

Accounting for OPEB Benefits Under GASB #45

By Edward A. Echeverria, FSPA, MAAA, CPC, EA, Senior Actuary with Danziger & Markhoff LLP

The time is quickly approaching for many public sector employers to apply the financial statement reporting requirements for post-employment benefits under Government Accounting Standards Board Statement No. 45 (GASB #45). Large employers (\$100M+ of annual revenue) were already required to apply GASB #45 for fiscal years beginning after December 15, 2006. Other public sector employers (with the exception of small employers with \$10M or less of annual revenue), must apply GASB #45 for fiscal years beginning after December 15, 2007. What this means is that most calendar fiscal year 2008 employers and virtually all fiscal year end 2009 employers will have to begin to account for their post-employment benefits using the GASB #45 rules.

GASB #45 establishes standards for the measurement, recognition and display of the expense and liabilities for post-employment benefits, such as post-retirement health. As a result, the reporting of expense and liabilities will no longer be permitted under the "pay-as-you-go" approach. Instead of expensing the current year premiums paid, a per capita claims cost will be determined, which will be used to determine a "normal cost", an "actuarial accrued liability", and ultimately the Annual Required Contribution (ARC) and the OPEB (Other Post-Employment Benefit) Cost. The OPEB Cost is not "required" to be contributed each year. However, to the extent that the OPEB Cost exceeds the amount

of contributions made (e.g., insurance premiums paid in a year, Medicare Part D reimbursement) for the year, a liability called the "OPEB obligation", will accumulate on the employer's financial statements from year to year.

The change from pay-as-you-go recognition to GASB #45 recognition will result in higher expense and liabilities due to (1) the required inclusion of a "health care trend assumption" (a health benefit inflation rate, which is typically higher than general inflation), and (2) the recognition of an "implied subsidy" (the additional employer cost resulting from contributions made by pre-age 65 retirees being based on a blended rate developed for an active/pre-age 65 retiree population, rather than a higher rate devel-

oped for a solely pre-age 65 retiree population). These two elements will have an impact on the liabilities of both current retirees and current active employees. Depending on the employer's demographics, the increase in expense can be significant (anywhere from double to more than ten times the expense under pay-as-you-go reporting).

In addition to changing the reporting requirements, another result of GASB #45 will be the required determination of the present value of all future OPEB benefits (a.k.a., Expected Post-Retirement Benefit Obligation, or "EPBO") and corresponding "actuarial accrued liability" (the amount of the EPBO attributed to past service under the funding method employed by the employer's actuary, or



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“AAL”). For many employers, such determination will, for the first time, quantify the value of the both the benefits expected to be provided to current retirees, as well as the benefits expected to be provided to current active employees who may become eligible to receive OPEB benefits in the future. This quantification is likely to initiate the review of the levels of OPEB benefits being provided to current retirees, current active employees who may become eligible for OPEB benefits in the future, and employees to be hired (and become OPEB eligible) in the future. This review could also have an indirect impact on benefit levels of active employees. This past May, another one year extension of a law enacted in 1994 was secured by lawyers for the New York State United Teachers (NYSUT), prohibiting the reduction of health insurance coverage to public education retirees, unless there is a corresponding reduction in coverage to active employees. And certainly the collective bargaining process will continue to play a major role in any reduction/implementation process.

If and when New York State municipalities are permitted to pre-fund OPEB Benefits in a Trust (“OPEB Trust”), employers will have the option of doing so to reduce/eliminate the OPEB Obligation. Proposed legislation was recently announced by the State Controller to authorize the creation of such trusts (“OPEB Trusts”).

Pre-funding in an OPEB Trust would also permit the use of a higher discount rate (to reflect higher returns from an equity/bond mix of a Trust, rather than short term returns of the municipality’s funds), which would produce lower liabilities and therefore further reduce/eliminate the OPEB Obligation. The use of this higher discount rate is not permitted when moneys are merely “set aside” on the employer’s balance sheet.

GASB #45 has dramatically changed the landscape of accounting for post-employment benefits for public sector employers. As a result, financial reporting requirements, plan design and benefit levels, and even funding considerations, need all be reviewed. ❖

IRS Increases Mileage Rates through December 31, 2008

The Internal Revenue Service recently announced an increase in the optional standard mileage rates for the final six months of 2008. The rate will increase from 50.5 cents to 58.5 cents a mile for all business miles driven from July 1, 2008, through Dec. 31, 2008. For more information visit: <http://www.irs.gov/newsroom/article>

REMINDER

AMERICA’S TOWN MEETING

2008 LEGISLATIVE CONFERENCE

America’s Town Meeting, the National Association of Towns and Townships annual legislative conference will be held this year from **September 30 to October 1**. The agenda includes a number of educational sessions, along with meetings on Capitol Hill.

Why Should You Attend?

NATaT has developed a proactive federal agenda to ensure that the needs of small communities are central to federal statutory, regulatory funding, and policy decisions. This conference will afford you the opportunity to meet with members of Congress and help make your voices heard.

For registration information, please contact Linda Shannon at 518-465-7933.

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Shared-Service Agreements

We are compiling a resource file of sample shared-service agreements for use by our towns. If you have such an agreement that is working in your town, and would be willing to share it with us, please fax, mail, or e-mail it to: Patricia Craig, Association of Towns, 150 State Street Albany, NY 12207, Fax: 518/465-0724; e-mail: pcraig@nytowns.org

Shared-service agreements are municipal cooperative agreements that include, but are not limited to: highway maintenance and snow removal, recreation and parks, code inspection services, data processing, cooperative purchasing, water and sewer, planning and zoning, fire, ambulance, and police. ❖