



Minutes from the GASB 45 Taskforce September 16, 2008

The ninth meeting of the GASB 45 Taskforce was convened September 16, 2008 at 5:36pm.

Attendance:

Members of the Task Force: Vince Pasquale (Binghamton University), Mark Whalen (Legislature), Jerry Marinich (Legislature), Brian Mather (Legislature), Alan Hertel (United Way), John Fitzsimmons (Mang Insurance).

Internal Members of Task Force: Michael Hanbury (Legislature), Jerome Knebel (Finance Dept.), Bob Murphy (Risk & Insurance), Michael Klein (Personnel), Alex McLaughlin (Audit), Grant Newton (BCC), Aaron Marcus (Law), Jennifer Royer (Legislature).

Union Representatives: Chris McAuliffe (AFSCME 1912) and Pamela Shear (CSEA 6150).

Others Present: Don Wager (Public), Anthony Mazza (Public), Ron Jones (Public), James Baumgartner (Public), M. Kasimirsky (Public), Fred Russell (Public), Donald Tarr (Public).

Chairman Whalen - Apologized for missing the last meeting due to a conflict with his work schedule. He stated that at this meeting, a number of things would be covered. First, the Governor finally vetoed and took action on the bill we have been watching. If you read his response, you can tell that he really gets it. He has people who understand the issue. He stated that he'll have his own task force which will include people from municipalities – which are the entities paying the bills. The veto means that the state won't handcuff the counties and municipalities – which is good thing.

At the last meeting we got hung up on some language about funding. This is one of the areas we need to focus on. We know we have this unfunded liability for promises to retirees and employees and we also need to figure out how we'll treat new employees. A

lot of legislators have come to the Chairman and said that they do not want to change benefits for people who are already retired. So the question is; what changes can we make for new employees who haven't decided whether they will work for Broome County yet? Do we want to set up an irrevocable trust – which is currently not legally possible, although the comptroller has a bill in the Senate and Assembly to make it legal?

Broome County Comptroller, Alex McLaughlin - Stated that at the last meeting he brought up how only 1 out of 5 options were legal. There is a difference between funding the liability and structuring a benefit plan. We have this liability and how will we fill that hole with money? – The only current option is a governmental trust fund.

Chairman Whalen - Stated that he is not sure what arguments could be made against allowing governments to put investments in the same investment pool as the pension fund. This would allow money to earn more interest. We also need to look at how to structure the benefit plan – all 5 are options, except for the 414H. For paying for the liability, there is only the governmental trust option. Because we don't presently have an investment vehicle in place, we can only recognize a 4% return. If we could have an investment vehicle we could possibly see 8%+.

Private Citizen- Pointed out that insurance rates, in his experience, are going up 12%.

Chairman Whalen - Stated that, even if our rate of return within our future irrevocable trust is only 8%, it is still better than 4% and far preferable to what we are presently doing.

In response to a question it was stated that the actuarial picture of \$340 million for the next 30 years is a snapshot at one time. It can change. It's a bit nebulous since it is open to change due to many factors. Currently we subsidize retirees at 85%. If that changed to 75%, the actuarial snapshot would change also.

Private Citizen- Asked where the \$340 million unfunded liability number comes from if the cost is only \$35 million this year.

Chairman Whalen - Answered that \$340 million is the actuarial estimate of what the expected cost is over the next 30 years. It is the net present value actuarial estimate of a stream of expected future payments.

Private Citizen- Asked whether we were estimating that the costs will go up – and whether people will drop off when they go on Medicare. The attendee found it hard to believe that things will cost \$340 million dollars.

Chairman Whalen - Responded that \$340 million is what our actuaries estimate for the next 30 years with certain inflation rates and Medicare included into the entire picture. GASB does not call for us to fund this cost yet. However, we aren't currently setting aside any money either. If we do not deal with this issue, it will have difficult and painful implications down the road – it will in effect send the bill to our children for

governmental services that we have already received. The question is how do we change it and when. If we do make small changes it will lower the 30 year cost.

Chairman Whalen - There is a disconnection between what this committee is doing and with legislators' understanding of this issue. This taskforce will make a report to the Legislature. Then a standing committee of the Legislature will be formed devoted to this issue. It is such a complex issue that a permanent committee is needed. That does not diminish what we are doing here, though. A lot of people wonder if OPEB is such a big deal.

Legislator Mather - Pointed out that some wonder if it will go away if it's just ignored – but that doesn't work.

Chairman Whalen - Stated that businesses will be shopping different communities to see what tax options there are – they will use this liability to choose between us and other communities using that number to estimate how taxes will go up, during the 30 year life of their investment.

Alex McLaughlin - Stated that he compiled excerpts of pages from Broome County's Comprehensive Annual Financial Report to show the taskforce what is going on (sheets were then passed out). He stated that people are looking at the full accrual statement. \$18.48 million represents how much of the GASB actuarial amount we need to pull into our budget sheet this year. On page 110 – it shows how that number is determined. It's a handout from our actuaries. \$23.5 million is the annual required contribution which comes from two places – amortization, and also growth of that number, based on estimated accruals during that year. The Amount spent on retiree health benefits is \$5,079,479 during the period we're reporting in – therefore \$23.5 million minus \$5.079 million = \$18.48 million. If next year we do the same thing again, then it becomes \$18.48 million multiplied by 2. Then 36 million will be the number we are dealing with. In the first paragraph of page 111 – that's where you see the effect of not having a trust fund in place. We could reflect a higher number there if we had a trust fund.

Chairman Whalen - Stated it will be more than \$18 million – the net effect in 4 years will be that we as a county will have negative net assets. You'll see tax increases all the way along – costs are going up. We won't know until Thursday with the County Executive's budget address. Was it elected officials who didn't know what they were doing or taking the easy way out and pushing the cost to the future? It's actually nothing that nefarious at all. We started out providing the health benefit when costs were lower – there was less medical technology and people didn't live as long. Actuaries have shown that the life expectancy for Americans gets higher every year and medical costs go up every year. So we need to understand the cost of what we are providing and find a fair and equitable way to deal with it. We can't do this for several generations more.

Private Citizen - then asked whether this cost only applied to retirees.

Chairman Whalen - Stated that no – it's for all employees. It's an estimate which also includes when current employees retire.

Legislator Mather - Pointed out that before this rule, ignorance was bliss.

Mr. Pasquale - Stated that before GASB 45 no one had drawn attention to the issue and we didn't realize the cost. Chairman Whalen added that once it is on paper, we can see the effect on taxes and implications for the future.

Chairman Whalen - Then stated that this isn't about going after peoples' benefits. It's about funding them and making incremental changes that will make providing benefits more affordable. There are some municipalities still paying 100%, we currently pay 85%. Everything will be on the table because of this rule. We will hopefully still always have the ability to afford providing retiree health benefits – but we're not sure how long we will be able to afford to continue at the 85% level.

Chairman Whalen - Pointed out that not every county is as far along as us, and there are a few which are ahead of us.

Private Citizen- Asked what the life expectancy is of men and women in this country.

Legislator Mather - Answered that it's in the high 70's for women and mid 70's for men. If you live past your 60's, then it's higher because you've made it that far.

Chairman Whalen - Started discussing what needed to be in the report from the Taskforce. He stated it would cover the following questions: What is GASB? How is it affecting Broome County specifically? What are the components of the unfunded liability? What does it mean for retirees? What does it mean for current employees? What does it mean for future employees? We're going to need ideas from the members of the taskforce. We're going to start writing a report and we need to know what to focus on. We believe that the keystone should be lobbying the State Legislature to move the Comptroller's bill through so we can do something about our unfunded liability. The key is a very forceful statement of need to address this issue. Without that, it will just be another report sitting on the shelf.

Then the next question is how do we go from a report from this taskforce to proposed legislation? We need to bridge this disconnect.

Legislator Mather - Stated that GASB 45 just opened a door and said 'wake up and look at this'.

Chairman Whalen - Said that it's forcing us to come up with a plan.

Mr. Pasquale - Stated that we need to look at 2 things: Any attempts to fund the current unfunded liability – such as getting a governmental trust fund and lobbying to have the comptroller's options. Second, what will we do to keep our number of \$340 million

dollars from getting bigger – or making it smaller; what adjustments can we make. Further, he suggested working on the second idea, first.

Chairman Whalen - Agreed that we need to figure out what we can do with people who have yet to come to work for Broome County. However, it's not as easy – we need to have negotiations with unions and maybe set up a defined contribution plan. Nassau County just changed their eligibility requirements from 1 to 5 years that people have to work in order to be eligible for retiree health benefits. We need to avoid passing this problem on to future generations.

Legislator Marinich - Asked whether there would be a way for us to measure the impact of solutions we theorize.

Chairman Whalen - Stated that our actuaries have offered to punch in the numbers of our proposal changes to see if we have come up with workable solutions.

Chairman Whalen - Stated that we will be compiling a preliminary report and would be getting it to members before the next meeting. It will provide us with a starting point. Next, he started discussion on Patterson's veto of A. 9393-A and S. 6457-A. He stated that Patterson's veto does seem to open up some venues of adjustment – we're just not sure what those options will be.

Mr. Pasquale - Pointed out that there may be an attempt at a veto override. He believes that there are 30 days to come up with that action.

Michael Hanbury- Pointed out that the veto was specifically against a one year moratorium on changing retiree benefits without changing employee benefits. There were never any restrictions on benefit changes for future employees.

Chairman Whalen - Stated that this veto just essentially took the handcuffs off. We need to look at future employees who can make a decision about their future when they see the plan. We need to look into how a county match of employee contributions would look. Whether it would be a portable plan – so if people switched jobs it could move with them. This forces all levels of government to be fiscally accountable. They need to make sure that they can provide the benefits they choose to everyone.

Then it was asked, if an employee switched jobs, whether the county would give the money that had already been matched to them. What if we give them money and then they leave.

Chairman Whalen - Pointed out that the vast majority of employees come and stay or come late in their career and work for 10 years and then are covered. We could limit the portability of an HSA for 1-5 years or only allow them to take the portion which they contributed. Whatever the plan is, we need to try to develop consistency across municipalities, so that we enhance the portability between the county and municipalities.

The municipalities could give us their ideas and perceptions, and that would be very useful.

Private Citizen - Then asked what happens to benefits if the county goes bankrupt?

Legislator Mather - Stated that nothing happens – nobody gets anything.

Private Citizen - Asked whether retirees contribute to Medicare Part B.

Bob Murphy - Stated that retirees pay full coverage for that.

Private Citizen - Suggested that we work our number to see what the impact of changing from 85% coverage to 75% and to 50%. He stated that it could be a monumental sum.

Chairman Whalen - Stated that one of our concerns is that paying for healthcare will crowd out our ability to provide services for taxpayers. We do not want to become like GM, where they were paying mainly for Healthcare and also making some cars. However, on this issue – we are ahead of the curve. We need to educate not only residents and employees – but also other legislators.

Legislator Mather - The fact that we aren't alone doesn't help really.

Chairman Whalen - Said no, but these meetings could bring up something useful for the other municipalities.

Ron Jones - Asked whether the taskforce had looked into the likelihood of whether a single payer plan could effectively take costs away from the county and reduce the cost for people's health care.

Chairman Whalen - Stated that in his experience, there will still be a county cost. New York State is one of a few States' that requires the county to pay.

Ron Jones - We wouldn't need Medicare – he'd like to sit with someone and go over the cost. He said that we should research S3107 or A7304. It's something that should be considered. He's 65 years old and still working for the county.

Chairman Whalen - Stated that we could get him some time in front of the Health Committee. He needs to call Michael Hanbury about giving a presentation.

Then it was asked whether the State prohibits optional cash healthcare protection – a Health Savings plan.

Chairman Whalen - Stated that there are some IRS regulations. There are federal regulations, but none from the state.

Private Citizen - Suggested that we look at industry and what they are paying. We need to address it as a complete healthcare issue and not just as a retiree issue and look at how industry does it.

Chairman Whalen - Thanked the gentleman for his suggestion. Then he stated that he would like to see the Taskforce next convene on October 21, 2008. We can draft a report and get it to people before that date. He asked that members please think of ideas and get paper and write the concepts down so that we can present them to our actuaries.

The meeting adjourned at 6:45 pm.