

3. ACCOUNTING

3.4 Liabilities

3.4.7 Other Postemployment Benefits (OPEB)

3.4.7.10 OPEB refers to postemployment benefits provided to employees other than pension benefits. These benefits include but are not limited to healthcare coverage, life insurance, and long-term care. The Governmental Accounting Standards Board (GASB) has issued guidance for the recognition of the OPEB assets/liabilities and expense/expenditures in [GASB Statement 43](#) and [GASB Statement 45](#). [GASB Statement 43](#) contains the standards for reporting the status of established OPEB plans and [GASB Statement 45](#) covers the reporting requirements of employers that pay for OPEB benefits. Entities that have not formally established an OPEB plan are not required to report under [GASB Statement 43](#). Because many entities will not have to report OPEB plans under [GASB Statement 43](#) the GASB has duplicated reporting requirements in [GASB Statement 45](#). When an entity is reporting under both [GASB Statement 43](#) and [GASB Statement 45](#) they do not need to duplicate disclosures.

3.4.7.20 The most significant effect on governments will be the requirement to have actuarial studies performed to determine the Annual OPEB Cost (expense) and Net OPEB Obligation (liability/asset). Previously most employers have reported OPEB using a pay as you go financing approach. GASB felt this method failed to recognize the cost of OPEB in the period when employees render services. As a result they issued the two statements that require the matching of OPEB costs to the period employees earned them.

Applicability of the statements:

3.4.7.30 [GASB Statement 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans](#). Entities should use this statement for reporting of plan assets and liabilities, note disclosures, and required supplementary information in OPEB trust and agency funds included in plan sponsors, employers, and standalone financial reports. This statement only applies to entities with an established “OPEB plan”. In the context of [GASB Statement 43](#) this statement applies to an entity if their OPEB arrangement contains the following:

1. They have established an irrevocable trust for OPEB assets.
2. The trust assets are protected from debts of the government and the plan administrator.
3. The administrator has established policies related to the investment of resources and payment of OPEB liabilities.

3.4.7.40 Entities funding OPEB benefits on the *pay as go basis* do not have a plan requiring reporting under [GASB Statement 43](#), regardless of whether the entity has accumulated and internally restricted funds for OPEB use. In general multiemployer OPEB plans and Single/Agent Employer OPEB plans where assets are placed in irrevocable trusts must comply with this statement.

3.4.7.50 General reporting requirements [GASB Statement 43](#):

- OPEB trust fund presentation in the fiduciary fund statements.
- Note disclosure - plan description, summary of significant accounting policies, contributions and reserves, actuarial methods and assumptions for annual required contribution, funded status and funding progress (see actuarial valuation next section).

- Required Supplementary Information – Schedule of funding progress and Schedule of Employer Contributions.

3.4.7.60 [GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions](#). This statement establishes standards and accounting and financial reporting for OPEB expenses/expenditures and OPEB liabilities and assets, note disclosures and required supplementary information in the financial reports of state and local governments. It requires employers to report a liability when they do not entirely fund the future OPEB costs they have incurred. In general, most LEOFF 1 and 2 OPEB plans financed on a pay as go basis will be reported under only [GASB Statement 45](#). Entities that belong to the Public Employees Benefit Board (PEBB) will usually have an OPEB liability related to the implicit rate subsidy for insurance offered to retirees.

3.4.7.70 The exception for reporting a liability will be if the sponsor employer completely prefunds the plan and voluntarily establishes an irrevocable trust for accumulation plan assets. Some employers may opt for establishing the trust fund because it will allow them to use a lower discount rate when calculating present value of the unfunded OPEB liability. If the employer establishes an irrevocable trust both [GASB Statements 43](#) and [45](#) will apply.

3.4.7.80 If both [GASB Statements 43](#) and [45](#) apply to an entity they need to be aware the reporting requirements overlap. The overlap is due to the diversity in OPEB plans and options for reporting OPEBs. Entities with an irrevocable trust plan have the option of reporting plan status in either a standalone or employer financial report. [GASB Statement 45](#) allows options for reporting the employer OPEB activity when an OPEB plan is separately issued, reported in the employer report, or when a pay as you go employer has not established an irrevocable trust. Because [GASB Statement 45](#) presents the option for reporting OPEB activity when a formal trust fund is not reported it duplicates many of the disclosure and RSI requirements in [GASB Statement 43](#).

3.4.7.90 General reporting requirements [GASB Statement 45](#):

- Recognition of OPEB expense/expenditures, liabilities and assets in the appropriate government wide activities and funds in the fund statement. A separate fund does not need to be established for an OPEB plan when it is funded on a pay as you go basis. An OPEB trust fund is only required when it is prefunded using an irrevocable trust.
- Note disclosure (each plan) – plan description, funding policy.
- Additional note disclosure sole employers (each plan) – Annual OPEB cost, dollar amount of contribution made, net OPEB obligation and components of annual OPEB cost, funding status of the plan, actuarial methods and assumptions for annual required contribution, annual OPEB cost, funded status and funding progress, amortization method and period (see actuarial valuation, next section).
- Required Supplementary Information (each plan) – Schedule of Funding Progress and Schedule of Employer Contributions.

3.4.7.100 When first implementing [GASB Statement 45](#) sole employers should set their net pension obligation to zero at the beginning of the year and apply the recognition of the reporting requirements on a prospective basis. However, an employer with prior actuarial data may elect to report their OPEB obligation (asset) retroactively.

Actuarial Valuation:

3.4.7.110 Both [GASB Statements 43](#) and [45](#) require actuarial valuations to measure the annual OPEB cost and Net OPEB Obligation (Asset). In most cases the valuations will need to be conducted by an actuarial per the parameters defined in the statements. The required frequency of the valuations:

1. For plans with a total membership of 200 or more – at least biennially.
2. For plans with a total membership of 200 or less – at least triennially.

The plan membership is defined as the sum of active employees eligible for benefits, terminated employees with accumulated benefits, and retired employees and beneficiaries currently receiving benefits. Sole employers with less than 100 members may elect to use the alternative measurement method for valuation. Refer to [GASB Statement 45](#) paragraph 33 for details on the alternative method.

3.4.7.120 [GASB Statement 57](#) modifies requirements for actuarial valuation for employers belonging to an agent multiple-employer OPEB plan. This statement is effective for financial reporting periods beginning after June 15, 2011. New requirements are:

- Agent employers must obtain an actuarial valuation at least as frequently as is required for the agency multi-employer plan.
- Actuarial valuations of agent employers must be on the same date as agent multi-employer plan.

3.4.7.130 The Office of the State Actuary (OSA) is working on tools to help entities with OPEB plans with less than 100 members calculate their OPEB liability. These tools contain actuarial assumptions and are customized to specific plans. For additional information on these tools go to the [OSA website](#).

3.4.7.130 **OPEB Questions and Answers:**

The following section contains common questions and answers related to the implementation of [GASB Statement 45](#).

(1) How do I know if [GASB Statement 45](#) applies to me?

If your entity reports using Generally Accepted Accounting Principles (GAAP basis) and offers Other Postemployment Benefits (OPEBs), [GASB Statement 45](#) applies.

Local governments that offer subsidies for health related benefits, insurance or long-term health care to retirees are considered to have a liability for an OPEB plan. Besides direct payments to members, subsidization can also occur when your retirees are grouped with your active members in a pool for determining premiums.

The offering of benefits qualifies as a plan under the statement whether or not you have a contract with retirees. The statement requires reporting a plan even if you are not legally obligated for the debt and can stop the benefits at any time. If you have LEOFF 1 members or belong to the state-run Public Employees Benefits Board (PEBB) you probably will need to report under [GASB Statement 45](#).

Entities reporting on the Cash Basis or on a regulatory basis of accounting prescribed by the State Auditor will not need to report under [GASB Statement 45](#).

(2) When do entities need to report under [GASB Statement 45](#)?

The first phase of implementation for Other Postemployment Benefits (OPEB) is approaching fast. Entities will need to implement using a phase in system similar to [GASB Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments](#). It is:

*Phase 1– 1999 revenues of \$100,000,000 or more
First fiscal period beginning after December 15, 2006.*

*Phase 2 – 1999 revenues less than \$100,000,000 and more \$10,000,000
First fiscal period beginning after December 15, 2007.*

*Phase 3 – 1999 revenues less than \$10,000,000
First fiscal period beginning after December 15, 2008.*

All component units should implement [GASB Statement 45](#) no later than the implementation date of the primary government.

(3) Does your entity have an actuarial study completed or know how it will comply with the requirement to determine the OPEB costs?

[GASB Statement 45](#) requires entities with OPEB plans with over 100 members to have an actuarial valuation performed by an actuary. Plans with less than 100 members may have either an actuarial valuation study performed or calculate their liability using the alternative method. These procedures are required to calculate the annual OPEB cost.

Plans with over 200 members must have a study performed every two years and those with less 200 need a study every three years. If a significant change occurs in the plan membership or benefits during the period an additional study is required.

If you have a plan and it has over 100 members your options are limited, an actuarial valuation will be required. However, sole employers with plans with less than 100 members have the option to use an alternative measurement method. This method is a simplified actuarial valuation with simplified assumptions and calculations. However, it's not necessarily easy to do and could take significant time.

(4) How do I perform the alternative measurement calculation, it has a number of complex variables?

If an entity has a sole employer plan with less than 100 members they have the right to perform their own OPEB calculations. However, they will need to support all assumptions used in the calculation. Auditors will need to verify the source of the assumptions.

The Office of the State Actuary (OSA) is developing several tools (spreadsheets) for use by local governments. These tools should be available in early 2008 and will be located on the [OSA website](#). At this time it appears tools will be available to calculate OPEB costs for LEOFF 1 and PEBB plans. However, these tools are limited for use by plans with less than 100 members.

(5) May a local government use the information in the LEOFF medical study performed by The Office of the State Actuary to report their OPEB liability?

No, the OSA study will report the LEOFF 1 liability at the state-wide level. It will not break the liability down at the entity level. If you have a LEOFF 1 plan you will need to receive an actuarial study or, if you qualify, you may perform the calculation using the alternative method.

(6) Do entities need to establish a new trust fund for each OPEB plan?

The answer depends upon how the plan is funded and whether it is a single employer or multiemployer plan.

Yes, if the entity is prefunding OPEB obligations using a trust. When an entity creates an irrevocable trust they will need to report the activity of the plan under the requirements of [GASB Statement 43, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans](#). This will require establishing and reporting an OPEB trust fund for each prefunded OPEB plan.

If an entity is classified as a having a single employer OPEB plan and funds the plan on the pay as you go basis they do not need to establish a separate fund for it. They will be reporting their OPEB liabilities and expenses in the appropriate fund statements and entity wide activities.

If an entity is the administrator in a multiemployer OPEB plan that is on the pay as you go basis it will need to establish an agency fund and report residual amounts of the “other employers” in that fund.