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## OPEB and the Bond Rating Process VGFOA Spring Conference

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## Rating Process Refresher

- > Four Factors:
  - Debt
  - Management
  - Finances
  - Economy
- > GASB 45 has the potential to affect all but economy

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## Impact of OPEB on Rating Analysis

- > Debt:
  - Unfunded liability, similar to pensions
  - 'Soft' rather than 'hard' liability
  - Number is subject to change over time
    - > Actuarial assumptions
    - > Changes in benefit plans
    - > Investment earnings
    - > Health care policy at state and national levels
  - Fitch does not include it on the debt statement

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## Impact of OPEB on Rating Analysis

- > Finances
  - Pay-as-you-go vs. annually required contribution (ARC)
  - To trust or not to trust
    - > How irrevocable is 'irrevocable?'
    - > Investment options
  - Actuarial assumptions
  - Investment return assumptions
  - Implicit rate subsidy

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## Impact of OPEB on Rating Analysis

- > Management
  - Action vs. inaction
    - > Identify UAAL
    - > Review benefits offered
    - > Develop funding plan
    - > Evaluate trade-offs between current expenses and long-term liabilities
  - Decision-making

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## Notes From the Field

- > Benefit plans run the gamut
  - None
  - Implicit rate subsidy
  - Existing but not new employees
  - Premium costs shared with employees
  - Employer bears full costs
- > Actuarial studies
  - Most under way or completed
- > Labor conditions

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### Notes From the Field

- > Next steps
  - Timing of implementation
  - Renegotiate benefits
  - Set up trusts



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