GASB Approves New OPEB Employer Accounting Standard (No. 75)

June 2, 2015: The Governmental Accounting Standards Board approved 2 new Statements designed to improve accounting and financial reporting for state and local government OPEB plans – GASB 74 – and employers – GASB 75, the focus of this article. (See the GASB website for final Statements.)

GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (effective for fiscal years starting after June 15, 2017)

This Statement sets new reporting requirements for government employer OPEB plans, whether or not funded, and replaces GASB 45. Because it follows Statement 68 (the new pension accounting standard) very closely, the required calculations and terms may be familiar.

> GASB 75 is an *accounting* standard and does not dictate methods or assumptions for determining contributions to an OPEB trust, nor does it require funding the OPEB liability.

Steps to prepare for GASB 75

1. Decide if your agency wants to adopt early
2. Select your measurement date timing – a lag of up to 1 year is permitted
3. Discuss the actuarially determined contribution with your actuary – you may want to change from GASB 45's ARC to a different method.

A summary of GASB 75 follows:

- Net OPEB liability on the balance sheet
  - Government employers that sponsor OPEB plans will now recognize a net OPEB liability in their statement of net position (balance sheet) – the difference between total OPEB liability (actuarial accrued liability calculated using the entry age actuarial cost method) and fiduciary net position (plan assets at fair value)
  - Inclusion of implied subsidy in the total OPEB liability is specifically required, even for large pooled plans such as the CalPERS PEMHCA
  - Affordable Care Act "Cadillac" tax impact also must be included
  - Even small plans must now have biennial valuations
  - The Alternative Measurement Method (AMM) is still permitted for very small OPEB plans, but the calculation is now more complex.
- **New discount rate**
  - The discount rate can continue to be the expected long-term rate of return on plan investments where assets are projected to cover all future benefit payments; this requirement should be met if the employer funds the actuarially determined contribution, provided it pays off the unfunded liability over a reasonable period
  - Other plans, including unfunded plans, must use a municipal bond rate to discount noncovered payments; this is a yield or index rate for 20-year, tax-exempt general obligation bonds with an average rating of AA/Aa or higher (currently below 4%)[1]
  - Changes in the municipal bond rate between measurement dates will introduce much more volatility into OPEB liabilities and expense, particularly for unfunded plans.

[1] See http://www.bartel-associates.com/resources/select-gasb-67-68-discount-rate-indices for samples of recent rates.

- **More variable OPEB expense**
  - OPEB expense will now be based on the net OPEB liability change between reporting dates, with some sources of change recognized immediately and others spread over years
  - The liability impact of any benefit change related to past service is expensed immediately
  - Changes in actuarial assumptions and experience gains and losses are amortized over a closed period equal to the average remaining service of active and inactive plan members (who have no future service) – much shorter than currently typical; investment gains and losses must be recognized in OPEB expense over closed 5-year periods
  - OPEB expense will no longer be equal to the contributions to an OPEB trust or the OPEB benefits or premiums paid ("pay-as-you-go").
- **Cost-sharing employers (where assets are pooled and available to pay benefits to employees of any employer in the pool) report a proportionate liability**
  - These employers will now report a net OPEB liability and OPEB expense equal to their proportionate share of the cost-sharing plan; may apply to counties and other agencies sponsoring pooled plans with multiple participating employers.
- **Special funding situation**
  - This occurs when a government entity is legally responsible for contributing directly to a plan (or making benefit payments directly) for employees of another government entity, with the amount fixed by statute or plan provisions (example: a state legally required to contribute directly to a plan for local school district teachers); GASB 75 requires the nonemployer entity to recognize a proportionate share of the plan's net OPEB liability and expense.
- **More extensive disclosures and required supplementary information**
  - These include types of benefits and covered employees, how plan contributions are determined, and assumptions/methods used to calculate the OPEB liability; for non-cost-sharing employers, a reconciliation of net OPEB liability from year to year is required; a new sensitivity disclosure is the net OPEB liability calculated with 1% increases and decreases in medical trend rate and discount rate.
- **Insured benefits – an unusual arrangement**
  - An insured plan means premiums are paid to an insurer while employees are *active* and the insurer guarantees to pay *all* plan OPEB benefits after their retirement (very different from paying annual premiums to an insurer); OPEB expense equals current period premiums paid.
- **Defined contribution plan accounting unchanged**
  - Under a DC plan, an employee's OPEB benefit depends only on the balance in their individual account – which is made up of employer contributions, actual investment earnings, and possibly allocations of other employees' forfeitures or administrative costs
  - As under current accounting standards, a DC plan's OPEB expense equals employer contributions or credits in the current period reduced by any forfeited amounts not reallocated to other participants; a liability is recognized for any difference between the OPEB expense and actual employer contributions or benefit payments.

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Bartel Associates looks forward to clarifying your responsibilities under these new OPEB accounting standards.
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