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Controller Yee Updates State Retiree Health Care Liability *Highlights Positive Development of Prefunding Obligation*

SACRAMENTO—Under new accounting standards created by the Governmental Accounting Standards Board (GASB), the state's cost for retiree health and dental benefits has grown to \$91.51 billion, according to a [report published](#) today by State Controller Betty T. Yee. The liability represents the present-day cost to provide health and dental benefits to state retirees and their dependents earned as of June 30, 2017 – one of the state's largest long-term debts.

Under current GASB standards effective through 2016-17, state and local governments will be reporting the costs of retiree health care, commonly known as Other Postemployment Benefits (OPEB), in the notes to their financial statements. Under current reporting standards, the total liability grew by \$9.99 billion compared to the prior fiscal year largely due to the value of benefits earned during the year and changes in health care trend assumptions, to a total actuarial liability of \$86.68 billion.

Starting in the 2017-18 financial statements, new GASB standards require state and local governments to report their entire OPEB liabilities and expenses in their financial statements. Under these new standards, the OPEB liability will be more volatile due to changes in the discount rate, also known as the assumed rate of return, primarily based on a municipal bond index that shifts each year. This change in accounting standards added an additional \$4.83 billion dollars to the total OPEB liability to be reported in the June 30, 2018, financial statements.

"While the accounting changes rightly increase transparency and encompass the full picture of the state's liabilities for retiree health care, the OPEB liability will be unpredictable and will remain a paramount fiscal challenge over the next three decades," said Controller Yee, the state's chief fiscal officer and a board member of CalPERS and CalSTRS. "Fortunately, through thoughtful collective bargaining the state government has made significant progress towards the security and sustainability of retiree health benefits with gradual prefunding."

Retiree health care costs have increased dramatically over the past 15 years. In 2001, they accounted for 0.6 percent of the state General Fund budget. This year, they will total \$2.06 billion, or about 1.6 percent of the 2017-18 budget.

Starting in January 2010, California began entering into collective bargaining agreements to prefund retiree health care benefits. Prior to this, California paid for retiree health care benefits strictly on a pay-as-you-go basis, covering costs as they came due. Through recent contract negotiations with judicial branch employees and 21 state employee unions, Governor Jerry Brown implemented a prefunding approach including contributions from employees and the state, allowing investment returns to reduce liabilities. Under the new contracts, increasing employee contributions for retiree health care are phased in over the next few years.

These incremental steps meaningfully reduce the state's long-term liability. By 2048, it is estimated that the state will be 100 percent caught up in funding the pay-as-you-go "legacy liability" and claim benefits will begin to be paid from the California Employers' Retiree Benefit Trust Fund rather than the General Fund.

As the chief fiscal officer of California, Controller Yee is responsible for accountability and disbursement of the state's financial resources. The Controller also safeguards many types of property until claimed by the rightful owners, and has independent auditing authority over government agencies that spend state funds. She is a member of numerous financing authorities, and fiscal and financial oversight entities including the Franchise Tax Board. She also serves on the boards for the nation's two largest public pension funds. Elected in 2014, Controller Yee is the tenth woman elected to a statewide office in California's history. Follow the Controller on Twitter at [@CACController](#) and on Facebook at [California State Controller's Office](#).