

TO: NCTR Members
FROM: Cindie Moore, Washington Counsel
RE: Federal Update 2003-7
DATE: May 1, 2003

NCTR and Others Comment on Effect of GASB OPEB Project

NCTR joined 17 other organizations asking the Governmental Accounting Standards Board (GASB) to take steps to mitigate the potentially harmful effects of its proposed standards for Other Post-Employment Benefits (OPEB). The most significant OPEB is retiree health care.

The project establishes standards for measurement and reporting of OPEB benefits sponsored or funded by governmental entities. The standards would, in essence, require state and local governments who offer retiree health care to show the long-term cost on their financial reports.

The letter contains five recommendations.

- Postpone implementing standards until GASB studies their impact on governmental finances;
- Revise standards to better reflect the nature of retiree health care benefits;
- Grandfather current retirees and near retirees from the standards;
- Phase in standards by extending initial amortization period to 40 years for first 10 years, falling to 30 years thereafter; and
- Phase in standards by allowing employers in the process of establishing trusts to use investment return assumptions reflecting a diversified mix of investments.

A copy of the letter will be posted on <http://www.nctr.org/content/pdf/gasbbean.pdf>.

South Carolina Retirement System (SCRS) Highlights Need for Pre-Tax Retiree Health Payment to Both State and Federal Lawmakers; NCTR also Involved in Issue

Peggy Boykin, SCRS Executive Director, has been working hard on the need to allow retirees to use pre-tax money for health care expenses. Under federal law, retirees must use post-tax money, whereas active employees usually have health care provided to them on a pre-tax basis. Peggy persuaded her legislature to pass a resolution calling for a change in the federal law. The legislature just approved the resolution. The Governor will be writing the state's congressional delegation about their advocacy of the issue.

As you may be aware, NCTR is also becoming involved in the issue. NCTR approved a resolution, proposed by SCRS, on the subject at its 2002 Convention. H.R. 1776, the recently introduced "Portman-Cardin II Bill," takes some preliminary steps on the issue

and NCTR is analyzing its effect. We will keep you apprised of other developments on this issue.

House Social Security Subcommittee Probes GPO and WEP Issues

Subcommittee Chairman Clay Shaw (R-FL) convened a hearing May 1 to look at Social Security System provisions affecting public employees who are not covered by the System. The provisions in question are the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP). A number of bills have been introduced to eliminate or mitigate the effects of the GPO and WEP. See the Washington Wrap Up on http://www.nctr.org/fed_legislation.htm for a listing.

The hearing included testimony from two government agencies, the Social Security Administration and the General Accounting Office. Representatives of organizations also testified, including Terri Harrison, Director of Government Relations for NCTR-member Ohio State Teachers' Retirement System. She testified on behalf of the Coalition to Preserve Retirement Security, which she chairs.

Congress has been active in the GPO issue lately. Last month the House passed H.R. 743 that would change the GPO's "last day" rule. As reported in Federal Updates 2003-2 and 2003-3, the GPO reduces the spousal Social Security benefit of an individual who works for a state or local government in a non-Social Security covered job. The reduction does not apply, however, if the individual, on his/her last day of work, is in a position covered by Social Security. H.R. 743 lengthens the time required for the exemption from one day to five years. The legislation, which also contains anti-fraud protections for Social Security beneficiaries, now moves to the Senate.