

PERiSCOPE

Public Employee Retirement Systems

New accounting rules in the United States for postemployment benefits other than pension (OPEB), first implemented in 2016, are now in effect. Successful implementation of the new rules will require an understanding of a variety of technical concepts regarding the newly required calculations. In this multipart PERiScope series, we explore these technical topics in detail. See the sidebar for more information on upcoming technical articles in the series.

GASB 74/75: OPEB Expense and Balance Sheet Items

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This PERiScope article in the Governmental Accounting Standards Board (GASB) Statement 74 and 75 miniseries discusses Other Postemployment Benefit (OPEB) expense and balance sheet items. GASB Statements 74 and 75 bring significant changes to financial reporting and expense calculations, OPEB plans, and participating employers. Here, the new requirements for disclosing OPEB expense are explained and the effect of these changes on plan and employer financial statements is examined. This article is a general overview of the new requirements as they apply to defined benefit OPEB plans. For questions regarding specific situations or other types of OPEB plans, refer to Statements 74 and 75, and contact your Milliman representative for assistance.

OPEB Expense

The changes to OPEB expense calculations prescribed by Statement 75 follow the changes to pension expense calculations made in Statement 68. The OPEB expense on the income statement now arises from changes in the Net OPEB Liability (NOL) over the measurement period, which is calculated as the Total OPEB Liability (TOL) minus the Fiduciary Net Position (FNP).

Changes in the NOL are now generally to be recognized in the current reporting period, excepting mainly the gains and losses resulting from experience that should be amortized as discussed below. For plans administered through a trust that meets the criteria of Paragraph 4 of Statement 75,¹ the FNP is based on the fair value of plan assets. Use of the actuarial or "smoothed" value of assets is not allowed. However, the difference between projected and actual earnings on OPEB plan investments is now categorized as a deferred inflow or outflow of resources.²

¹ References to a trust throughout this paper will indicate one that conforms to the criteria found in Paragraph 4 of Statement 75.

² Paragraph B105 in Appendix B of Statement 75 may be of interest in illuminating the GASB's reasoning.

NOL calculations now may only be performed using the individual entry age normal actuarial cost method. For details of this method as it applies to Statements 74 and 75, please see a prior article in this miniseries, "GASB 74/75: Calculation specifics on entry age normal" available at <http://www.milliman.com/GASB-73-74-75/>. The discount rate used will depend on either the rate of return expected from plan assets in trust plus projected contributions, if they are sufficient to cover future liabilities, or a 20-year municipal bond index if there are no plan assets in trust. A blended discount rate is used in the event that there are some assets but not enough to cover projected benefit payments.

Did you know? Milliman's GASB 73/74/75 Task Force is releasing a miniseries on technical and implementation issues surrounding GASB 73, 74, and 75.

Each article will be released through PERiScope. Look for the following article in coming months:

Revised ASOP 6 and Community Rated Plans

Visit milliman.com/GASB-73-74-75/ for the latest Milliman resources on the new statements.

Expense Components

The OPEB expense must contain the beginning and ending balances of the TOL, FNP, and NOL, proportionate share information if applicable, and the expense components shown below. Note that plan changes are to be immediately recognized. The five items shown in green are applicable for plans administered through a trust.

FIGURE 1: OPEB EXPENSE COMPONENTS AND RECOGNITION PERIODS

EFFECTIVE DATE	IMMEDIATE RECOGNITION ONLY	DEFERRED RECOGNITION PORTION
Service cost	✓	
Interest cost	✓	
Changes of benefit terms	✓	
Demographic/economic experience		✓
Changes of assumptions or other inputs		✓
Employer contributions*	✓	
Nonemployer contributions	✓	
Employee contributions	✓	
OPEB plan net investment income		✓
Benefit payments	✓	
Administrative expenses	✓	
Other changes (broken out if significant)	✓	

*Certain employer contributions are reported as deferred outflows; see below.

Deferred Recognition³

Some expense components have a deferred recognition portion. This includes gains and losses due to:

- Demographic and economic experience
- Changes in demographic and economic assumptions
- Differences between projected and actual earnings on OPEB plan assets
- For cost-sharing employers, the effect of changes in proportionate share and any difference between contributions made versus the proportionate share of contributions

For differences between projected and actual earnings only, recognition shall occur over a 5-year closed period. Inflows and outflows arising from investment gains and losses from different measurement periods should be aggregated and reported as net.

For all other deferred recognition amounts, the closed deferral period is determined by calculating the average of the expected remaining service lives of all employees in the plan provided with OPEB. This average is used even for determining the period over which changes in proportionate share are recognized for cost-sharing employers.⁴

³ See Appendix B of Statement 75, Paragraphs B96 through B103, for a summary of the GASB's position on deferred recognition.

⁴ See Statement 75, Paragraph 64, as well as *Implementation Guide No. 2017-3*, Q&A 4.194.

The number of employees in the deferral period calculation is determined as of the beginning of the measurement period, and includes both active and inactive employees. This means that a plan whose population consists solely of inactive members will recognize all changes (other than differences in projected and actual earnings) in the current reporting period.

The amounts not yet recognized are categorized as deferred outflows or inflows of resources related to OPEB. For purposes of calculating the OPEB expense, each closed period date and the amount for each source must be tracked. However, for presentation in the notes to financial statements, all periods should be aggregated and presented as balances of deferred inflows and balances of deferred outflows of resources by source.

Lastly, payable contributions to the OPEB plan made after the measurement date, but before the end of the reporting period are to be reported as deferred outflows of resources (except for associated amounts from nonemployer contributing entities (NCEs) not in a special funding situation). This rule is intended to cover contributions that will be recognized in the next measurement period and does not include contributions recognized as receivables for the current measurement period.

Alternative Measurement Method

Plans that provide OPEB benefits to fewer than 100 members may use the alternative measurement method, which simplifies some assumptions and calculations. One of these simplifications is the recognition of most changes in the NOL for the measurement period in which the changes occur. This includes gains and losses due to demographic or economic experience, assumption changes, changes in proportion, and differences between contributions or benefit payments actually made and the proportionate share of those contributions or benefit payments. However, the difference between expected and actual earnings on OPEB plan assets is still to be recognized over a closed five-year period.

Changes to Financial Statements

OPEB plan balance sheets have undergone changes that follow the requirements for pension plans under Statements 67 and 68. Employers and NCEs will need to recognize the NOL (or TOL absent a trust) on the balance sheet, by proportionate share if applicable. Standalone financial statements of OPEB plans administered through a trust, if prepared, must show the FNP of the plan and changes thereto as set forth in Statement 74.⁵

Notes to Financial Statements

OPEB-related disclosures in the Notes to Financial Statements have been expanded to include detailed plan information. Generally, the Notes now must include the significant items shown in the tables below. This list is not intended to be all-inclusive and there may be additional requirements based on specific situations; be sure to refer to the Statements for details.

⁵ For details about standalone financial statements for a plan, please see Statement 74, Paragraphs 20 through 33.

Statement No. 74 – Notes to Stand-Alone Plan Financial Statements

Category in Notes	Items to be Included
OPEB Plan description	<ul style="list-style-type: none"> ▪ Plan name, administrator, and classification ▪ Identification of board of trustees ▪ Participating employers and NCEs as applicable ▪ Plan eligibility and coverage, key benefit terms, and membership counts ▪ Contribution requirements, bases, amounts, sources, and authority
Significant assumptions and inputs	<ul style="list-style-type: none"> ▪ Items such as (but not limited to) discount rate basis and derivation, mortality assumptions, benefit levels, cost sharing, cash flows, and healthcare cost trend rates, including discount rate and trend rate sensitivity
OPEB plan investments	<ul style="list-style-type: none"> ▪ Investment policies, authority, and changes during period ▪ Asset allocations of five percent or more in non-U.S. government investments ▪ Money-weighted rates of return
OPEB liabilities	<ul style="list-style-type: none"> ▪ Total OPEB Liability, FNP, Net OPEB Liability, FNP as a percentage of Total OPEB Liability
Dates and roll forward details	<ul style="list-style-type: none"> ▪ Valuation and measurement dates, and any update procedures used

Statement No. 75 – Notes to Financial Statements for Employers and Nonemployer Contributing Entities

Category in Notes	Items to be Included
Description of associated OPEB plans	<ul style="list-style-type: none"> ▪ Plan name, administrator, and classification ▪ Plan eligibility and coverage, key benefit terms, and membership counts ▪ Contribution requirements, bases, amounts, sources, and authority ▪ Availability of stand-alone plan financial statements
Significant assumptions and inputs for associated OPEB plans	<ul style="list-style-type: none"> ▪ Items such as (but not limited to) discount rate basis and derivation, mortality assumptions, benefit levels, cost sharing, cash flows, and healthcare cost trend rates, including discount rate and health trend rate sensitivity ▪ Proportionate share of collective NOL or TOL as applicable, including sensitivity to discount rate and health trend rate
Asset information and FNP for associated OPEB plans	<p>Either:</p> <ul style="list-style-type: none"> ▪ included, or ▪ if part of a plan's standalone statements or included in the financial report of another government, provide information as to how to obtain the report, or ▪ disclosure that there are no assets in trust
OPEB liabilities and changes in NOL/TOL for associated OPEB plans (as applicable)	<ul style="list-style-type: none"> ▪ Beginning and ending balances of TOL, FNP, and NOL ▪ OPEB expense and expenditures ▪ Disclosure of special funding situations
Dates and roll forward details	<ul style="list-style-type: none"> ▪ Valuation and measurement dates, and any update procedures used
Other items	<ul style="list-style-type: none"> ▪ Changes in assumptions and benefit terms ▪ Determination basis of proportionate share and changes in the employer's or NCE's portion ▪ Significant events affecting NOL or TOL ▪ OPEB expense recognized for the period ▪ Balances of deferred outflows and inflows of resources related to OPEB, including a five-year schedule of net amounts to be recognized ▪ Insurance purchases and support by NCEs, if any ▪ Experience studies

For governments and component units participating in the same OPEB plan that is administered through a trust, the financial reporting entity⁶ should report as a single employer and the component units should report as cost-sharing employers in their stand-alone reports. If the OPEB plan is not administered through a trust, the financial reporting entity will report according to Paragraphs 162-171 of Statement 75, and the component units will apply Paragraphs 172-192 of Statement 75 in their stand-alone statements.⁷

Required Supplementary Information

The Required Supplementary Information (RSI) is now to include several 10-year schedules. These schedules are summaries of the main figures from the Notes to Financial Statements, intended to provide historical context. It is not generally necessary to provide historical information for periods prior to implementation.

In general, the following items are needed, depending on sponsoring entity and whether the OPEB plan is administered through a trust. Not all requirements apply to all entities and there may be additional requirements depending on sponsor type.

- Expense components, including beginning and ending balances of TOL, FNP, and NOL
- TOL, FNP, and NOL, the FNP as a percentage of TOL, and covered-employee payroll, including the NOL (or TOL) as a percentage of covered-employee payroll (can be combined with the historical expense schedule if desired)
- Either the actuarially determined contribution (ADC) or the statutory/contractual contribution requirement, as well as the contributions actually recognized and a comparison to covered-employee payroll
- Collective amounts, proportions, and proportionate share information as applicable for the above schedules

⁶ Financial reporting entities are described in detail in Statement 14.

⁷ Specified in Statement 75, Paragraph 143.

The employer’s payroll

Payroll information shown in the RSI can be either “covered payroll,” when contributions are based on a measure of pay, or “covered-employee payroll,” when contributions are not based on a measure of pay. *Covered-employee payroll* is the payroll of employees that are provided with OPEB through the OPEB plan.⁸

Notes to Required Schedules

The notes to the required schedules are generally to present items such as:

- Significant methods and assumptions used in calculating the actuarially determined contributions (if applicable)
- Factors that significantly affect trends in the reported figures
- Investment-related factors, such as investment policy changes, over which the plan or participating entities have influence
- The fact that no assets are accumulated in a trust to pay benefits, if applicable

Don’t restate information about changes from prior reporting periods that caused changes in subsequent periods.

Where to Find More Information

The Statements offer detailed guidelines about required information to be presented in the financial statements, Notes, RSI, and Notes to Required Schedules. To find further guidance about OPEB plan reporting, see Paragraphs 20 through 38 of Statement 74, as applicable. For further guidance about reporting for state and local governments sponsoring OPEB plans, see the following paragraphs in Statement 75:

⁸ See the Glossary in Statement 75.

Statement No. 75

Sponsoring Entity Type(s)	Guidance for Financial Statements	Guidance for Notes/RSI/Notes to Required Schedules	Additional Requirements if in Special Funding Situation
Single or agent employer with trust	46	47 through 58	45
Cost-sharing employer with trust	88	89 through 98	87
Governmental nonemployer contributing entities in special funding situations with trust	126	127 through 135 if recognizing a substantial proportion of collective NOL, and 136-137 if recognizing a less-than-substantial proportion of collective NOL	n/a
All employers without trust	161	162 through 171	160
Stand-alone statements of primary governments and component units providing OPEB through the same DB OPEB plan	184	185 through 192	n/a
Governmental nonemployer contributing entities in special funding situations without trust	212	213 through 219 if recognizing a substantial proportion of collective TOL, and 220-221 if recognizing a less-than-substantial proportion of collective TOL	n/a

In addition, Implementation Guides for Statements 74 and 75 are available at <http://www.gasb.org/home>.

Next Steps

Compliance with the new standards can be complex, but it doesn't have to be difficult. At Milliman, we have the experience and perspective to assist with plans of all sizes. Please visit Milliman's web page for coverage of other GASB 73/74/75 topics and to find more information.

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