

Special Bulletin: MORE GASB Changes Coming!

The Government Accounting Standards Board (GASB) announced approval of Exposure Drafts of three new accounting standards for OPEB and unfunded pension plans, which were issued in June of 2014. The proposed Statements will replace GASB 43 and 45, and will significantly impact how state and local governments report liabilities and expenses associated with OPEB.

Reminder: GASB statements refer to accounting only, and not to the actual cash funding of any benefits.

Background

OPEB are all benefits (other than pension benefits), that governments provide to their retirees. They are primarily retiree health care benefits (medical, dental, pharmacy, vision), but could also include life insurance, disability, or other special benefits.

Accounting standards did not exist for government provided OPEB until 2004, when GASB issued Statements 43 and 45. In 2008, GASB began work on a project to improve postemployment benefit accounting and financial reporting. For the first phase of the project, GASB issued Statements 67 and 68 regarding pension plan accounting. These were released in 2012, with implementation currently underway (GASB 67 in fiscal 2014 and GASB 68 in fiscal 2015 for most governments).

So, as expected, OPEB changes are now being proposed. Also, as expected, the changes made in the recent pension accounting changes in GASB 67 and 68 carry over to OPEB accounting.

Proposed Changes

The proposed OPEB accounting standards include the following key changes:

1. The Net OPEB Liability (NOL; essentially the unfunded liability) is to appear on the face of the financial statements.
This will be a major change from the incremental Net OPEB Obligation currently used as the balance sheet liability.
2. The discount rate for GASB purposes could be lower than the return assumption, depending on long-term OPEB fund solvency outlook.
This is not much of a change from what is currently in GASB 45, which requires a connection between the discount rate and the funding strategy.
3. Use of the Entry Age actuarial cost method (level percentage of pay) to be required.
This was not a big change for pensions, but will be more so for OPEB, as many governments currently use a different cost method.
4. Enhanced disclosures of historical contributions, funded status, and the basis for selecting actuarial assumptions.
All similar to the new pension information required under GASB 67 and 68.
5. Accelerated recognition of liability changes in OPEB expense
A significant change from the current 30 year amortization typically used.
6. Disclosure of Net OPEB Liability's with alternate medical trend (+/- 1%), discount rate (+/- 1%), and all combinations thereof.
This amounts to nine different sensitivity measurements, versus three under GASB 67.

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Other noteworthy changes proposed:

7. Elimination of the community-rating exception to the implicit subsidy liability.
Plans with blended premiums would calculate an implicit subsidy liability, whereas under GASB 45, it was deemed to be \$0.
8. Actuarial valuations at least biennially
Elimination of the triennial option for plans with fewer than 200 members.

Effective Dates

Proposed effective dates are periods beginning after December 15, 2015 for Plan accounting, and periods beginning after December 15, 2016 for employers. For governments with December 31 fiscal years, this will be fiscal years 2016 and 2017. For most others (e.g., those with June 30 fiscal year), it will be fiscal years 2017 and 2018.

The exposure drafts and other relevant materials can be downloaded for free at www.gasb.org (*OPEB Proposals under Latest News*).

Additional BCG Commentary

The concept of funding and accounting becoming officially separated (as necessitated by GASB 67 and 68) is further reinforced for OPEB. The ARC as currently defined under GASB 45 could serve as a starting point for funding policy for pre-funded plans.

The proposed changes are not final! There will be extensive vetting of the exposure drafts through the public comment period, as well as three public hearings scheduled for September (see below). However, past experience (GASB 67 and 68) has shown us that we should not expect major deviations from what has been proposed. There are likely to be some alterations, though.

Public Hearings/Written Comments

Interested individuals or organizations may participate in public hearings scheduled to be held September 10, 2014 (Queens, NY), September 11, 2014 (Rosemont, IL), and September 12, 2014 (Brisbane, CA). Additionally, written comments regarding the Exposure Drafts are welcome and encouraged, but must be submitted by **August 29, 2014**. Comments should be addressed to the Director of Research and Technical Activities, Project No. 34-1P, and emailed to director@gasb.org or mailed to the following address:

Governmental Accounting Standards Board
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Norwalk, CT 06856-5116

For additional information regarding GASB's proposed Statements and how they may impact the way you calculate and report OPEB liabilities and costs, please contact Greg Stump: gstump@boomershineconsulting.com, or call (410) 418-5591.