



**Finance, Administration and Oversight Committee**

**Information Item III-D**

**April 10, 2008**

**Accounting for Other Post-Employment  
Benefits**

**Washington Metropolitan Area Transportation Authority  
Board Action/Information Summary**

<input type="checkbox"/> Action <input checked="" type="checkbox"/> Information	MEAD Number:	Resolution: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
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**PURPOSE**

To evaluate the decision to include \$5 million in the FY09 budget to pre-fund Other Post-Employment Benefits, primarily retiree health insurance, as defined by Statement 45 from the Government Accounting Standards Board (GASB).

**DESCRIPTION**

The FY09 budget includes \$5 million in additional funding that will be set aside to fund an investment trust that will be used in future years to pay for retiree benefits. Fully funding this trust will take approximately twelve years of additional supplemental budget contributions. A key policy question is if the Board should pre-fund a trust and allow investment earnings to pay future costs, or not pre-fund the trust and let the annual budget pick up future costs.

**NEXT STEPS**

A Board policy decision to pre-fund or not pre-fund will be required prior to the start of FY09.

# Accounting for Other Post-Employment Benefits

*Presented to the Board of Directors:*

**Finance, Administration and Oversight  
Committee**

April 10, 2008





The Proposed FY09 Budget includes an assumption that the WMATA Board will choose to:

“Pre-fund” existing Other Post-Employment Benefits\* (OPEB)  
as defined by Statement 45 from the  
Government Accounting Standards Board (GASB)

*\* Primarily retiree health insurance*

- This assumption added \$5 million to the FY09 budget, which could be cut with no near-term consequences
- There are significant long-term consequences
- A Board policy decision to pre-fund or not pre-fund will be required prior to the start of FY09.



## Accounting for Other Post-Employment Benefits

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Q – Why is there an issue about this?

A – The rules of accounting are changing.

Q – Accounting for what?

A – The cost of retiree benefits, other than pensions.

Q – What accounting rules are changing?

A – Two things:

1. How we measure the annual expense for these benefits.
2. We must now report the “value” of these promised benefits as a liability.

Q – Who establishes our accounting policies?

A – The Government Accounting Standards Board (GASB).

*Private Industry is ruled by FASB, Financial Accounting Standards Board.*

Q – Can the WMATA Board create its own accounting policy?

A – The Board can choose from options, but not create its own rules.

Q – Can the WMATA Board change retiree benefits?

A – Yes, but the current level of benefits for current retirees must now be accounted for.



Q – What is the budget impact?

A – There are many impacts, over many years.

1. The FY09 budget includes \$5 million in additional funding that will be set aside in an investment trust. Earnings from that trust will be used in future years to pay for the retiree benefits.
2. Fully funding (“pre-funding”) this trust will take approximately twelve years of additional supplemental budget contributions.
3. After reaching full funding, this annual budget will decrease significantly.
4. Within 15 years, the annual budget will be \$25 million less expensive, per year, forever, than if not “pre-funding” an investment trust.

[There is no requirement to set aside funding](#)

The FY09 budget can be reduced \$5 million  
with no near-term consequence



Continued...

Q – What is the budget impact?

A – There are many impacts, over many years.

- If WMATA issues bonds to fund the capital budget (e.g. Metro Matters), that bond rating will largely be a factor of:
  - *The essentiality of Metro service, and*
  - *An unbroken string of capital contributions by the local jurisdictions.*
- WMATA must maintain existing bond ratings to avoid failure provisions with existing bonds. Insurance allows for such protection.

Q – Is there Board policy regarding funding liabilities?

A – There is no single policy. The Board has made funding decisions on the merits of each case. Examples:

Pensions – Fully Funded

Vacation – Partially Funded      Sick Leave - Unfunded

Accident Claims – Used to be Fully Funded, Now Partially Funded



Q – How are WMATA's pensions funded today?

A – The Board has consistently made decisions to fully fund the pension plans... meaning they have set aside monies in prior budgets that were then invested. Earnings on those investments now pay most of the cost of payments to today's retirees. For example:

- This year's budget includes pension expenses of \$20 million going into the largest pension trust
- But the annual payout to retirees from that trust is \$100 million
- That \$80 million savings to the budget comes from years of investment earnings by the pension trust fund

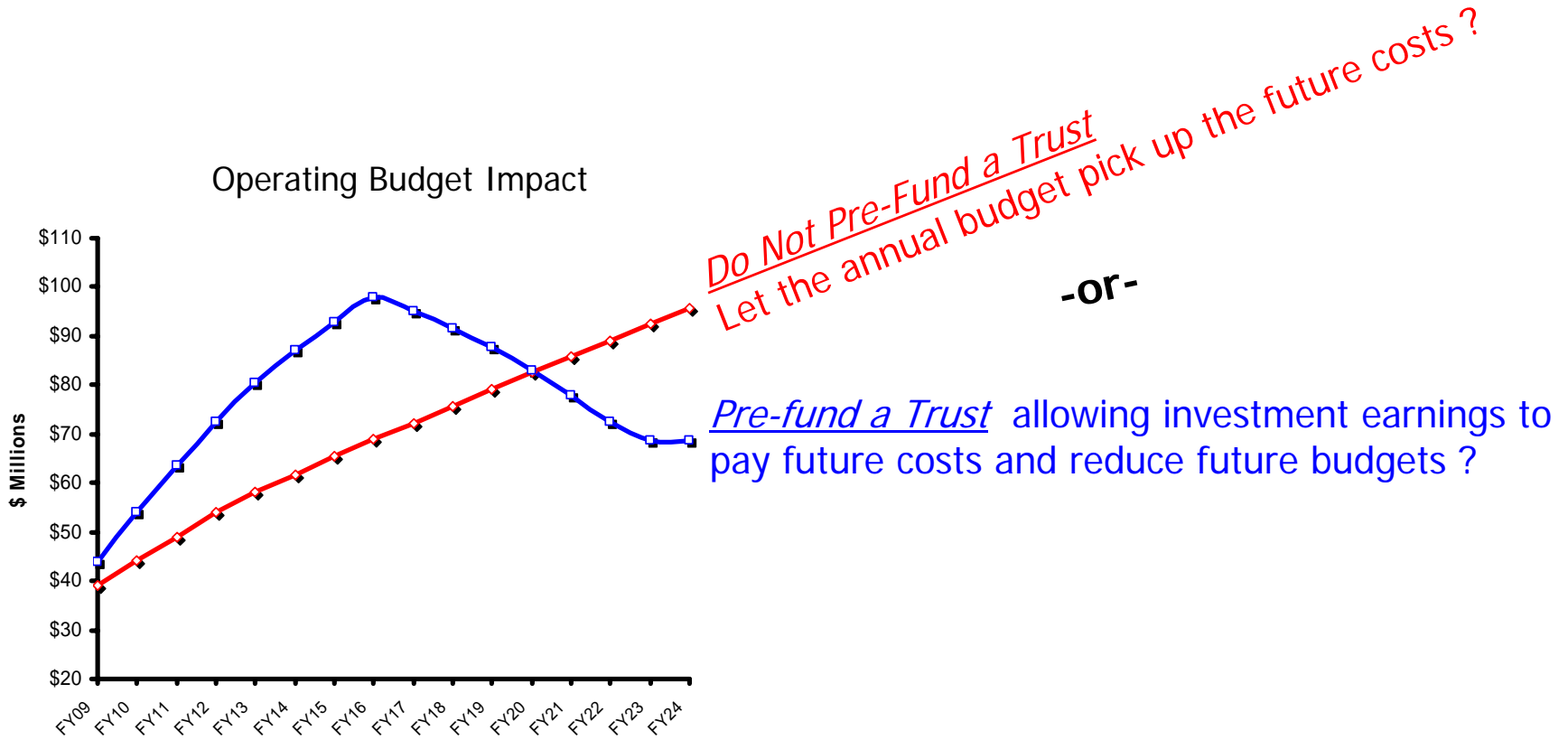
Q – What is the most important consideration for the WMATA Board?

A – Whether to “pre-fund” the benefit... meaning, whether or not to set funds aside in a trust to be invested for the future.





***Key Policy Question for the WMATA Board:  
"Pre-Fund" an Investment Trust?***





Q – Can we see all the numbers and have time to decide?

A – Yes. The budget impact displayed on the previous graph is displayed in the appendix.

The GASB rule change does not impact WMATA until the end of this fiscal year.

The required actuarial valuation has already been completed and data is in the appendix with source citations for supplemental reading material on the subject.

Q – What funding decisions have the local jurisdictions made regarding how this impacts their own budgets?

A – All local jurisdictions are pre-funding, primarily to maintain high bond ratings, but also to get the long-term budget benefit of future investment earnings.



Conclusion:

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This is a “pay me now or pay me later” issue.

- Short-term difficulty of committing budget resources.

-versus-

- Long-term gain from future investment earnings.



## Appendix

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Annual budget data from AON Consulting actuarial valuation

Links to Resources:

Government Accounting Standards Board [www.GASB.org](http://www.GASB.org)

Government Finance Officers Association [www.GFOA.org](http://www.GFOA.org)

International Foundation of Employee Benefit Plans [www.ifebp.org/](http://www.ifebp.org/)

National Center for Study of Counties/University of Georgia/National Association of Counties,  
"Implementation of GASB45, Case Study of 15 Counties" [www.naco.org](http://www.naco.org)



# Accounting for Other Post-Employment Benefits

## Accounting for Retiree Health

\$ Millions

	Do Not Prefund		Pre-Fund	
	Annual Budget	Budget Increase	Annual Budget	Budget Increase/ <i>(Decrease)</i>
FY09	\$39.0		\$43.8	\$4.9
FY10	\$44.1	\$5.1	\$54.1	\$10.3
FY11	\$49.1	\$5.0	\$63.7	\$9.6
FY12	\$54.0	\$4.9	\$72.6	\$8.9
FY13	\$58.1	\$4.2	\$80.3	\$7.7
FY14	\$61.8	\$3.7	\$87.0	\$6.7
FY15	\$65.6	\$3.8	\$92.9	\$5.9
FY16	\$69.0	\$3.4	\$97.8	\$4.9
FY17	\$72.2	\$3.2	\$95.0	<i>(\$2.8)</i>
FY18	\$75.7	\$3.5	\$91.6	<i>(\$3.4)</i>
FY19	\$79.3	\$3.6	\$87.6	<i>(\$4.0)</i>
FY20	\$82.6	\$3.3	\$83.1	<i>(\$4.6)</i>
FY21	\$85.9	\$3.3	\$78.0	<i>(\$5.0)</i>
FY22	\$89.1	\$3.2	\$72.4	<i>(\$5.7)</i>
FY23	\$92.5	\$3.4	\$68.6	<i>(\$3.7)</i>
FY24	\$95.8	\$3.2	\$68.8	\$0.2