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Controller Yee Updates State Retiree Health Care Liability

SACRAMENTO – The state’s net liability for retiree health and dental benefits is now \$91.93 billion, according to [a report published today](#) by State Controller Betty T. Yee. The liability represents the present-day cost to provide health and dental benefits to state retirees and their dependents earned as of June 30, 2019 – one of the state’s largest long-term liabilities. A year earlier, the state’s net liability for retiree health care, commonly known as Other Postemployment Benefits (OPEB), was \$85.59 billion.

The key factor in the increase in California’s OPEB liability was a change to the blended discount rate. This comprised a decrease in the full-funding interest rate from 7.00 percent to 6.75 percent from June 30, 2018, to June 30, 2019, and a change in the 20-year general obligation municipal bond rate from 3.62 percent to 3.13 percent over the same time period. Together, these rate reductions resulted in a \$5.73 billion increase in net liability. Changes to the blended discount rate are highly volatile. Gains of \$2.07 billion for changes in health care-related assumptions and \$1.99 billion for health care claims experience helped offset losses attributed to the discount rate.

“While the volatility of the blended discount rate creates year-to-year swings in net liability, Board members remain focused on the long-term aim of fully funding the hole left by pay-as-you-go,” said Controller Yee, the state’s chief fiscal officer and a board member of CalPERS and CalSTRS. “While the temporary deferral of prefunding contributions will have short-term impacts on our progress toward that goal, state workers needed that relief to offset a portion of pay decreases, and we will develop effective strategies to keep us on track for full funding by 2046.”

In January 2010, California began entering into collective bargaining agreements to prefund retiree health care benefits. Prior to this, California covered retiree health care benefits strictly as costs came due. As of June 30, 2019, 81 percent of state employees had agreed to make prefunding contributions to the California Employer’s Retiree Benefit Trust (CERBT). The CERBT Fund is expected to earn approximately 6.75 percent per year over the long term. As of August 27, the state’s share of the Fund had a market value of \$2.93 billion. The governor suspended member prefunding contributions for FY 2020-21 and FY 2021-22 to help blunt the impact of a two-year 9.23 percent pay cut for state workers. The change will likely affect actuarial valuations in upcoming years.

Current estimates show the state will be 100 percent caught up in funding the pay-as-you-go “legacy liability” within the next 30 years. The state has set a policy goal of full funding by 2046.

As the chief fiscal officer of California, Controller Yee is responsible for accountability and disbursement of the state’s financial resources. The Controller has independent auditing authority over government agencies that spend state funds. She is a member of numerous financing authorities, and fiscal and financial oversight entities including the Franchise Tax Board. She also serves on the boards for the nation’s two largest public pension funds. Elected in 2014 and reelected in 2018, Controller Yee is the tenth woman elected to a statewide office in California’s history. Follow the Controller on Twitter at [@CACController](#) and on Facebook at [California State Controller’s Office](#).

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