

THE GASB (GOVERNMENT ACCOUNTING STANDARDS BOARD) MANDATE

GASB federal accounting rules imposed for years on business enterprises have now been extended to governmental jurisdictions, requiring them to determine and report the continuing/future obligations related to benefits that will be provided to all current employees and annuitants during their entire lifetime. There has been much discussion and effort expended by those jurisdictions on how to approach the reporting requirements, and how to provide funding to cover the future costs of providing mandated or promised health care benefits.

However, there is a significant difference between business enterprises and governmental jurisdictions. Businesses can and do go bankrupt and disappear completely. Without provision of trust funds to cover the costs of obligated benefits, those benefits would likewise disappear. On the other hand, governmental jurisdictions are continuing. The State of California will certainly not go out of business. Likewise, the University of California will also continue to exist. While it is good to know now the projected costs of providing future benefits to every annuitant and current employee, the need to have the funding on hand at this time or anytime in the near future, is completely unnecessary. Panic should be avoided, because we are starting from scratch to provide for a trust fund for health care benefits, which have for the most part accrued from employment over the last 40 or more years. If the University actually did close down---an impossible likelihood---, some endowment funds could be sequestered to provide future obligated benefits, along with proceeds from the sale of some of the assets---land, buildings, equipment, and future income from patents, etc. Likewise, the State of California possesses significant assets, and the proceeds from the sale of some could be made available to cover the costs of providing their obligated benefits.

There is a significant difference between recognizing now the size of the obligation, and having to provide immediately or during the near future, a trust-fund to be able to cover long-term obligations. What is important now is the need to know and to be able to plan for and cover on a current basis the actual costs of providing current year benefits to individuals. Such details should be available over a reasonable planning time horizon---perhaps three to five years--- to assure the availability of sufficient funds on an annual basis. Beyond that, for governmental jurisdictions, there should not be a requirement to quickly have on hand the resources needed to cover the costs of future benefits for all annuitants and everyone currently employed, through the time of their or their surviving spouse's death. Current benefits amount to only a very small fraction of the projected billions of dollars required to provide for all present and future obligated benefits. What is needed is a deliberate plan to establish a trust fund that could be fully funded over perhaps a 30 or 40 year period.

Hopefully, those from State Government and the University who are involved in current and future discussions, will understand the real financial needs and not overreact to the emotions of the moment by suggesting reductions in benefits, which have been major recruitment and retention tools for most, if not all, governmental jurisdictions. Further, annuitants, many of whom spent most, if not all, of their working life as dedicated employees, should not be singled out for reductions in benefits, because they must make do with perhaps as little as 75 percent of their

original purchasing power. For annuitants who retired more than 20 years ago, there are those who are living at or below the poverty level, because they retired prior to the significant wage level inflation that came later, there was an 80 percent limitation on their benefit until it was eliminated by The Regents in 1987, and they were without Social Security benefits, unless they qualified from other employment or were eligible through their spouse. Consequently, a reduction in their benefits could be catastrophic, especially to these annuitants.

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