

OPEB Liability

Beginning in FY 2008, new accounting standards became mandatory for state and local governments, requiring these entities, for the first time, to carry on their balance sheets the full cost of future retiree benefits other than pensions.¹ In Nevada, these Other Post Employment Benefits (OPEB) consist of medical, prescription drug, dental and life insurance coverage.

The changed accounting standards made it immediately clear that Nevada governments faced large, looming and unfunded liabilities for providing these benefits: The first actuarial valuation made after the change revealed that the present value of future benefits would exceed \$4 billion. Furthermore, Nevada governments had made no effort to prefund this obligation. While state and local governments were already spending \$156 million annually to pay for benefits as they came due, they now needed to contribute an additional \$130 million annually just to retire the unfunded liability within 30 years.²

This first-time recognition of Nevada governments' unfunded OPEB liabilities prompted action by lawmakers to change the design of medical benefits beginning in FY 2011. Starting that year, benefit plans would be changed from the conventional fee-for-service model to one in which a structure of premium support was combined with state contributions into a modified version of a Health Savings Account, called a Health Reimbursement Account (HRA).³

Key Points

Restructuring of benefits around HRAs has dramatically reduced OPEB liabilities. Few policy changes have been as immediately successful as Nevada lawmakers' decision to restructure OPEB benefits. According to actuarial valuations, the present value of future benefits already accrued fell by more than half as a result of the change – moving from \$3.61 billion to \$1.77 billion.⁴ As of the most recent valuation (FY 2023), the present value of future benefits is \$1.44 billion.⁵

Despite progress, the program remains dramatically underfunded. The most recent financial statements show that all future OPEB obligations remain unfunded. The plan's net position at the close of FY23 was \$20 million in the red. Cash outflows have exceeded cash inflows in each of the past six years.

State and local governments do not always make the required annual contribution. During FY 2013, Nevada's governments only paid 38.7% of the annual contribution that would be required to make whole the state's OPEB obligations. Worse, this low amount was no aberration – in FY 2011, only 43.0% of the required contribution was made and, in FY 2010, only 21.6% of the required contribution was made.

Recommendations

Make required payments. Nevada's state and local governments must reduce spending elsewhere in order to keep up with the annual requirement contributions toward OPEB obligations that have already been incurred. Failure to address this issue will only make the problem worse.

¹ Government Accounting Standards Board Statements 43 and 45.

² Aon Consulting, "Nevada Public Employees' Benefits Program's Retiree Health and Life Insurance Plans Actuarial Report for GASB OPEB Valuation – Final," FY 2008.

³ Aon Hewitt, "Nevada PEBP's Retiree Health and Life Insurance Plans Actuarial Valuation – Final," FY 2011.

⁴ Ibid.

⁵ Segal, "Nevada PEBP Retiree Health and Life Insurance Plans Actuarial Valuation Review," FY 2023.

**Reporting Date for Employer under GASB 75
Measurement Date**

**June 30, 2022
June 30, 2022**

**June 30, 2021
June 30, 2021**

Total OPEB Liability		
Service Cost	\$52,675,056	\$55,710,061
Interest	33,718,089	33,852,685
Change of benefit terms	38,605,492	0
Difference between expected and actual experience	(19,315,612)	(2,313,154)
Change of assumptions	(159,738,443)	(937,989)
Benefit payments, including refunds of member contributions	(64,012,286)	(44,187,551)
Net change in Total OPEB Liability	\$(118,067,704)	\$42,124,052
Total OPEB Liability – beginning	1,540,182,727	1,498,058,675
Total OPEB Liability – ending	\$1,422,115,023	\$1,540,182,727

Plan Fiduciary New Position

Contributions – employer	\$53,980,293	\$39,563,787
Contributions – employee	0	0
Net investment income	(92,890)	307,551
Benefit payments, including refunds of member contributions	(64,012,286)	(44,187,551)
Administrative expense	0	0
Other	0	0
Net change in Plan Fiduciary New Position	\$(10,124,883)	\$(4,316,213)
Plan Fiduciary New Position – beginning	(9,967,828)	(5,651,615)
Plan Fiduciary New Position – ending	\$(20,092,711)	\$(9,967,828)
Net OPEB Liability – ending	\$1,442,207,734	\$1,550,150,555
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	(1.41)%	(0.65)%
Covered Payroll	\$2,277,677,722	\$2,090,281,552
Plan Net OPEB Liability as percentage covered payroll	63.32%	74.16%

Source: Nevada Public Employees' Benefit Program OPEB Actuarial Valuation Report, FY 2023.