

GASB Issues Long-Awaited OPEB Implementation Guide

The Governmental Accounting Standards Board (GASB) has issued *Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits*.¹ The guide's goal is to clarify and amplify the provisions of its statements on accounting and financial reporting of other postemployment benefits (OPEB), including retiree medical benefits. Statement No. 45 applies to any employer that provides OPEB by paying for all or part of the cost. Statement No. 43 applies to a trustee or administrator of an OPEB plan that is responsible for the stewardship of the assets held to pay future benefits. The effective dates for Statements No. 43 and No. 45 are noted in the following table:

Criteria: Annual Revenues of...	Effective Date (Fiscal Years Beginning After)	
	Plans* (#43)	Employers (#45)
> \$100 million	12/15/05	12/15/06
< \$100 million & > \$10 million	12/15/06	12/15/07
< \$10 million	12/15/07	12/15/08

* For plans, "revenues" refer to the revenues of largest participating employer.

This *Bulletin* summarizes highlights of the implementation guide, which responds to 258 questions.

IMPLEMENTATION ISSUES

Employers and plans will need to make a number of decisions by the time the statements must be fully

implemented. Key implementation issues include those listed below:

- **Pre-Funding** Employers need to determine whether to set aside funds and pay for the obligation with contributions *and* investment income, or to use only contributions to fund the benefits. OPEB plans that pre-fund may value liabilities using long-term investment return assumptions, whereas pay-as-you-go OPEB arrangements must be valued with relatively short-term interest rates. Because short-term interest rates are lower than long-term rates, pay-as-you-go OPEB arrangements will have much higher liabilities than fully funded OPEB arrangements. A blended rate may be used to reflect a blended approach to pre-funding.
- **Actuarial Cost Methods** Six actuarial cost methods are acceptable under the parameters of Statement No. 45. In selecting a funding method, the employer needs to determine which method best suits the funding policy of the OPEB plan. The cost method selected should be the same method both for accounting and for funding calculations.
- **Structure of Entity** Plans need to determine whether they are part of a cost-sharing, multiple-employer or agent-multiple-employer system. Based on the structure, the reporting requirements will vary.
- **Amortization of Any Unfunded Accrued Liability (UAL)** The employer will need to select the amortization period (up to 30 years), decide whether the period will be open or closed (*e.g.*, stays at 30 years each year or declines each year) and decide whether the payment will be flat dollar or will grow with total payroll.
- **Actuarial Assumptions** The assumptions (*i.e.*, the parameters, as titled in Statement No. 45) to be determined are investment return (same as discount rate), payroll growth, health care cost trend and demographics.

¹ The guide can be ordered from GASB's Web site: www.gasb.org

- **Asset-Valuation Methods** The OPEB plan must use a *market-related* value of plan assets. This includes using actual market value or an asset-smoothing method that averages returns over a longer period (typically, three to five years).

CONTRIBUTIONS AND NET OBLIGATION

Any difference between the Annual Required Contribution (ARC) and the contribution in relation to the ARC leads to a build up of the Net OPEB Obligation (NOO), or asset.² An OPEB contribution must meet certain criteria to be considered for this purpose. Generally, the criteria are met when the employer gives up control of the funds in such a way that they are irrevocably dedicated to the OPEB. Here are three ways to make such a contribution:

- Make benefit payments directly to or on behalf of a retiree or beneficiary,
- Make premium payments to an insurer, or
- Make irrevocable contributions to a trust or equivalent arrangement legally protected from creditors and dedicated solely to providing benefits to retirees and beneficiaries in accordance with the terms of the OPEB plan.

These criteria make clear that merely setting funds aside in a separate internal service fund, even if it is described as an OPEB fund, does not constitute a contribution in relation to the ARC, nor do these funds count as plan assets. Such an arrangement is still considered pay-as-you-go for the purposes of Statements No. 43 and No. 45. Setting up an appropriate funding vehicle that meets all these criteria is not as easy as setting up a pension fund.

SOME IMPLICATIONS

The annual OPEB cost for many employers can be several times larger than the current pay-as-you-go cash expense for their OPEB plan. The size of the annual OPEB cost can be significantly influenced by

decisions made prior to implementation. States, localities and plans should:

- Consider how a decision to pre-fund the OPEB obligations could affect financial statements,
- Research legal methods to set up an appropriate funding vehicle, if a decision is made to pre-fund the benefits,
- Study the financial implications of various actuarial cost and asset valuation methods because the choice of funding method can make a significant difference in the Annual OPEB Cost and the Net OPEB Obligation, and
- Continue to review the plan designs and their long-term cost implications as measured by these new accounting standards.



Segal can be retained to work with plan sponsors and their auditors to determine the impact of GASB's accounting requirements on plans and practices and develop strategies to meet sponsor objectives for benefits and their expense.



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² ARC and NOO are defined in The Segal Company's August 2004 *Bulletin*, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions: GASB's Final Standards," which is available on the following Web page: <http://www.segalco.com/publications/bulletins/aug04GASB.pdf>