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U.S. State OPEB Liabilities Decline Slightly, But Continue To Vary Widely

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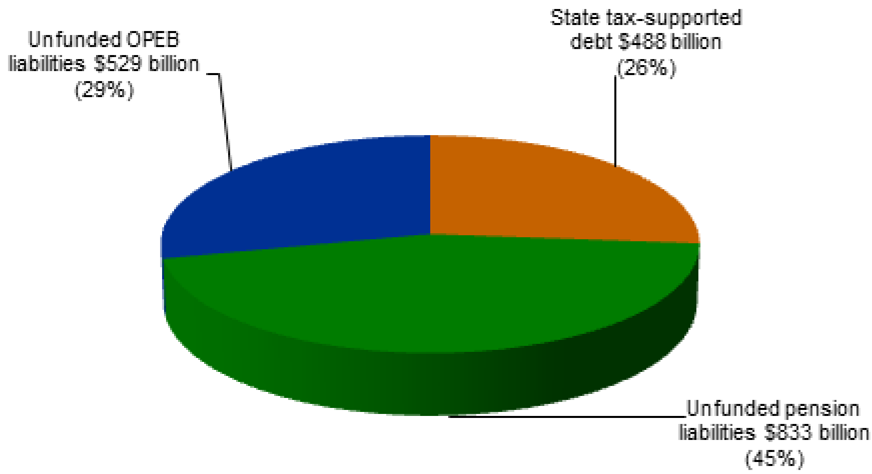
Other postemployment benefits (OPEB) have not received the same level of attention and scrutiny as pension benefits, but in Standard & Poor's Ratings Services' view, remain a substantial liability for U.S. states (see chart). In our view, states have been proactive in addressing this liability as evidenced by the results of our survey. However, we believe this is a liability that needs to be managed over time to prevent it from becoming a source of credit pressure. Standard & Poor's latest survey of state OPEB finds that aggregate unfunded state OPEB liabilities have declined slightly compared with our previous report (published Sept. 22, 2011), decreasing by 2.9%. State OPEB primarily represents retiree health care benefits, although it could also include retiree life insurance or other benefits offered to retired government workers. In our view, the relative stability in unfunded OPEB reflects various state actions to reduce benefits, the lack of yearly variability in the value of OPEB investment trust funds due to their largely unfunded status, and the limited OPEB offered by about half the states. In some cases, there have also been changes in actuarial assumptions that reduced liabilities.

Our survey recorded a $16.0 billion, or 3%, decline in unfunded liabilities, to $528.8 billion. The decline is mostly attributable to decreasing liabilities. Although some states have begun prefunding a portion of future obligations, OPEB trust fund asset accumulation remains limited. Total OPEB liabilities, without offsetting OPEB trust fund assets, declined 2.1%, or $12.3 billion, to $562.3 billion. Unfunded OPEB liabilities compare favorably with pension liabilities of $833 billion in our last pension report (see chart) and ranks unfunded OPEB liabilities second among pension, debt, and OPEB liabilities.

Overview

- Unfunded state other postemployment benefits (OPEB) obligations totaled $529 billion in our most recent survey.
- States have been successful in keeping unfunded OPEB from growing, with unfunded OPEB obligations declining slightly from two years ago.
- Overall OPEB trust fund asset accumulation remains limited, while funding progress is modest. Although we believe OPEBs do not significantly impair repayment of debt right now, increases in future OPEB costs in states with high OPEBs and no prefunding of liabilities could potentially weaken debt repayment capacity, absent changes in benefits.
- There remain wide variations among states in their actuarial OPEB liabilities due to the broad variance in level of benefits offered.

Comparative Long-Term Liabilities



Source: Standard & Poor's debt and pension reports: "A Bumpy Road Lies Ahead For U.S. Pulbic Pension Funded Levels," published July 16, 2013, and "2013 U.S. State Debt Review: Despite Large Infrastructure Needs, Debt Issuance Remains Muted," published July 10, 2013. OPEB--Other postemployment benefits.

Although both total and unfunded OPEB liabilities fell slightly in the past two years, there remains a wide variation in state unfunded OPEB liabilities per capita. We calculate a range from $1 per capita in Oklahoma, which offers limited benefits, to $8,408 per capita in Hawaii, whose OPEB plan includes local governments and teachers. The median state unfunded OPEB in our survey was $1,219 per capita and an average of $1,632 per capita. The median per capita state unfunded OPEB rose compared with our survey two years ago, while the average per capita unfunded OPEB fell. This is a consequence of the OPEB decline in some states with larger OPEBs, while about half of the states offer only limited OPEB and did not experience much change. Our last survey found a median per capita unfunded OPEB of $1,011 and an average of $1,884. New York State has the largest unfunded OPEB at $66.5 billion by dollar amount, overtaking California as the largest unfunded OPEB in our previous survey. One reason for New York State's large unfunded OPEB is that, unlike most states, New York considers its public university OPEB a direct state obligation, so we have included it in our calculations. Although New York has the largest OPEB by dollar amount, we rank its per capita OPEB of $3,397 only the sixth largest of the 50 states. (See table 1 for highest and lowest unfunded state OPEB.)

Table 1

Five Highest And Lowest Total Unfunded State OPEBs

State	Unfunded state OPEB (mil. $)
Highest	
New York	66,479
California	65,210
New Jersey	63,881
Texas	55,436
Illinois	33,295
Lowest	
Wyoming	242
North Dakota	125
Idaho	85
South Dakota	66
Oklahoma*	4

*Nebraska does not report its OPEB; Oklahoma does not report implicit subsidy of its retirement plan death and disability benefits as a separate unfunded OPEB. OPEB--Other postemployment benefits.

OPEB Reform

We believe the slight decline in OPEB liabilities is mainly the result of states' cost-containment efforts through benefit cuts, adjustments in actuarial assumptions, or a combination of both, although increased OPEB funding has also contributed. Before the 2008 Governmental Accounting Standards Board (GASB) requirement that the actuarial cost of OPEB liabilities be disclosed, the size of OPEB liabilities was mostly unknown. Once quantified, many states have taken action to curb benefits. Facing increasingly difficult budget balancing decisions against a backdrop of slow and uncertain economic growth, policymakers have increasing looked to pension (see "A Bumpy Road Lies Ahead For U.S. Public Pension Funded Levels," published July 16, 2013) and OPEB reform among the options available to them to rein in long- and short-term spending pressures. In contrast to pension benefits, which are in many states considered a contractual right that cannot be cut once earned, most states (with some exceptions) have the legal ability to cut OPEB to the extent permitted by current labor agreements. In some cases, pension reform has opened the door for OPEB changes as states take a more comprehensive approach when they try to tackle long-term employee benefits. In other cases, states have chosen to address pension liabilities first, deferring decisions on OPEB to a later date. Flexibility to cut OPEB varies and may range from the ability to eliminate all benefits for both active and retired employees, to the ability to require increased contributions from either active or retired employees. In some cases, reform efforts can take the form of health care cost management initiatives that lower the health care costs of existing and retired workers in the plans.

At this time, it is unclear what, if any, effect the implementation of the Affordable Care Act could have on the long-term cost of health care and, therefore, how and what OPEB are provided and funded. In our view, federal Medicaid and Medicare policy changes could be considerations for OPEB and how it is managed in the future.

We cite Hawaii as one example of recent reform, since it has the highest per capita OPEB in our table. The state initiated a multiple-year process of increasingly prefunding its OPEB liability until it reaches full OPEB annual required contribution (ARC) funding. For more information on Hawaii's OPEB reform efforts that will affect future years' valuations, please refer to the article "Hawaii Moves To Tame Its OPEB Liability," published July 23, 2013. Other states, such as Ohio and New Jersey have also implemented recent OPEB reform.

Despite Increasing OPEB Trust Fund Creation, Asset Accumulation Remains Limited

OPEB funding strategies typically fall into two main categories: prefunding and pay-as-you-go. Slightly more than half of the states (30) are prefunding OPEB by setting aside money in an irrevocable OPEB trust fund, which has slowed down the increase in unfunded liabilities in total. Advance funding of future liabilities can yield large cuts in unfunded OPEB due to the assumed growth of trust assets at actuarially assumed rates of return, until benefits are paid.

Nevertheless, to date, we view overall state OPEB trust fund asset accumulation as limited and funding progress as only modest. Of the 30 states to have prefunded some OPEB obligations, the funded ratio of actuarial assets to total OPEB ranges from 0.1% in Michigan to a high of 75.9% in Arizona. Prefunding in Arizona has brought that state's unfunded OPEB to $75 per capita; without prefunding, its OPEB would have been $313 per capita. However, only 11 of the 30 states have OPEB funded ratios that are more than 10% of actuarial liabilities. Standard & Poor's considers states without an OPEB trust fund to have a 0% funded ratio.

In some cases, even if a state sets no money aside in an OPEB trust fund, we might still consider its unfunded OPEB to be low if actuarial benefits are limited. In particular, many states have only a minor "implicit" OPEB liability as the result of allowing retirees between the ages of 55-65 to participate in a state's health care plan.

Given the different levels of benefits, actuarial assumptions, and multi-employer participants in an OPEB plan, exact comparisons among states is difficult. Nevertheless, we believe there are still general credit distinctions to be made among states with high and low unfunded OPEB. (See table 2 for states with the highest OPEB-funded ratios.)

Table 2

States With The Highest OPEB-Funded Ratios

State	Combined funded ratio of all OPEB funds (%)
Arizona	75.9
Alaska	55.6
Ohio	54.3
Oregon	37.5
North Dakota	31.8
Virginia	22.0
Utah	21.2
Kentucky	18.6
Indiana	17.5
Colorado	16.5
West Virginia	11.7
Maine	8.9

Table 2

States With The Highest OPEB-Funded Ratios (cont.)	
Alabama	8.4
New Mexico	5.8
Georgia	5.3

OPEB--Other postemployment benefits.

Understanding Implicit Subsidy OPEB Liabilities

Implicit subsidies represents the higher premiums paid by the state and all of its participants when retirees (who are assumed to have greater health care needs) are included in a state health care plan, relative to the cost of just having active employees in its pool, even though the annual cost of the plan is being paid each year. In essence, retirees are being subsidized by the higher contributions from younger active employees and the state. Typically, states that have implicit liabilities allow retired employees between the ages of 55 and 65 (until they become eligible for federal Medicare) to participate in active employees' health care plan at the same cost as active employees. Future implicit subsidies of retirees could potentially increase as long as the state continues to allow this limited subset of retirees to participate in the state health care plan, thereby creating an actuarial future liability.

Because the number of covered retirees is typically restricted to a limited age group, and a state usually has flexibility to set retiree contribution rates to fully cover its annual costs, in our view, liabilities due to implicit subsidies tend to be relatively small and manageable. Curiously, one state in our survey had a "reverse" implicit subsidy -- Texas Employees Retirement System retirees are paying health care premiums at a higher rate than active employees to a degree that they provide a small actuarial subsidy to active workers.

Most of the states with only implicit OPEB liabilities do not have OPEB trust funds, yet the actuarial unfunded OPEB in such cases is generally modest by dollar amount, in our opinion.

Liabilities Vary Widely Among States

Although states have differing actuarial assumptions, making exact comparisons difficult, we believe there is still a dividing line between states with low benefits, and those with higher benefits. The median per capita unfunded OPEB is $1,219, the level in Ohio, but the state with the next lowest per capita OPEB is Rhode Island, with an unfunded OPEB of only $825, a relatively large jump downward, followed by Florida, which is one step below with an unfunded OPEB per capita of $755. At the same time, unfunded OPEB per capita rises relatively quickly for states above the median. For example, Kentucky (two steps above the median) has an unfunded OPEB of $1,411 per capita (see table 5).

Generally, it appears that states with smaller OPEB liabilities are also more likely to use pay-as-you-go funding, which could account for some of the relative stability in overall OPEB, since those states' aggregate OPEB is not large. States with lower OPEBs are also ones more likely to have only implicit OPEBs or may feel less pressure to prefund OPEB. Those states with higher OPEBs are more likely to have funded OPEB trust funds, with some prominent exceptions.

OPEB Actuarial Assumptions Differ Among States

Each state specifies its own OPEB actuarial assumptions, which vary somewhat from state to state, so here too it's hard to draw precise comparisons. OPEB actuarial assumptions can be complicated and quite detailed, covering different demographic trends, separate inflation assumptions for medical and prescription drug costs, a discount rate/rate of return assumption, and the rate of increase in medical claims by age of retiree. We believe life expectancy assumptions generally mirror that of pension systems. In our view, actuarial assumptions typically assume declining rates of medical inflation over time, until reaching a steady long-term rate of yearly increase, an assumption that may or may not be realized.

For example, Hawaii, which has the highest unfunded OPEB per capita in our survey, actuarially assumes a 4.0% per year investment rate of return (currently it does not have any assets in an OPEB trust), 3.5% annual salary increases, various medical inflation assumptions ranging from 8.0%-15.0% per year initially and all declining over time to a steady rate of 5.0% per year, 4.0% dental inflation, 3.0% vision cost inflation, and 5.0% Medicare Part B inflation. As another example, New Jersey's OPEB valuation assumes that differing medical and prescription costs of inflation will trend downward to 5.0% per year over eight years, and the state assumes a discount rate of 4.5%, among other assumptions. It also has no OPEB assets in trust. The lower discount rates/rate of return assumptions for OPEB valuation than might typically be assumed for a pension fund is consistent with the lack of assets in a prefunded OPEB trust and GASB's guidance for lower pension rate of return assumptions when no pension trust assets are projected.

Highlights of the survey include:

- Unfunded state OPEB obligations of $528.9 billion.
- State-reported, multi-employer unfunded actuarial accrued liabilities for OPEBs in our survey ranged from $4 million-$66 billion, and on a per capita basis from $1.00-$8,408, with a median of $1,219, up from a median of $1,011 in our 2011 survey, and an average per capita unfunded OPEB of $1,632, down from $1,884 (in 2011).
- Twenty-five states have unfunded OPEBs below $1,000 per capita (including Nebraska, which does not report an OPEB that is only implicit), the same number as in our previous survey, while three state states have OPEBs of more than $6,000 per capita, down from five states in our previous survey.
- Among states with very low OPEBs, five have unfunded OPEBs under $100 per capita, while Nebraska does not report its OPEB, but is likely to have a very low one due to its limited implicit benefits.
- According to our data on annual funding progress, all but three states (Indiana, Utah, and Rhode Island) paid less than their full annual actuarial OPEB cost in fiscal 2012, up from two states in 2010. However, Arizona paid 97%, Colorado paid 98%, and an additional nine states paid between 65%-81% of their actuarial annual OPEB cost, an improvement from relatively weak annual funding that occurred for most states in fiscal 2010. Nevertheless, many states continue to pay much smaller percentages or fund the liability on a pay-as-you-go basis.
- Only seven states have OPEB trust funds funded at more than 20% of actuarial OPEB liabilities, up from six states at the time of our previous survey. An additional state, Kentucky, had an OPEB trust that was 19% funded.

State Rating Criteria Evaluates States' OPEB Liabilities

Under our criteria (see "USPF Criteria: State Ratings Methodology," published Jan. 3, 2011), a state's debt and liability profile is one of the five major factors that determine a state rating. Within this factor, debt, pension liabilities, and OPEBs are the key metrics that we score individually.

Because pension and retiree health benefits are long-term obligations that must be funded over time, in our analysis the size and management of these liabilities are weighted equally with debt. Since most states contribute only pay-as-you-go OPEB costs, our criteria focus on the size of the liability, the level of benefits provided, the fixed cost it represents and how it affects budget flexibility, and the ability and willingness of states to control future OPEB costs. Following a review of this information, we assign a risk assessment of "low," "moderate," "elevated," and "high" as outlined in our criteria.

OPEB Liabilities Will Need to Be Managed

OPEB liabilities, despite the recent decline, remain large and must be managed. Although we do not believe OPEB obligations currently impair repayment of debt obligations, we think that potential increases in annual OPEB payments in states with large OPEBs could weaken capacity to pay debt in the future. Unfunded OPEB could rise due to pay-as-you-go funding, increasing health care costs, and a growing retiree population, absent changes in benefits.

While the OPEB liabilities listed in table 3 might seem large, they are payable over many years as current employees retire and receive health care. We believe states are aware of these liabilities and are gradually taking steps to address these liabilities, either through benefits cuts for either current or future workers, or through prefunding of liabilities in OPEB trust funds. The findings of this survey support this view. The increasing amount of prefunding, although from a minority of states, and the stable amount of unfunded OPEB in the past two years, indicate that at least some states are slowly beginning to address the issue. We have observed a range of state actions in the past several years centered on managing retiree health benefits. These include employee contribution rate increases, benefit levels, longer vesting periods, and revised age and service requirements. We believe that these actions could help contain cost over time. The effectiveness of these reform initiatives will depend on how broadly and timely they are applied.

In addition, two years ago state budgets were in a weaker position coming off the financial crisis and the wind-down of federal stimulus funds that provided substantial state budget support. As states' financial health improves, we expect that at least some will begin to improve their OPEB funding, as has been the case for Michigan in the past two years.

Survey Methodology

Our calculation of OPEB liabilities was derived from the most recent state comprehensive annual financial reports (CAFR), bond official statements, and benefit plan actuarial reports currently available to us. We have combined multiple OPEB plans for each state into one combined funded figure. Our survey includes those OPEB plans that states disclose as a state obligation, although we use the combined OPEB for multi-employer plans when both state and local governments participate in the OPEB plan. Some states provide a state general fund contribution to local teacher OPEB plans, and for these we have also included teacher OPEB. In most cases, OPEBs of public university systems are not included, unless a state considers these a direct state responsibility. Some states do not perform annual actuarial valuations. We have used the most recent OPEB valuations available; in some cases these will be for 2012, for others, it could be earlier. Furthermore, some states do not perform OPEB actuarial valuations as often as they perform pension system valuations.

Essentially, in this survey we have used the same state OPEB plans that we included in our 2011 survey, validating comparisons we made with the OPEB amounts in that report. For a more detailed description of which funds we have included in our table and recent state actions affecting OPEB, if any, refer to table 4.

In table 3, we list the actuarial annual OPEB cost for each state's OPEB plan included in our survey, as shown in state CAFRs for fiscal 2012, although the valuation of unfunded OPEB we used in table 1 may be taken from a more recent actuarial report than that reported in the 2012 state CAFR. The annual OPEB cost represents the amount an OPEB plan must pay to keep the unfunded actuarial OPEB from growing on a yearly basis. This differs slightly from the actuarial ARC, in that the annual OPEB cost is the ARC adjusted for accruals and interest expense on the net OPEB obligation. In a few cases where we were not able to find the annual OPEB cost, we have instead used the ARC, a procedure we believe is reasonable because of the typically small variation between the annual OPEB cost and ARC.

Table 3

U.S. States' OPEB Liabilities And Ratios

State	Unfunded state OPEB (mil. $)	Total OPEB liability (mil. $)	Total OPEB assets (mil. $)	Combined funded ratio all OPEB funds (%)	Unfunded OPEB per capita	Fiscal 2012 combined actuarial annual OPEB cost (mil. $)	Combined actual annual payment (mil. $)	Annual actuarial cost paid (%)
Alabama	11,288	12,327	1,039	8.4	2,341	1,150	445	38.7
Alaska	4,047	9,118	5,071	55.6	5,533	527	376	71.4
Arizona	493	2,048	1,555	75.9	75	114	111	97.0
Arkansas	2,056	2,056	0	0.0	697	189	51	27.1
California	65,210	65,235	25	0.0	1,714	4,838	1,751	36.2
Colorado	1,429	1,711	282	16.5	275	89	87	97.8
Connecticut	17,904	17,954	50	0.3	4,987	1,221	541	44.3
Delaware	5,642	5,805	163	2.8	6,152	495	188	38.0
Florida	14,590	14,881	291	2.0	755	410	332	81.0
Georgia	14,625	15,433	818	5.3	1,474	1,378	507	36.8
Hawaii	11,706	11,706	0	0.0	8,408	857	231	27.0
Idaho	85	85	0	0.0	53	9	6	69.4
Illinois	33,295	33,295	0	0.0	2,586	2,463	777	31.5
Indiana	315	382	67	17.5	48	34	60	178.5
Iowa	378	378	0	0.0	123	41	19	46.9
Kansas	553	553	0	0.0	192	85	66	78.1
Kentucky	6,182	7,597	1,415	18.6	1,411	892	372	41.7
Louisiana	7,064	7,064	0	0.0	1,535	518	253	48.7
Maine	1,962	2,153	191	8.9	1,476	179	103	57.5
Maryland	9,371	9,580	209	2.2	1,593	719	386	53.7
Massachusetts	16,297	16,659	362	2.2	2,452	1,313	560	42.7
Michigan	16,393	16,408	15	0.1	1,659	1,097	754	68.7
Minnesota	799	799	0	0.0	149	82	53	65.3

Table 3

U.S. States' OPEB Liabilities And Ratios (cont.)								
Mississippi	665	665	0	0.0	223	47	21	43.8
Missouri	2,787	2,870	84	2.9	463	222	91	40.8
Montana	447	447	0	0.0	445	55	0	0.0
Nebraska	N.A.	N.A	N.A.	0.0	N.A	N.A	N.A	N.A
Nevada	947	977	30	3.1	343	110	47	42.8
New Hampshire	2,986	3,011	24	0.8	2,261	172	51	29.7
New Jersey	63,881	63,881	0	0.0	7,206	5,677	1,655	29.2
New Mexico	3,688	3,915	227	5.8	1,768	354	135	38.3
New York	66,479	66,479	0	0.0	3,397	3,896	1,359	34.9
North Carolina	29,716	30,851	1,135	3.7	3,047	2,547	910	35.7
North Dakota	125	183	58	31.8	178	10	8	76.5
Ohio	14,068	30,794	16,706	54.3	1,219	2,073	997	48.1
Oklahoma*	4	4	0	0.0	0	N.A	49	N.A
Oregon	406	650	244	37.5	104	35	25	73.3
Pennsylvania	16,265	16,395	130	0.8	1,274	1,137	738	64.9
Rhode Island	866	884	17	2.0	825	54	54	99.8
South Carolina	10,140	10,651	510	4.8	2,147	797	426	53.5
South Dakota	66	66	0	0.0	79	7	3	47.5
Tennessee	2,077	2,077	0	0.0	322	199	106	53.3
Texas	55,436	56,177	741	1.3	2,127	4,612	1,320	28.6
Utah	397	503	107	21.2	139	39	47	118.8
Vermont	1,826	1,839	13	0.7	2,916	118	28	23.5
Virginia	5,084	6,518	1,434	22.0	621	295	64	21.6
Washington	3,799	3,799	0	0.0	551	364	82	22.4
West Virginia	3,753	4,251	498	11.7	2,023	922	148	16.1
Wisconsin	953	953	0	0.0	166	77	38	49.6
Wyoming	242	242	0	0.0	419	27	7	25.8
Total	528,785	562,297	33,512	N/A	N/A	N/A	N/A	N/A
Median	3,688	3,799	50	N/A	1,219	N/A	N/A	44.0
Average	10,792	11,475	684	N/A	1,632	N/A	N/A	52.0

*Oklahoma does not report implicit subsidy of its retirement plan death and disability benefits as a separate unfunded OPEB. OPEB--Other postemployment benefits. N/A--Not applicable. N.A.--Not available.

Table 4

State OPEB Liabilities And Funding Progress

Alabama

The state's other postemployment benefits (OPEB) liability is moderate in our opinion. In 2007, the state legislature created irrevocable trust funds to help fund future retiree health care costs. Alabama provides postretirement health care benefits through the State Employees Insurance Board's State Employees' Health Insurance Plan (SEHIP), which is a single-employer plan. SEHIP's unfunded actuarial accrued liability (UAAL) improved significantly to $3.26 billion as of Sept. 30, 2011, and the funded ratio was 3%. The actuarial annual OPEB cost was $285.2 million in fiscal 2012, and the actual contribution was 39% of that amount. The OPEB for retired education employees is provided through the separate Public Education Employees' Health Insurance Plan (PEEHIP), which is a multi-employer plan. The most recent available actuarial study (Sept. 30, 2012) for PEEHIP estimated a long-term unfunded liability of $8.0 billion, a significant decrease from previous years, and a 10.4% funded level. In fiscal 2012, PEEHIP paid 38.6% of the annual required contribution (ARC). The fiscal 2014 ARC is calculated to be $689.4 million, a significant decrease from the level in recent years.

Table 4

State OPEB Liabilities And Funding Progress (cont.)
Alaska
Alaska's defined-benefit OPEB liability for its Public Employees Retirement System (PERS) was $4.04 billion and is 55.3% funded by health care trust funds as of the most recent, June 30, 2012, audit. This represents a marked improvement from 2009, when the funded ratio was 32% and the UAAL was $8.6 billion. The OPEB liability also includes those of other participating local governments. The state is required by statute to fund the annual contributions to the pension system at the actuarially recommended level. The state's judicial retirement system had an unfunded OPEB of $2.7 million, and the elected officials' retirement system had an unfunded OPEB of $4.7 million. The Teachers' Retirement System (TRS) defined-benefit OPEB liability was 43.8% funded as of 2011, up from 29.5% as of 2009. At these levels, the OPEB UAAL for TRS was $2.04 billion in 2010, down from $3.20 billion in 2009. The combined state and local governmental employers' unfunded OPEB for PERS, TRS, and other plans equals a much smaller $6.1 billion through 2011 compared with the $11.9 billion as of the 2009 valuation date. Alaska reports its PERS unfunded OPEB costs for its legacy defined-benefit plan as part of its combined reporting of the defined-benefit pension system's unfunded retirement costs. PERS defined-benefit pension and OPEB contributions in fiscal 2012 equaled 78% of the combined ARC of $745.5 million for the PERS pension and OPEB obligations. For TRS, the combined ARC for fiscal 2012 was $335.7 million, of which the state and other employers contributed 80%, or $272 million. However, on July 1 of each year, or as soon as funds are available thereafter, the state is required by statute to contribute sufficient additional funds to bring the total pension contribution for the previous fiscal year to the ARC.
Arizona
Three major systems provide OPEB for eligible employees at the state level: the Arizona State Retirement System (ASRS), a cost-sharing, multiple-employer plan that benefits state employees, political subdivisions, and public schools; the Public Safety Personnel Retirement System (PSPRS), an agent, multiple-employer system that serves firefighters and police employed by the state and subdivisions; and the Corrections Officer Retirement Plan (CORP), an agent, multiple-employer plan that services corrections employees at the state and county level. We view overall state OPEB liabilities as low. For ASRS, the OPEB liability is made up of two components: a health insurance premium benefit program and a long-term disability program. As of the actuarial valuation date from the fiscal 2012 audit, the UAAL for the health insurance premium benefit program was $257 million, with an 83% funded ratio, a liability we view as low, primarily due to the state's buildup in a trust fund of $1.2 billion in actuarial OPEB assets. For the same period, the long-term disability program's UAAL was $148 million, also low in our opinion, with a 68% funded ratio the result of $308 million of actuarial assets. Arizona does not include an estimate of the state portion of the multiple-employer liability in its annual financial statements. PSPRS and CORP OPEB liabilities consist of contributions in excess of the systems' health insurance subsidy in the overall pension plan. As of a June 30, 2012, actuarial valuation date, unfunded OPEB liabilities for PSPRS and CORP were $29 million and $59 million, respectively, and there was no OPEB trust. PSPRS and CORP contributions were 78% and 43% of the annual actuarial OPEB cost, respectively.
Arkansas
We view the state's OPEB risk to be moderate, given the relatively limited benefits provided, discretion to change benefits, and an ARC that is relatively low in relation to the state budget, compared with that of other states. Arkansas provides two OPEB plans, a medical and health plan administered by Arkansas State Police Medical and Rx Plan and Arkansas State Employees Health Insurance Plan. As of June 30, 2012, the combined total UAAL for Arkansas' two OPEB plans is $2.056 billion, with a funded ratio of 0%, as the state is funding OPEB on a pay-as-you-go basis. The fiscal 2012 actual OPEB funding for the two funds was 27% of the ARC.
California
California's OPEB liabilities, recorded in its California Employers' Retiree Benefit Trust Fund, represent a significant unfunded long-term obligation of the state. The state's actuarial valuation for fiscal 2012 projects an actuarial accrued liability (AAL) of $63.85 billion for the Benefit Trust Fund, up from $62.14 billion the year before, including certain changes in actuarial assumptions and demographic experience changes, and $48.22 in 2008. The actuarial value of assets in trust was only $8.3 million, leading to an UAAL of $63.84 billion. The state does not provide full funding of annual actuarially accrued costs, but instead funds the retiree health expenses on a pay-as-you-go basis. In fiscal 2012, the actuarial annual OPEB cost was $4.84 billion, including the separate trial courts system, of which the state contributed $1.75 billion on a pay-as-you-go basis, or 36% of the actuarial cost. The trial court system had an unfunded OPEB of $1.39 billion at July 1, 2011, its last valuation date, with only $16.8 million in trust, which if combined with the Benefit Trust Fund leads to a total state unfunded OPEB of $65.21 billion.
Colorado
The state's OPEB obligations health care trust fund, funded through Colorado's Public Employees' Retirement Association (PERA), and is a cost-sharing, multi-employer plan with a health care trust fund covering state employees, some school district employees, some local districts, and judicial employees. The PERA had a $1.4 billion unfunded liability at Dec. 31, 2011, unchanged from the year before, and a funded ratio of 16.5%, down slightly from 17.5% the year before. The state funded 98% of the OPEB actuarial ARC and calculates a 42-year amortization period for the unfunded liability under the current funding rate. State employees represent about 34% of the health care trust fund covered payroll. Colorado's share of this liability has not been calculated. We consider the state to have a moderate OPEB exposure. Not included in the summary table is the $343 million unfunded OPEB from the University of Colorado and $98 million unfunded OPEB from Colorado State University, as listed in the state's comprehensive annual financial report (CAFR).

Table 4

State OPEB Liabilities And Funding Progress (cont.)
Connecticut
We consider Connecticut's OPEB liabilities to be high, but recent actions by the state to control costs have lowered the liability, which is a credit positive. An updated actuarial valuation was released in April 2012 after a delay because of the appointment of a new actuary and substantial changes negotiated with the State Employees Bargaining Agent Coalition (SEBAC) relating to health benefits. The actuarial report shows the unfunded OPEB liability, as of June 30, 2011, fell to $17.9 billion compared with $26.6 billion at June 30, 2008. This is also far below the estimated $31.2 billion liability originally forecast at June 30, 2011, before cost-containment measures. The reduction is attributable to a change in the discount rate to 5.7% from 4.5% due to the creation of a trust fund, lower liabilities resulting from changes in plan design negotiated with SEBAC, and various health care cost-containment initiatives. Before the plan changes and updated actuarial report, OPEB costs had been forecast to rise sharply, reaching approximately $45 billion by fiscal 2017. Connecticut still funds OPEB on a pay-as-you-go basis, and there are limited resources in the trust at this time ($49.6 million as of June 30, 2011). Pay-as-you-go costs for funding this liability were $541 million in fiscal 2011, which was in contrast to the sizable ARC of $1.4 billion. Based on the updated actuarial report, the normal pay-as-you-go cost is estimated at $570 million for fiscal 2012, and the ARC is $1.5 billion.
Delaware
The state, through legislation effective July 1, 2007, created a single-employer Delaware OPEB Fund Trust. As of July 1, 2012, Delaware's AAL for OPEB is what we consider a sizable $5.8 billion, using a rate of return assumption of 4.25%. In 2007, Delaware created an OPEB trust fund that had assets of $163 million accumulated as of July 1, 2012, leaving an unfunded OPEB liability of $5.6 billion for primary government, down from $6.6 billion the year before. The actuarial annual OPEB cost was $495 million in fiscal 2012, of which the state contributed 38%. Actual state payments of $183.5 million were about 4.3% of general fund expenditures. The state has actively managed this liability, in our view, and we expect these efforts to continue. Legislation was passed, making modifications to employee health and pension plans that are expected to moderate costs over time. The legislation centered on increasing contributions, increasing vesting, and other reforms for new hires, as well as cost-saving measures for current employees.
Florida
Florida provides OPEB in two ways. The state allows retirees to participate in its health insurance program; however, because retirees are required to pay 100% of the premium amount, this benefit is considered an implied subsidy for providing retirees health insurance. The OPEB UAAL as of July 1, 2011, the most recent valuation date, of the state's portion of the UAAL was $6.42 billion. The state also participates in the Retiree Health Insurance Subsidy (HIS) program, a cost-sharing, multi-employer program. The benefit is available to retirees under a state-administered retirement system who can provide proof of health insurance coverage, including Medicare. The benefit is paid monthly and calculated based on years of creditable service times $5.00. The benefit is no less than $30 but no more than $150 per month. The HIS program is not a guaranteed benefit and is subject to annual legislative appropriation. The HIS unfunded OPEB obligation as of the most recent July 1, 2010, valuation date was $8.17 billion, an increase from $4.8 billion the year before, partly due to a drop in the assumed actuarial yield to 4.00% from 7.75% in the 2010 valuation. At July 1, 2010, the HIS had assets valued at $291 million, for a 3.44% funded rate. Our table uses the combined fiscal 2010 actuarial annual OPEB cost for HIS, and the fiscal 2012 annual OPEB cost for the implicit subsidy, based on the most recent publicly available data.
Georgia
The multi-employer State Employees Postemployment Benefit Fund had an unfunded OPEB of $3.87 billion as of a June 30, 2012, valuation date for a 0% funded ratio. The School Personnel Postemployment Health Benefit Fund (for which the state sets the benefit levels and required local school employer contribution rate, but is not directly responsible for funding) had an unfunded OPEB of $10.87 billion and a 0% funded ratio. The State Employees' Assurance Dept.'s OPEB (that provides life insurance) is overfunded by $114 million and had a 116% funded ratio--for a total unfunded OPEB of $14.6 billion. In addition, the Board of Regents had an unfunded OPEB of $3.6 billion at July 1, 2012. The state benefit fund had an ARC of $317 million and the teachers fund had an ARC of $1.05 billion in fiscal 2012 of which the state paid 57.4% and 36.1%, respectively. For fiscal years 2014 and 2015, the ARCs are estimated at $321 million and $276 million, respectively, for the state plan; and $943 million and $873 million, respectively, for the school personnel plan. The OPEB UAAL and ARC reductions are driven by plan design changes and increases in co-pays and deductibles.
Hawaii
Hawaii provides certain health care and life insurance benefits through the Employee-Union Health Benefits Trust Fund (EUTF), a multi-employer plan. As of the most recent July 1, 2011, actuarial valuation date, the EUTF unfunded OPEB for all participants was $11.7 billion, a level we consider significant, up from $8.8 billion in 2007, and there were no OPEB assets held in trust. The entire EUTF's actuarial annual OPEB cost was $857 million in fiscal 2012, of which 27%, or $231 million, was contributed under a pay-as-you-go funding policy. The total OPEB liability includes benefits provided to state employees, county employees, teachers, and the voluntary employee beneficiary trust. The state initiated higher OPEB contributions in its 2014 budget. These contributions, while material, remain well below the annual (actuarially) required contribution (ARC). In fiscal 2013, the state spent $275.9 million on OPEB, which, given its pay-as-you-go approach, equaled just 28% of the ARC. The new budget includes $100 million of prefunding in fiscal 2014 and another $117.4 million for fiscal 2015. Separate legislation establishes an upwardly trending contribution glide path so that, by fiscal 2019, the state's annual funding would match the ARC.

Table 4

State OPEB Liabilities And Funding Progress (cont.)

Idaho

We consider Idaho's OPEB liability to be low. The state substantially reduced its OPEB exposure beginning in 2010, in our view, with the exclusion of Medicare-eligible retirees or dependents from the state-sponsored health benefit and its fixing of the maximum benefit at $1,860 per year rather than the historical practice of indexing the benefit to changes to the benefit given to current employees. Based on a July 1, 2011, valuation date, the state calculates its fiscal 2012 unfunded OPEB liability at $23.5 million for its retiree health plan, and $61.0 million for combined long-term disability and retiree life insurance plans, levels we consider low. Under the state's pay-as-you-go funding approach, in fiscal 2012 all contributors paid $6.2 million for OPEB costs, or 69% of the annual actuarial OPEB cost of $8.9 million, not including $51.5 million of unfunded OPEB for the University of Idaho. The University of Idaho funded more than its actuarial OPEB cost, building up its trust fund, which had $21.8 million of actuarial assets at July 1, 2011.

Illinois

Illinois provides health, dental, vision, and life insurance benefits for retirees and their dependents for two of its retirement systems -- the State Employees' Retirement System and the State Universities Retirement System. The AAL continues to grow significantly in our view. For fiscal 2012, as of a June 30, 2011, actuarial valuation date, the liability is estimated at $33.3 billion compared with $28.6 billion in fiscal 2011 (a 16.4% increase). Illinois believes that it is not responsible for OPEB for retirees under the Teachers' Retirement System or the remaining two state-sponsored retirement systems. In fiscal 2012, the cost of these benefits, which are paid on a pay-as-you-go basis, was $777 million, or 31.6% of the $2.5 billion actuarial OPEB cost.

Indiana

In fiscal 2012, Indiana began putting money aside in an OPEB trust, with $44.0 million of actuarial assets in the state personnel health care plan, $17.0 million in the Indiana State Police Health Care Plan, and $5.8 million in the Conservation and Excise Police Health Care Plan. The relatively small legislature's health care plan had no OPEB trust assets. As of a June 30, 2012, actuarial valuation date, the state had a combined unfunded OPEB liability of $314.7 million, down from $383.2 million the year before, with an 18% combined funded ratio, up from a 0% funded ratio. The actuarial annual OPEB cost has also decreased on a combined basis to $33.5 million in fiscal 2012 from $56.1 million in fiscal 2010. The state personnel OPEB trust was overfunded by $7.4 million, while the largest UAAL of the four plans was for the state police, with an unfunded liability of $274.1 million. The OPEB liability declined in 2011 due to increases in premiums, deductibles, and copayments made by Indiana state police members and a 25% increase in the Conservation and Excise Police Health Care Plan, while it has further declined in 2012 partly due to annual overfunding of the state personnel health care plan OPEB cost and the Conservation and Excise Police Health Care Plan. In fiscal 2012, the combined actuarial annual OPEB cost of $56.1 million was met with actual payments of about $60 million.

Iowa

Iowa does not pay for health care benefits for retirees, who are allowed on their own to buy the same health insurance policy that covers active employees. The state, however, under Governmental Accounting Standards Board Statement (GASB) 45, reports a liability for its retiree health care benefits due to the implied subsidy that is deemed to exist when retired workers pay the same for health insurance as younger active workers. The resulting unfunded OPEB for state employees under the single-employer health care plan was reported as $377.9 million for fiscal 2012, based on the last actuarial valuation date of June 30, 2010, with a 0% funded level, as reported in the state's 2012 comprehensive financial statement. The actuarial annual OPEB cost in fiscal 2012 was $41.4 million (up from $30.0 million in fiscal 2010), of which contributors paid 47% under the state's pay-as-you-go funding. (Three state universities in addition had an unfunded OPEB of $270.3 million as of June 30, 2012, which has not been included in the summary table.)

Kansas

We view Kansas' OPEB risk to be low, given the relatively limited benefits provided, the state's discretion to change benefits, and an ARC that is relatively low in relation to the state budget, compared with other states. Kansas provides two OPEB plans: a death and disability plan administered by Kansas Public Employees' Retirement System (KPERS) and a postemployment health insurance benefit plan administered by Kansas Health Policy Authority. Only the health insurance benefit plan is included in the state's CAFR. The health insurance plan, which is funded on a pay-as-you-go basis, had an unfunded liability of about $282.6 million at its most recent June 30, 2012, actuarial valuation date; when combined with the $271 million unfunded OPEB for the death and disability plan as detailed in the KPERS audit at its most recent June 30, 2010, valuation date, the total combined UAAL for the two plans is about $554 million, with a combined funded ratio of about 2%. Health insurance is funded on a pay-as-you-go basis, while the death and disability plan had a $13.6 million actuarial value of assets at Dec. 31, 2010. The state funded 78% of the combined $85 million actuarial annual OPEB cost as of the most recent actuarial valuation date for each plan.

Table 4

State OPEB Liabilities And Funding Progress (cont.)

Kentucky

OPEB funding remains a challenge for the state and although the liability for Kentucky Employees Retirement System (KERS) has declined, the liability for Kentucky Teachers' Retirement System (KTRS) continues to increase modestly despite reform efforts. In April 2010, the governor signed into law House Bill 540. The bill created the KTRS insurance trust fund to supplement the current medical insurance fund, specifically dedicated to health benefits. The bill's purpose is to increase employee and employer contributions to the KTRS over a six-year period. Under a separate bill, House Bill 531, the state authorized the Asset Liability Commission to issue up to $875 million in funding notes to repay the KTRS pension for loans made to the KTRS medical insurance fund and to refinance those obligations. As of June 30, 2012, the KERS, including its state police component, had an OPEB UAAL of $2.9 billion, significantly below the $4.32 billion last year. The KTRS' unfunded OPEB liability increased slightly to $3.3 billion from $3.1 billion the past year. In fiscal 2012, the combined actuarial OPEB cost of $892 million was 42% funded by contributions of $372 million. In the past, the state has issued notes to cover loans made from the pension fund to the medical insurance trust fund and to cover its funding obligation for medical insurance. In the 2012-2014 biennium budget, Kentucky authorized the issuance of $152 million in notes for this purpose, which were issued in January 2013.

Louisiana

We view the state's OPEB risk to be elevated relative to other states, due to Louisiana's above-average liability and the state's funding of slightly more than half its annual OPEB cost in 2012 and about one-third of the cost in 2011. Louisiana provides just one OPEB plan, a health care plan, and a life insurance program administered by the state. Complying with the GASB's new disclosure rule, Louisiana revealed that it has an estimated unfunded OPEB actuarial liability of $4.9 billion for primary government activities as of July 1, 2011, the most recent actuarial valuation date, down from the previous year's $6.4 billion, for retiree health care benefit programs and life insurance. During the 2008 legislative session, the state approved the creation of an OPEB trust, although it had not been funded as of fiscal year-end 2012. In fiscal years 2012 and 2011, the actuarially recommended annual OPEB cost contribution was $345 million and $472 million, respectively, for the primary government to amortize the unfunded liability in 30 years, of which the combined employers paid $175 million and $153 million in 2012 and 2011, respectively, under pay-as-you-go financing. There is an additional $2.2 billion unfunded OPEB liability from the state's component units. This liability stems almost wholly from the state's multi-employer group benefits plan, which includes school systems and non-state agencies. The $78 million actuarial annual OPEB cost for this was 45% funded by its component units. The combined unfunded OPEB from primary and component unit levels of governments was $7.1 billion.

Maine

We consider Maine's overall unfunded OPEB liability to be moderate at $1.96 billion, down from $2.24 billion the year before due to both declines in liability and increased trust fund assets. Maine funds retiree health benefits for retired state employees and funds a portion of the health premiums for retired teachers. As of June 30, 2012, the unfunded OPEB liability was $1.3 billion for state employees, which was 10.3% funded by an OPEB trust fund with an actuarial value of $136 million, up from 7.2% funded ratio the year before. The state funded 65% of the actuarial annual OPEB cost in fiscal 2009, 59.8% in fiscal 2010, 71.4% in fiscal 2011, and 59.4% in fiscal 2012; the separate unfunded OPEB for teachers (to which the state is the sole contributing entity at 45% of the retiree-only health premium) was $665 million, down from $806 million the year before, and the unfunded OPEB for first responders was $22 million, neither of which had an OPEB trust fund. Additional OPEB includes group life insurance and for first responders. In 2008, Maine transferred $100 million from its internal service fund to an OPEB trust fund. Statutory law requires that, beginning in fiscal 2009, the state may not create an unfunded OPEB liability other than that resulting from experience losses, which must be amortized over 10 years, and requires other unfunded OPEB liabilities to be retired in 30 years or earlier from July 1, 2007. However, in fiscal 2010 Maine paid only pay-as-you-go OPEB costs, although it budgeted a transfer of $14.4 million into its OPEB trust fund in fiscal 2011 to reduce the unfunded liability. In fiscal 2013, the state reduced medical benefits for early retirees and put a cap on Maine’s contribution to the retiree medical premium, contributing to a reduction in OPEB liabilities.

Maryland

As of June 30, 2012, the actuarial accrued OPEB unfunded liability was $9.4 billion. The actuarial annual OPEB cost was $718.7 million in fiscal 2012. Maryland funded 54% of the annual pay-as-you-go costs of the actuarial OPEB cost in fiscal 2012. This liability is lower than the $15.9 billion recorded before the health care benefit reforms approved by the general assembly in 2011. The reforms included increased premium payments and prescription drug copayments. We believe that the reforms should moderate future cost pressure. For fiscal 2013, the state estimates a lower ARC $634.5 million (compared with an ARC of $704.4 million in fiscal 2012) and an increase in the pay-as-you-go ARC to 61% from 53%. Chapter 355 of the Laws of 2007 created the postretirement Health Benefits Trust Fund as an irrevocable trust. The amount held in trust for OPEB as of June 30, 2012, was $208.8 million. Maryland Transit Administration's retiree health care benefit also has an unfunded OPEB liability of $528 million, not included in the table.

Massachusetts

Massachusetts has a $16.3 billion unfunded actuarial accrued OPEB liability, which we consider sizable, although it is down from $16.6 billion the year before. The commonwealth established a trust fund to begin to accumulate assets toward the liability and is dedicating tobacco settlement revenues to the trust fund (to be phased in over 10 years) to provide a permanent funding source, which we consider a credit positive. The trust had assets of $360.5 million as of Jan. 1, 2012. Following the release of the OPEB commission recommendations in 2012, the governor is recommending a range of health reform initiatives for the legislature to consider. The proposals include increasing the minimum years of service requirement to 20 years from 10, increasing the minimum eligibility age for receiving benefits, and adjusting premium contributions. We view these reforms as positive from a credit standpoint and, if approved, believe they would further the commonwealth's progress toward managing its long-term liabilities. Included in the OPEB table is the Massachusetts School Building Authority, which had no unfunded OPEB liability and OPEB plan assets of $2 milion.

Table 4

State OPEB Liabilities And Funding Progress (cont.)
Michigan
The state's unfunded OPEB health care obligations total $15.4 billion, not including teacher OPEB, plus $1.0 billion of retiree life insurance OPEB, a level which we see as somewhat high. However, Michigan has begun measures that could mitigate future OPEB liabilities. It transferred $300 million to OPEB trust funds in fiscal 2012, and $280 million in fiscal 2013, which the state projects will lower total unfunded actuarial OPEB by $5.6 billion. If Michigan provided full funding of the OPEB ARC in future years the unfunded liability would fully amortize over 26 years. The state provides health, dental, and vision benefits, as well as life insurance coverage, to retirees of all state pension plans to which it makes contributions, except the military retirement plan. Benefits until fiscal 2012 were funded on a pay-as-you-go basis. The majority of Michigan's retiree benefits payments go toward retirees under the State Employees Retirement System (SERS), with police retirees in the State Police Retirement System making up most of the remainder. As of September 2011 actuarial valuation dates, the state reports unfunded actuarial OPEB liabilities of $14.3 billion for the SERS and $994.7 million for the SPRS, and $125.5 million for the legislative retirement system; and as of a Sept. 30, 2012, valuation date, there is $8.5 million for the judges' retirement system. Life insurance provided for retirees also added $1.0 billion in OPEB. In fiscal 2012, Michigan paid less than ARC for certain of its various OPEB retirement systems. Although the state does not pay teacher OPEBs, it does provide operating aid to local school districts. The teachers' pension system calculated unfunded teacher OPEB at $25.9 billion as of Sept. 30, 2011, which is not included in the table. Unlike accrued pension benefits, state courts have ruled that health care benefits are not protected as a matter of law, indicating in our view potential legal ability on Michigan's part to cut OPEB liabilities under new union contracts.
Minnesota
As of July 1, 2010, the most recent actuarial valuation, the UAAL for the state's OPEB was $799 million. Minnesota funded 65% of the $81.5 million annual OPEB cost in fiscal 2012, and this funding ratio has been improving in recent years. The table does not include $116 million of unfunded OPEB from the the University of Minnesota, which has been funding its OPEB on a pay-as-you-go basis.
Mississippi
We view Mississippi's OBEB risk to be moderate relative to other states, given that the OPEB is an implicit subsidy as the result of allowing retirees to participate with active employees in the state employee health care plan. In addition, the state has discretion to change benefits and we view its actuarial annual OPEB cost as relatively low in relation to the state budget. Mississippi provides only one OBEB plan, a medical plan and life insurance program administered by the State and School Employees' Health Insurance Management Board. Based on the plan's most recent valuation on June 30, 2012, the total UAAL is about $664.7 million. The plan is financed on a pay-as-you-go basis. Mississippi funded 62.5% of the $47.0 million actuarial annual OPEB cost in fiscal 2012. The current actuarial annual OPEB cost is only 1.1% of covered payroll.
Missouri
Missouri's OPEB are provided by three funds, which had an unfunded OPEB liability of $2.79 billion at the end of fiscal 2012, up from a $2.56 billion UAAL at the end of fiscal 2011. The state has $84 million of assets in one of the funds, which provides for an overall funded ratio of 3% for the three funds. The actual contributions in fiscal 2012 were equal to 41% of the actuarially determined annual OPEB costs during the year. In addition, and not included in the table, the University of Missouri system had an unfunded OPEB liability of $497 million at June 30, 2012.
Montana
We consider Montana's unfunded OPEB liability to be low, consisting only of an implicit OPEB subsidy. The state's OPEB liability was $447 million as of fiscal 2012, with an actuarial ARC of $55 million. This is the combined liability for both the state plan and the Montana University System (MUS) plan. Both of these plans allow retirees to participate, as a group, at a blended rate with active employees in which retirees do not cover all of their own related costs. This results in the reporting of an "implied rate" subsidy in the related financial statements. The state plans to continue funding the employee health insurance plan on a pay-as-you-go basis, and does not intend to fund this implicit liability. The actuarial annual OPEB cost is $40 million for the state plan and $15 million for the MUS plan. Montana made no contributions in fiscal 2012 to the "implicit" OPEB health care subsidy in fiscal 2012, and the OPEB has a 0% funded ratio.
Nebraska
The state's liability for OPEB is minimal because it does not directly offer OPEB. Nebraska's liability for OPEB is limited to an implicit subsidy from the participation of retirees before the age of 65 in the state health care plan, which creates an implicit subsidy for older participants. Retirees are not eligible to participate after age 65, thereby only creating a modest implicit unfunded actuarial liability. The state does not disclose an actuarial valuation of its implicit OPEB subsidy.
Nevada
The 2009 and 2011 legislatures reduced OPEB and increased employee contributions. During the 2011 legislative session, health care benefit eligibility was ended for state employees hired after Jan. 1, 2012. This action, in addition to changing to a high-deductible health plan and increasing beneficiary premiums, reduced Nevada's AAL to $977 million as of June 30, 2011, from $1.87 billion as of June 30, 2010. Previous OPEB benefit reductions and increases to employee contributions had reduced the present value of benefits (PVB) to $3.3 billion as of fiscal 2010 from $3.6 billion as of fiscal 2009. The new 2011 reforms further lower the PVB to $1.8 billion. The state's ARC declined as of June 30, 2011, to $120 million from $221 million at June 30, 2010. The state funds the annual benefit on a pay-as-you-go basis, and the benefit totaled $46.1 million in fiscal 2010, $14.5 million of which was in the form of an implicit rate subsidy and not a direct cash outlay by the state. Nevada determined that its plan design and assumptions were largely unchanged as of fiscal 2012, and as such, no new valuation was conducted.

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Table 4

State OPEB Liabilities And Funding Progress (cont.)

New Hampshire
New Hampshire's latest OPEB actuarial valuation for its single employer state Retiree Benefit Risk Management Fund was Dec. 31, 2010, when an unfunded OPEB liability of $2.26 billion was disclosed under the state's single-employer Retiree Benefit Risk Management Fund. In addition, there was an unfunded OPEB liability of $728 million, net of $24 million in OPEB trust fund assets, as of June 30, 2012, under the multiple-employer New Hampshire Retirement System's medical premium subsidy program for a closed group of retirees. The actuarial annual OPEB cost for the Benefits Health Fund was $172 million in fiscal 2012 under the 2010 valuation's projection, with a $51 million actual pay-as-you-go contribution. The actuarial annual cost for the medical premium subsidy is not available. The state's 2012-2013 biennium budget eliminated New Hampshire's contribution to local governments for local government pensions and the medical subsidy premium and which was expected to reduce state costs by approximately $97.8 million in fiscal 2012 and $107.8 million in fiscal 2013; these state reductions are offset by increased required member contributions. In recent years, New Hampshire has also imposed a monthly fee for the Risk Management Fund health care OPEB liability for employees under the age of 65. New Hampshire has made multiple changes to reduce the pension and OPEB liability in recent years, including changes during the 2011 legislative session.
New Jersey
As of July 1, 2012, the date of the last actuarial valuation, the UAAL was $63.9 billion, with a funded ratio of 0%, which was composed of $19.3 billion for state employees, $32.2 billion for education, and $12.4 billion for local government employees, some of whose OPEB becomes the obligation of the state of New Jersey upon their retirement. New Jersey's OPEB liability declined significantly in 2011 thanks to changes to its prescription drug plan and the 2011 Pension and Health Benefits Reform Legislation passed on June 28, 2011. The state's liability declined by $11.3 billion, or 16%, to $60.01 billion in the 2011 valuation, before rising to $64 billion in 2012 due to the pay-as-you-go funding. Of the reduction in 2011, $9.4 billion was due to changes in the prescription drug Medicare integration to an employer group waiver program from a retiree drug subsidy program. Under this program, the state became an official Medicare Part D plan, which entitles it to collect larger subsidies from the federal government. The impact of the legislation was a $2.5 billion reduction in the UAAL. The legislation requires all public employees to contribute more toward their health insurance coverage and also requires future retirees to contribute toward the cost of their post-retirement medical coverage. The state funds OPEB on a pay-as-you-go basis. New Jersey's 2012 audit reports that the state actuarial annual OPEB cost was $5.7 billion for all three plans, of which the state paid $1.7 billion in fiscal 2012. The fiscal 2012 the state expended $1.253 billion for postretirement medical benefits and for fiscal 2013, the appropriations act appropriated $1.42 billion to cover these costs.
New Mexico
The state provides medical, dental, vision, and life insurance plans to retired state employees. The New Mexico Retire Health Care Authority fiscal 2012 CAFR reports an unfunded OPEB obligation in its multi-employer Retiree Health Care Fund of $3.7 billion, which was 5.8% actuarially funded by an OPEB trust fund as of a June 30, 2012, actuarial valuation date. The fiscal 2012 OPEB ARC was $353.7 million, of which employers and employees contributed $135.4 million. Employer and employee contribution rates for OPEB are set by statute, and phased increases beginning July 1, 2012, are scheduled to bring the employer contribution rate to 2% from 1.666%, and the employer contribution rate to 1% from 0.833%. The state projects this should extend the solvency of the OPEB trust fund to 2026. At the time of our last review in the spring of 2013, pending Senate Bill 71 would also have further increased employee and employer contributions to the Retiree Health Care Fund.
New York
Until fiscal 2012, New York State's unfunded OPEB liability was high and growing due to underfunding of the ARC. However, changes in benefits under new labor contracts lowered the state's unfunded OPEB to $54.3 billion as of April 1, 2012, from $59.7 billion as of a 2010 valuation. In addition, the state considers the State University of New York's (SUNY) OPEB a state obligation. SUNY's unfunded OPEB of $12.2 billion at April 1, 2012, represents a decline from $12.4 billion in 2010. New York State has not established a fund to prefund OPEB costs. Combined SUNY and state employee unfunded OPEB is $66.5 billion as of fiscal year-end 2013, down from $72.1 billion in 2012 based on the 2010 valuation, but up from $55.9 billion as of a previous 2008 valuation date (which included $9.6 billion for the SUNY). Actuarial assumptions use the frozen entry age actuarial cost method, and assume medical cost inflation trends down over time to 4.75%. In fiscal 2012, the combined annual OPEB cost was $3.9 billion, but it contributed pay-as-you-go funding of only $1.4 billion (as listed in table 1), while in fiscal 2013 the combined annual OPEB cost was $3.3 billion and the state's pay-as-you-go contribution was $1.4 billion. The state's unfunded OPEB liabilities are similar to its level of tax-backed debt. In addition, the City University of New York, which receives state funding, but pays benefits through the New York City Health Benefits Program, had an unfunded OPEB of $1.2 billion, not included in table 1.
North Carolina
Although North Carolina's OPEB liabilities are high, in our view, with an estimated liability of $30.339 billion as of Dec. 31, 2011 ($29.61 billion unfunded), in the state's retiree health care fund, North Carolina has made adjustments to the benefits of new employees and established a trust fund in an effort to control costs and provide a mechanism to accumulate assets. In aggregate for fiscal 2012, the participating employers in the retiree health care plan funded OPEB costs of $751.348 million, which is only about half of the ARC of $2.5 billion. In addition, the state provides a disability income benefit to retirees, with an unfunded OPEB of $105.3 million at Dec. 31, 2011, its last actuarial valuation date. Funding of the disability income program is determined by the general assembly, and not its actuarial ARC, which is unavailable.

Table 4

State OPEB Liabilities And Funding Progress (cont.)

North Dakota

We consider North Dakota's OPEB obligations to be low, due to relatively modest retiree benefits. The state's multiple-employer health insurance credit fund had an accrued OPEB liability of $112 million and an unfunded OPEB of $54.1 million as of a June 30, 2012, valuation date. The state also has an implicit health care subsidy for retirees who are not eligible for Medicare with an implicit unfunded OPEB of $65 million at June 30, 2011, the last valuation date. There is also an unfunded OPEB for Job Service North Dakota, a single-employer plan. For all state plans on a combined basis, North Dakota had an unfunded OPEB liability of about $125 million, a 32% funded ratio, and an actuarial annual OPEB cost of $10 million in fiscal 2012, for which the state overfunded with a contribution of $8 million, including the implicit health subsidy for non-Medicare eligible retirees.

Ohio

Ohio has assessed its postretirement employee benefit liabilities regularly and has been one of the few states to actively manage this liability and accumulate assets to fund the liability. Health care benefits are not vested and benefits and contributions are subject to adjustment according to the state. For the Public Employees Retirement System, the UAAL decreased substantially as of Dec. 31, 2012, is $7 billion compared with $18.9 billion and the state had accumulated assets of $12.2 billion as of Dec. 31, 2012 (63.6% funding ratio). This is substantially improved from a 39.1% funding ratio in 2011 due to various reforms included in the most recent health care preservation plan approved by the legislature. These reforms include various eligibility and benefit changes as well higher employer contributions being diverted to fund OPEB. For State Teachers Retirement System, the UAAL is $1.1 billion, with accumulated assets of $3.1 billion (73.4% funded ratio) as of Jan. 1, 2013. In 2012, the School Employees Retirement System plan had $355 million of assets (13.2% funded ratio). In 2013, the Ohio Police and Fire Pension Fund had a UAAL of $3.3 billion (22% funded ratio). The Highway Patrol Retirement System had a UAAL of $312 million (24.3% funded ratio) at Dec. 31, 2012. On a combined basis, the state funded about 48% of its OPEB ARC in fiscal 2012.

Oklahoma

The state sponsors seven public employee defined benefit retirement plans: the Oklahoma Public Employees Retirement System (OPERS), Teachers Retirement System (TRS), Uniform Retirement System for Justices and Judges (URSJJ), Firefighters Pension and Retirement System, Police Pension and Retirement System, Law Enforcement Retirement System (LERS), and Wildlife Conservation Retirement Plan (WCRP). Oklahoma provides OPEB including disability and death benefits as part of its OPERS, TRS, URSJJ, LERS, and WCRP plans. Benefits are provided through the State and Education Employee Group Insurance Board (SEEGIB) and are statutorily capped at $105 per employee per month. The Department of Wildlife Conservation is the only department that makes a contribution on behalf of its retirees and had an OPEB liability of $4.5 million with an ARC of $213,000 in fiscal 2012, of which the department contributed $159,000 on a pay-as-you go basis. (This is the OPEB listed in the table.) This small OPEB liability is included in the state's pension liabilities. Oklahoma has determined that SEEGIB does not constitute an OPEB plan, according to the provisions of GASB 43, and thus does not report an OPEB for the state's implicit OPEB subsidy for its other retirement plans. However, Oklahoma does report the combined annual OPEB contribution to SEEGIB for all its funds, which was $49.4 million in 2012, including the Wildlife Fund.

Oregon

Many of the state's former employees are eligible for health care benefits through the multi-employer Oregon Public Employees' Retirement System (PERS). For these retirees, the state offers two types of benefits, which entail an explicit subsidy. Oregon's portion of these UAALs equals, on a combined basis, $252 million as of a Dec. 31, 2011, valuation date. The larger of the two relates to the PERS' retirement health insurance account program, which has a total AAL of $461.1 million, of which $221.5 million is unfunded. The remaining $29.9 million unfunded OPEB liability relates to the state's retiree health insurance premium account, which is entirely allocable to Oregon. The state also allows employees who are not in the PERS insurance plan to purchase pre-Medicare insurance benefits at a rate subsidized by the state. This translates to an estimated UAAL of $154.7 million as an implicit OPEB due to the implied subsidy for older members. The total explicit and implicit OPEB UAAL are $406 million as of fiscal 2012. The state is funding its ARC to amortize the explicit subsidy by 2027, but management reports that the state does not plan to set aside a reserve for the implicit subsidy.

Pennsylvania

Based on the most recent valuation, Pennsylvania's OPEB unfunded liability was $15.27 billion as of June 30, 2011, for its retired Employee Health Care Program and its retired Pennsylvania State Police Program. The commonwealth employs a pay-as-you-go system and has consistently not funded its full ARC payment, a liability that Standard & Poor's expects to increase. In the past, Pennsylvania had taken some steps to contain the growth, including increased employee contributions, raising the years of service for early retirement to 20 years from 15, introducing alternative plans, and offering the option for employees to enroll in a Medicare health management organization (HMO) or preferred provider organization (PPO) plan. In addition, the judiciary, house, and senate have separate OPEB plans with unfunded liabilities of $426 million, $352 million, and $218 million, respectively, with no OPEB trust funds for these plans. The combined actuarial annual OPEB cost for the state, judiciary, house, and senate plans in fiscal 2012 was $1.1 billion, which was funded by $738 million of contributions.

Rhode Island

The unfunded liability for the state's OPEBs, as of June 30, 2011 (the latest valuation), was $866.3 million, a $91 million increase from the 2009 valuation. The liability is about $825 per capita. Rhode Island budgeted for the full OPEB ARC in fiscal years 2011 and 2012, and began funding its OPEB trust fund for the first time during 2011, when it had actuarial assets of $17.4 million.

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Table 4

State OPEB Liabilities And Funding Progress (cont.)
South Carolina
The state established an OPEB trust fund in 2008. The South Carolina Retiree Health Insurance Trust Fund retiree health care benefit is funded largely on a pay-as-you-go basis, with minimal additional accumulation of funds to pay retiree health benefits. The UAAL for OPEB as of June 30, 2011, the last actuarial valuation date, was estimated at $10.15 billion and the value of actuarial assets was $477.12 million. The fiscal 2012 ARC was $787.3 million, to which South Carolina contributed 53%. The state also has a Long-Term Disability Insurance Trust Fund, which was overfunded by $8.3 million as the result of $33.3 million held in trust on an actuarial basis. In fiscal 2012, the state had an actuarial ARC for this fund of $9.2 million, to which South Carolina contributed 73.1%. Combined, the two OPEB funds had a UAAL of $10.14 billion.
South Dakota
South Dakota's OPEB liability is low because the state does not directly pay for retiree health care. The state allows its eligible pre-Medicare retirees to buy into the active employees' health care plans and this results in an implicit rate contribution from the state. The UAAL for this implicit rate subsidy was $65.8 million as of July 1, 2011, which was 0% funded. The actuarial annual OPEB cost for 2012 was $7.0 million, and the state's pay-as-you-go contribution was only 47% of the annual OPEB cost. All numbers are based on a 3.519% discount rate based on South Dakota's average bond porfolio yield for the valuation period.
Tennessee
Tennessee's most recent actuarial unfunded OPEB liability as of July 1, 2011, was $1.5 billion for its state employees, $221 million for its State Medicare Supplement Plan, $217 million for the state share of the Teacher Group Plan, and $163 million for the Teachers' Medicare Supplement Plan. However, the combined $1.5 billion unfunded OPEB liability for state employees includes $568 million in implicit subsidy, leaving an explicit subsidy of $943 million. Tennessee has been funding its OPEB liability on a pay-as-you-go basis and has not funded an OPEB trust fund. In fiscal 2012, the state portion of the annual actuarial OPEB cost was $199 million for all four plans, of which it paid $79 million, or 53% in aggregate.
Texas
Texas provides retiree health benefits through its multi-employer Employees Retirement System through a State Retiree Health Plan (SRHP), which had an unfunded OPEB liability of $20.8 billion at Aug. 31, 2012, down from $21.5 billion at year-end fiscal 2011 and $22.3 billion at year-end 2010. The SRHP had a "reverse" OPEB implicit subsidy in fiscal 2012 as the result of federal Medicare subsidies, whereby excess retiree health care contributions actually subsidized active employees by $62 million. SRHP has been funded on a pay-as-you-go basis and has no actuarial assets. Texas' contribution for its share of SRHP funding in fiscal 2012 was $483.6 million and retirees contributed $135.0 million. The separate multi-employer Teacher Retirement System benefit fund (TRS-Care) had unfunded actuarial accrued OPEB liabilities of $26.8 billion at Aug. 31, 2012, down from $29.8 billion in 2011, but up from $25.8 billion in 2010. TRS-Care had actuarial assets of $741 million in 2012, and an OPEB trust funded ratio of 2.7%. The state's contribution toward TRS-Care in 2012 was $272.0 million under its pay-as-you-go funding, while other reporting entities and the federal government brought total TRS-Care contributions up to $495.3 million against an ARC of $1.98 billion. Also included on the summary table is the University of Texas' unfunded OPEB of $5.96 billion, and Texas A&M University's unfunded OPEB of $1.9 billion.
Utah
The state has two OPEB funds -- one for state employees and one for elected officials -- that total $397 million of unfunded OPEB obligations. Utah's employee OPEB plan is capped; only state employees entitled to receive retirement benefits and hired before Jan. 1, 2006, are eligible to receive OPEB health and life insurance benefits. The unfunded OPEB liability for state employees was $374.8 million as of a Dec. 31, 2010, valuation date. Since then, Utah has contributed virtually 100% of its annual actuarial OPEB cost, which was $43.8 million in fiscal 2011. For fiscal 2012, the state contributed $43.3 million, slightly more than the actuarial annual OPEB cost of $37.6 million. The employees' OPEB trust fund was 22% funded in 2010, and annual OPEB costs will likely decline due to the cap on new employees. The elected officials' OPEB trust had a $21.99 million unfunded OPEB liability at Dec. 31, 2010, and no reported trust fund actuarial assets under pay-as-you-go funding; it has since been closed. The actuarial annual OPEB cost in fiscal years 2011 and 2012 was $1.79 million and $1.77 million, respectively. The state contributed $1.79 million and $3.47 million, respectively, in those years.
Vermont
Vermont offers postemployment medical insurance, dental insurance, and life insurance benefits to retirees of the single-employer Vermont State Retirement System (VSRS) and the multi-employer Vermont State Teachers' Retirement System (VSTRS). The unfunded OPEB liability for VSRS as of June 30, 2012, was $998.4 million and for VSTRS it was $827.2 million. The actuarial annual OPEB cost in fiscal 2012 was $71.7 million for VSRS, of which the state paid 39% under pay-as-you-go funding. The VSTRS also uses pay-as-you-go funding, but the state does not break out the actual employer contribution, instead including it through the pension fund without an explicit appropriation. The actuarial annual OPEB cost for VSTRS in fiscal 2012 was $45.9 million, a reduction from $60.3 million in fiscal 2010, primarily due to benefits changes negotiated at that time with the teachers' union that reduced the VSTRS OPEB cost by about $15 million for fiscal 2011. The state has established an OPEB trust fund for VSRS, but as of June 30, 2012, it only contained $13.4 million of actuarial assets, for a 1.3% actuarial asset funded ratio. The separate multi-employer Vermont Municipal Employees Health Benefit Fund for local government is administered by the state, but has no liability to the state, and is not included in our OPEB calculations.

Table 4

State OPEB Liabilities And Funding Progress (cont.)

Virginia

The commonwealth has five postemployment benefit programs (retiree health insurance credit, group life insurance, Virginia sickness and disability plan, pre-Medicare retiree health insurance program, and line-of-duty death and health insurance benefits). It estimates its combined OPEB liability under GASB Statement 45 to be $6.5 billion, with $1.4 billion of actuarial assets in its combined OPEB trust funds for a combined funded ratio of 22% and a unfunded $5.1 billion OPEB liability. In fiscal 2012, the combined actuarial OPEB cost was $295 million, of which Virginia contributed $64 million, or 22% in fiscal 2012. The University of Virginia and the Virginia Housing Development Authority have OPEB funds, but their actuarial financial position was not disclosed in the state's CAFR and has not been included in our summary table.

Washington

Washington State's OPEBs are funded on a pay-as-you-go basis. The state's OPEBs produce an implicit liability from allowing retired employees to purchase health, life, and vision insurance in the same pool as current employees at a subsidized rate. The explicit benefit subsidizes retired members' monthly premiums for enrollment in Medicare Parts A and B. On an actuarial basis, the state's portion of the AAL made up $3.49 billion of the total, and the annual OPEB cost was $330 million in fiscal 2012, according to the state's fiscal 2012 audited financial statements. Washington contributed $78.7 million for current pay-as-you-go expenses for retiree benefits, equal to less than 1% of annual general fund expenditures, that same year. We understand that the state does not plan to fully fund the ARC for the foreseeable future. We have also included in our table unfunded OPEB of $307 million from the Public Employees Benefits Board for political subdivisions.

West Virginia

West Virginia’s OPEB plan is a cost-sharing, multiple-employer plan that covers state government and its agencies, state-related colleges and universities, county boards of education, county and municipal governments, and other employers allowed under statute. The Public Employees’ Insurance Agency (PEIA) funds retiree health benefits. The West Virginia legislature created the West Virginia Retiree Health Benefits Trust Fund (RHBTF) in 2006, which PEIA administers. The state's OPEB unfunded actuarial liability as of the latest actuarial valuation (June 30, 2009) was $7.0 billion and projected at $7.4 billion as of June 30, 2010. To address West Virginia's growing OPEB liability, the state passed SB469 (effective July 1, 2102), which was intended to reduce the state's OPEB liability in half by imposing either higher premium or lower benefits to retirees. The bill ends premium subsidies for retirees hired on or after July 1, 2010. Furthermore, the bill sets up a 24-year payment plan, beginning in 2016, that would re-direct $35 million a year in personal income tax revenues, $30 million of which would be used to eliminate the remaining $5 billion liability. The remaining $5 million would be deposited annually into a trust fund to assist employees hired after July 1, 2010. Finally, the bill provides OPEB relief to the 55 county boards of education by transfering the liability for funding the OPEB liability to the state. For fiscal 2012, the RHBTF transferred $715 million in annual required contribution liability to the state. There was $472 million in actuarial assets in the trust fund as of the most recent June 30, 2011, actuarial valuation, leaving an unfunded OPEB of $3.4 billion, for a 12% funded ratio, up from a 5% funded ratio in 2009. The significant decline in liability ($3.6 billion) reflects primarily the new board policy that eliminates the explicit subsidy for retirees ($2.6 billion) and a change to the discount rate to 6.10% from 3.56% to reflect assumptions about future contributions under the new funding plan ($1.3 billion) -- other changes to demographics, inflation, mortality, retirement, pay scale and life insurance subsidy account for the difference between these two measures and the $3.6 billion decline in the liability. The actuarial annual required contribution in 2012 was $922 million, with actual employer contributions being only 16% of the ARC.

Wisconsin

Wisconsin allows retirees to continue their participation in its health care plan at their own expense, which gives rise to an unfunded implicit rate liability under GASB 45. Retirees can pay for their health care benefits with unused sick leave. The most recent Jan. 1, 2011, actuarial valuation showed a large drop in OPEB liability to $953.1 million from $1.3 billion in 2009, and a drop in the actuarial annual OPEB cost from $128.4 million in fiscal 2011 to $77.4 million in fiscal 2012. The state does not expect to set up a trust fund to accumulate assets against its unfunded OPEB liability at this time.

Wyoming

Wyoming has what we consider to be a low unfunded OPEB liability of $218.7 million for state employee retiree health care in its retirees health plan as of a June 30, 2012, actuarial valuation date. This OPEB consists wholly of an implicit subsidy, whereby retired and current state employees pay a single blended rate for health care premiums, which are fully paid each year under the state's pay-as-you-go funding. The University of Wyoming has a separate $22.7 million unfunded OPEB, included in our table as of the most recent June 30, 2010, valuation date. In fiscal 2012, the state retirees health plan's actuarial annual OPEB cost was $24.6 million, to which the state contributed $6.6 million, and the University of Wyoming's actuarial annual OPEB cost was $2.9 million in fiscal 2012, to which the University contributed $955,000.

Table 5

State OPEB Per Capita--Lowest To Highest

State	Unfunded OPEB per capita
Oklahoma*	1
Indiana	48
Idaho	53
Arizona	75

Table 5

State OPEB Per Capita--Lowest To Highest (cont.)	
South Dakota	79
Oregon	104
Iowa	123
Utah	139
Minnesota	149
Wisconsin	166
North Dakota	178
Kansas	191
Mississippi	223
Colorado	275
Tennessee	322
Nevada	343
Wyoming	419
Montana	445
Missouri	463
Washington	551
Virginia	621
Arkansas	697
Florida	755
Rhode Island	825
Ohio	1,219
Pennsylvania	1,274
Kentucky	1,411
Georgia	1,474
Maine	1,476
Louisiana	1,535
Maryland	1,593
Michigan	1,659
California	1,714
New Mexico	1,768
West Virginia	2,023
Texas	2,127
South Carolina	2,147
New Hampshire	2,261
Alabama	2,341
Massachusetts	2,452
Illinois	2,586
Vermont	2,916
North Carolina	3,047
New York	3,397
Connecticut	4,987
Alaska	5,532

Table 5

State OPEB Per Capita--Lowest To Highest (cont.)	
Delaware	6,152
New Jersey	7,206
Hawaii	8,408
Nebraska	N.A.
Median	1,219
Average	1,632

*Oklahoma does not report implicit subsidy of its retirement plan death and disability benefits as a separate unfunded OPEB. OPEB--Other postemployment benefits. N.A.--Not available.

Related Criteria And Research

Related criteria

- 2013 U.S. State Debt Review: Despite Large Infrastructure Needs, Debt Issuance Remains Muted, July 10, 2013
- USPF Criteria: State Ratings Methodology, published Jan. 3, 2011

Related research

- Hawaii Moves To Tame Its OPEB Liability, July 23, 2013
- A Bumpy Road Lies Ahead For U.S. Public Pension Funded Levels,July 16, 2013
- The OPEB Burden Varies Widely Among U.S. States, Sept. 22, 2011