

What are we really paying for these benefits?

Even though it sounds bad, the results are worse. I'm speaking of a new government accounting standard called GASB 45 which could force all municipalities and special districts to open their books and set aside tens of millions of dollars in the coming years for post-retirement benefits for employees.

The Governmental Accounting Standards Board (GASB) approved the GASB 45 in 2004 because of growing concern over the potential liabilities of post-retirement benefits for government employees. GASB 45 requires towns, cities, states and other government agencies like school boards to account for post-retirement medical coverage for all its employees.

What the GASB is going to do is report to the general public what the real cost of these benefits are every year as they are earned, rather than creating a chain letter to the future. The rules were created to establish a uniform standard for private businesses and government agencies alike. It was not to address some type of crisis, because all it is really doing is forcing towns and cities to show on their books the true cost of their employees post retirement benefits, even though it might not be paid out for another 30 years.

The new standards require employers to account for the cost of medical coverage, which includes prescription drugs, dental, vision, life insurance, long-term disability and long-term care benefits that are not associated with a pension plan. The rules require towns to identify who is eligible for benefits, how many employees and retirees are covered, and what assets are available to offset that liability.

What I find interesting about this is that it is the unions who are most upset. Why? Because the tax paying public, (you know who I mean-- the regular non-governmental working person who can get fired, downsized or have their jobs eliminated, while not getting guaranteed salary increases, pensions based on the last year's compensation including accumulated unused vacation and sick time, and post retirement health care for life.) will be aware of what we are really paying for these government employees.

Most funded post-retirement benefits are on a pay-as-you-go basis. The new standard could and should force agencies to set aside money to cover the cost of post-retirement benefits or run the risk of damaging their bond rating and losing the ability to borrow money.

Credit rating agencies are expected to calculate post-retirement obligations and treat them as a liability when determining long-term credit stability and bond ratings. Regardless of whether there is an actual obligation to fund the liability, government entities will be forced to consider funding options to be certain their system has the short and long-term

financial resources to provide for such obligations. At this time, it is uncertain how bond companies will react to the new standards.

Many entities have started this process and have used a realistic interest rate of 3.5%, creating liabilities of staggering amounts of dollars. What did they do next? They changed the interest rate to 8% projected out over 30 years, and the liabilities dropped dramatically. What they don't say is where they are going to get an 8% rate of return. For example, The Los Angeles Unified School District faces liabilities that exceed \$5 Billion (that's Billion, with a "B") that has previously gone unreported. A detailed examination shows that New Jersey faces a potential \$80 Billion pension shortfall (not including the more than \$20 billion in losses from the current stock market free-fall) and \$50 billion in unfunded post-retirement medical and prescription drug benefits in contradiction to Gov. Corzine's projection of \$3.5 to \$4 billion.

So for those in the private sector, what's the most reliable way to accumulate retirement resources that will provide about the same income as when you were working and will be indexed to inflation? Go to work for the government, whether federal, state or local.

If your definition of personal wealth considers retirement security, the richest as a group are the government workers. Most federal and many state pensions have inflation-protected cost-of-living adjustments (COLAs). At 65, a pension with a COLA has a funding obligation about 50% higher than a fixed pension-assuming that future inflation is only 3%. So if you wanted to buy an inflation-adjusted immediate annuity with regular monthly payments-like a pension-adding COLA would cost about 50% extra. Practically no private sector pensions have COLAs. In addition, most governmental plans allow you to retire earlier than age 65, thereby increasing the cost of the plans dramatically.

As taxpayers, we fund a pension plan that's better than anything we may ever see. As the government increases in size, (and it is always increasing as we can't fire the incompetent and lazy) we'll pay more. There is never a reduction in the government's payroll, even though politicians run for office with promises to reduce government spending. Every new committee adds people.

That's not all. Federal employees enjoy subsidized health insurance in retirement, as do many state and local government retirees. On Long Island we have hundreds of special districts i.e., library, water and the like, that offer health care to their part time workers, often guaranteed for life after only 10 years of service. Did I mention the MTA does the same thing? Very few private sector employees have this benefit. It is huge. A retired couple from the private sector pays about \$700 a month for Medicare and Medigap policies, and that doesn't cover drugs, co-pays or most vision, hearing or dental care.

Historically workers were drawn to public service because the generous benefits made up for the low pay. This is no longer true: The average government employee now makes about 50% more than the average person in the private sector. In fact, it has been reported that "State and local government workers now earn an average of \$39.50 per hour in total compensation....Private workers earn an average of \$26.09 an hour....From 2000 to 2007,

public employees enjoyed a 16% increase in compensation after adjusting for inflation compared with 11% for private workers." (Bureau of Labor Statistics)

We've grown a government that not only pays its employees better than the private sector, but also gives them benefits that we not only can't afford, but can't even buy if we could. Compounding this, we are going to pay for it for the rest of our lives, as well as the lives of our children and grandchildren. Meanwhile most of us in the private sector see our incomes and retirements cut by inflation.

And we worry about General Motors executives having use of a private jet. There's another entity that is going to pay more dearly than GM for all the retirement promises it has made. Unfortunately it's a sovereign power that has the ability to tax-and that means you and I will be stuck with the bill.

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