# Ready or Not, Here Comes GASB 75!

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Governments have already started their 2018 fiscal year. Governments that offer *Other Post-Employment Benefits* (OPEB) must now plan for Governmental Accounting Standard No. 75 (GASB 75). The new GASB statement is effective for fiscal years beginning after June 15, 2017, though some entities may have adopted early.

Until the 2018 fiscal year, GASB 45 governed OPEB reporting, and that reporting was confined to the financial statement footnotes and supplementary information. Under GASB 75, the overall effect will be similar to GASB 68 for pensions:

- The balance sheet must recognize any unfunded liability.
- Annual expense is the *change* in unfunded liability, with some pieces reflected as deferred inflow/outflow. This annual expense is the successor to the Annualized Required Contribution (ARC).
- Extensive disclosures and supplemental information (more than for pensions) must be presented.

**Preliminary Considerations – Plan Structure**

Under GASB 75, a government must determine whether or not the benefits offered are classified as OPEB. Additionally, the entity must identify the type of plan maintained, which employer category applies, and whether or not the plan is administered through a trust.

- **Types of Benefits.** OPEB includes retiree medical, pharmacy, dental, vision, and other health related benefits. It can also include life insurance, disability, and long-term care benefits, if offered outside of a pension plan. Termination benefits are not affected, but may increase the liabilities under an existing OPEB plan.

- **Types of Plans.** Reporting under GASB 75 differs depending on whether the program is a defined benefit, defined contribution, or insured plan.
    - *A defined benefit* OPEB is the most common arrangement; in this type, the employer pays premiums on behalf of retired participants or directly pays medical costs for its retirees.
    - A *defined contribution* OPEB provides for individual accounts that are funded or credited while the employee is in active service, providing an accumulation of funds that will be available for benefits after retirement.
    - Contrary to what the name suggests, an *insured plan* is defined under GASB 75 as an arrangement in which the employer pays premiums while the participant is active, but those premiums are designated to provide future retirement benefits. Payment of premiums for current retirees is not an insured plan under GASB 75.

- **Types of Employers**. GASB 75 treatment depends on the number of employers sponsoring a plan under which their employees receive benefits. The designations are the same as those under GASB 68 for pensions.
  - *Single-employer* OPEB plans provide benefits to the employees of only one employer.
  - *Multiple-employer* arrangements arise when assets and/or postretirement benefit obligations to the employees of more than one employer are pooled. Note that a primary government and its component units are counted as a single employer.

  *Special funding situations* are those in which a non-employer entity is legally responsible for directly financing some of the benefits of another entity.

- **Trust Criteria**. Some employers set aside assets for payment of future retiree medical benefits. However, not all such assets are recognized by GASB 75. To be counted, non-employee contributions and earnings must be irrevocable, with funds dedicated to paying OPEB for members under plan terms. Additionally, all assets must be legally protected from creditors of the employer and creditors of members. The Statement refers to applicable assets as the plan's *fiduciary net position*. Existence of a trust will impact the discount rate determination.

The balance of this article focuses on *single employer defined benefit* plans with no trust, no special funding situation, and no use of the alternative measurement methods that are available for small plans.

**Preliminary Considerations – Timing**

Fiscal year-end disclosures are based on claims costs and benefits as of a *measurement date*, which can be before the last day of the fiscal year. Liabilities as of the measurement date can be determined by rolling forward the liabilities from an earlier actuarial *valuation date*. In the implementation year, liabilities must also be measured for the beginning of the fiscal year, so that the annual expense (the change in unfunded liability) during the year can be determined.

Employers must establish the measurement date to be used upon implementation of GASB 75, as the date is required to be used consistently from year to year. The plan sponsor has more flexibility selecting the valuation date, within certain parameters. Most plan sponsors will want to establish a consistent valuation date that meets their timing requirements, keeping in mind that the schedule may need to be accelerated if significant changes occur between scheduled valuations. The rules for selecting these dates are similar to those of GASB 68 for pensions.

**Date Selection Example**

Consider a governmental employer with a calendar fiscal year who sponsors both an OPEB plan and a pension plan. It must implement GASB 75 standards for the 12/31/2018 fiscal year-end for the OPEB plan. The pension plan already complies with GASB 68. The government sets the following policy for measurement date and valuations:

**Fiscal Year End 12/31/2018**

- Measurement date for OPEB liabilities is 1/1/2018.
  - Must be no earlier than the end of the prior fiscal year.
  - Allows plenty of time to prepare information for the audit.
  - This will be consistent with measurement date used for pension disclosure under GASB 68.
- Use figures from January 1, 2017 actuarial valuation report prepared for GASB 45 fiscal year end disclosure.
  - Liabilities will be re-calculated under Entry Age Normal method and using a discount rate that complies with GASB 75, to obtain implementation-year beginning value at 1/1/2017.
  - Liabilities will be rolled forward from 1/1/2017 to 1/1/2018 measurement date.
  - Significant changes since 1/1/2017, if any, including a change to the municipal bond rate, will be reflected in the roll forward.
  - Valuation date must be no more than 30 months and 1 day prior to the fiscal year end.
  - Disclosure information for 2018 will be presented in separate correspondence.

**Fiscal Year End 12/31/2019**

- Measurement date for liabilities is 1/1/2019.
  - Consistent with prior year.
- Use figures from a new January 1, 2019 actuarial valuation report.
  - The January 1, 2017 report cannot be used because it is more than 30 months and 1 day before 12/31/2019.
  - The January 1, 2019 report is expected to be completed well before the end of the year.
  - No roll forward is needed.
  - Disclosure information for 2019 can be incorporated into this report.

**Fiscal Year End 12/31/2020**

- Measurement date for liabilities is 1/1/2020.
  - Consistent with prior year.
- Use figures from the January 1, 2019 actuarial valuation report.
  - The valuation date is less than 30 months and 1 day before 12/31/2020.
  - Liabilities will be rolled forward from 1/1/2019 to 1/1/2020 measurement date.
  - Significant changes since 1/1/2019, if any, including a change to the municipal bond rate, will be reflected in the roll forward.
  - Disclosure information for 2020 will be presented in separate correspondence.

This is one solution to meet a particular employer's needs. Governments should consult with their actuaries and auditors to determine what is best for them. It helps to draw a timeline!

**Differences from GASB 45**

Some of the major differences between GASB 45 and GASB 75 are highlighted below.

- **Cost Method.** GASB 45 permitted a choice among various cost methods to attribute benefits to participant years of service. Popular methods included the Projected Unit Credit method and variants of the Entry Age Normal method. GASB 75 permits only one method: Individual Entry Age Normal with costs determined as a level percent of pay. This method must be used even if the benefits being valued are not pay-related.

  Generally, if a plan moves from the Projected Unit Credit method to the Entry Age Normal method, the unfunded liability at transition is likely to increase. The change will depend on the maturity of the plan and on salary expectations.

- **Discount Rate.** The discount rate has a significant impact on benefit liabilities. GASB 45 pointed to the expected return on employer assets for discount rate selection for unfunded, pay-as-you-go plans. A 4.0% assumption was commonly used by plan sponsors.

  GASB 75 sets forth specific parameters for discount rate selection. For an unfunded plan, "the discount rate should be a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale)." The rate will be an input as of the measurement date, rather than an assumption. As of February 28, 2018 some publicly available bond indices that appear to meet the parameters had rates ranging from about 3.5% to 3.7%.

  The employer will need to establish a consistent method for selecting the discount rate upon implementation of GASB 75.

- **Amortization.** Previously, unfunded liabilities could be amortized over a period of up to 30 years, with the 30-year period restarted every year (open amortization). Now, total liability changes during the measurement period are recognized immediately in OPEB expense, except for those attributable to experience gains and losses and assumption changes. Those are amortized over a closed period equal to the average expected remaining service lives of all active employees and inactive participants under the plan, at the beginning of the measurement period, and the amortization payment is recognized in OPEB expense. Unamortized balances are deferred inflows or outflows related to OPEB.

  Note that plan changes are recognized immediately. Plan sponsors will need to consider what constitutes a plan change and set a policy, after discussions with the plan auditor.

- **Notes and Supplemental Information**. Disclosures have expanded from those under GASB 45. For instance, sensitivity measures on the total OPEB liability at +/- 1% of the discount rate and at +/- 1% of the healthcare trend assumption must be presented, for a total of five different measures. Other new disclosures include: a schedule of net deferred inflows and outflows to be recognized in OPEB expense, a schedule for deferred outflows that will reduce total OPEB liability, a 10-year schedule of changes to total OPEB liability from the beginning of the year to the end of the year, and a 10-year schedule displaying covered payroll, total OPEB liability, and total OPEB liability as a percentage of covered payroll. And there are more.

As illustrated, the implementation of GASB 75 will be a complex undertaking. Planning needs to begin well before year-end information is needed, and should include discussion of the issues with plan advisors.

So, get ready, get set, and go GASB 75!

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