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## OTHER POST EMPLOYMENT BENEFIT OBLIGATIONS

Other Post-Employment Benefits (OPEB) obligations are non-pension benefits provided to current and future retirees, such as medical and dental health care, life insurance and long-term care insurance and any other non-pension benefit. The Governmental Accounting Standards Board (GASB) Statement Number 45 (GASB 45) is applicable to state and local government employers. GASB 45 requires measurement and reporting of OPEB obligations but does not require funding. Effective dates are being phased in beginning December 15, 2006.

Due to the increases in health care costs and the aging of the population, it is believed that OPEB obligations will be much greater than pension costs. Up until now governmental bodies that have been historically generous with their employee benefits have not had to quantify the fiscal impact of OPEB obligations. GASB 45 disclosures will most likely come as a shock to many state and local governments. Some states are estimating their OPEB liabilities to be in the tens of billions of dollars.

Management of OPEB liabilities can affect credit quality. How a government manages its liabilities, how such liabilities affect its finances or whether or not it borrows to fund its OPEB liabilities can all be criteria affecting ratings. The annual required contribution (ARC) to fund the unfunded actuarial accrued liability, advance funding or pay as you go technique can have a budgetary impact.

OPEB funding bonds, like pension funding bonds, can be a useful tool, however they are quite complex and require detailed analysis and are certainly not appropriate for every unit of government. Both OPEB funding bonds and pension funding bonds are taxable because they are interest rate hedging vehicles. The strategy is to replace unfunded actuarial liabilities with lower cost debt service on bonds. Unfunded OPEB liabilities and pension obligations are debt-like in nature. OPEB bonds and pension funding bonds are actual debt. For non-home rule units of government OPEB funding bonds and pension funding bonds can affect debt margin and impact debt financing for other needed capital improvements.

State and local governments should get started in addressing GASB 45 issues and begin thinking of strategies to successfully address their OPEB obligations.

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