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LAO
65 YEARS OF SERVICE

LAO Key Points

California's First Retiree Health Valuation

- A solid initial estimate of liabilities.
- Assumes success of health care reform.
- Delay will increase state costs.
- Recommend action beginning now—state should begin to prefund, ramping up to annually required contribution over several years.

Principles for Pension and Retiree Health Funding Policies

- Benefits should be considered a part of overall compensation, subject to good faith bargaining.
- Pay for benefit costs *as they accrue.*
  - Good public policy takes advantage of compounded investment return and reduces taxpayer costs for a given level of benefits.
- Unfunded liabilities need to be addressed at every level of government.
- Benefit provisions need to be transparent.
- Adhere to long-term retirement funding strategies.

LAO Bottom Line

- There are only two general strategies for addressing unfunded liabilities.
  - Setting aside funds to cover future benefit costs.
  - Change benefits so as to reduce future costs.
- There are significant risks that could increase retirement costs further in the future. In light of these risks, *now* is the time to begin addressing existing retiree health liabilities.