Keenan & Associates

Briefing

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GASB Exposure Drafts
Proposed Changes In Public Agency OPEB Reporting

In May of 2014, the Government Accounting Standards Board (GASB) approved two new draft standards that, when finalized, will impact the financial accounting and reporting of other postemployment benefits ("OPEB") for state and local agencies. These proposed standards are intended to bring OPEB accounting and reporting in line with the standards GASB issued for public pensions in 2012.

The first exposure draft "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," (the "Employer draft") is intended to supersede GASB standard No. 45 and will update guidance for reporting by agencies that provide OPEB to their employees. The second exposure draft, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," (the "Plan draft") is intended to supersede GASB standard No. 43 and will update the reporting by OPEB plans that administer benefits on behalf of local agencies.

When finalized, the guidance in the two proposed statements will change how governmental employers calculate and report the costs and obligations associated with OPEB.

Recognizing OPEB Liability

The first major change is that proposed standards in the Employer draft will require a local agency to recognize its net OPEB liability on the face of its financial statements.

If the agency provides OPEB through a plan that is administered through a trust that has the following characteristics ("GASB-qualifying trust"), then it may report its "net OPEB liability"—its total liability net of the OPEB plan fiduciary's net position available for paying benefits.

a) Contributions to the trust are irrevocable,

b) OPEB plan assets are restricted to paying OPEB, and

c) OPEB plan assets are beyond the reach of creditors.

If, however, the agency does not have a trust meeting the requirements above, it is required to report its total OPEB liability on the face of its financial statements.

Measuring OPEB Liability

The Employer draft sets forth a three-step process for calculating OPEB liability. There are changes proposed for each of these steps.

1. **Project future benefit payments for current and former employees and their beneficiaries.**

   The proposed standards will continue to incorporate expectations of future events that may affect the amount of OPEB that employees receive, such as salary increases, years of service and automatic cost-of-living adjustments (COLAs). They will also, however, incorporate ad hoc benefit changes and COLAs made at the employer's discretion, to the extent they are done regularly.

2. **Discount those payments to their present value.**

   The Employer draft also introduces new rules for the discount rate that agencies can use to calculate their OPEB liability. There are two options for the discount rate. To the extent that plan assets meet the qualifications for a trust, relate to current employees (and their beneficiaries), and are projected to be sufficient to make projected benefit payments, then the agency may discount those projected benefit payments using the long-term expected rate of return. However, to the extent that the plan assets are projected not to be sufficient for making projected benefit payments, the discount rate used would be based on a tax-exempt, AA or higher, 20-year general obligation municipal bond yield or index rate, which would typically be much lower than the long-term expected rate of return. An OPEB plan with no assets in trust would be discounted using that same municipal bond rate. This new rule on discount rates could substantially raise an agency's OPEB liability, to the extent it has not set aside assets in a GASB-qualifying trust.

3. **Allocate the present value over past and future periods of employee service.**

   Under current GASB standards, an agency may choose among six methods for attributing the present level of benefit payments to specific years, either in level dollar amounts or as a level percentage of projected payroll. The proposed standards in the Employer draft would require all agencies to use the same method—the entry age actuarial cost method to allocate present value as a level percentage of payroll. This particular allocation method was chosen because the GASB believes it is more representative of how OPEB is actually earned—an exchange of service for benefits over the course of their employment, in amounts that track proportionately with their salary changes over time. The fact that every agency will use the same allocation method will also make it easier to compare, i.e., make apples-to-apples comparisons between the OPEB information of different agencies.

Frequency of Actuarial Valuation

The proposed standards also require more frequent actuarial valuations for OPEB plans with fewer than 200 members. Under current standards, those employers have only been required to conduct a valuation every three years. Under the new standards in the Employer draft, every plan will have to conduct an actuarial valuation every two years, regardless of size.

Calculating OPEB Expense

Under the current GASB rules, the calculation of OPEB expense is based on a number of factors, some of which (benefits earned each year, interest on the total OPEB liability and projected earnings on plan investments) are incorporated into the calculation in the period in which the change occurs. All other factors are introduced into expense over a period of up to 30 years. The proposed standards in the Employer draft will also require changes in benefit terms and other changes in the OPEB liability to be considered immediately in the calculation of OPEB expense. This change is meant to provide a more comprehensive calculation of OPEB expense.

Most other changes would be included in the expense calculation systematically and rationally over the average of the remaining years of employment of active and inactive employees, including retirees. The effects on total OPEB liability of changes in plan net position due to the difference between expectations and actual investment earnings will be introduced into OPEB expense over a closed 5-year period. This will considerably shorten the period over which most governmental employers recognize OPEB expenses. The time horizons for inclusion of factors into the calculation of OPEB expense are summarized in the chart below.

Factors Included in OPEB Expense

Immediately	Over average remaining years of employment	Over 5 years
Employees working and earning additional benefits.	Actual economic and demographic changes differing from assumptions.	Changes in the measurement of plan net position due to the difference between expectations and actual investment earnings.
Interest on outstanding liability.	Changes in the assumptions about economic and demographic factors.	
Changes in the measurement of plan net position due to expected investment earnings.		
Changes in the terms of OPEB benefits.		
Effects other than investment earnings.		

Note Disclosures and Required Supplementary Information

The proposed standards would require governmental employers and OPEB plans to present much more extensive note disclosure and Required Supplementary Information (RSI) about their OPEB liabilities. Some of the requirements will differ depending on what type of OPEB plan the agency participates in.

EFFECTIVE DATE

The comment period for these proposed standards ends on August 29, 2014. Accordingly, we expect that final versions may be published in early 2015. GASB has set the effective dates for the new standards as follows:

- **December 15, 2016**—Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

- **December 15, 2015**—Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

We will keep you informed as these proposed standards proceed through the finalization process. Should you like more information regarding this *Briefing*, please contact your Keenan Account Representative.