NEA NATIONAL EDUCATION ASSOCIATION nea.org Great Public Schools for Every Child
Collective Bargaining & Member Advocacy
1201 16th St., N.W. | Washington, DC 20036-3290 | Phone: (202) 822-7080 | Fax: (202) 822-7833

Plain Talk about New Accounting Standards For Education Employers

Heads up: New accounting standards for retiree benefits threaten to change bargaining dynamics and legislative strategies for Association affiliates. Under the new rules, governments and school districts will calculate and report the value of the retiree health care benefits they have promised to active and retired workers. And when the reports are issued, expect sticker shock and knee-jerk attempts to slash benefits or change current workers' and retirees' economic packages.

If early experiences are any indication, much of what people will hear about the new standards will be unduly alarmist. For example, some employers have erroneously suggested that because of the new rules, they will either have to divert large sums of money from their education budget to pre-fund retiree health care benefits or eliminate them altogether. Needless to say, if we begin to discuss the future of our members' benefits in this unnecessarily gloomy context, we will be on the defensive from the outset.

It's important that we talk about the new standards accurately and insist that journalists, school administrators, and government officials do the same. Toward that end, the following points can be used by NEA affiliates in written or verbal communications — with members, employers, and the public — about the new accounting rules. Consider how these arguments might be tailored to fit your particular situation. For more details about the new standards, see the list of available resources at the end of this fact sheet.

What Are the New Accounting Standards?

A Description

- The Governmental Accounting Standards Board (GASB, pronounced GAZ-bee) recently issued new accounting rules related to certain retiree benefits. GASB develops accounting standards for state and local governments, and school districts. Retiree health care benefits are usually the most costly of the benefits covered by the standards, so most of the discussion around these new rules focuses on health care. Dental, life insurance, and vision coverage are also included, but pension benefits are dealt with separately.
- You may hear the term "other postemployment benefits," or OPEB (pronounced OH-peb). That's what the accountants and actuaries call retiree health care and the other benefits covered by the new accounting standards. Basically, the "other" refers to retiree benefits that are not pensions.

- The new standards indicate that financial statements should show the total projected value of all the benefits that employers have promised to their active and retired workers. At present, most report only the annual amount they pay for current retirees.
- The new standards break the benefits calculation into different parts, including the amount paid for retired employees, the value of future benefits that active employees earned during the current school year, and the value of the benefits that were earned in prior school years. Based on these figures, financial statements will also have to include other numbers.

Implementation Dates for the New Standards

- For the largest governments and school districts (those with revenues of $100 million or more), the standards are being phased in starting with the first fiscal year after December 15, 2006 (school year 2007-2008). Financial statements for the 2007-2008 school year will therefore be the first to use the new standards. For governments and districts with revenues of at least $10 million but less than $100 million, the standards will apply during the first fiscal year beginning after December 15, 2007 (school year 2008-2009). For entities with revenues under $10 million, the application date is a year later (school year 2009-2010). Employers can prepare for and apply the standards sooner than called for by GASB.

What is the Impact of the New Standards?

Dispelling Common Myths about the Standards

- The standards do not create any new benefit-related costs for employers. Therefore, discussions about retiree health care benefits should be focused on how to deal with the standards and how to plan for the future — rather than with what or how much to cut.
- The standards do not require that employers actually fund the benefits in advance, just that they account for them. Although it might make sense to consider pre-funding, we shouldn't confuse the need to account for promised retiree health care benefits with the requirement to fund those benefits up front.
- The standards affect financial statements, not budgets. The latter will only be affected if a decision is made to fund some of the benefits in advance.
- Accounting for retiree health care benefits will not lead bond-rating companies to downgrade school districts and governments simply because they show an unfunded liability. Although bond ratings should be taken seriously, the ratings companies say they'll take a thoughtful and long-term look at the impact of unfunded liabilities on ratings.

Preparing for "Sticker Shock"

- Don't be surprised by the sticker shock that will follow when employers calculate the value of the benefits they will now have to include in their financial statements. Where state and local governments have made the calculation, the value of the health care benefits promised to active and retired workers has been 10, 20, or even 50 times the amount they pay for current retirees' health care benefits.
- Expect to see and hear misstatements and unrealistic pronouncements of dire consequences if benefits are not cut. Some employers and journalists are not taking the time necessary to understand what the new standards do and don't require.

Retiree Health Care Benefits Are Part of Great Public Schools

- Our communities have the highest expectations of our teachers and education support professionals, and rightly so. But if we want to attract and retain the best teachers and support professionals, we must make sure they do not retire into poverty — which they'll almost certainly face if we cut their retiree health care benefits.
- Our members have worked long hours for less pay than they deserve. They do it out of dedication to their students, but part of the bargain has often been the promise of health care benefits when they retire. Decent retiree health care benefits are critical to the retirement security of dedicated education professionals.
- Retiree health care benefits are not a gift. Our members worked hard to earn them, and employers should not break the promises they made by cutting or eliminating benefits.
- The real problem here is the rising cost of health care for everyone in this country. Ultimately, we need a national solution to our country's health care crisis. Universal, affordable, high-quality health care is a basic right, just like public education.

For Further Information

The NEA Collective Bargaining and Member Advocacy Department has produced a detailed report on the new accounting rules: *Defending Retiree Health Care Benefits: An NEA Guide to Understanding and Preparing for the New GASB Standards*. In addition, the department has prepared other fact sheets on the subject: "Myths and Facts about New Accounting Standards for Education Employers;" "A Non-Expert's Guide to Actuarial Valuations;" and "Steps for Defending Retiree Health Care Benefits (When You're Not a Technical Expert)." The report and fact sheets are available on the Connect website at http://connect.nea.org/comp/retireehealthcare.htm.

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To learn more about this issue, please contact the NEA Collective Bargaining and Member Advocacy Department at (202) 822-7080 or mailto:collectivebargaining@nea.org.

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