

# GASB 75 & OPEB Frequently Asked Questions

## **What is GASB?**

The [Governmental Accounting Standards Board \(GASB\)](#) is a national body that sets the standards for governmental accounting and financial reporting. Generally, these are the accounting standards that state and local governments as well as school districts use when preparing financial statements in accordance with generally accepted accounting principles (GAAP). The Office of the New York State Comptroller (OSC) reviews these standards and provides guidance on how local governments and school districts should implement them.

## **What is GASB Statement 75?**

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (Statement 75), in June 2015. Statement 75 replaces the requirements of GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (Statement 45) and issues new standards for defined benefit OPEB and defined contribution OPEB provided to employees of state and local governments through OPEB plans. Its intent is to improve accounting and financial reporting by requiring an OPEB liability to be reported on the face of the financial statements rather than in the accompanying notes (as previously required by Statement 45).

## **What are other post-employment benefits (OPEB)?**

Other post-employment benefits (OPEB) are employee benefits other than pensions that are received after employment ends.

OPEB includes, but is not limited to, the following post-employment items:

- Medical benefits
- Dental benefits
- Vision benefits
- Prescription medicine benefits
- Hearing benefits
- Disability benefits, if not part of a pension plan
- Long-term health care benefits, if not part of a pension plan
- Life insurance, if provided separately from a pension plan
- Other health benefits, if not part of a pension plan

OPEB generally does not include:

- Pension income benefits
- Sabbaticals
- Vacation benefits
- Special termination benefits (unless the effect is an increase in benefits that are OPEBs)
- Consolidated Omnibus Budget Reconciliation Act (COBRA) benefits. COBRA provides certain former employees, retirees, spouses, former spouses and dependent children the right to temporary continuation of health coverage at group rates.

### **What information is required to be reported under Statement 75?**

Statement 75 requires local governments and school districts that prepare GAAP-compliant financial statements to report the total OPEB liability in the statement of net position in their government-wide financial statements. See our June 2018 accounting bulletin, [Accounting and Financial Reporting for Other Postemployment Benefits as Required by GASB Statement 75](#), for specific accounting and reporting requirements for GAAP-compliant financial statements and for reporting requirements for the Annual Update Document (AUD)/ST-3. Implementation is required for local governments and school districts for fiscal years beginning after June 15, 2017.

### **How does reporting Statement 75 on the AUD/ST-3 differ from Statement 45?**

Under Statement 45, the total unfunded actuarial accrued liabilities (UAAL) for past service costs were reported in the footnotes to the financial statements. Payments made for OPEB benefits were expensed when incurred. For AUD/ST-3 reporting, OPEB information was reported in the OPEB Supplemental Schedule and in the notes to the AUD.

Under Statement 75, the total OPEB liability is required to be reported on the face of the government-wide financial statements. For AUD/ST-3 reporting purposes, the total OPEB liability will be reported on the Schedule of Non-Current Governmental Liabilities (W Schedule) for OPEB applicable to governmental funds. Expenditures related to OPEB payments will continue to be recognized when incurred.

If a local government has OPEB applicable to proprietary funds, then a portion of the total OPEB liability should be allocated between the W Schedule and the proprietary fund financial statements. Additionally, local governments must report OPEB expense and deferred inflows/outflows of resources as applicable.

OPEB information will continue to be reported in the notes to the AUD.

See our July 2018 accounting bulletin, [Accounting and Financial Reporting for Other Postemployment Benefits as Required by GASB Statement 75](#).

### **What governmental entities are required to comply with Statement 75?**

Statement 75 applies to all public entities (including state governments; county, city, town and village governments; and school districts) that follow GAAP in filing their annual financial statements and offer OPEB. In New York State, it is estimated that about one-quarter of local governments and most school districts are required to comply.

### **What types of OPEB plans do governments use?**

There are two basic forms of post-employment benefit plans. Defined benefit plans are those that specify the amount of benefits to be provided to employees after the end of their employment. Defined contribution plans stipulate only the amounts to be contributed by an employer to a plan member's account for each year of active employment; such plans do not specify the amount of

benefits employees will receive after the end of their employment. The majority of local governments and school districts in NYS have single-employer defined benefit OPEB plans and as a result, our Statement 75 Accounting Bulletin guidance is focused on single-employer defined benefit OPEB plans.

### **How should governments participating in defined benefit plans account for OPEB?**

In general, governments should account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in the same manner as they currently do for pensions. These amounts should be produced by actuarial valuations performed in accordance with parameters established by GASB. The valuations should be conducted at least every two years with more frequent valuations or calculations encouraged. Generally, actuarial valuations should be performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

## **Actuarial Valuation and Services**

### **Who should an employer contact to obtain an actuarial valuation?**

You should to hire an actuarial consulting firm with expertise in health benefits to perform the valuation work. OSC does not endorse or recommend any specific actuarial firms and the local government should take care to comply with its procurement policies and procedures for obtaining professional services, which, as a rule, should provide for a request for proposal (RFP) process. We suggest that you contact the [American Academy of Actuaries](#), the [American Society of Pension Professionals & Actuaries \(ASPPA\)](#), or the [Society of Actuaries](#) to obtain a list of actuarial firms.

### **What resources are available to help local governments procure these services?**

The Government Finance Officers Association (GFOA) has a checklist for [Procuring Actuarial Services](#) that could be helpful to local governments in obtaining actuarial services.

OSC also suggests that school districts contact their local Board of Cooperative Educational Services (BOCES) to inquire about possible actuarial services. Counties should contact the [New York State Association of Counties \(NYSAC\)](#) to inquire about possible actuarial services.

### **Will OSC perform Statement 75 actuarial valuations for employers?**

No, OSC does not perform actuarial valuations for employers. For information on computing the specific valuations, please refer directly to Statement 75.

### **What information must an employer provide to the actuary for employees and retirees?**

Data elements needed by actuarial firms to begin an actuarial valuation generally include:

- Employee name or identification number
- Gender
- Date of birth
- Date of hire
- Employee salary
- Bargaining unit
- Retirement date
- Employment status: active or retired
- Spousal and dependent information
- Contribution to the cost of the premium
- Type of benefit plan: individual or family with specific information on each plan

The New York State Health Insurance Program (NYSHIP) may be able to provide some data elements listed above to local governments who are members of NYSHIP. For more information, contact the Public Employer Liaison Unit of the New York State Department of Civil Service at (518) 485-1771. In addition, some of this information may have already been gathered and submitted for purposes of Medicare Part D. Check with your personnel officer.

### **Can OSC provide local governments with data on retirees and/or current employees participating in ERS?**

OSC can assist local governments in providing some of the required data on retirees and current employees, but local governments are the best source of most information required on their employees and the health benefit plans provided to them.

### **What surprises should we be aware of in dealing with an actuarial OPEB valuation?**

Actuarial studies often produce future liabilities which are higher than initially expected. In addition, estimates of OPEB liabilities can be more volatile than pension liabilities from one actuarial study to the next. The volatility is due to changing demographics (people living longer and retiring earlier), changes in the level of benefits offered and increases in health care costs that are difficult to predict.

## **Funding OPEB Liabilities**

### **What does GASB say about funding OPEB liabilities?**

GASB does not require that the OPEB liability of a government be funded. However, GASB has advised that if an employer decides to fund its OPEB liabilities, in order to be considered funded in accordance with GASB, the employer must transfer assets to a qualifying trust or equivalent arrangement in which OPEB assets are held in trust for the exclusive benefit of plan members and

their beneficiaries in accordance with the terms of the OPEB plan. These OPEB plan assets must be legally protected from creditors of the employer.

**Is there any State statute that expressly authorizes a local government in New York to create a trust for OPEB purposes?**

No, and in the absence of such a statute, it is questionable whether local governments have the requisite authority for establishing an OPEB trust. A State statute providing express authority is highly advisable as it would eliminate questions as to the underlying authority for the creation of the trust.

**Can a local government in New York set aside moneys in a reserve fund to help finance OPEB?**

General Municipal Law, Section 6-p, allows municipal corporations in New York to establish and maintain an Employee Benefit Accrued Liability Reserve Fund to help finance the cost of certain “employee benefits”. The term “employee benefits” is defined in the statute to include the cash payment of the monetary value of accrued but unliquidated time earned by employees that is payable upon termination of service. Typically, moneys in this reserve are set aside to pay for accumulated, unused leave time when an employee separates from service. Currently, moneys cannot be accumulated in this reserve to fund a local government’s OPEB liability. Moreover, such a reserve fund would likely not comply with all GASB requirements for a qualifying trust or equivalent arrangement. There is no other reserve fund authorized by General Municipal Law or any other law for this purpose.

**Can local governments issue OPEB bonds?**

Currently, local governments in New York State do not have the statutory authority to issue bonds to fund their OPEB liability.

**Other Issues**

**We have provided healthcare benefits to our retirees for decades, but we have expressly reserved the right to alter or discontinue benefits. Do we have to book an OPEB liability under Statement 75?**

Probably. While employers often stipulate that post-employment healthcare benefits are not vested or that the employer has the right to amend or discontinue benefits unilaterally, the current plan and the employer’s historical pattern of providing benefits up to the time of the valuation provide the most objective and reliable basis for projection of benefits for financial reporting purposes. Consult with your attorney on the specific situation in your municipality.

### **Can we make major changes in our benefit structure?**

This will vary from one local government to another, and will generally depend in part on the manner in which the benefit was provided (e.g., board resolution, collective bargaining agreement), as well as the specific terms of the benefit.

Ideally, the collective bargaining agreements or board resolutions that provide for the benefit will clearly specify the terms and conditions of coverage for retirees and current employees upon their retirement, including whether changes may be made. Plan documents and other records may be helpful in certain instances in determining the extent of the local government's commitment to continue to provide benefits or a particular level of benefits.

However, collective bargaining agreements can change over time, sometimes making it unclear which agreement applies to a current or future retiree or group of retirees. Collective bargaining and healthcare plan documents may also contain confusing or even conflicting provisions. In some cases, State statute, local laws and court cases can affect coverage.

Thorough research of a particular local government's collective bargaining and employee benefits documents is highly recommended. Because there often are legal issues to be resolved, it is advisable to consult with your attorney.

### **What if I just do nothing with OPEB and the new GASB requirements?**

Doing nothing may be risky. Local governments that do not comply with Statement 75 will no longer be following GAAP standards which may have negative financial implications:

- Accounting firms may view non-compliance as a negative factor in their audit opinions.
- Bond rating agencies may view non-compliance as a negative factor in credit ratings which could result in a rating downgrade.

### **What do credit rating agencies say about the funding of the OPEB liability?**

Credit rating agencies have stated that they will consider OPEB funding status in their evaluations of government financial condition. It is possible that bond ratings may suffer for those governments with large and/or mounting liabilities and no plan to pay for these future costs. This may be particularly true as certain governments move forward with OPEB strategies while others do not. The extent to which a local government's OPEB funded status affects its overall credit rating may depend on a number of factors, including the issuer's current rating and a comprehensive review of the issuer's finances.

**Where can I get additional information concerning Statement 75 and OPEB?**

- GASB Statement No. 75 - [Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions](#)
- GASB Implementation Guide No. 2017-3, [Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions \(and Certain Issues Related to OPEB Plan Reporting\)](#)
- OSC Accounting Bulletin: [Accounting and Financial Reporting for Other Postemployment Benefits as Required by GASB Statement 75](#)
- New York State Government Finance Officers Association: [Checklist for Procuring OPEB Actuarial Valuation](#)