

## Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions: GASB's Final Standards

The Governmental Accounting Standards Board (GASB) has issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.<sup>1</sup> In addition, GASB Task Force Members met in June to work to finalize Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This *Bulletin* summarizes the key provisions of Statement No. 43, as well as the most recently anticipated provisions of Statement No. 45.

### ENTITIES AFFECTED

All public sector plans that cover postemployment benefits (other than pensions) — and the sponsoring entities<sup>2</sup> — will be required to report the cost of these benefits on their balance sheets. Postemployment benefits include health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are *not* offered as part of a pension plan; and long-term disability insurance for employees.

### EFFECTIVE DATES

For plans, the effective dates of the new requirements differ according to the annual

revenue of the largest participating employer, as summarized in the table below. (These effective dates differ from those that were proposed in GASB's Exposure Draft.) GASB encourages earlier implementation.

### Effective Dates for Plans

Criteria: Largest Participating Employer Has Annual Revenues of...	Effective Date (Fiscal Years Beginning After)
More than \$100 million	December 15, 2005
More than \$10 and Less than \$100 million	December 15, 2006
Less than \$10 million	December 15, 2007

### THE NEW REQUIREMENTS

In the public sector, retiree health coverage and other non-pension postemployment benefits are usually financed on a pay-as-you go basis. The new standards introduce an accrual-basis accounting requirement. Essentially, the Statements require, for reporting purposes, that the expected cost of applicable benefits for all plan participants be projected into the future, then discounted back, to the measurement date.

This approach is intended to recognize the cost of postemployment benefits over an employee's career. It also introduces consistency in accounting for pension and non-pension retirement benefits because the accounting requirements mirror those already in place for pension benefit accounting under GASB Statements 25 and 27.<sup>3</sup>

<sup>1</sup> GASB Statements of Standards can be ordered from GASB's Web site: [www.gasb.org](http://www.gasb.org)

<sup>2</sup> These entities include public employee retirement systems, public colleges, universities, utilities, hospitals, benefit corporations and authorities.

<sup>3</sup> For more information about Statements 25 and 27, see The Segal Company's March 1995 *Bulletin*, "GASB's Final Reporting and Disclosure Rules for Governmental Pension Plans Change Accounting Practices Significantly." To request this publication, send a fax to Kara Jackson at 212.251.5490.

## New Calculations for Reporting

To comply with the accounting requirements for non-pension postemployment benefits, employers and public sector plans with 200 or more members will have to perform the following new calculations at least once every two years, and employers and plans with fewer than 200 members, every three years:

- **Project the Total Cost of Providing Postemployment Benefits** The projection would have to be made on the basis of the current plan as communicated to participants. The projection should take into account assumptions about demographics, turnover, morbidity, disability, retirement patterns, the trend rate for the cost of retiree health coverage and mortality. Current patterns of plan participation and cost sharing should be factored into the calculation.
- **Discount the Projected Cost of Benefits to their Present Value** This actuarial present value of total projected benefits is the amount that would have to be saved today in an interest-earning account in order to provide enough money to pay all expected costs of postemployment benefits for current plan participants (e.g., retirees and employees).
- **Determine the Actuarial Accrued Liability (AAL)** The AAL is the portion of the actuarial present value of total projected benefits allocated to years of employment prior to the measurement date. It is calculated using one of six acceptable actuarial cost methods (e.g., entry age normal, attained age and aggregate).
- **Calculate the Unfunded Actuarial Accrued Liability (UAAL)** The UAAL is the difference between the AAL and the actuarial value of plan assets.

An alternative minimum method is available to employers and public sector plans that have fewer than 100 members.

## Reporting Requirements

The Statements require public sector employers and plans to report the following:

- **Annual Required Contribution (ARC)** The ARC is equal to the normal cost — the actuarial present value allocated to that one year of service — and the amortization of the UAAL. It is actuarially determined and will only be used for reporting.

- **Net OPEB Obligation (NOO)** OPEB stands for “other postemployment benefits.” The NOO is the cumulative difference between the ARC and actual contributions made. (For unfunded plans, the contribution would be equal to the annual benefit payments less employee contributions.) At transition, the NOO may be set at zero.
- **Required Supplementary Information (RSI)** The RSI will require historical trend information from the last three valuations, including disclosure information about the UAAL and the progress in funding the plan. At transition, the RSI may include only the first year of information.

## SOME IMPLICATIONS

Once these postemployment benefit liabilities are assessed and reported, there will be significant implications. States, localities and plans should:

- Review existing plan designs for cost and quality efficiencies,
- Assess how the liability will affect bond ratings and the cost of borrowing,
- Determine whether and how to fund the benefits to reduce the liability, and
- Establish a collective bargaining strategy regarding benefit levels and funding.



*Segal can be retained to work with employers, plan sponsors and their auditors to determine the impact of GASB's final requirements on their plans and practices.*



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