

A major announcement for public employers with Retiree Medical and similar OPEB plans.

GASB PROPOSES MAJOR IMPROVEMENTS FOR REPORTING HEALTH INSURANCE AND OTHER RETIREE BENEFITS

Annotations by Dean Actuaries

Norwalk, CT, May 28, 2014—The Governmental Accounting Standards Board (GASB) today voted unanimously to approve two Exposure Drafts proposing significant improvements to financial reporting by state and local governments of other postemployment benefits (OPEB), such as retiree health insurance. The GASB also approved a third Exposure Draft that would establish requirements for pensions and pension plans that are outside the scope of the pension standards the GASB released in 2012.

The most significant effect of the OPEB Exposure Drafts would be to require governments to **recognize their net OPEB liabilities on the face of their financial statements** – providing all financial statement users with a more comprehensive understanding of these significant OPEB promises than is currently available.

GASB 68 requires employers to put the unfunded actuarial liability of a pension plan on the CAFR balance sheet. The new GASB Exposure Draft will do the same for retiree medical and other OPEB plans.

The first Exposure Draft related to OPEB, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB Employer Exposure Draft), proposes guidance for reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The second Exposure Draft related to OPEB, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (OPEB Plan Exposure Draft), addresses the reporting by the OPEB plans that administer those benefits.

“OPEB – which consists mainly of health care benefits – represents a very significant liability for many state and local governments, one that is magnified because relatively few governments have set aside any assets to pay for those benefits,” said GASB Chair David A. Vaudt. “It is vital, therefore, that taxpayers, policy makers, bond analysts, and others receive more and better information about these benefits so that they can better assess the financial obligations and annual costs related to the promise to provide OPEB.”

Mr. Vaudt added, “These proposed standards will usher in for OPEB the same fundamental improvements in accounting and financial reporting approved by the Board in 2012 for pensions.”

The OPEB Employer Exposure Draft proposes that governments be required to report a liability for the OPEB that it will provide on the face of the financial statement. For governments that provide OPEB through a defined benefit OPEB plan administered through a trust meeting specified criteria, this liability would be the net OPEB liability, which is the difference between the total OPEB liability and net position accumulated in the trust. For governments that do not

provide OPEB through such a trust, the total OPEB liability would be the liability reported by the government.

The OPEB Employer Exposure Draft also proposes significant changes to how a government would calculate its OPEB liability and annual expense. These proposed changes include:

- Discounting projected OPEB payments using:
 - The long-term expected rate of return on OPEB plan assets administered through a trust meeting specified criteria to the extent that plan assets are expected to be available to make projected benefit payments and be invested using a strategy to achieve that return
 - A 20-year tax-exempt, high-quality general obligation municipal bond yield or index rate to the extent that the conditions above are not met
- Use of a single actuarial cost allocation method (“entry age actuarial cost method”)
- Immediate recognition of additional components of OPEB expense
- Requiring governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities.

The new GASB rules are much more restrictive in defining the discount rate to be used. Unfunded plans will use 2-Year muni rates

Many OPEB plans have been valued using the Projected Unit Credit Cost Method (PUC). They will have to be revised to the Entry Age Normal method (EAN) in the future. This will **increase** the measured liability.

The Exposure Draft also proposes to continue an option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive) in order to reduce costs for smaller governments.

The OPEB Plan Exposure Draft addresses the financial reports of *defined benefit* OPEB plans that are administered through trusts that meet certain criteria. It also details proposed note disclosure requirements for *defined contribution* OPEB plans.

The third Exposure Draft, *Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered through Trusts That Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68*, would complete the suite of pension standards by establishing requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria.

The Exposure Drafts, including instructions on how to submit written comments, are each **expected to be available in mid-June on the GASB website**, www.gasb.org. Stakeholders are encouraged to review the proposals and provide comments by August 29, 2014.

The GASB will host public hearings on the Exposure Drafts on September 10, 11, and 12, 2014. Locations and other details, including instructions for registering to participate, are highlighted in the Exposure Drafts.

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