



Highlights of [GAO-10-61](#), a report to the Chairman, Special Committee on Aging, U.S. Senate

Why GAO Did This Study

Accounting standards require governments to account for the costs of other postemployment benefits (OPEB)—the largest of which is typically retiree health benefits—when an employee earns the benefit. As such, governments are reporting their OPEB liabilities—the amount of the obligation to employees who have earned OPEB. As state and local governments have historically not funded retiree health benefits when the benefits are earned, much of their OPEB liability may be unfunded. Amid fiscal pressures facing governments, this has raised concerns about the actions the governments can take to address their OPEB liabilities.

GAO was asked to provide information on governments' retiree health liabilities. GAO described (1) what has been reported in state and local governments' comprehensive annual financial reports (CAFR) regarding OPEB liabilities, (2) actions state and local governments have taken to address retiree health liabilities, and (3) the overall fiscal pressures these governments face. GAO reviewed the CAFRs for 50 states and the 39 local governments with at least \$2 billion in total revenue. GAO also reviewed the actions taken to address retiree health liabilities by 10 state and local governments, selected based on geography and variation in approaches to address their liability. Finally, GAO simulated the fiscal outlook for the state and local sector and projected health care costs for state and local retirees.

[View GAO-10-61](#) or [key components](#).

For more information, contact John E. Dicken at (202) 512-7114 or dickenj@gao.gov, or Barbara D. Bovbjerg at (202) 512-7215 or bovbjerg@gao.gov.

STATE AND LOCAL GOVERNMENT RETIREE HEALTH BENEFITS

Liabilities Are Largely Unfunded, but Some Governments Are Taking Action

What GAO Found

The total unfunded OPEB liability reported in state and the largest local governments' CAFRs exceeds \$530 billion. However, as variations between studies' totals show, totaling unfunded OPEB liabilities across governments is challenging for a number of reasons, including the way that governments disclose such data. The unfunded OPEB liabilities for states and local governments GAO reviewed varied widely in size. Most of these governments do not have any assets set aside to fund them. The total for unfunded OPEB liabilities is higher than \$530 billion because GAO reviewed OPEB data in CAFRs for the 50 states and 39 large local governments but not data for all local governments or additional data reported in separate financial reports. Also, the CAFRs we reviewed report data that predate the market downturn. Finally, OPEB valuations are based on assumptions about the health care cost inflation rate and discount rates for assets, which also affect the size of the unfunded liability.

Some state and local governments have taken actions to address liabilities associated with retiree health benefits by setting aside assets to prefund the liabilities before employees retire and reducing these liabilities by changing the structure of retiree health benefits. Approximately 35 percent of the 89 governments for which GAO reviewed CAFRs reported having set aside some assets for OPEB liabilities, but the percentage of the OPEB liability funded varied. Among the 10 selected governments whose actions GAO reviewed in more detail, officials from the governments that were prefunding at least a portion of their retiree health liability reported using irrevocable trusts. However, these governments varied with regard to the source of the money used to prefund their retiree health liabilities and how they determined the level or amount to commit to prefunding each year. To address their retiree health liabilities, the governments GAO selected made three key types of changes to their retiree health benefits: changes to the type of retiree health benefit plan, to the level of government contribution, and to the eligibility requirements employees need to meet to qualify for retiree health benefits. Changes to the level of government contribution, such as reductions to the amount or proportion of health insurance premiums paid for by the government, was the most common benefit change reported. Some of the selected governments made more than one change to their retiree health benefit structure. The changes were most often applied to the retiree health benefits of newly hired employees or currently active employees.

State and local governments face unfunded OPEB liabilities and decisions about addressing liabilities amid increasing fiscal pressure. Assuming the continuation of current policies, by 2050 the size of the projected operating budget imbalance for the state and local government sector is 4.7 percent of gross domestic product, attributable largely to increases in health-related spending. Though Medicaid is the largest health-related expenditure, spending on state and local government retirees' health benefits is projected to more than double as a share of total operating revenues to 2.1 percent by 2050.