

**Introduction to:  
Statement No. 43 of the  
Governmental Accounting Standards Board -  
*Financial Reporting for Postemployment Benefit  
Plans Other Than Pension Plans***



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March 14, 2007***

## ***GASB 43 Supersedes Statement 26 – Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans***

GASB 26 required –

1. statement of postemployment healthcare plan net assets
2. statement of changes in postemployment healthcare plan net assets
3. notes indicating
  - brief description of the eligibility requirements for benefits
  - the required contributions rate(s) of employer(s)

GASB 26 permitted, but did not require, disclosure of actuarial information for the postemployment healthcare plan.



# Effective Dates for GASB 43

## Effective Dates for GASB 43

<u>Annual Revenue*</u>	<u>First Fiscal Year beginning after</u>
Greater than \$100 million	December 15, 2005
Between \$10 million and \$100 million	December 15, 2006
Less than \$10 million	December 15, 2007

\* First fiscal year ending after June 15, 1999.



# Statement No. 45 of the Governmental Accounting Standards Board – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

- This is similar to GASB 43, but provided guidance for Employers rather than for the Benefit Plans
- Effective dates for GASB 45 are generally 12 months after the effective date of GASB 43
- Presentation will focus on GASB 43



# What are Other Postemployment Benefits?

- Healthcare Benefits
  - Medical
  - Dental
  - Vision
  - Hearing
  - Other health-related benefits
  
- Other Benefits (when provided separately from a defined benefit pension plan)
  - Life insurance
  - Disability
  - Long-term care
  - Other benefits, if provided as compensation for employee services rendered that are not provided through a pension plan

These benefits are commonly referred to as OPEB –  
**Other Postemployment Benefits**



## What are the Major new requirements?

The main new requirement is that the Plan must report the ***Actuarial Cost and Liabilities*** of the ***Substantive OPEB Plan***.

***Actuarial Cost and Liabilities*** based on the same actuarial cost methods allowed for pension benefits.



# What are the Major new requirements?

**Substantive OPEB Plan** refers to the terms of the plan as understood by the employer(s) and plan members. Changes in the plan terms should be reflected when they have been made and communicated to employees. The Substantive OPEB Plan may reflect the written plan document, but may also differ from that document to reflect:

- other communications between the plan's trustees and administrators, employer(s), and plan members; and,
- pattern of allocating benefit costs between the employer and plan members.

Professional judgment is required to determine the Substantive OPEB Plan.



# Why the change?

The nature of OPEB is similar to the nature of pensions.

Employees earn OPEB as compensation for their service.

Good accounting matches

- services
- cost of services





# Does this mean OPEB must be funded on an actuarial basis?

No.

**GASB 43** requires that the actuarial costs and liabilities **be reported** in the Plan's financial statements.

**GASB 45** requires that the actuarial requirements **be accounted for and reported in** the Employer's financial statements, unless the employer participates in a cost-sharing multiple-employer plan. In the latter case, employers recognize annual OPEB expense for their contractually required contributions to the plan



## Does this mean OPEB must be funded on an actuarial basis?

**Neither GASB 43 nor GASB 45 requires the OPEB to be funded** on an actuarial basis. But to the extent the OPEB is funded, the actuarial assumption regarding investment returns should reflect the expected investment return on the OPEB assets rather than the expected investment return on employer assets. This can have a significant effect on the magnitude of the actuarial costs and liabilities.



## Additional measurement issues relating to OPEB

- Forecast growth in cost of medical benefits many years into the future
  - Medical costs have been growing much faster than general inflation for decades
- Cost of medical benefits much higher before Medicare eligibility than after
  - Cost of OPEB for early retirees very significant
  - Disproportionate affect on public safety groups
- Substantive Plan may differ from written plan provisions
  - In Ohio, OPEB benefits are discretionary; not required by statute



# Actuarial OPEB Costs relative to Pension Costs

- ***GASB Pension Costs*** are typically close, or equal, to employer contributions, while ***GASB OPEB Costs*** are typically much higher than employer contributions
- Amortization component of costs may be higher for ***OPEB*** than ***Pensions*** since OPEB has typically not been actuarially funded in the past



# Factors Affecting Affordability of Postemployment Benefits Other Than Pensions

- Contributions are typically a percentage of payroll
  - Average salary in 2005: SERS = \$19,963; STRS = \$49,562
- Number of active members per retiree
  - PERS = 2.35; OP&F = 1.15
- Retirement Eligibility – Unreduced Pension
  - PERS = 30 years; OP&F = 25 years & age 48
- Health Insurance cost prior to Medicare
  - May be 2X to 4X cost after eligible for Medicare





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