

# Moody's Perspective on OPEB

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# Outline

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# Introduction

- State and local governments are emerging from a difficult financial period
- A new issue emerges: Requirements for improving measurements of Other Post-Employment Benefits (OPEB)
- Expected financial pressures for state and local governments



## About OPEB

- GASB's statements 43 and 45: Post-employment benefits are part of employee compensation
- OPEB (Other Post-Employment Benefits)
- Obligations for these benefits accrue as services are rendered, or "earned," during employment, with payment deferred until after employment
- OPEB costs now reported on a pay-go basis



# About OPEB

- OPEB obligations consist primarily of health insurance costs
- Effect on governments will depend on various factors



# Effective Dates

- Staggered implementation
- Governments will be required to phase in the new reporting based on the size of revenues
- Earlier implementation is strongly encouraged



## Moody's Opinion of OPEB

- Key factors credit remain consistent with historic approach to credit ratings
- Improved Disclosure is Good for Credit Analysis
  - Clearer measurement of an existing liability
  - Improved timeframe for addressing potential difficulties
  - Creates useful pressure to reduce future liabilities today
- Funding of OPEB depends on various factors



## Moody's Opinion of OPEB

- No “immediate ratings adjustments on a broad scale”
  - OPEB liabilities expected to vary widely
  - Funding pressures/stress will vary widely
- Extent to which OPEB Funding Status Will Be Incorporated in Rating Process: It Depends...
  - Still early in the discovery phase
  - Political dynamics



## Moody's Opinion (cont. – probable rating factors)

- Absolute size of unfunded UAAL and relative size to key financial measures such as payroll, budget and tax base
- Plan for UAAL amortization as well as ongoing funding of new OPEB costs as incurred on an accrual basis—impact of full funding on issuer's financial flexibility and strength



## Moody's Opinion (cont. – probable rating factors)

- Actuarial assumptions used to determine values of liability and dedicated assets, particularly discount and medical cost inflation
- Nature of the retirement benefits promised to current workers and retirees, and the ability to modify benefits
- Longer term, rating changes may result



# Government Responses

- Increase benefit pre-funding
- OPEB Bond Issuance
- Scale-back of retirement benefits
- Governments have begun to address OPEB issue



## OPEB Reading List

- “What *Else* You Should Know about a Government’s Finances”
  - GASB
- “Employer’s Accounting For Pensions and Other Post-Employment Benefits”
  - GFOA
- “Implementation Guide to GASB Statement 43 and 45”
  - GASB



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