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Chiang Releases Long-term Costs for Paying Future State Retiree Health Benefits

SACRAMENTO – State Controller John Chiang today unveiled the first actuarial analysis of California's long-term cost for state retiree health and dental benefits.

In 2004, the Government Accounting Standards Board Statement 45 (GASB 45) required states and local governments to publicly disclose the future dollar amounts of their obligations to pay for post-employment benefits other than pensions. Controller Chiang must report the actuarial obligation in the State's 2007-08 Comprehensive Annual Financial Report, due in March 2009.

"By providing the future costs of retiree health benefits two years ahead of schedule, the State can move quickly to begin crafting a responsible plan to honor our promises to state employees and protect future budgets," Chiang said. "We cannot continue to defer these costs to the next generation of Californians."

California currently pays for State retiree health benefits on a "pay-as-you-go" basis, where the costs are paid as they come due annually. Controller Chiang hired an actuary to estimate California's obligation for retiree health and dental benefits based on different funding scenarios. Two of the findings conclude:

- 1 The current pay-as-you-go policy results in an actuarial liability of \$47.88 billion, which represents the total present value of future retiree health benefits for current state retirees and employees. Based on this liability, California has an "annual required contribution" of \$3.59 billion for 2007-2008 – or the amount the State would pay yearly to fund these benefits. California currently funds \$1.36 billion of the requirement, therefore the net accounting liability for 2007-2008 is \$2.23 billion
- 1 A full-funding policy results in an actuarial liability of \$31.28 billion. The amount is lower than the actuarial liability under the pay-as-you-go policy because the costs of future benefits are fully pre-funded. Pre-funding permits the State to earn investment income on the amounts set aside to fund future benefits, which help offset the costs. The "annual required contribution" under a full funding approach is \$2.59 billion. Because this approach would fully fund the state's obligation, there would be no accounting liability for 2007-08.

GASB 45 does not require states to make the full annual required contribution, but Controller Chiang cautioned that to the extent that California does not begin to set aside funds to pay for future benefits, the annual costs will rise and consume a larger portion of the General Fund.

"The numbers are large, but the challenge is not insurmountable," Chiang said. "The state is not facing a crisis yesterday or today. But Wall Street and credit rating agencies will react negatively if we fail to develop a fiscally prudent plan to meet our obligation soon. By starting now to craft a thoughtful and responsible pre-funding plan to meet this challenge, we can pay for retiree benefits, pay off the unfunded obligation, and preserve the State's vital public services."

Although GASB 45 requires an actuarial valuation of non-pension post-retirement benefits every two years, Controller Chiang intends to request an actuarial valuation next year.

The [actuarial report](#) and a [fact sheet](#) can be found on the Controller's Web site at www.sco.ca.gov.

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