

PERiScope **ALERT**

Issues in Public Employee Retirement Systems

GASB adopts two other postemployment benefit related statements

SUMMARY

The Governmental Accounting Standards Board (GASB) adopted two statements regarding OPEB related financial reporting by state and local governments. GASB Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments, and replaces the current GASB 43. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments, and replaces the current GASB 45. They represent a significant change to the methods used to account for postemployment OPEBs, as has been the case with the new GASB 67/68 pension standards. Like the pension standards, the unfunded liability will become a balance sheet item rather than a note disclosure. The statements are expected to be available on GASB's website, www.gasb.org, in late June 2015.

EFFECTIVE DATES HAVE BEEN DELAYED SIX MONTHS:

- The provisions in Statement 74 are effective for financial statements for fiscal years beginning after June 15, 2016. The effective date in the exposure drafts was December 15, 2015.
- The provisions in Statement 75 are effective for financial statements for fiscal years beginning after June 15, 2017. The effective date in the exposure drafts was December 15, 2016.

IMPLICATIONS

The changes in OPEB financial reporting are sweeping in scope. For most employers, the result will be an increase in the balance sheet liability and a significant increase in the volatility of annual OPEB expense. There are several areas that are significant departures from current practice and may therefore cause concern for governmental employers:

- The recognition of the net OPEB liability in the employer's financial statements will likely be a significant increase in the amount of balance sheet liability relative to the amount that is currently reported under GASB 45.
- The annual OPEB expense, because it includes immediate recognition of liability changes resulting from plan changes and some assumption changes, will be significantly more volatile from year to year than the annual required contribution currently reported under GASB 45. It is unlikely that employers will wish to fund their plans based on the annual OPEB expense, so employers who are funding their OPEB benefits will likely require separate calculations for financial reporting purposes and for funding purposes.
- The requirement to use the entry age normal cost method to determine liability, rather than the unit credit/projected unit credit methods currently in widespread use under GASB 45, may result in a significant one-time change in the size of a government's OPEB liability.
- For those employers who are funding their OPEB benefits, the advantage of using a higher discount rate for financial reporting purposes will only apply for the period in which invested assets and future contributions are projected to cover future OPEB benefits. This will require a review of current funding policies and their impact under the new standards.
- For those employers who participate in community-rated plans, the exposure drafts will require the reflection of any "implicit rate subsidy." This means that some employers will be required to recognize a liability for OPEB where the current standards did not.

BACKGROUND

GASB announced “major improvements” for accounting and reporting on OPEBs, such as retiree medical benefits, that governments provide to their employees. It also aims to improve information relating to entities that provide financial support to other governments. According to GASB, “These OPEB standards usher in the same fundamental improvements in accounting and financial reporting that were previously introduced for pensions. Because OPEB promises represent a very significant liability for many state and local governments, it is critical that taxpayers, policy makers, bond analysts, and others are equipped with enhanced information, which will enable them to better assess the related financial obligations and annual costs of providing OPEB.”

- GASB Statement No. 74, ***Financial Reporting for Postemployment Benefits Other Than Pension Plans*** (OPEB Plan Statement) relates to reporting by the OPEB plans that administer those benefits (amending GASB Statement No. 43). This statement will be effective for fiscal years beginning after June 15, 2016.
- GASB Statement No. 75, ***Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*** (OPEB Employer Statement) addresses the reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments (amending GASB Statement No. 45). This statement will be effective for fiscal years beginning after June 15, 2017.

ACTION

Every state and local government currently complying with GASB 43 and 45 should review the requirements of the new statements. For more information, please contact your Milliman consultant.