

Retiree Health Valuations for Governmental Employers

New Accounting Requirements

The Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, which will have a significant effect on the financial statements of state and local governmental employers sponsoring retiree health and other postemployment benefits. The statement requires employers to value postemployment benefits using accrual accounting rather than a pay-as-you-go approach. Implementation of the standard is required for fiscal years beginning after December 15, 2006, for governmental employers with total annual revenues of \$100 million or more.

Background

Retiree health benefits are quickly becoming one of the most important benefit issues facing governmental employers. Rising health care costs and the forthcoming requirement of accrual accounting will cause greater attention to be focused on retiree health plans. In addition, obligations for other postemployment benefits, such as sick pay accruals and retiree life insurance, can be very significant. As a result, many governmental employers will need to estimate their current obligation, ascertain how the proposed new accounting standard will affect them, and examine various options that are available for controlling their costs.

Our Services

Our actuarial valuation process starts with an in-depth understanding of your objectives; to clearly define those who are covered by your retiree benefit plans, and the anticipated costs associated with these benefits.

Specifically, the measurement of obligations involves the following steps (1-5):

1: Understanding your program:

We will gain a thorough understanding of your benefit promise by reviewing the provisions of your current plans and policies.

2: Analyzing demographic data:

We will obtain demographic information for active and retired employees (and their dependents) in order to project the amount and timing of future cash flow associated with retiree benefit payments.

3: Establishing Per Capita Claims Costs:

In establishing average per capita costs, we will employ actuarial methods of blending your actual retiree medical claims experience and manual rates based upon your specific plan design.

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4: Selecting Actuarial Assumptions:

We will assist you in making informed decisions regarding the key actuarial assumptions involved in the valuation, including healthcare trend rates, retirement rates, turnover rates, and interest rates.

5: Selecting an Actuarial Cost Method:

We will discuss with you the six actuarial cost methods acceptable under the GASB statement and assist you in selecting the method that best fits your financial strategy.

Once this base of information is obtained, we will calculate the obligation and expense for your benefit plans under the new GASB standards and guide you through the results. Finally, we will assist you in developing effective strategies to help mitigate the expected future costs of your retiree health plans, including possible advance funding options and related implications.

Harbridge Consulting Group

The actuaries and advisors of Harbridge Consulting Group have helped clients with employee benefit consulting solutions for three decades. For many years, we served our clients as a highly respected consulting practice within Coopers & Lybrand and PricewaterhouseCoopers. In 2003, Community Bank Systems, Inc. acquired and renamed the practice as Harbridge Consulting Group.

Harbridge Consulting Group prides itself on its extensive experience in the area of retiree health and life insurance benefits—from financial reporting issues and plan design to funding and cost management strategies. Recognized as a preeminent consulting organization in this field, we bring expertise and commitment to our clients.

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