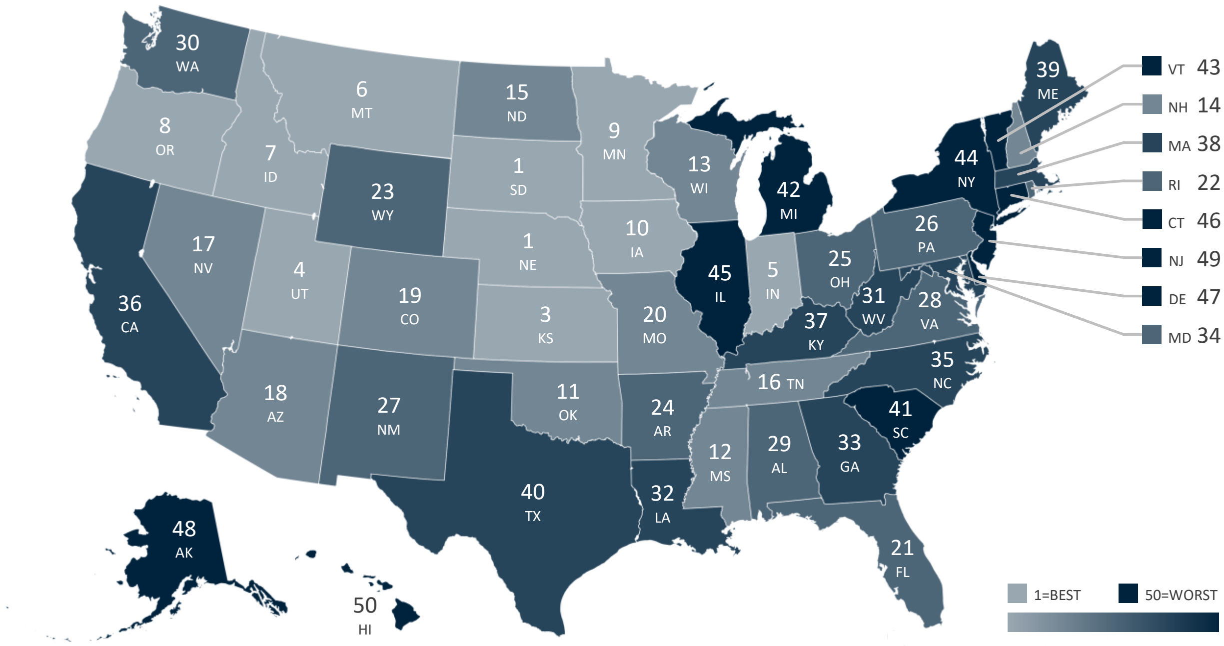
This measures the total OPEB liabilities in each state. An unfunded OPEB liability is the dollar amount of promised OPEB benefits a state owes that is not covered by the state's OPEB assets. It is important to note that Nebraska and South Dakota implemented defined contribution health-care benefits, eliminating unfunded liabilities in these states.

| RANK | STATE | UNFUNDED LIABILITIES |
|---|---|---|
| 1 | Nebraska | $0 |
| 1 | South Dakota | $0 |
| 3 | Kansas | $138,592 |
| 4 | Montana | $109,492,342 |
| 5 | Utah | $132,455,194 |
| 6 | Idaho | $241,215,152 |
| 7 | Indiana | $297,765,765 |
| 8 | North Dakota | $353,520,035 |
| 9 | New Hampshire | $610,883,056 |
| 10 | Oregon | $664,900,401 |
| 11 | Iowa | $704,705,272 |
| 12 | Wyoming | $739,591,348 |
| 13 | Mississippi | $908,931,111 |
| 14 | Rhode Island | $1,042,969,369 |
| 15 | Oklahoma | $1,182,351,154 |
| 16 | Minnesota | $1,241,411,423 |
| 17 | Nevada | $1,975,551,055 |
| 18 | Wisconsin | $2,078,213,358 |
| 19 | Vermont | $3,173,634,556 |
| 20 | Arkansas | $4,075,834,434 |
| 21 | Tennessee | $4,328,449,798 |
| 22 | Colorado | $4,604,615,592 |
| 23 | West Virginia | $5,013,993,856 |
| 24 | Maine | $5,204,167,239 |
| 25 | New Mexico | $5,232,016,483 |

| RANK | STATE | UNFUNDED LIABILITIES |
|---|---|---|
| 26 | Missouri | $5,358,533,610 |
| 27 | Arizona | $5,365,142,501 |
| 28 | Delaware | $11,732,067,279 |
| 29 | Alabama | $13,346,943,962 |
| 30 | Louisiana | $13,386,691,643 |
| 31 | Alaska | $13,786,616,050 |
| 32 | Kentucky | $15,937,354,334 |
| 33 | Maryland | $18,812,329,177 |
| 34 | Florida | $18,875,774,971 |
| 35 | Washington | $20,968,887,182 |
| 36 | South Carolina | $22,244,324,744 |
| 37 | Virginia | $22,618,769,008 |
| 38 | Ohio | $25,010,333,733 |
| 39 | Massachusetts | $25,268,190,972 |
| 40 | Hawaii | $28,223,071,964 |
| 41 | Pennsylvania | $28,693,403,532 |
| 42 | Georgia | $31,150,580,260 |
| 43 | North Carolina | $32,946,146,008 |
| 44 | Connecticut | $33,489,511,141 |
| 45 | Michigan | $44,804,042,300 |
| 46 | Illinois | $103,080,965,566 |
| 47 | Texas | $120,237,023,805 |
| 48 | New York | $133,206,719,282 |
| 49 | California | $140,180,391,367 |
| 50 | New Jersey | $174,904,948,485 |

*Source: Data are based on ALEC Center for State Fiscal Reform calculations.*

**Figure 2, Table 2** | **Total Unfunded OPEB Liabilities Per Capita, 2022**




## LIABILITIES PER CAPITA

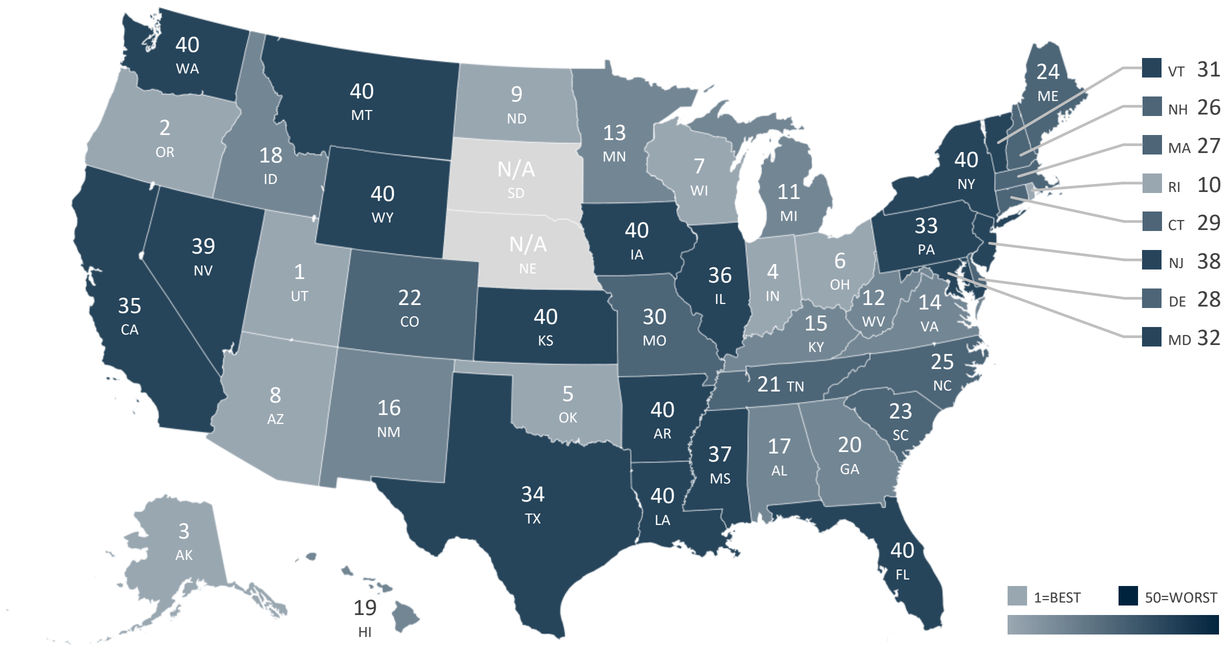
This measures the average OPEB liability per resident in each state, an indicator of potential future tax burdens on residents.

| RANK | STATE | LIABILITIES PER CAPITA |
|---|---|---|
| 1 | Nebraska | $0.00 |
| 1 | South Dakota | $0.00 |
| 3 | Kansas | $0.05 |
| 4 | Utah | $41.32 |
| 5 | Indiana | $44.23 |
| 6 | Montana | $102.45 |
| 7 | Idaho | $134.98 |
| 8 | Oregon | $157.64 |
| 9 | Minnesota | $220.24 |
| 10 | Iowa | $223.36 |
| 11 | Oklahoma | $298.80 |
| 12 | Mississippi | $305.41 |
| 13 | Wisconsin | $356.93 |
| 14 | New Hampshire | $449.27 |
| 15 | North Dakota | $463.90 |
| 16 | Tennessee | $633.82 |
| 17 | Nevada | $641.38 |
| 18 | Arizona | $737.10 |
| 19 | Colorado | $799.59 |
| 20 | Missouri | $873.09 |
| 21 | Florida | $878.85 |
| 22 | Rhode Island | $984.53 |
| 23 | Wyoming | $1,277.89 |
| 24 | Arkansas | $1,350.60 |
| 25 | Ohio | $2,139.63 |

| RANK | STATE | LIABILITIES PER CAPITA |
|---|---|---|
| 26 | Pennsylvania | $2,241.32 |
| 27 | New Mexico | $2,495.20 |
| 28 | Virginia | $2,649.96 |
| 29 | Alabama | $2,722.10 |
| 30 | Washington | $2,753.67 |
| 31 | West Virginia | $2,797.76 |
| 32 | Louisiana | $2,879.61 |
| 33 | Georgia | $2,933.91 |
| 34 | Maryland | $3,111.70 |
| 35 | North Carolina | $3,141.29 |
| 36 | California | $3,547.77 |
| 37 | Kentucky | $3,567.26 |
| 38 | Massachusetts | $3,666.04 |
| 39 | Maine | $3,871.54 |
| 40 | Texas | $4,146.69 |
| 41 | South Carolina | $4,320.37 |
| 42 | Michigan | $4,486.30 |
| 43 | Vermont | $5,086.04 |
| 44 | New York | $6,847.42 |
| 45 | Illinois | $8,134.66 |
| 46 | Connecticut | $9,393.22 |
| 47 | Delaware | $12,048.16 |
| 48 | Alaska | $18,845.89 |
| 49 | New Jersey | $19,691.65 |
| 50 | Hawaii | $19,933.35 |

*Source: Data are based on ALEC Center for State Fiscal Reform calculations.*

**Figure 3, Table 3** | **Funding Ratios, 2022**




## FUNDING RATIOS

This measures the ratio of assets to liabilities in an OPEB plan, expressed as a percentage. The funding ratio is one measurement of the health of a defined-benefit plan. Each state OPEB plan should strive for a 100% funding ratio (assets cover all liabilities). The measurements here use the asset values reported by states and their component units and compares them to the liability values this report calculates using a risk-free discount rate.

| RANK | STATE | FUNDING RATIOS |
|---|---|---|
| 1 | Utah | 70.19% |
| 2 | Oregon | 50.00% |
| 3 | Alaska | 44.03% |
| 4 | Indiana | 43.90% |
| 5 | Oklahoma | 40.97% |
| 6 | Ohio | 39.98% |
| 7 | Wisconsin | 33.14% |
| 8 | Arizona | 30.98% |
| 9 | North Dakota | 29.17% |
| 10 | Rhode Island | 24.33% |
| 11 | Michigan | 21.01% |
| 12 | West Virginia | 19.31% |
| 13 | Minnesota | 19.03% |
| 14 | Virginia | 18.61% |
| 15 | Kentucky | 18.32% |
| 16 | New Mexico | 17.63% |
| 17 | Alabama | 16.28% |
| 18 | Idaho | 14.28% |
| 19 | Hawaii | 11.91% |
| 20 | Georgia | 10.59% |
| 21 | Tennessee | 9.35% |
| 22 | Colorado | 8.44% |
| 23 | South Carolina | 7.26% |
| 24 | Maine | 7.09% |
| 25 | North Carolina | 6.96% |

| RANK | STATE | FUNDING RATIOS |
|---|---|---|
| 26 | New Hampshire | 5.67% |
| 27 | Massachusetts | 5.25% |
| 28 | Delaware | 3.81% |
| 29 | Connecticut | 3.66% |
| 30 | Missouri | 3.59% |
| 31 | Vermont | 3.50% |
| 32 | Maryland | 2.36% |
| 33 | Pennsylvania | 1.97% |
| 34 | Texas | 1.72% |
| 35 | California | 1.27% |
| 36 | Illinois | 0.26% |
| 37 | Mississippi | 0.11% |
| 38 | New Jersey | 0.05% |
| 39 | Nevada | 0.01% |
| 40 | Arkansas | 0.00% |
| 40 | Florida | 0.00% |
| 40 | Iowa | 0.00% |
| 40 | Kansas | 0.00% |
| 40 | Louisiana | 0.00% |
| 40 | Montana | 0.00% |
| 40 | New York | 0.00% |
| 40 | Washington | 0.00% |
| 40 | Wyoming | 0.00% |
| N/A | Nebraska | N/A |
| N/A | South Dakota | N/A |

*Source: Data are based on ALEC Center for State Fiscal Reform calculations.*

**What is OPEB?**

Other Post-Employment Benefits (OPEB) are benefits earned by retired public employees that the Government Accounting Standards Board (GASB) does not consider a pension. This study examined 140 OPEB plans spanning FY 2013-2020, with key findings focusing on FY 2020. Data are drawn from the most current Annual Comprehensive Financial Reports (ACFR) and Actuarial Valuation Reports available at the time of data collection.

Every OPEB plan examined in this report, save a handful of plans in states that have defined contribution OPEB, is structured as a defined benefit plan in which state governments – and sometimes employees – contribute funds into plans during employment. These plans often work in tandem with federal programs such as Medicare to provide various non-pension benefits for retirees.

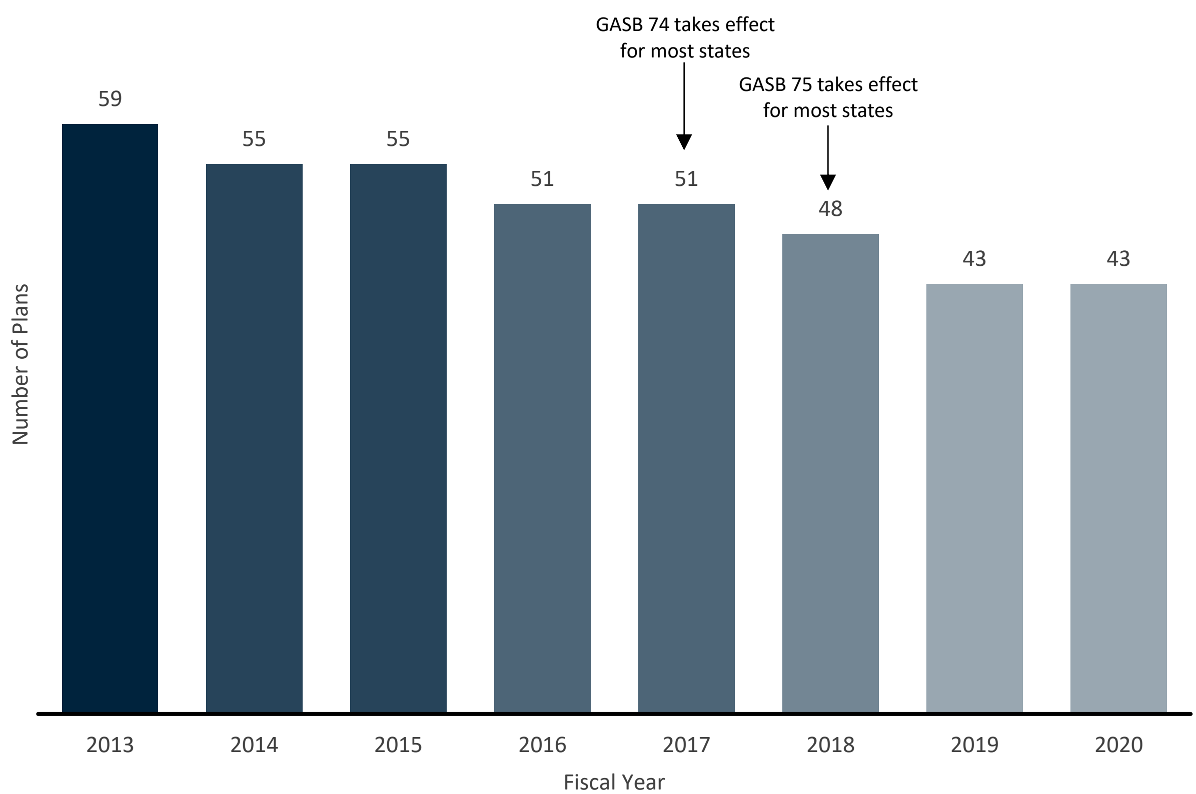
OPEB plans can be structured as defined contribution plans as well. Defined contribution is a type of benefit structure where an employee contributes a fixed amount of money, and employers can match employee contributions up to a designated amount. Defined contribution plans, such as a Health Savings Account (HSA), stay with employees, even if they change jobs. A defined contribution plan is the best way to ensure responsible OPEB liability funding that provides flexible benefits for retirees and protects taxpayers.

As mentioned in previous editions of *Other Post-Employment Benefit Liabilities*, Nebraska and South Dakota are models of reform. It is important to note that Nebraska's and South Dakota's defined contribution plans each report zero unfunded liabilities as well. The two states' funding ratio data are represented as "N/A" due to their transition from defined benefit to defined contribution plans as mentioned in Section 1 and further discussed in Section 4.

**OPEB Funding: Prefunded vs Pay-As-You-Go**

This report distinguishes two types of OPEB funding strategies: Prefunded and Pay-As-You-Go. Under current GASB guidelines, an OPEB plan is not required to have prefunded assets.[5] An OPEB plan is prefunded when assets

**Figure 4: Number of OPEB Plans Considered Pay-As-You-Go (Less Than 1% Funding Ratio)**




*Source: Authors' calculations.*

meet the following criteria, as stated by GASB Statement No. 75:[6]

1. Contributions from employers and the state to the OPEB plan and earnings on those contributions are irrevocable.
2. OPEB plan assets are dedicated to funding OPEB to retired public employees in accordance with the benefit terms.
3. OPEB plan assets are legally protected from the creditors of employers, the state government, and the OPEB plan administrators. In the case of defined benefit OPEB plans, plan assets also are legally protected from creditors of public employees.

If funds do not meet these criteria, the OPEB plan is considered to have no prefunded assets. Unlike public pensions, GASB does not require OPEB funds to be prefunded. In the case of prefunded OPEB plans, they are funded through employer and employee contributions and investment returns, similar to pension plans. These funds are reflected in the OPEB plan fiduciary net position (FNP).

A pay-as-you-go OPEB plan includes plans without prefunded assets and plans that have less than 1% funding ratios. These plans depend on contributions made by the state government on an annual basis. Of the 140 OPEB plans examined, 49 plans are pay-as-you-go plans. Pay-as-you-go plans allow large unfunded liabilities to accumulate, especially when demographic changes occur.[7]

Unfortunately, OPEB contribution data have become increasingly scarce.[8] State governments are required to list contribution information for their pension plans, but the same information is not included for OPEB plans. This is explained in both GASB 74 and GASB 75. In GASB 74, the board recognizes that Statement 43, which set the previous standards for OPEB reporting, required OPEB plans to present a schedule of employer contributions. This requirement was removed in GASB 74 and GASB 75 because “the Board has removed the specific link between (a) the accounting measures of the net OPEB liability and (b) the actuarially determined funding-based measures.” This link was removed because OPEB liability growth is affected by numerous other factors besides contributions from the state. In an attempt to take a more wholistic approach to understanding liability growth, GASB waived requirements for new ADC payments. They allow states the option to show historical trends for these contributions, but do not require them since the implementation of GASB 74 and 75. This was a mistake on the part of GASB because it obscures information to policymakers, public employees, and taxpayers. Now these key stakeholders are kept in the dark about how much is being contributed to fund OPEB plans. This is extremely pertinent information for pay-as-you-go plans because these plans rely heavily on contributions from the state to remain solvent.

There has been some positive development, though, because the number of pay-as-you-go OPEB plans observed have decreased, even as the total number of plans observed have increased. This is shown in Figure 4.

In FY 2013, the oldest year of data available, a total of 60 OPEB systems were considered pay-as-you-go. In FY 2020, the most current year available, there were only 43 pay-as-you-go plans. Of those 43 plans, there are nine states (Arkansas, Florida, Iowa, Kansas, Louisiana, Montana, New York, Washington, and Wyoming) where OPEB is not prefunded at all.

**Health Care Cost Trends, Mortality Rates, and Number of Retirees**

Most OPEB plans use historical trends to estimate future conditions of assets and liabilities. However, history is not always the best predictor of future performance, and OPEB liabilities are more difficult to estimate than pension liabilities. Variables such as health care cost trends and mortality rates increase the variance between OPEB estimates and true performance. The variance in OPEB estimates and actual costs is greater than the variance calculated with pension forecasts. In this report and in previous editions of *Other Post-Employment Benefit Liabilities*, we did not alter plan assumptions about health care cost trends, mortality rates, and the estimated number of public employees retiring each year. Although these variables remain unchanged, these factors deserve some consideration.

Health care cost trends are the most difficult to predict. Many factors affect health care costs, such as changes in laws and regulations as well as innovation in medical treatments, making future costs difficult to predict. Mortality rates were not adjusted to account for the COVID-19 pandemic because the data reflects FY 2020 (July 1, 2019 to June 30, 2020 for most states). The same can be said for the number of employees retiring each year, which saw an increase in the number of retirees as a share of all public employees in calendar year 2020.[9] If public plans underestimate future health care costs and the number of public employees retiring each year while overestimating the mortality rate, they will underestimate the cost of future liabilities, leaving them unprepared to pay future OPEB promises.

**Implicit Rate Subsidies**

The implicit rate subsidy refers to the concept that retirees under the age of 65, and thus not eligible for Medicare, generate higher claims on average than active participants. It is called an implicit rate subsidy because retirees pay a lower premium thanks to being pooled in with younger active employees. The younger active employees pay a slightly higher premium than the market would provide because they are pooled in with retirees, thus the active employees are “subsidizing” premiums for retirees. The premium is called a blended premium because it blends the claims of active and retired public employees.

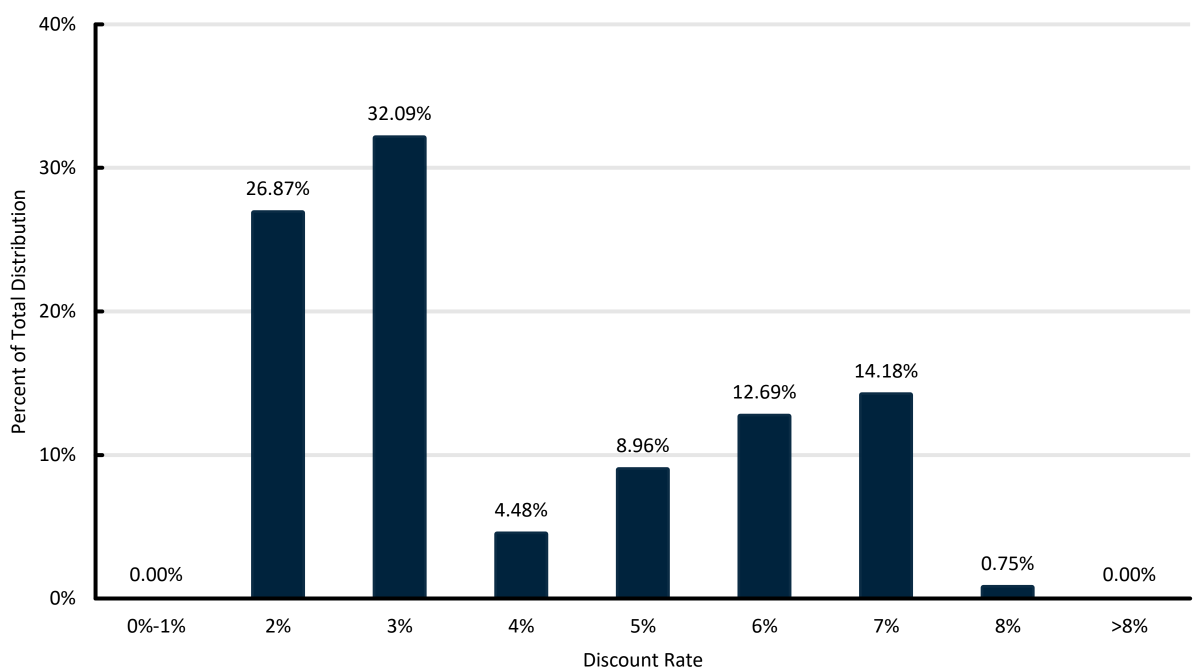
Some states, such as Iowa, use an implicit rate subsidy and blended premiums to help lower OPEB costs. In Iowa’s case, the medical plan is self-insured, so premiums are usually determined by analyzing the claims of both active and retired employees and adjusting for administrative costs. By allowing retirees to stay on their health insurance plan and receive lower premiums, health care costs are lowered for retirees and costs are lowered for taxpayers as well.

**The Risk-Free Discount Rate**

A plan’s investment rate of return is based on a prefunded OPEB plan’s portfolio of assets and what those investments will earn. How much these investments will earn is subject to many factors, including the interest rate and the risks associated with the assets. The assumed rate of return reflects the level of risk in plan assets.

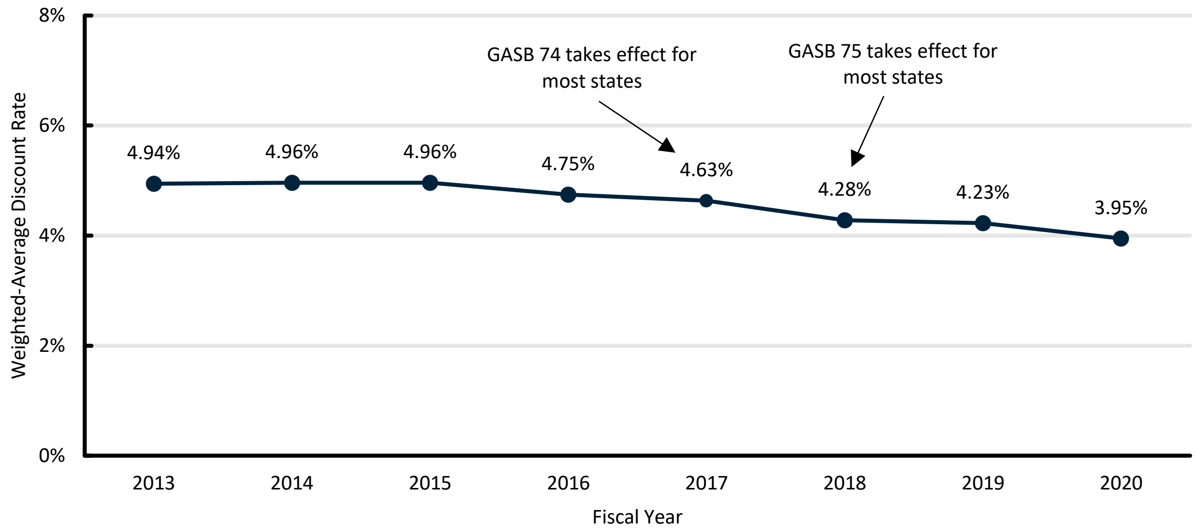
The discount rate, on the other hand, reflects the level of risk in a plan’s liabilities. Last year’s report examined different cases involving states adjusting or reforming OPEB liabilities and the results are mixed – some states were able to adjust OPEB benefits while others were locked into paying those benefits.[10] The goal of the risk-free rate is to create a uniform standard of measurement for OPEB plans across the country. In addition, it provides a common basis of measurement to compare with pension liabilities. This is where this report’s risk-free discount rate for prefunded plans comes in. Using a risk-free discount rate leads to a more prudent valuation of liabilities and stands as a contrast to many rosy assumptions used by many state plans. This report used a discount rate from money market fund yields of 0.18% to normalize liabilities for plans that had no assets, also known as pay-as-you-go plans. A full description of the discounting method is available in the Appendix.

**Figure 5: Distribution of OPEB Plan Discount Rates, FY 2020**




*Source: State OPEB Actuarial Valuations, Annual Comprehensive Financial Reports, and authors' calculations.*

**Figure 6: Weighted Average of OPEB Plan Assumed Discount Rates FY 2013-2020**




*Source: Authors' calculations.*

This report's risk-free discount rate is based on the average of 10-year and 20-year U.S. Treasury bond yields to create a hypothetical 15-year bond yield for the 15-year midpoint of paying OPEB liabilities, which provides a more prudent discount rate. The discount rate calculated from these bond yields is the best proxy for a risk-free rate. The 15-year midpoint comes from GASB noting on pension "amortization of the total unfunded actuarial accrued liabilities (or funding excess) of the plan over a period not to exceed 30 years."[11] Simply put, GASB recommends that no pension plan take longer than 30 years to fully pay its liabilities, thus 15 years is the midpoint for paying off those liabilities. While GASB is referring to defined benefit pension plans, the same logic can be applied to defined benefit OPEB plans. Research has shown that a lump-sum payment in 15 years can be treated as an approximation for the annual benefit liability owed by the plan.[12]

The higher the discount rate, the lower the value of state liabilities. This creates perverse incentives for plan administrators and state policymakers to underreport the value of liabilities. Fortunately, the greater transparency mandated by GASB statements 74 and 75 has shed some light on the true magnitude of OPEB liabilities.

The risk-free discount rate is the standard applied to pensions and utilized in the ALEC pension report *Unaccountable and Unaffordable*. State pension plans often go together with OPEB plans because the same retirees that receive a pension also receive OPEB benefits. In both cases, state governments made a promise to employees to properly fund and manage pension and OPEB benefits. The risk-free discount rate provides a uniform measurement by which to compare both unfunded pension liabilities and unfunded OPEB liabilities. This provides readers with the most accurate picture of the unfunded liabilities burden in each state.

One important metric in which OPEB plans are performing better than pension plans is the lowering of assumed discount rates. Figure 5 shows the distribution of assumed discount rates for FY 2020 as a percentage of all OPEB plans. A total of 61 plans (nearly half of all OPEB plans observed) had a discount rate between 2% and 3%. This steady downward trend is likely due to requirements in GASB 74 and 75 that require the use of a high-quality municipal bond rate for OPEB liabilities that are not prefunded.[13] If plans were prefunded, they were allowed to use higher discount rates up to 7%.[14] In 2020, the median discount rate for FY2020 was 3.62% and the weighted average discount rate for FY 2020 was 3.95%.

Because of these findings, this report includes liability calculations using the 3.95% weighted average discount rate for FY 2020. The 4.5% fixed discount rate, greater than most assumed discount rates for OPEB plans, was originally introduced in *Unaccountable and Unaffordable, 2018* to control for fluctuations in the risk-free discount rate. The fixed discount rate was also utilized in previous editions of this report for the same purpose and to create a common scale by which to compare pension and OPEB liabilities.

Even if states can default on their OPEB promises, the risk-free discount rates serve to normalize the variables. Plans within the same state often use different discount rates. Discount rates also vary across states. The risk-free discount rate creates a common scale that can be used to compare liabilities among different plans within a state and liabilities across states.

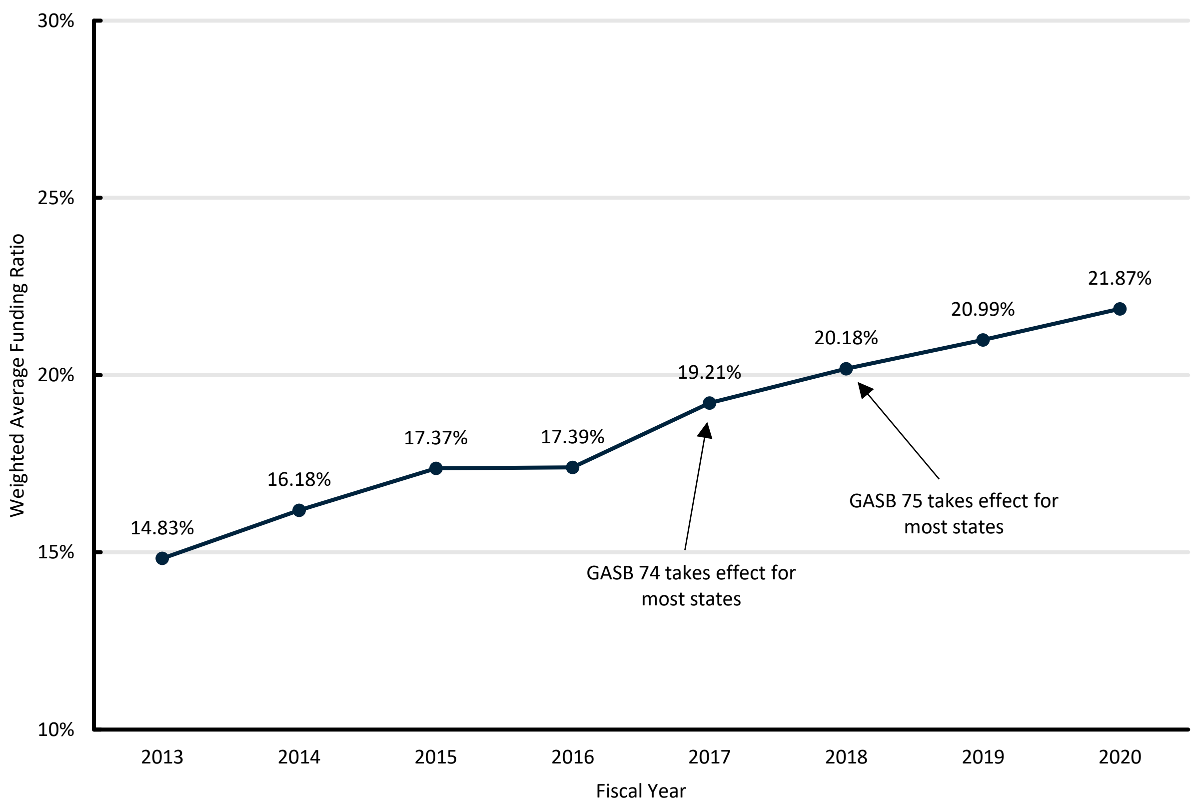
**Funding Ratios**

The funding ratio is the fiduciary net position (FNP) divided by the total OPEB liability expressed as a percent. The FNP is the value of OPEB plan contributions and investment returns that go toward paying the liability and used by an actuary for the purpose of valuation. In previous years, this report has used the term Actuarial Value of Assets (AVA), but most plans used the term fiduciary net position. According to GASB 74, the FNP still refers to major categories of assets held, cash and cash equivalents, receivables, investments, and capital assets. It also consists of the principal components of receivables, contributions from employers, the state, employees, interest or dividends on investments, and investment categories.[15]

Another slightly promising trend in OPEB liabilities is the increase in funding ratios over time. Figure 7 shows the increase in funding ratios using the 4.5% fixed discount rate to account for changes in the risk-free discount rate over time.

While average funding ratios have steadily increased each year since FY 2013, this achievement must be put into its context. First, excellent market returns in FY 2019 allowed assets to grow and funding ratios to improve. As FY 2021 data is released, it is reasonable to expect funding ratios to continue to improve due to market returns in late calendar year 2020 and 2021 with a significant decrease in assets in calendar year 2022. In addition, Funding ratios still reman dangerously low, just below 22% in FY 2020. S&P Global recommends a funding ratio of 100% for all OPEB plans as per 2020 OPEB guidance.[16] Low funding ratios mean massive unfunded liabilities that strain state budgets. It is imperative that plans transition new hires to defined contribution OPEB plans to stop the growth of unfunded liabilities and fund 100% of the OPEB promises already made.

**Figure 7: Weighted Average Funding Ratios Using ALEC Fixed-Discount Rate 4.5%**




*Source: Authors' calculations.*

**Nebraska and South Dakota: OPEB Reform Success**

Nebraska and South Dakota serve as great models for OPEB reform. Nebraska offers the Consumer Focused Health Plan in combination with a Health Savings Account (HSA). With the HSA, Nebraska state employees can use pre-tax dollars to pay for qualified medical expenses, while annual physicals come at no cost to the employee (so long as the physical is at an in-network provider).[17] The money saved in the HSA stays with the employee upon retirement and can be used to pay for medical expenses in retirement. It's up to the employee to determine how much money he or she will need for medical care and make contributions as necessary.[18]

South Dakota adopted a model in which the retiree health plan premiums fully support their projected costs. This has eliminated South Dakota's entire OPEB liability, protecting hardworking taxpayers from bearing the cost of unfunded promises in future years.[19]

Nebraska and South Dakota are the ideal models for state retiree health plans. Plan structures in both states now require current employees and retirees to purchase an HSA, where employees and retirees make tax-free contributions and the states match contributions up to a certain amount as well.[20] In addition, individuals aged 55 or older can make "catch-up" contributions that will not be taxed.[21]

**Iowa**

Iowa has also made laudable reforms. Starting in FY 2018, Iowa switched to an implicit rate subsidy. As discussed in Section 2, this allows retirees to stay on their current insurance plan with younger, active employees, and the insurance premium is a blend of a premium for young active employees and retirees. Iowa also requires retirees to pay 100% of the blended premium, thus covering the state's portion of the ADC. This reform has helped Iowa decrease its risk-free unfunded liability by $25 million since last year (even after the risk-free discount rate was lowered). Unfortunately, the OPEB plans observed in Iowa (the single employer state OPEB plan and the University OPEB plan) are pay-as-you-go, leaving Iowa susceptible to large increases in unfunded OPEB liabilities.

**Indiana**

Indiana has a defined contribution OPEB plan that reimburses retirees and their covered dependents for insurance and medical costs through an established OPEB trust.[22] Employees make contributions to their individual accounts and submit bills to be reimbursed through these accounts. The state also makes annual contributions to employee accounts where the contribution is based on the employee's age.

As the employee approaches retirement age, the annual contributions from the state increase, providing the highest payments to those closest to retirement. In addition, employees can receive bonus contributions from the state if they are eligible for an unreduced pension benefit from the Public Employee Retirement Fund (PERF) and completed at least 15 years of service (or 10 years of service as an elected or appointed officer). The bonus contribution is equal to the employee's total years of service multiplied by $1,000.[23]

By structuring their OPEB plans this way, Indiana has lowered its risk-free unfunded OPEB liabilities by $9 million since FY 2019 (even after the risk-free discount rate was lowered). These reforms will continue to pay dividends as unfunded liabilities steadily decrease.

**North Carolina**

North Carolina has made two key reforms to its OPEB plans. First, in 2006, North Carolina raised the number of years required to qualify for retiree health care from five years to 20 years. Second, in 2017, as part of the state budget, North Carolina lawmakers passed legislation closing the retiree health insurance plan to all new hires after January 1, 2021.[24]

Since FY 2019, risk-free unfunded liabilities have decreased by over $5 billion (even with the lowering of the risk-free discount rate) because of a combination of increased growth in assets as well as closing the retiree health insurance plan to stop the growth of unfunded liabilities.[25] Now that the retiree health insurance plan is closed, employees will stay on their health insurance policy until age 65 when Medicare takes effect.[26]

The benefits of OPEB reform will continue to pay off in North Carolina. As noted by Daniel DiSalvo of the Manhattan Institute, current workers who are eligible for retiree healthcare in North Carolina will retire or leave the public sector but not be replaced.[27] OPEB costs will steadily move closer to zero as current workers quit or retire, with the last group of retirees eligible for the OPEB plan retiring at the end of 2040.

One challenge to the approach North Carolina took is that these OPEB liabilities get shifted from the state balance sheets to federal balance sheets when retirees enroll in Medicare instead of a state sponsored retiree health insurance plan. As unfunded Medicare liabilities grow, they will crowd out federal spending to cover these liabilities. According to the Heritage Foundation, Medicare currently faces a 75-year unfunded liability in excess of $30 trillion.[28] Although it is beyond the scope of this report, Medicare reforms can help reduce those unfunded liabilities as well. Despite these challenges, the achievements of these historic reforms made by Treasurer Folwell and the North Carolina Legislature are commendable.

**Do Not Let Problems Grow into Crises: States with the Fastest Growing OPEB Liabilities**

The states shown in Table 4 had the fastest growing OPEB liabilities in the nation between FY 2019 and FY 2020. While long-term measurements of growth are important, Table 4 highlights how rapidly unfunded liabilities can grow and strain state budgets.

Of these 10 states, New Jersey and New York are the only states that are full pay-as-you-go states. New Jersey saw the largest increase this year because of changes to its OPEB assets. New Jersey's one prefunded OPEB plan saw a net decrease in assets due to large benefit payments and administrative expenses, resulting in a $33 million net decrease in its FNP. This also brought New Jersey's funding ratio back down below 1%, returning its status as a pay-as-you-go state. Tennessee is second on this list because only one OPEB plan has prefunded assets. The Tennessee Group OPEB plan and the Tennessee State Employees' OPEB Plan were closed to all participating employees hired on or after July 1, 2015.[29] Hawaii and Pennsylvania saw increases in unfunded liabilities because plan liabilities increased at a faster rate than contributions and investment performance could grow assets. New York, a state with no prefunded assets, saw a $12 billion increase in liabilities for the plans. Georgia saw a $3 billion growth in liabilities. New Mexico saw an increase in its state OPEB plan because of an increase in the discount rate assumption from 2.86% to 3.62% that was prompted by a $244 million increase in OPEB assets thanks to contributions and investment returns. Alabama saw a $3 billion increase in liabilities. South Carolina saw an $3 billion increase in the Retiree Health Insurance plan and a $2 million liability increase in the Long-Term Disability Insurance.

**Table 4: States with the Top 10 Fastest Growing Unfunded OPEB Liabilities, FY 2019-2020**

| State | Percent Growth in Unfunded OPEB Liabilities |
|---|---|
| New Jersey | 63.24% |
| Tennessee | 23.67% |
| Hawaii | 19.15% |
| Pennsylvania | 18.18% |
| New York | 18.10% |
| Georgia | 16.13% |
| New Mexico | 15.32% |
| Alabama | 15.17% |
| South Carolina | 13.38% |

*Note: This calculation uses the fixed discount rate of 4.5% to control for changes in discount rates over time and adjusts unfunded liabilities for inflation. Previous reports note changes in risk-free unfunded liabilities.*

**The American Rescue Plan Act and OPEB Funding**

In early calendar year 2021, the American Rescue Plan Act (ARPA) was signed into law. ARPA included $350 billion in State and Local Recovery Funds.[30] The U.S. Treasury expressly forbade states from using these federal dollars to "directly or indirectly reduce net state tax revenue through 2024."[31] In addition, the Treasury also forbade states from using ARPA funds to be used to fund public pension systems, but OPEB plans were never explicitly mentioned.[32] When the final rule was issued and took effect April 1, 2022, no clarification regarding OPEB plans was made.[33] This opens the door for the possibility of using federal funds to pay down OPEB liabilities.

If states do opt to use ARPA funds in this manner, however, they must be used responsibly. Using ARPA funds to pay OPEB liabilities should be coupled with OPEB reforms. States should prefund the OPEB promises already made but then transition new hires to a defined contribution OPEB plan such as an HSA.[34]

**IRS Increases Allowable Contribution Rates for HSA**

In 2022, the Internal Revenue Service (IRS) increased the allowable HSA contribution limit by $50 for self-only coverage and $100 for family coverage.[35] The annual inflation-adjusted limit on HSA contributions are now $3,650 per year for self-only and $7,300 per year for family coverage.[36] There have been no changes, however, to the HSA catch-up contribution limit of $1,000 per year, where adults age 55 or older can make "catch-up" payments exceeding the allowable contribution limit set for adults younger than 55.

Increasing the allowable contribution limit helps make defined contribution OPEB a more affordable option, but the limits set by the IRS still constrict how much employees and their families can save for their health expenses per year. Ideally, there would be no contribution limit to HSAs and families can set aside as much as they need for health expenses without being punished.

# CONCLUSION

Maintaining the status quo for other post-employment benefit plans is no longer a viable option. Despite the small decrease in unfunded liabilities in this report, unfunded OPEB liabilities are over $1 trillion nationwide. By ignoring the problem, state policymakers are putting promised benefits in jeopardy and saddling taxpayers with hundreds of billions of dollars in debt. The problem is not exclusively that states are not growing their economies fast enough or need better investment returns. The problems are structural.

The time for OPEB reform is now. By offering affordable options for healthcare through Health Savings Accounts, Flex Spending Accounts, and implicit rate subsidies, states are able to provide quality benefits at affordable costs to public employees and taxpayers. States have made promises to public employees for solvent OPEB benefits and promises to taxpayers for affordable public services. Making the necessary OPEB reforms now allows state leaders to keep their promises to everyone.

This report features a complete dataset from FY 2013-2020 and uses each plan's fiduciary net position (FNP) and Total OPEB Liability (TOL) to calculate unfunded liabilities. However, this report makes several assumptions regarding the structure of state liabilities and the quality of the actuarial assumptions to present a different estimate of each state's liabilities than commonly is found in the state financial reports.

In addition, many plans often use the phrase "rate of return" and "discount rate" interchangeably. The rate of return on investments refers to the level of risk in asset portfolios while discount rate should reflect the level of risk in plan liabilities, as explained above.[37] The assumed rate of return reflects the level of risk of OPEB plan assets. The discount rate should reflect the state's inability to default on OPEB liabilities. Legal protections for OPEB are still open to interpretation by state courts. This report assumes that once states have promised OPEB benefits it cannot default on those promises.

For this report, a 15-year midpoint, using a hypothetical 15-year U.S. Treasury Bond yield, is used to derive an estimated risk-free discount rate of 1.13%. This is calculated as the average of the 10-year and 20-year bond yields. The 15-year midpoint comes from the GASB statement 45 recommendation that an OPEB plan take no longer than 30 years to pay off its OPEB liabilities.[38] As noted by economist Eileen Norcross, "A lump-sum payment 15 years hence can be treated as an approximation of the annual benefit liability owed by the plan."[39] This measurement is also used in the ALEC pension report, *Unaccountable and Unaffordable*.[40] Applying the risk-free rate to both pension and OPEB liabilities allows for more accurate cross-state comparisons than simply comparing liability values as stated in state financial documents. Applying the risk-free rate to OPEB liabilities will also provide a more accurate comparison between pension and OPEB liabilities within a state and between states, although OPEB plan midpoints likely vary more from 15 years than the average pension plan.

Discount rates used for OPEB plans can vary even among different plans within a state. The use of a risk-free discount rate normalizes discount rates across OPEB plans, providing the means to accurately assess present value of liabilities across plans. This provides a basis of comparison for liabilities and funding ratios across the 50 states. Other variables provided by state financial documents such as mortality rates, demographics and health care costs were assumed to be correct and not normalized across plans.

The 1.13% discount rate is a more prudent discount rate than any plans use.[41] The formula for calculating a risk-free present value for a liability requires first finding the future value (FV) of the liability. That is shown in Equation 1 below, in which "i" represents a plan's assumed discount rate:

$$(1)\ FV = TOL \times (1+i)^{15}$$

The second step is to discount the future value to arrive at the present value (PV) of the more reasonably valued liability. That formula is expressed in Equation 2 below, in which "i" represents the risk-free discount rate, fixed discount rate, or weighted average discount rate:

$$(2)\ PV = \frac{FV}{(1+i)^{15}}$$

One challenge is that pay-as-you-go plans assume different discount rates. Prefunded plans invest their assets into long-term securities and equities. For pay-as-you-go plans, plans without assets, this study assumes a discount rate equal to the money market for large deposits, 0.11% for FY 2020, as they are not reported but likely close to the assumed return.[42] Since these money market investments offer lower yields, these pay-as-you-go plans should use a lower discount rate, but many plans do not.

This methodology was developed by Dr. Barry Poulson and Dr. Art Hall in the ALEC 2011 "Public Employee 'Other Post-Employment Benefit' Plans" OPEB report and from the ALEC 2012 pension report by Andrew Biggs.[43, 44] Using a risk-free discount rate normalizes the liability values across plans and presents a more prudent valuation of liabilities than many state benefits plans with more optimistic assumptions, such as higher discount rates.

Data quality has improved since plans have started implementing GASB requirements, which has yielded improvements for utilizing various discount rates for different types of plans, e.g., single employer, cost-sharing multiple employer, agent multiple employer, single employer pay-as-you-go. As we have noted, reporting requirements for Actuarially Determined Contributions is lacking because GASB no longer requires plans to report ADC payments for OPEB.

# Association Health Insurance Standard Model Act

***Summary***

Association Health Insurance plans provide an alternative to employer-sponsored health plans, allowing groups to come together to negotiate better rates. This bill would set standards to allow such plans so long as the association is not operated by an insurance company and its members “have a shared or common purpose that is not solely a business or customer relationship” and have voting privileges in the association’s governance.

**Section 1. Short Title**

This Act shall be known and may be cited as the Association Group Health Insurance Act.

**Section 2. Purpose**

The purpose of this act is to establish standards for offering group health insurance products through an association.

**Section 3. Association Groups**

A.

(1) A policy issued to an association or to a trust or to the trustees of a fund established by an association or associations otherwise eligible for issuance of a policy under this subsection and maintained, directly or indirectly, by the association or associations for the benefit of members of one or more associations.

(2)

(a) An association shall not be controlled by an insurer as evidenced by the operation of the association.

(b) The following factors may be used as evidence to determine whether an association is an insurer-operated association; however, the presence of these factors shall not serve to limit or be dispositive of such a determination:

(i) Common board members, officers, executives or employees;

(ii) Common ownership of the insurer and the association or other eligible group; or

(iii) Common use of the same office space or equipment utilized by the insurer to transact insurance.

(3) An association may use the solicitation of insurance as one of its methods to obtain new members.

(4) The association or associations shall:

(a) Have at the outset a minimum of 50 persons;

(b) Have a shared or common purpose that is not solely a business or customer relationship;

(c) Have been in active existence for at least one year; and

(d) Have a constitution and by-laws that provide that:

(i) The association or associations hold regular meetings not less than annually to further the purposes of the members;

(ii) Except for credit unions, the association or associations collect dues or solicit contributions from members; and

(iii) Association members have voting privileges and representation on the governing board and committees.

(5) The policy shall be subject to the following requirements:

(a) The policy may insure members of the association or associations, employees of the association or associations or employees of members, or one or more of the preceding or all of any class or classes thereof for the benefit of persons other than the employee's employer.

(b) The premium for the policy shall be paid from funds contributed by the association or associations, or by employer members, or by both, or from funds contributed by the covered persons or from both the covered persons and the association, associations or employer members.

(c) An insurer may exclude or limit the coverage on any individual as to whom evidence of individual insurability is not satisfactory to the insurer unless otherwise prohibited by any other applicable law or regulations adopted by the commissioner.

(6) If the commissioner determines that an association uses the solicitation of insurance as its primary method of obtaining new members, the commissioner shall not use this determination as the sole criterion for the disapproval of a group under this subsection.

(7) The insurer shall disclose the following:

(a) All costs related to joining and maintaining membership in the association, such as the membership processing fees, the initial association membership fee and the amount of the annual association dues;

(b) That membership fees or dues are in addition to the policy premium;

(c) That the association holds the master contract;

(d) That the premium charged and the terms and conditions of coverage are determined between the association and the insurer; and

(e) That the premium and the terms and conditions of coverage may be changed by agreement of the association group policyholder and the insurer, without the consent of the individual certificate holder.

(8) If an insurer collects membership fees or dues on behalf of an association, the insurer shall disclose to the members of the association that the insurer is billing and collecting membership fees and dues on behalf of the association.

B. A policy issued to cover persons in a group where that group is specifically described by a law of this state as a group that may be covered for group life insurance. The provisions of the law relating to eligibility and evidence of individual insurability shall apply.

**Section 4. Policies Issued Out of State or to Groups Not Meeting the Requirements of Section 3**

Group health insurance coverage offered to a resident of this state or in connection with employment within this state under a group health insurance policy issued to a group other than a group described in Section 4 shall be subject to the following requirements:

A. For any such coverage to be delivered in this state the commissioner must find that:

(1) The issuance of the policy is not contrary to the best interest of the public;

(2) The issuance of the policy would result in economies of acquisition or administration; and

(3) The benefits are reasonable in relation to the premiums charged.

B.

(1) For any such coverage that is being offered in this state by an insurer under a policy issued in another state, the commissioner must make a determination that the requirements of Subsection A have been met.

(2) The insurer shall file with the commissioner no more than annually:

(a) A copy of the group master contract;

(b) Evidence of approval in the state where the policy is issued; and

(c) Copies of all supportive material used by the insurer to secure approval of the policy in that state including the documentation required in Subsection A.

(3) If the commissioner has not made a determination within thirty (30) days of filing by the insurer, the requirements shall be deemed to have been met.

C. The premium for the policy shall be paid either from the policyholder's funds or from funds contributed by the covered persons, or from both.

D. An insurer may exclude or limit the coverage under the policy on any person as to whom evidence of individual insurability is not satisfactory to the insurer unless otherwise prohibited by any other applicable law or regulations adopted by the commissioner.

**Section 5. Regulations**

The commissioner may adopt regulations necessary to implement this act.

# Health Care Sharing Ministries Freedom to Share Act

***Summary***

Participants of health care sharing ministries financially assist fellow participants with large medical expenses with a result usually provided by health insurance. Due to their voluntary and ministerial nature, these ministries should be recognized in the insurance code as ministries and not as health insurance companies. This model policy is designed so that the state insurance code specifically recognizes HCSMs as ministries and not insurance, and not subject to the additional requirements of the state insurance code.

**Section 1.** Short Title. This Act shall be known as the "Health Care Sharing Ministries Freedom to Share Act."

**Section 2.** Exemption of Health Care Sharing Ministries from the Insurance Code.

A health care sharing ministry shall not be considered to be engaging in the business of insurance for purposes of this {insert code, title, chapter, or appropriate description that describes the state's regulation of health insurance statutes}.

**Section 3.** Definitions. "Health care sharing ministry" means a non-profit organization that is tax exempt under the Internal Revenue Code which:

Limits its participants to those members who share a common set of ethical or religious beliefs;

Acts as a facilitator among participants who have financial or medical needs to assist those with financial or medical needs in accordance with criteria established by the health care sharing ministry;

Provides for the financial or medical needs of a participant through contributions from other participants.

Provides amounts that participants may contribute with no assumption of risk or promise to pay among the participants and no assumption of risk or promise to pay by the health care sharing ministry to the participants;

Provides to the participants monthly the total dollar amount of qualified needs actually shared in the previous month in accordance with criteria established by the health care sharing ministry; and

Conducts an annual audit which is performed by an independent certified public accounting firm in accordance with generally accepted accounting principles and which is made available to the public by providing a copy upon request, or by posting on the organization's website.

Provides a written disclaimer on or accompanying all applications and guideline materials distributed by or on behalf of the organization that reads, in substance: "Notice: The organization facilitating the sharing of medical expenses is not an insurance company, and neither its guidelines nor plan of operation is an insurance policy. Whether anyone chooses to assist you with your medical bills will be totally voluntary because no other participant will be compelled by law to contribute toward your medical bills. As such, participation in the organization or a subscription to any of its documents should never be considered to be insurance. Regardless of whether you receive any payments for medical expenses or whether this organization continues to operate, you are always personally responsible for the payment of your own medical bills."

**Section 4.** {Severability Clause}

**Section 5.** {Repealer Clause}

**Section 6.** {Effective Date}

# The Open Financial Statement Act

***Summary***

This act replaces PDF-formatted audited financial statements of state, country, municipal, and special district filings with filings utilizing Interactive eXtensible Business Reporting Format (iXBRL). It also establishes these iXBRL audited financial statements as the only annual financial filing required from public agencies by the state, reducing duplicative reporting efforts.

**The Open Financial Statement Act**

Whereas state and local governments are filing their audited financial statements in outmoded PDF formats,

Whereas local governments are required to file both audited PDFs and unaudited Annual Financial Reports containing duplicative or contradictory information,

Whereas many pension systems, fiduciary trusts and component units also file audited financial statements in outmoded PDF formats,

Whereas transitioning these documents to machine readable formats will ease the identification of fiscally distressed local governments and will increase liquidity in the municipal bond market,

Therefore, the State will undertake this transition.

**(1) Local Government, Pension Systems, Fiduciary Trusts and Component Unit Financial Statement Format**

It is the intent of the legislature to replace PDF-formatted audited financial statements with filings utilizing Interactive eXtensible Business Reporting Format (iXBRL). It is also the intent of the legislature to establish these iXBRL audited financial statements as the only annual financial filing required from public agencies by the state. To implement this change:

(i) The governor shall appoint a seven-member commission including(1) a representative from the State Controller's Office, (2) a representative from the State Auditor's Office, (3) a representative of a city or county, (4) a representative of a special district, (5) a government accounting researcher affiliated with a state university, (6) a municipal bond investor and (7) an information technology professional employed in the private sector. This body shall be named the "Open Financial Statement Commission" or OFSC.

(ii) The legislature appropriates $_______to the OFSC with the following restrictions: (1) none of the appropriation may be spent on member or staff salaries and (2) no more than $_______ of the appropriation may be spent on committee meetings.

(iii) The commission shall choose contractors to (1) build one or more XBRL taxonomies suitable for state, county, municipal and special district financial filings and (2) create a software tool that enables financial statement filers to easily create iXBRL documents consistent with the taxonomy or taxonomies. Contractors shall be recruited and selected through an open Request for Proposals process. The OFSC may require the use of existing taxonomy(ies) when prudent to reduce costs and increase comparability between entries.

(iv) The commission shall evaluate the contractors' prototype taxonomy and filing software and specify any changes it deems appropriate. It shall require that all work be completed no later than <<Date0>>.

(v) The commission shall submit a report to the legislature no later than <<Date1>> describing the work products and advising of its decision as to whether to implement the taxonomy or taxonomies.

(vi) If the OFSC deems the work products adequate, all governmental financial statements pertaining to fiscal years ending on or after <<Date2>> must be filed in iXBRL format and must meet the validation requirements of the relevant taxonomy.

(vii) If the OFSC deems the work products unacceptable, it shall instruct its contractors to make necessary revisions or replace the original contractors with new ones capable of making the necessary revisions. The commission will then make a second implementation decision no later than <<Date3>> and provide a second report to the legislature no later than <<Date4>>. If the commission fails to recommend an implementation by <<Date5>>, it will be dissolved, and the filings will remain in their current formats.

(viii) Once a government commences filing in iXBRL it will no longer be required to file a PDF, submit an Excel-based AFR or complete any online forms requesting annual financial statistics. If any state agency is unable to use iXBRL financial statements by <<Date5>>, it will be the Department's responsibility to convert the iXBRL filing into PDF for its internal use.

(ix) The OFSC will be tasked with identifying changes to reporting requirements that bring AFR into alignment with CAFR to facilitate the latter satisfying the requirements for the former.

**(2) State Government Report Format**

For fiscal years ending on <<Date 5>> and thereafter, the State Controller shall submit the comprehensive annual financial report in Interactive eXtensible Business Reporting Format (iXBRL) format if the Open Financial Statement Commission described above has mandated the use of this format by local governments.

# Resolution in Support of Pension Reform Bridge Funding and Compliant OPEB Liability Funding

***Summary***

This resolution acknowledges the need to address unfunded pension and OPEB liabilities and supports the use of a proven Pension Shortfall, Pension Reform Bridge Funding and OPEB Liability Funding Tool.

**Whereas,** State, County and Municipal Governments have accrued trillions of dollars in unfunded Pension and OPEB Post-Retirement Benefit Liabilities over the course of many decades.

**Whereas,** these unfunded Pension and OPEB Liabilities have been recognized by the Bond and Credit issuing Institutions as a matter of grave concern that can and will affect the Bond and Credit Rating for all Public Sector entities that do not take compliant steps toward eradicating these liabilities.

**Whereas,** the Government Accounting Standards Bureau (GASB) has mandated that full disclosure of the Net Pension and OPEB Liability, on the Governmental Balance Sheet, unless a GASB compliant liability payment plan is executed and duly followed that will allow for the liability plus accruals (ARC Payment) within 30 years.

**Whereas,** the budgetary constraints facing all Governmental entities would preclude virtually all States, Counties and Municipalities from paying out of current and future Budgets an amount that would satisfy the GASB compliance mandate of 30 years to pay off the current Pension and OPEB Liability balances plus accrual.

**Whereas,** ignoring the effect these unfunded liabilities will have on future credit and Bond ratings is at best “kicking the can down the road” for not-too-distant future legislators to deal with in an even more precarious economic environment.

**Now Therefore Be It Resolved,** that the legislators of (insert State) are on record as supporting an initiative to explore the utilization of a Private Sector Funding Tool that has been utilized, very successfully, in the retirement of very large Pension shortfall and OPEB Liability funding over several years. This initiative will allow for complete and total investigation and due diligence by the governmental entity to make sure that all parties are informed and comfortable regarding the funding tool and the financial expectations upon entry into the solution and exit from the solution.

**Be It Further Resolved,** that each governmental entity will be treated as a unique situation and the recommended Solution will be tailored to the needs and desired outcome of the entity. All Solutions are “scalable,” within reason, to allow for each entity to enter into the Solution at a level they are comfortable with.

**Be It Further Resolved,** each governmental entity has pension and other post retirement benefits that were promised to current retirees and future retirees as a condition of employment. To greatly reduce or eliminate these critical benefits is not something any governmental entity takes lightly. Yet without alternative funding, that does not require millions of dollars out of current and future budgets, it would seem the only recourse is to negatively impact the retiree’s lives by reducing or eliminating these benefits.

There is a proven Pension Shortfall, Pension Reform Bridge Funding and OPEB Liability Funding Tool available and it is inherently important that the elected legislators take the necessary steps to explore the viability of implementing and utilizing this tool for the benefit of all.

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