

GASB: NEW STANDARDS REGARDING ACCOUNTING AND REPORTING OF OPEB

In June of 2015, the Government Accounting Standards Board (GASB) finalized two new standards affecting the financial accounting and reporting of other postemployment benefits (OPEB) for state and local agencies. These new standards are intended to supersede prior guidance and bring OPEB accounting and reporting in line with the standards GASB issued for public pensions in 2012.

- **GASB Statement No. 74**, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,” will replace the requirements of GASB standard No. 43, updating the accounting standards to be used by OPEB plans in their financial reporting.
- **GASB Statement No. 75**, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,” will replace the requirements of GASB Standard No. 45 and GASB Statement No. 57, updating guidance for financial reporting by agencies that provide OPEB to their employees.

Together, these new standards will change how governmental employers calculate and report the costs and obligations associated with OPEB.

FREQUENCY OF ACTUARIAL VALUATION

Actuarial valuations will be more frequent under the new Statements. Under both Statements every plan, regardless of size, will have to conduct an actuarial valuation (or a calculation based on the alternative measurement method for employers with fewer than 100 employees) at least every two years.

RECOGNIZING OPEB LIABILITY

In one of the most important changes from GASB Statement No. 45, Statement No. 75 will require a local agency to recognize its OPEB liability on the face of its financial statements.

If the agency provides OPEB through a plan that is administered through a GASB-qualifying trust (with irrevocable contributions, assets dedicated to providing OPEB in accordance with benefit terms, and assets protected from creditors), then it may report its “net OPEB liability”—its total liability net of the OPEB plan fiduciary’s net position available for paying benefits. If, however, the agency does not have a trust meeting the requirements above, it is required to report its total OPEB liability.

MEASURING OPEB LIABILITY

Statement No. 74 makes several changes to the process for calculating net OPEB liability including:

- The projection of future benefit payments will include discretionary ad hoc benefit changes and COLAs, to the extent such changes are made regularly, and they also will include certain taxes or other assessments expected to be imposed on the benefit payment.

- The discount rate used to discount future payments to present value will be the long-term expected rate of return in cases where plan assets meet the qualifications for a GASB-qualified trust, relate to current employees (and their beneficiaries), and are projected to be sufficient to make projected benefit payments. Otherwise, the agency must use a discount rate 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.
- For allocating the present value over past and future periods of employee service, the GASB will require all agencies to use the same method—the entry age actuarial cost method to allocate present value as a level percentage of payroll.

CALCULATING OPEB EXPENSE

Statement No. 75 will change the time horizon over which certain factors are incorporated into the calculation of OPEB expense. 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

Both Statements will require governmental employers 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 DATES

The new Statements will become effective as follows, although the GASB encourages earlier compliance:

- **GASB 74:** Effective for financial statements for fiscal years beginning after June 15, 2016. This means that for most California public agencies, this standard will go into effect on July 1, 2016.
- **GASB 75:** Effective for fiscal years beginning after June 15, 2017. This means that for most California public agencies, this standard will go into effect on July 1, 2017.

The requirements of these Statements will make it more important than ever to have a plan to prefund your OPEB obligation through a GASB-qualified trust. For more information on OPEB planning, please contact your Keenan Account Manager.

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