IMPLEMENTING GASB 75

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) is going to change the government-wide statements for many governmental employers significantly. GASB 75 was issued in June 2015 and became effective for fiscal years beginning after June 15, 2017, which directly impacts the financial statements for many governmental entities whose fiscal year ends June 30, 2018, and beyond.

Why GASB 75?

The new reporting requirements for an employer's other post-employment benefits (OPEB) parallel the changes in reporting requirements as outlined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which applies similar accounting and financial reporting principles to pension plans. Like GASB 68, GASB 75 intends to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions by changing the way OPEB liabilities are calculated and increasing transparency in reporting.

Basic Overview of GASB 75

GASB 75 replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45) and establishes new standards for recognizing and measuring liabilities, expense/expenditures, deferred outflows of resources, and deferred inflows of resources regarding OPEB. The new GASB statement requires the presentation of liability for OPEB obligations in the employer's financial statements.

Major Impacts

- ***New terminology and calculations.*** The total OPEB liability under the new standard will be equal to the actuarial accrued liability for the plan. For plans administered through a qualifying trust, the net OPEB liability is equal to the total OPEB liability minus the fiduciary net position. For the plans not managed through a qualifying trust, the net OPEB liability will equal the total OPEB liability, as there is no fiduciary net position. The previous annual required cost is replaced by the new OPEB expense calculation.

- ***Entire unfunded OPEB liability will appear in the Statement of Net Position.*** GASB 45 focused more on the funding of the annual required contribution (ARC). If the ARC was fully funded each year, it is possible that little or no liability has been reported. GASB 75 changes the focus from, *"are required annual contributions adequate?"* to, *"how large is the net OPEB liability?"* and recording that liability on the Statement of Net Position.

- ***Actuarial valuation and measurement dates.*** GASB 75 allows for a measurement date of the total OPEB liability of up to twelve (12) months prior to the reporting date (fiscal year end), and the actuarial valuation should be as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year end.

- ***More frequent valuations.*** Biennial valuations are now required for all plans, although more frequent annual valuations are still encouraged. Triennial valuations for smaller plans (less than 200 members) are no longer allowed. However, the alternative measurement method continues to be available for plans with less than 100 members.

- ***Additional disclosures.*** GASB 75 introduces more robust and comprehensive information in the notes to the financial statements. In addition to descriptions of the types of benefits and covered employees, how plan contributions are determined, and assumptions/methods used to calculate the OPEB liability, the standard will also require a description of changes of assumptions and other inputs. "Sensitivity analysis" of the impact of healthcare cost trend rates and discount rates and balances of deferred outflows/inflows of resources are also required. Additional disclosure requirements will also depend on the OPEB plan type.

- ***Additional schedules.*** The required supplementary information includes a 10-year schedule of changes in the net (or total) OPEB liability and a 10-year schedule of contributions. Governments are also now required to present notes to the RSI schedules regarding factors that significantly affect the trends in the schedules.

Types of OPEB

OPEB are divided into the two categories:

- ***Post-employment healthcare benefits,*** such as medical, dental, vision, hearing, and other health-related insurance; and

- ***Other forms of post-employment benefits,*** such as life insurance, long-term disability, long-term care benefits, and other non-pension benefits.

Types of Plans and Employers

OPEB plans typically fall into one of the three categories:

- ***Single employer*** - OPEB plans in which OPEB are provided to the employees of only one employer.

- ***Agent employers*** - OPEB plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer (so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees).

- ***Cost-sharing employers*** - OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled, and plan assets can be used to pay the benefits of the employees of any employer that provided OPEB through the OPEB plan.

TRUST OR NON-TRUST?

Identifying the type of administration is an essential first step in understanding how the plan will be evaluated and reported.

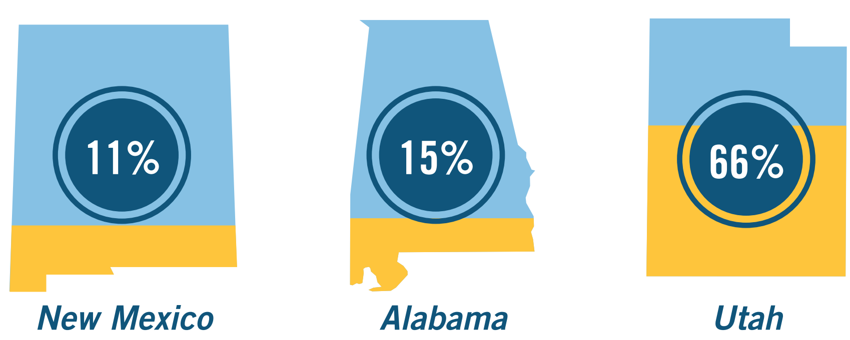
A qualifying trust plan (or equivalent) meets the following conditions:
- Contributions and earnings on contributions are irrevocable,
- Assets are dedicated to plan members, and
- Assets are legally protected.

Then and Now: Changes in Financial Reporting

	GASB 45	GASB 75
Statement of Net Position	OPEB information was recorded in the notes to the financial statements.	A new calculation of post-employment benefits liability called net OPEB liability will be on the Statement of Net Position, and the notes will be more extensive.
Deferred Inflows and Outflows	None	The new statement will recognize factors and changes to the net OPEB liability not fully recognized in a given year's OPEB expense.
Actuarial Cost Method	Six (6) allowable actuarial cost methods	Entry Age Normal Cost Method only
Discount Rate	Long term expected rate of return on assets is the discount rate.	If a plan is administered through a trust, the discount rate is a blended rate between the long-term expected rate of return and municipal bond rate. If not, the discount rate is an index rate for 20-year, high-yield municipal bonds.
Amortization	Amortizations of any kind (gains/losses, assumption changes, benefit changes, etc.) over a maximum of thirty (30) years.	Shorter amortization periods - five (5) years for investment gains/losses. Average future working lifetime for other gains/losses or assumption changes.
Administration	Trust not required.	Applies whether there is a trust or no trust.

Current State of OPEB Plans

As it stands, other post-employment benefits are less likely to be funded than pensions. To get an idea, the following rates depict the current rate at which each state's retiree healthcare OPEB plans are funded.



Potential Hurdles Our Clients Need to Overcome

Due to the nature of the standard, it is crucial to begin communications with relevant staff, plan and employer's actuaries, plan auditors, employers, and other stakeholders. The nature of OPEB creates multiple opportunities for errors. Possible challenges include:

IDENTIFYING OPEB PLANS

It is important to determine the OPEB plans early and accurately, as the subsequent OPEB liability calculations and disclosure requirements vary widely depending on the plan type, policies, and administration.

ACTUARIAL VALUATION

Identify and hire an actuary with proper qualifications and experience. The ideal specialist is an actuary with direct experience with OPEB plans. Begin discussions about the actuarially determined contribution with your actuary.

TIME

The statement is already in effect, so time is not on our side. GASB 75 is effective for employer fiscal years beginning after June 15, 2017, which requires the new OPEB liability disclosures on financial statements for many employers whose fiscal year ends June 30, 2018.

IMPLEMENTATION

Auditors and accountants can clarify any questions related to the GASB 75 and assist with implementation, such as helping set up the required journal entries.

How to Implement + How CRI Can Help

The new standard went into effect for fiscal years beginning after June 15, 2017. CRI is ready to provide assistance in the following six stages to ensure a smooth implementation:

Alert your organization and provide training on the new OPEB reporting standards.	On-site or webinar training
Establish a qualified team to lead the implementation process.	Outsourced expertise
Update the internal controls and policies and procedures within your organization to provide for proper training and implementation.	Policies and procedures engagements
Commence the process of OPEB plan identification and begin pouring through your entity's employment benefits.	Outsourced expertise
Hire an actuary to assist in the actuarial valuation.	CRI network actuary
Propose all initial recognition entries in accordance with GASB 75.	Outsourced expertise