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OPERS PROVIDES EDUCATION AND SUPPORT FOR PUBLIC EMPLOYERS ON NEW GASB STANDARDS

In 2012, the Governmental Accounting Standards Board (GASB), an independent organization that establishes standards of accounting and financial reporting for U.S. state and local governments, issued new standards (Numbers 67 and 68) for financial reporting requirements of public pensions. They are effective for public employers' fiscal years beginning after June 15, 2014. Although GASB has no enforcement authority, public employers must comply with the standards in order to receive a clean audit.

From GASB's perspective, it believes that pension benefits are a part of an employee's overall compensation, and to the extent that a pension system is not fully funded, employers share in the liability for the unfunded portion of the pension benefits. OPERS testified before GASB and influenced the preliminary standards to some extent, but the final standards are solely the creation and requirements of GASB, not OPERS.

It is important to note that GASB standards 67 and 68 are accounting standards, with no impact to funding, and do not affect the actual liability or required contributions of Ohio's public employers.

Under the new GASB standards, Ohio's public employers are required to recognize on their financial statements a share of the net pension liability of Ohio's public retirement systems in which they have employees, even though the retirement systems are responsible for managing the net pension liabilities with the oversight of the Ohio General Assembly and the Ohio Retirement Study Council. The responsibility for the funding and management of unfunded liabilities remains with the boards of trustees of the respective pension systems. Employers are still only required to remit their statutory contribution rate. Thus, there will be no impact on employers' cash flows due to GASB. However, at least one bond rating agency has adjusted its methodology in their approach to assessing municipal debt. Other rating agencies will adjust pension data using uniform and more conservative assumptions for comparative purposes. For local governments whose bond ratings have recently been downgraded, they were not downgraded solely because of pension liabilities. There are several other factors involved in such assessments that can cause a reduced bond rating.

Above all, the new standards should not cast a shadow on the strength of Ohio's public pension funds. Ohio law already requires a 30-year-or-less amortization period for the funding of accrued pension liabilities. OPERS' amortization period is currently 24 years with a funded ratio of 82 percent. That means for every dollar we expect to pay out in future benefits, we have 82 cents in the bank right now. And, at the time our members retire, OPERS sets aside money to fund that member's entire pension benefit. OPERS, in conjunction with the oversight of the Ohio General Assembly and the ORSC, is and will continue to be responsible for managing the net pension liability.

OPERS has been working with Ohio's public employers in preparation for the new standards. OPERS performed a complete test implementation in 2013 of the new standards with a volunteer test group representing a broad cross-section of our public employers to determine potential compliance issues. This test allowed us to develop coordinated education materials and a thorough communication plan. OPERS is also working closely with its external auditors and the Ohio Auditor of State on a coordinated audit approach for all pension systems.

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Using the lessons learned in the test implementation, OPERS has applied a multi-faceted educational program designed to address different learning styles and levels of financial knowledge with various audiences, including public employers, key stakeholders, and the general public. To date we have conducted 15 topic-specific webinars with employers that include both an executive track and operational track. We have also created an online forum for employers to ask questions and provide for a secure discussion environment. In addition, we are working with legislators and are prepared to brief the legislature and their staff. We have had constructive discussions with rating agencies and financial institutions, as well as members of the media. OPERS also developed an internal implementation guide in order to thoroughly document our planned approach, obtain external auditor approval, and eliminate any misinterpretation of the standards.

Additionally, the Ohio General Assembly passed HCR 40, a concurrent resolution, early in 2014 in an effort to increase awareness and understanding of the new GASB standards. The purpose of HCR 40 was to educate the public on the new standards and ensure that the new accounting requirements are not misunderstood. As indicated in the resolution, the GASB standards are intended to enhance the decision-usefulness of pension-related information in financial reports, improve transparency and accountability, and standardize valuation practices to enhance comparability for similar types of pension plans.

OPERS concerned about additional GASB proposed standards for OPEB

Before the implementation of GASB 67 and 68, in May 2014, GASB issued two exposure drafts that would change the accounting and financial reporting requirements for the cost of postemployment benefits other than pensions, commonly known as “Other Post-employment Benefits” or “OPEB.” For OPERS’ participating employers, this impacts health care reporting much in the same way that GASB 67 and 68 impacted pension benefits reporting. The intent of the proposed standards is the same: GASB’s perspective is that other postemployment benefits, including retiree health care, are a component of the compensation package and to the extent the benefit is not 100 percent funded, employers should recognize this unfunded health care liability in their financial statements.

OPERS’ position is that retiree health care provided by OPERS is discretionary and thus, may be modified or discontinued, if necessary, by the Board of Trustees. OPERS’ goal is and has been to provide health care coverage that can be supported with available funding. While OPERS supports transparency in aligning liabilities and expenses, pension plan design and governance differ greatly from health care plan design and governance. The only requirement on Ohio public employers is the statutory contribution rate that public employers make each month. As with GASB 67 and 68, OPERS’ Executive Director testified before GASB this month to express our concerns over the proposed OPEB standards. That testimony is available on the OPERS website (www.opers.org).

2015 OPERS Retire Health Care Plan OPEN ENROLLMENT coming in October

By now all OPERS benefit recipients have received an Open Enrollment Guide mailing from OPERS with information about the 2015 health care plan. During the month of October, retirees have the opportunity to make changes to their current health care plan for 2015 either by phone or mail. ***OPERS must receive changes no later than October 31, 2014.*** Those who do not wish to make any changes for 2015 do not need to complete the Open Enrollment Change Form. Other than some prescription drug formulary changes the health care plan is substantially the same as the one offered in 2014.

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