GASB 75: the new OPEB standard

Questions and answers

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The new Other Postemployment Benefits (OPEB) standard (GASB 75) replaces the requirements of GASB 45 with new accounting and reporting requirements for OPEB plans. The statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expenses related to OPEBs. The statement also establishes additional note disclosure and required supplementary information requirements for OPEB plans.

Questions and answers

How should all of these requirements be reported in regulatory reports?
Baker Tilly anticipates some regulatory bodies will provide guidance on how the balances and activity related to GASB 75 should be incorporated into regulatory reporting, while others will not depending upon how closely those reports mirror generally accepted accounting principles reporting. Though the reporting required for pensions under GASB 68 is a potential indicator, we cannot state it will be the same for OPEBs under GASB 75 in all circumstances. Given that GASB 75 isn't required to be implemented until December 31, 2018 calendar year ends, we anticipate regulatory bodies may wait until closer to the required implementation date to issue reporting guidance.

Does number of employees include spouse and/or dependents?
The GASB 75 glossary defines plan members as "Employees (or their beneficiaries) that are covered under the terms of an OPEB plan." The definition is "or beneficiaries" not "and beneficiaries". Therefore the number of employees would only include active employees, retired employees and beneficiaries that have continued in the plan after the death of the employee.

It is our understanding that the cumulative impact of future plan changes need to be recognized in the period approved, not necessarily effective. Is this your understanding?
The projected benefits should be calculated by the actuary in accordance with paragraphs 30-35 for single and agent multiple employer plans and paragraphs 73-78 for cost sharing multiple employer plans which indicates only benefits terms in force at the measurement date should be considered.

How do we determine the number of retirees who are not participating in the plan, such as those not taking health insurance? We monitor if they die after retirement.
Discuss this question with your actuary, but Baker Tilly's understanding is that if an individual is retired and you are not providing any benefits to that individual and they are not entitled to future benefits, they would not be included in the actuarial study.

You said employer payments of premiums would be considered a "contribution" to the plan. What if the employer is making the premium payments from the funds in the OPEB trust? That wouldn't be considered a contribution, correct?
If the premium or benefit payments are made by the trust or from the funds in the trust, these are not contributions. However, if the employer directly pays the premiums or the benefits from the employer's funds, those would be contributions to the plan.

Since we are recording the "net OPEB liability," do we not record the trust assets?
Trust assets would continue to be reported in an OPEB trust fund (fiduciary fund) as in the past. The net OPEB liability would be reported as part of the "governmental activities" and "business-type activities" financial statements.

What are different ways companies can use to manage rising OPEB liabilities?
Because GASB 75 will require governments to report the net OPEB liability the two key ways to manage the amount recognized would be to (a) revise the benefits offered impacting the total pension liability calculated by the actuary or (b) increase the net position of the OPEB trust.

Can you specify which GASB 74 and 75 disclosures can be combined if we have a trust?
Several disclosures related to the plan description, the actuarial methods and assumptions, the details of the total pension liability and the sensitivity analysis are required by both GASB 74 and 75. These disclosures can be provided once meeting the requirements of both standards rather than needing to be repeated twice within the notes of the primary government employer which includes the OPEB trust fiduciary fund.

Please discuss any insight for organizations that do not have a trust but have a net OPEB asset (as a result of a regulatory asset). Most of your discussion assumes an OPEB total liability.
While under GASB 45 accounting it was possible for an entity without a trust to have an OPEB asset as a result of the actual contributions exceeding the annual required contributions, this will no longer exist under GASB 75. Under GASB 75, the only way an employer will report a net OPEB asset is if the net position in the OPEB trusts exceeds the actuarially calculated total OPEB liability.

I am a calendar-year government with a Trusted plan. I have a GASB74/75 actuary report for 2017. For 2017, do I have to only report disclosures outlined in GASB 74, or can I early implement GASB 75?
If the actuarial report provides all of the required information necessary to implement GASB 75, then yes, you may implement GASB 75 early. Note that early implementation of GASB 75 would include both the footnote disclosures as the requirement to report the net OPEB liability within the full accrual fund and government-wide financial statements.

Is the existing GASB 45 OPEB liability essentially reclassified?
Yes, the existing GASB 45 OPEB liability is essentially reclassified to a GASB 75 OPEB liability. This effectively reduces the impact of the restatement to your beginning net position.

Can we use our study from GASB 45 (dated Jan. 1, 2016) to implement GASB 75 or does the new standard require a new study?
It is highly unlikely your study under GASB 45 contains the necessary information — particularly information for the note disclosures — for you to correctly implement GASB 75. Also, the previous study may have used a method not allowed under the provisions of GASB 75.

We adopted GASB 45 at 100 percent (no phase in) and are now adopting GASB 75 with a funded trust. What is that gain considered? Does it go to equity or get amortized over the average life as a change in the discount rate assumption?
The "gain" would be considered an adjustment to the beginning net position.

If we implement for our year-end Dec. 31, 2018, does our measurement date need to be before Dec. 31, 2017 (since we need to restate 2017 information to display the two years of financial information in our annual report's financial statement)?
Paragraph 244 of GASB 75 states "the provisions of this Statement should be applied retroactively by restating financial statements, if practical, for all periods presented." And "If restatement of all prior periods presented is not practical, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position for the earliest period restated." GASB 75 does not require you to restate both years presented in your financial statements; therefore if the information is not available, you would only implement the standard for the current year. If you follow this course of action, you will need to include disclosures for both GASB 45 and GASB 75 for 2018 and then only disclosures for GASB 75 thereafter. If you prefer to restate the prior year for consistency in comparative reports, you would need to obtain the actuarial information with the proper measurement dates for both years.

Is COBRA an implicit benefit?
If an employer provides retirees with the ability to stay on insurance for only the COBRA period, this is not an implicit rate subsidy. However if the retirees have the ability to stay on the insurance plan beyond the COBRA period at their own cost and pay a blended premium, that would be an implicit rate subsidy OPEB.

What is GASB's position on disclosing a combined pension and OPEB funded/unfunded liability?
Questions 4.12-4.15 in GASB's Implementation Guide 2017-3 address the classification of certain benefits as pension versus OPEB benefits depending upon the situation.

A section of our fund balance is assigned for retirement costs, including pensions and health insurance. Is that a trust? Our board can move the money with a motion. Is the municipal bond rate the rate the bonds would have on the measurement date?
Fund balance assigned for pension and health insurance benefits would not be considered to be a trust. Since there is no governing trust document, the funds are not irrevocable and not shielded from creditors.

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To determine the rate, would you use the municipal debt instrument that would be used to fund the OPEB?
The standard states that for plans where the projection indicates that trust net position will not be sufficient to pay all benefits, the blended rate should incorporate the long-term rate of return and the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Will Baker Tilly provide a checklist of the differences between GASB 45 and 75 that we can give to our actuary to ensure the changes are included in the new calculations?
While Baker Tilly will be working on tools to assist audit clients with the required financial reporting and disclosures associated with the change from GASB 45 to 75, we are not actuaries. We recommend governments discuss with their actuaries the actuaries' familiarity and comfort with the new standard to ensure all of the actuarial requirements including methods, assumptions and inputs are properly incorporated.

For the Schedule of Contributions, with a "pay as you go" plan, is the actual retiree health insurance paid in the fiscal year the amount to be shown as contributions?
Yes, under a "pay as you go" (PAYGO) plan, actual health insurance premiums (insured plans) or health care claims (self-insured plans) would be the amounts reported as contributions to the plan.

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