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Will the OPEB Ostriches Ever Run Out of Excuses?

Many years ago, public financiers woke up to the problem of funding "other post-retirement benefits," but then some of them went back to sleep. Younger public employees should demand an actuarial wake-up call.

Flash back to 2004, when the governmental accounting community began to seriously address the balance sheet and cost-accounting liabilities for "other post-employment benefits" such as retiree health care in particular, but also certain life insurance and deferred compensation arrangements — benefits provided in addition to pension distributions and known by CFOs as OPEB.

It was a time when pension accounting was moving to the corporate model for expensing the benefits when earned and booking the liabilities on employers' balance sheets, and the practice of actuarial funding through pension reserve funds was well established. Although most systems had unfunded pension liabilities, they at least had some assets on their books. Even the commonwealth of Massachusetts, once notorious for "pay-as-you-go" can-kicking, had migrated to the pension pre-funding model in the 1980s.

But there and elsewhere, OPEB benefits were largely unfunded as a matter of practice, with many public employers relying on future taxpayers to cover the costs. That's a classic violation of the concept of intergenerational equity.

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