



The GASB 45 Squeeze Provides Opening for Agents

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State and local governments were just beginning to cope with the implications of retiree health benefit costs when [the economy nose-dived](#), body-slammng their budgets. Though this limited their ability to set aside funds in current years for future obligations, it also opened the door for agents to offer services and products in a market that has long been closed to them.

In the past, public employers have been intent on attracting and retaining workers with generous retiree benefits. Even as the cost of these benefits became clear, they were inclined to stick with existing strategies, bowing to the clout of unions and avoiding stirring up their employees.

But dramatic revenue shortfalls across the country have forced many local governments to take another look at their options. That makes the time right for agents to brush up on their [GASB 45](#) knowledge, partner with experienced vendors, and reach out to public employers with a portfolio of viable solutions. And all of this is important for Medicare agents to know, because [Part D](#) integration with GASB requirements is included in the actuarial valuation.

GASB 45 basics

The driving force behind the bind public employers find themselves in is GASB (pronounced gaz-bee) 45. Now in effect for all levels and sizes of public entities, from the largest state governments to the smallest one-school districts, GASB 45 requires reporting the 30-year accrued cost of retiree health benefits on current balance sheets. This is the cost that employers have promised to pay to provide what is known as Other Post-Employment Benefits (OPEBs) – health insurance, dental care, and other items that are not direct pension payments, including Medicare Part B and Part D premiums.

Just a few examples illustrate how underfunded retiree benefits are. California recently revised its estimate for state retiree benefits upwards, from \$48.2 billion last year to \$51.8 billion this year. New York City pegs its liability at \$63 billion. Overall, international financial services group Credit Suisse has estimated the state and local government unfunded liability at \$1.5 trillion.

Dropping revenues and diminishing return on investments have made the situation worse. Across the country, state and local government tax revenues declined an average of 7 percent in the third quarter of 2009, with 22 states seeing a decline of more than 10 percent. The Boston College Center for Retirement Research has

reported that municipal pension funds have lost \$1 trillion in value during the recent economic turmoil.

The huge costs, both overall and at individual public agencies, are echoed on a much smaller scale in cities and districts across the country. Agents who have no interest in working with a large school district should note that smaller public agencies face the same liability issues, just for smaller amounts of money. And that universal liability gives agents an opening to be a problem-solver for small government agencies in their area.

The ABCs of GASB 45

No agent has to become an expert on GASB 45. But there are three general concepts that are important to understand:

A. GASB 45 does not require local government to cover the unfunded liability, merely report it. That's why many public employers have been slow to address the problem.

B. Public employers may, however, see the price of borrowing rise sharply if rating agencies downgrade their credit because they are not resolving the issue of future costs.

C. Budgets for public agencies are now under so much stress that the current cost of covering retiree benefits – let alone the future unfunded obligation – is becoming an issue that politicians and administrators are willing to tackle with creative solutions.

Putting solutions on the table

Agents may have been reluctant in the past to see government agencies as prospects. The traditional request-for-proposals process that government organizations rely on for purchasing decisions can be time-consuming and a barrier to making a successful sale. But increasingly, government officials are looking for customized solutions and have recognized that a bidding war is not always the best way to find the right answer. The time has never been better for agents to step up their efforts with potential public customers. Here are three steps to an effective strategy:

1. **Build the relationship.** Someone who said no before may be more receptive in the future if you have invested in building your relationship. This can include passing on news articles about GASB 45, serving on a local government task force that is examining options, or simply checking in from time to time with phone calls or e-mails.
2. **Offer expertise.** Partner with a third-party administrator that has a proven track record of experience with retiree benefits. Look for a company that can give you strategies that you can take to your customers with confidence. These can include outsourcing health benefits administrative tasks, carving out the retiree population from current workers, and working closely with actuaries to make sure assumptions that underlie liability calculations are accurate.

3. **Demonstrate cost-saving success.** Compile case studies with the help of the third-party administrator that show how savings are available through pooled coverage, dedicated claims expertise, and reduced administrative burdens.

Between GASB 45 and the economic constraints that government agencies are facing, the door has opened on ways for public employers to pay for the promises they have made to retirees. With the help of partners that know the ins and outs of retiree benefits, agents can walk through that door with creative solutions.

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