OPEB: Mountain or Molehill?

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PARKERSBURG - Officials with the West Virginia Center on Budget and Policy met with Wood County commissioners this week to present a report on the Other Post-Employment Benefits liability issue.

Wood County is covered by Highmark Blue Cross Blue Shield for health coverage. On retirement, a county employee could qualify and may opt for West Virginia Public Employees Insurance Agency health care coverage.

"The county then pays the bill for its retirees. They may not necessarily sign up for that coverage. They may have coverage elsewhere," said commission President Blair Couch. "But we've been pressured by our auditors to include the OPEB in our budget, it can be separate, because it doesn't affect our current financial status, but we have to show the liability."

"You often hear OPEB liability in the news, an $8 billion crisis that will cripple the state if action is not taken immediately. The ensuing panic has led to budget paralysis. There is a lot of misinformation. In short, the issue of OPEB has taken legislator's attention away from more pressing matters and could funnel state dollars away from much-needed programs and services that could benefit hundreds of thousands of West Virginians. Politicians have already indicated that the OPEB liability will be one of the main issues of the 2011 legislative session," said Ted Boettner with the center.

Boettner and Elizabeth Paulhus authored a report titled "Mountain or Molehill" putting OPEB in perspective in West Virginia. Boettner said by placing the OPEB issue in context, the report aims to demonstrate that the "liability is not a crisis, but rather a manageable concern."

"The OPEB liability is not new, just newly reported. It has existed since the 1970s when the PEIA began offering group health insurance for retired public employees at a subsidized price," according to the report.

Boettner said the rising costs of health care over the past few decades, and the accounting rule, GASB 45, which first brought this liability to light for most states, has raised concern. Health care in 1960 was 5.2 percent of the nation's gross domestic product; today it's about 16.2 percent.

"Given current projections, it is estimated by 2080, national health care will be 41 percent of the economy," Boettner said. "For our state, in 2009, health care insurance spending was about 20 percent." Boettner said part of the rising concern is the "graying" of the state, the larger proportion of older residents and how that will affect future health care costs.

"The GASB is not a law, but a rule," Boettner said. "It does not require states to fully fund their liabilities. The OPEB liability is not a fixed dollar amount, but rather an estimate of costs depending on different assumptions, which can make the estimate vary widely," Boettner said.
By 2030, nearly one-fourth of the population will be over 65, he said.

"Part of the report notes county and state governments are not going to go out of business; that's part of the point," Boettner said.

Since the 1970s, retirees from state agencies have been able to receive health insurance through PEIA at a subsidized price, this is OPEB, he said. In 1994, the burden has shifted more to the employer. The retiree pays, percentage-wise, a little less, from 36.5 percent in 1994 to about 33 percent today.

Prior to 2007, the state had a pay-as-you-go system, paid as part of state's annual operating expenses, then the Legislature created the Employee Health Benefit Fund Trust. West Virginia is only one of 11 state that has this OPEB Trust Fund, so the state now allows pre-funding of retiree benefits, Boettner said.

"Through the years money was appropriated into the trust fund and the balance today is about $450 million. They used the interest to pay a portion of the retiree medical expenses. Long-range projections show by 2025, expecting just retiree health care, subsidy to be about $1 billion, the portion for employee and employer would be about $678 million. They used this to say this is a real problem, but it's important to put these long-range projections in perspective. Not only will health care spending increase but so will state and local budgets," Boettner said.

"By 2025, we are going to see 0.7 percent of the state's economy, a small part, that $ 8 billion growing liability you hear so much about, that sort of puts it in context for the state as a whole," Boettner said. "You have to show this projected liability on your books, it's not a law, you don't have to pre-fund it, you just have to show it as a liability," he said. "State and local governments are not going to have to pay out that money, there's no chance of that happening, but PEIA does bill and tell them what their annual contribution is."

"Twenty states are not pre-funding, Ohio has done it since the 1980s," he said.

"Unlike pensions, employee health care is not guaranteed, it could be taken away, and no one knows what will happen to health care costs 50-60 years in the future, these are only projections," he said.

"Future mention of OPEB liability in West Virginia will hopefully elicit an understanding that this is not a crisis, but rather a manageable concern. Solutions can be found that do not involve pouring hundreds of millions of dollars into a trust fund and freezing that could be better spent on other needed programs and services, like education, that benefit hundreds of thousands of West Virginians," Boettner said.