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# Texans Want to Strike Rule on Projecting Retiree Care

**By MARY WILLIAMS WALSH**

The nation's 50 states and the largest cities will soon be required to disclose the value of the health care they have promised their retired workers. The prospect of that disclosure, under a new accounting rule, is not a happy one for governments.

Cities or states that have already calculated the price of their retirement promises have often found the figures to be alarmingly high, angering taxpayer groups and posing a potential threat to government bond ratings. New York City, for instance, disclosed in the fall that its obligation for retiree health care was $53.5 billion.

Now Texas wants to opt out of the whole process, and hopes to persuade other states to join it. State Senator Robert Duncan, a Republican from Lubbock, has introduced a bill that would make the new accounting rule inoperable in Texas.

"The way we look at it is that this is probably not an accurate measurement for the type of retirement programs that we do," said Mr. Duncan, who sits on the Legislature's finance committee. A similar bill has been introduced in the Texas House.

In a related step, the Texas state comptroller, Susan Combs, recently wrote to the chairman of the accounting rule-making board, saying she doubted that the new rule had any validity in Texas. She requested a meeting "to discuss possible resolutions to this problem." She also sent copies of her letter to her counterparts in the 49 other states, urging them to join Texas in seeking to block the new accounting rule.

As chief financial officer of Texas, she said in her letter, "I am having trouble appreciating the purpose of this standard."

At the accounting board, however, rule makers are having trouble appreciating the idea that a legislature could tamper with their work.

"This standard was passed in 2004, after many years of due process," said Robert H. Attmore, chairman of the Governmental Accounting Standards Board, an independent body known as GASB that sets the rules for state and local governments (and pronounced GAZ-bee). "It's kind of late to be raising these issues."

Other accounting experts echoed his dismay.

"Our legislature does crazy things," said Michael H. Granof, an accounting professor at the University of Texas. "We have a law for blind hunters. This is probably the dumbest bill since that."

The accounting rule that is causing the commotion takes account of the practice in many states, towns and other jurisdictions around the country that have for decades promised retirement health care to their workers without ever tallying the cost.

Most governments have dealt with these retiree health plans on a "pay as you go" basis, buying a year's worth of coverage for their retirees every year and reporting those outlays as the cost of the plan.

But those reports miss the accumulating cost of what has been promised over the years to the millions of government workers who have not yet retired. Many of those workers are now reaching or approaching retirement age, and health care inflation has been increasing at double-digit rates. In some places, the costs are starting to balloon.

But because the total obligation is not currently disclosed, it is nearly impossible to get an accurate reading on the size of the problem. Some government bodies have promised generous benefits, while others offer bare-bones plans; some have ample resources to pay what they owe, while others may be in over their heads.

Buyers of municipal bonds want to know which are which, so that they can identify the places where governments could have difficulty repaying their bonds because of mounting retiree health costs.

"I buy municipal bonds for my clients," said Robert G. Smith, president of Sage Advisory Service, a money management firm in Austin. "I look at this issue very carefully. If you're going to tell me that you don't want to admit to this, and have no plan to deal with it, and have no intention of ever prefunding, I'll tell you, I ain't buying your bonds. Because I don't think you're a good risk."

The accounting rule requires only that governments disclose their total obligations — not that they come up with the money right away. The numbers are to be disclosed in footnotes to the local governments' financial statements, not on their balance sheets, where, if they were reported, they would make many governments look bankrupt.

But even in footnotes, bond analysts and others will be able to monitor such data. Governments that allow retiree health care obligations to grow open-ended, without setting aside any money for them, will probably find their credit ratings being downgraded.

The accounting rule is being phased in over three years. The states and the largest cities will have to disclose the obligations for the first time in financial reports for their 2007 fiscal years.

For Texas, that means disclosing the information this fall. The state has not yet hired an actuary to do the formal calculations, but a preliminary estimate by legislative researchers suggested that the figure might be about $50 billion.

Mr. Duncan said he hoped that his bill would make the accounting board reconsider its requirement before the fall deadline.

“We’re hoping we can approach GASB to see if there is another way to deal with the issue,” he said.

State employees in Texas have no unions, only associations that do not engage in collective bargaining. Thus, there are no labor contracts between the state and its employees. Ms. Combs, the comptroller, contends that if there is no formal contract, there can be no obligation to disclose. She added that it would be hard to calculate the value of Texas’s retiree health plan because it could be canceled at any time.

Mr. Smith, of Sage Advisory, said he doubted that the state’s public employees understood that their benefits could be rescinded.

“Let’s say that to the faces of the cops and the firemen who’ve been risking their lives, lady comptroller,” he remarked. “Say it when they’re pouring water on your burning house.”

Officials at the accounting board said that even if Texas had no union contracts, it still had promised valuable benefits to its workers.

“These retiree health care benefits are a form of compensation for services, in the same way as salaries and pensions are,” Mr. Attmore, the GASB chairman, said. “They’re deferred compensation. So there is a real obligation there, whether there is a written contract or not.”

He said this type of promise was called a “constructive obligation,” and had to be disclosed. If Texas were to cancel its retiree health plan at some point, he said, its disclosures for that year would show the change.

Andy Homer, director of government relations for the Texas Public Employees Association, said he feared that the disclosure itself would hasten the day when the state might try to rescind the retiree health care coverage it has already promised.

“We don’t have any contractual protections and we’re kind of used to that,” he said. Rather than negotiating labor contracts, the association tries to protect members’ benefits by lobbying the state government.

Three years ago, Texas scaled back its retiree health program, he said. The association worked with state lawmakers then to try to make the cuts as fair as possible.

If Texas were to disclose the total cost of the slimmed-down plan that resulted, he said, the figure might scare people into calling for even more cuts. “Legislators see these big numbers and they don’t understand it,” he said, “and they want to do away with the benefit.”





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