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UPDATE

Actuarial and Benefits News

NEW ACCOUNTING STANDARDS FOR PUBLIC SECTOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) GASB STATEMENTS NOS. 74 AND 75 RELEASED

In June 2015, the Governmental Accounting Standards Board (GASB) released new accounting standards for public sector postretirement benefit programs and the employers that sponsor them. The new standards replace Statements Nos. 43 and 45, and follow many of the same guidelines implemented under GASB 67 and 68 for pensions.

IN GENERAL

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**GASB 74/75 WILL
SUBSTANTIALLY IMPACT
FINANCIAL STATEMENTS OF
PUBLIC SECTOR SPONSORS**
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The new GASB statements will require a liability for OPEB obligations, known as the net OPEB liability (NOL), to be recognized on the balance sheet of the plan and the participating employers. In addition, an OPEB expense will be recognized in the income statement of the participating employers, similar to GASB 67 and 68 for pensions.

EFFECTIVE DATES

GASB Statement 74 replaces GASB Statement 43 is effective for plan fiscal years beginning after June 15, 2016. GASB Statement 75 replaces GASB Statement 45 and is effective for employer fiscal years beginning after June 15, 2017.

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**BIENNIAL ACTUARIAL
VALUATIONS NOW
REQUIRED FOR ALL PLANS**
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Biennial actuarial valuations are now required for all plans. Under GASB 45, triennial valuations were permitted for plans with fewer than 200 members. More frequent valuations were encouraged under GASB 43 and 45 and continue to be encouraged under GASB 74 and 75. The alternative measurement method continues to be available for plans with less than 100 members.

SPECIFICS

Total OPEB Liability and Net OPEB Liability

The total OPEB liability under the new GASB standards is the actuarial accrued liability for the plan, calculated under the individual entry age actuarial cost method as specified by GASB. The net OPEB liability is the total OPEB liability less the Fiduciary Net Position (market value of assets).

Measurement Basis and Methodology

Under the new standards only one actuarial cost method is permitted, the Entry Age cost method, as opposed to the prior standard which permitted sponsors to elect from six possible actuarial cost methods.

Assumptions

Discount rates for determining plan liabilities must be developed based upon the projected cash flows and sufficiency of the trust. To the point that assets are projected to remain sufficient to cover benefit payments, the assumed return on invested assets may be used to discount liabilities. To the degree assets are insufficient to pay assets, the discount rate forward from that period must reflect the interest rate payable on an index of 20 year municipal bonds. Unfunded plans will use a discount rate equal to the 20-year municipal bond index.

Funding Policies

In order to project future asset sufficiency, contributions must be projected based upon an established funding policy.

OPEB Expense

OPEB expense will essentially be the difference in the NOL over the period, with some adjustments. Similar to FASB expense, the elements will include the Service cost, interest on the total OPEB liability, amortization of gains and losses over relatively short periods, offsets for projected investment returns and employee contributions, and the immediate costs of plan amendments.

Expanded Disclosures

Employers will need to provide significantly more information about plans in which they participate. Extensive documentation must be provided about the establishment of the discount rate used in the calculations. This includes assumed future cash flows, asset allocations, real returns on asset classes and the effect of using a discount rate that is 100 basis points higher or lower than that developed in accordance with the new standards or sponsor.

SPONSOR NEXT STEPS

Sponsors will wish to know the estimated impact of these new standards before their implementation dates.

- Project future impact upon balance sheet and annual OPEB expense
- Evaluate contribution histories and funding practices to make decisions regarding a formal funding policy.
- Review sample disclosure requirements
- Evaluate possible implications of new standards for individual sponsor

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