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July 2005

To: **County, City, Town, Village, School District and BOCES Chief Fiscal Officers**

From: **Division of Local Government Services and Economic Development**

Subject: **Other Postemployment Benefits (OPEB)**

Please give copies of this bulletin to others who may need this information.

Purpose of Bulletin

The Governmental Accounting Standards Board (GASB) released Statement 45 entitled '*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*' and provided additional guidance in Technical Bulletin 2004-2 entitled '*Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.'* This bulletin provides a **general overview** of the Statement and Technical Bulletin.

Overview

Many (but not all) local governments offer some form of postemployment benefits other than a pension to their retirees. These other postemployment benefits (OPEB) may include such things as health insurance and dental, vision or prescription benefits. The promise to provide these benefits to employees can sometimes create a significant liability that local governments providing OPEB must pay in the future.

Current financial reporting for OPEB commonly mirrors the pay-as-you-go financing approach now followed by most governments and does not recognize OPEB expenses or liabilities until benefits are paid or provided after employees retire. In contrast, GASB Statement 45 establishes standards for accrual-basis measurement and recognition of OPEB expense and liabilities that will result in recognition of OPEB expense over periods that approximate employees' years of active service, as well as standards for note disclosures and required supplementary information

(RSI). Statement 45 also provides standards for modified-accrual recognition of OPEB expenditures and liabilities in governmental fund financial statements.

The standard for modified-accrual recognition of OPEB expenditures paid from governmental funds (the most common fund types for New York State local governments) is essentially the same as that of GASB Statement 27 for recognition of pension expenditures. The amount to be recognized as expenditures for OPEB contributions should be equal to the amount contributed to the plan for the year or expected to be liquidated with expendable available financial resources. In many cases, there may be no change in amount that governments currently recognize in governmental fund financial statements. Local governments in New York State that provide postemployment healthcare by paying insurance premiums at the beginning of each insurance period generally would not have a governmental fund liability to recognize at fiscal year-end.

In financial statements prepared on the accrual-basis of accounting, including government-wide statements prepared in accordance with GASB Statement 34 and proprietary or fiduciary fund financial statements, governments may set the beginning net OPEB obligation (liability) at zero in the year when this standard is first implemented and apply its requirements prospectively. OPEB expenses should be recognized in an amount equal to the annual OPEB cost measured in accordance with the Statement, regardless of the amount actually contributed. The difference between the annual OPEB cost and the amount contributed would result in the recognition of a net OPEB obligation at the end of the year, and that liability would continue to increase each year if actual contributions are less than the annual OPEB cost.

For those local governments deciding to implement GASB Statement 45, an actuarial valuation should be performed at the following minimum frequency:

- Biennially for OPEB plans with a total plan membership of 200 or more, both active employees and retirees currently receiving or eligible to begin receiving these benefits.
- Triennially for OPEB plans with a total plan membership fewer than 200.
- A sole employer with fewer than 100 total plan members also has the option to apply a simplified “Alternative Measurement” as explained in the Statement instead of obtaining an actuarial valuation.

This Statement will be phased in over three years (see below) based on a local government’s revenues in the first fiscal year ending after June 15, 1999, the same standard used in determining a government’s phase for purposes of implementing GASB Statement 34. Thus, if a government was Phase 1 for purposes of implementing Statement 34, it will also be Phase 1 for purposes of implementing Statement 45, and so on. The effective dates for employers are as follows:

- Phase 1 - revenues of $100 million or more periods beginning after 12/15/06
- Phase 2 - revenues between $10 and $100 million periods beginning after 12/15/07
- Phase 3 - revenues less than $10 million periods beginning after 12/15/08

Earlier implementation is encouraged by GASB.

If your local government prepares financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and is independently audited, you should contact your independent practitioner to discuss a strategy for implementing this new standard.

Additional Information

If you have questions concerning this bulletin, please contact the State Comptroller's regional office that serves your government. A listing of regional offices appears on the back of this page.

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