



# OPEB FAQ for Boards of Education

## What is OPEB?

Other Post Employment Benefits, for which OPEB has become the acronym, refers to employer paid benefits for retirees, except for pension (hence, the "Other") and usually includes health, dental, and life insurance.

## Why is OPEB important all of a sudden?

The Governmental Accounting Standards Board (GASB, another acronym) establishes the rules accountants follow for all state and local government entities, including school boards. Two recent pronouncements, GASB 43 and 45, change the way OPEB must be disclosed in the financial statements by the government.

## What will this accounting change mean to our budget and finances?

Most governments budget the dollars they plan to spend on OPEB for the year they will actually pay the health, dental, and life insurance premiums. Generally, for school systems, the amount is included in the Fixed Charges category. The change will require that governments compute and report the cost for the current fiscal year paid to both retirees and active employees upon retirement allocated to the fiscal year those benefits are earned. In other words, each year an employee works, some amount of OPEB cost for their future retirement is earned and must be reported. In addition, the accounting rules will require that the total liability for the OPEB benefit be disclosed in the government's financial reports.

The impact will be huge. Harford County Public Schools, for example, estimates that \$19 million would be added to the budget in FY06 and a \$319 million liability would be reported if the amounts are funded. If not funded, the amounts double on the entity-wide financial statements, and will grow each year

## When must we do it?

The County government will drive the date you must do this. July 1, 2007 is the date for those governments with total annual revenues of \$100 million or more; July 1, 2008, for those with total annual revenues of \$10 million or more but less than \$100 million; and July 1, 2009, for those governments with total annual revenues of less than \$10 million. Earlier implementation is allowed and encouraged.

## What are the policy implications of OPEB?

Boards will be faced with some difficult decisions as a result of OPEB.

- **Do you fund OPEB** – There is no requirement to fund OPEB by GASB. Those dollars will have to come from the County, by reductions in your other operating expenditures, or dedication of new money to OPEB alone (same effect). Rating agencies have indicated to County governments that in the near future they expect to see a plan to fund County government OPEB or suffer rating downgrades. Should this come to pass, the County will apply pressure on Boards to fund OPEB.
- **Do you change the retiree benefits or contributions to benefits** – Must you negotiate with the bargaining units if OPEB is explicit in the contracts, do you change the benefits for all retirees, active employees and future employees, or for some sub-group, will there be pressure from the County or public (once the dollars are disclosed) to force these changes? Plan to see OPEB come up in negotiations with the unions, whether or not, the benefits are explicit in the contracts.

## What if we just do not do it?

The auditors will not issue a 'clean' opinion letter. Failure to obtain that opinion may adversely affect State and Federal funding in future years and require corrective measures be imposed by MSDE. Failure to comply with OPEB reporting is not an option.

## By the way, what is the Maryland GFOA?

Glad you asked! The Maryland Government Finance Officers Association is the state affiliate of the GFOA of the United States and Canada. Its members are finance professionals in state and local government, boards of education, community colleges, various government agencies, and private sector firms supporting government finance and budget, such as banks and investment firms. Our primary mission is to provide continuing education to our members and their organizations. The most current example is this FAQ.