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**California State Controller's Office
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Why the State Controller Was Responsible for Conducting the First GASB 45 Valuation:

- GASB 45 is a new “accounting standard” for the public sector that sets forth requirements for financial reporting for OPEBs;
- As the Chief Financial Officer for the State, Controller John Chiang is responsible for publishing the Comprehensive Annual Financial Report (CAFR) for the State of California;
- A series of meeting in mid-2005 between the SCO, Department of Finance, and CalPERS confirmed that the SCO would be responsible for California’s first OPEB valuation;
- Funding was provided in the current year budget for the first valuation and funds are contained in the SCO 2007/08 budget for a subsequent valuation; and
- According to GASB 45, governments providing benefits to more than 200 plan members are now required to have an actuarial valuation done every 2 years, although most entities conduct these valuations annually.

The Timing of the Valuation:

- GASB 45 requires governments with greater than \$100 million in revenues to begin reporting to the new standard for fiscal years beginning after December 15, 2006;
- Accordingly, California must meet the new standard starting with the 2007/08 Fiscal Year CAFR, normally published in early 2009;
- As the newly elected Controller, John Chiang recognized the importance of disclosing the OPEB unfunded obligation as early as possible to give policy makers as much time as possible to begin the policy discussions, craft a reasonable funding plan, and to consider the potential impact on the 2007/08 proposed budget; and
- The SCO has accomplished its objective as evidenced by the policy discussions occurring today.

Key Actuarial Findings:

- If we change nothing and continue on a pay-as you-go basis, California faces an unfunded liability of \$47.88 billion over the next 30 years;
- If we begin pre-funding the obligation, starting now, the liability drops to \$31.28 billion over the same period, due to the higher yield earned on assets set aside to fund benefits and the resulting benefits of compounded interest;
- Currently we pay approximately \$1.4 billion annually from the General fund and other sources;
- According to the actuarial report, if we continue on the pay-as-you-go basic, California will accrue a liability of \$3.59 billion per year; and
- If we pre-fund and put the money in a trust fund, California will only need \$2.59 billion per year to cover this liability.

SCO's Role with Local Governments Regarding GASB 45:

- GASB 45 Impacts all governmental entities including states, cities, counties, special districts, school districts, community college districts and the courts;
- The SCO collects financial information from various levels of local governments; and
- The SCO's Advisory Committee on Financial Reporting will address collecting OBEB liability data from local entities this spring.

Policy Deliberations:

- Prudence demands that California must start pre-funding its state retiree health benefits;
- Pre-funding pension benefits since the early 1930s has resulted in 75 percent of the benefits paid out coming from investment earnings;
- Containing health care costs must occur otherwise a disproportionate share of the State's budget will be spent on health care over the years; and
- Collective bargaining should also play a role as employers and employee groups must come together to work on ways to fund current and future benefits.

Conclusion:

- The Controller offers the assistance of his Office to the Commission, Legislature, Governor's Office, and state employee representatives as we address this very important issue; and
- The State should honor its promise to state workers, protect its resources, and provide the services Californians expect and deserve.