



Statewide Liability for LEOFF 1 Medical Costs Soars

State Actuary Provides Tool to Estimate Individual Jurisdictions' Liability

Background

The Law Enforcement Officers and Fire Fighters Retirement System Plan I (LEOFF I), created in 1970 and closed to new members in 1977, provides a defined benefit pension to local government law enforcement officers and fire fighters.

In addition, the LEOFF I pension statute mandates that cities and other local governments are also responsible for the lifetime medical and long-term care costs for their LEOFF I members and retirees.

Local governments face significant challenges in determining how to address the cost of these healthcare obligations for their LEOFF I retirees. This liability is almost completely unfunded, because very few jurisdictions have been able to set aside funds to offset future costs. New accounting standards will require many local governments to account for their full liability for these costs in their upcoming financial statements.

AWC has consistently urged the Legislature to provide financial assistance for local governments' LEOFF I medical and long-term care liabilities.

Statewide Liability Now More than \$1.75 Billion

The much-anticipated actuarial study of local government liabilities for Law Enforcement Officers' and Fire Fighters' Retirement System Plan I (LEOFF I) post-retirement medical benefits is now available.

The study, completed by the Office of the State Actuary in December, estimates that **the statewide liability for LEOFF I medical and long-term care costs for all local governments is a staggering \$1.745 billion.** This is the amount of money that would be required to be invested **today** to pay for all of the expected obligations. In general terms, this equates to nearly \$235,000 for each of the 7,447

active and retired LEOFF I members. (For a copy of the study, go to the State Actuary's website at <http://osa.leg.wa.gov> and click on LEOFF I Medical Study under "What's New.")

GASB 45 Implications

It is important to note that this analysis of the statewide liability does not satisfy individual LEOFF I employer responsibilities to report their LEOFF I liabilities for GASB 45 purposes.

Issued by the Government Accounting Standards Board, Statement 45 (GASB 45) mandates that public employers begin accounting for non-pension retirement benefits known as "OPEB" (Other Post Employment Benefits) on their financial statements. OPEB includes retiree healthcare coverage, life insurance, and long-term care. This requirement to account for the full retiree healthcare liability, as opposed to reporting expenses in a given year on a pay-as-you-go basis, may jeopardize some jurisdictions' bond ratings. There is no requirement under GASB 45 to pre-fund the liability. However, knowing the full extent of their future obligations will help local governments determine how to address them.

Online Tool Available January 31

Smaller and medium-sized jurisdictions (those with fewer than 100 LEOFF I actives and retirees) will be able to utilize an online tool developed by the State Actuary to determine their individual liability. Larger jurisdictions will need to contract with a private firm for a complete actuarial analysis of their liability.

Using this tool, local governments will be able to identify the full scope of their future liability, both for GASB 45 reporting purposes and so they can adequately prepare for funding that liability. The tool is expected to be available on the Actuary's website (<http://osa.leg.wa.gov>) on January 31, 2008.

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Recent Developments

In 2006, the Legislature passed a bill establishing a joint executive task force to study funding medical benefits for members of LEOFF I. The goal of the task force was to create a funding vehicle to assist employers in providing post-retirement benefits for LEOFF I members. Governor Gregoire vetoed the study, but directed the Department of Retirement Systems (DRS) and the Health Care Authority to lay the groundwork for a future, comprehensive review of the issue.

That groundwork report for a future LEOFF I medical benefits study was submitted to the Governor's office last summer. The report draws no conclusions, but instead provides an overview of the issue and outlines a range of possible solutions to be considered, including potential funding options, ways to control liability, and administrative efficiencies.

Building the Case for 2009

The AWC Legislative Committee and Board of Directors identified securing financial assistance to help cities pay for their LEOFF I liabilities as one of six top legislative priorities for 2008. We have been told, however, that it is very unlikely that any action will be taken during the short 2008 session. This is due in part to the complexity of the issue and the recent release of the study outlining the liability.

We will continue to remind the Governor and the Legislature of the importance of moving forward on a comprehensive study and identifying potential legislative solutions to this mounting problem. We recently wrote to the Director of the Office of Financial Management and asked him to build on the DRS report and establish a process this interim with the hopes of advancing solutions and legislation in 2009. We expect to take an active role in this process.

What You Can Do To Help

- Use the online tool to estimate your liability (or review the results of your own actuarial study).
- Continue to remind your legislators and the Governor of the need for financial assistance.
- Tell them the impact that prefunding this liability would have on your budget and your ability to meet the current needs of your citizens.
- Tell them you need help!

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