

# Montgomery County Public Schools

## FY 2008 OPERATING BUDGET

### Funding Retiree Benefits - GASB

The Montgomery County Public Schools (MCPS) FY 2008 Operating Budget includes \$16.1 million to begin pre-funding of Other Post-Employment health and life insurance Benefits (OPEB) for retired employees made necessary by the rulings of the Government Accounting Standards Board (GASB). It is important that this plan be adopted to assure retired and active employees that future retiree health insurance costs will be fully funded, and to protect the County's AAA bond rating.

- The GASB defines what are considered to be Generally Accepted Accounting Principles (GAAP) for governmental entities, including public school districts. GASB statements 43 and 45 relate to disclosure of liabilities for Other Post-Employment Benefits (OPEB).
- OPEB include retiree medical, dental, life insurance, and other benefits not covered by a pension plan.
- Plan sponsors such as MCPS, must comply with the new rulings beginning in FY 2008. They must determine through an actuarial study and disclose in financial reports OPEB liabilities as they are incurred. MCPS commissioned its pension actuary, Mercer, to conduct the required actuarial analysis.
- The new approach differs from current practice that permits employers to pay for such benefits on a "pay as you go" basis. Until 1978, MCPS pre-funded retiree insurance benefits. This fund was finally exhausted in FY 2003. Since then, the Operating Budget has paid the full cost of retiree benefits.
- Although GASB does not require government bodies to pre-fund OPEB obligations, bond rating agencies expect large governmental entities with favorable bond ratings to begin a phase-in of OPEB funding in FY 2008, with a clear plan to achieve full funding of the liabilities. As a result, all County funded agencies have been working together to recommend a common funding strategy to the County Council. It is expected that MCPS will establish a trust fund to hold and invest employer contributions. Investment earnings of the Trust will reduce the ultimate cost to the Operating Budget.
- The superintendent is recommending a five-year phase-in of added payments totaling \$80.3 million, with 16.1 million in new contributions added to the budget in each of the next six years. Based on actuarial recommendations, this will enable MCPS to achieve full funding of anticipated OPEB obligations.

