



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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GASB Staff Explains How to Account for Medicare Part D Retiree Drug Subsidy Payments

On June 30 the Governmental Accounting Standards Board (GASB) authorized its staff to issue a new Technical Bulletin (TB), *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*. Under the subsidy option in Medicare Part D, the federal prescription drug benefit program, the federal government makes payments to enrolled employers that provide drug benefits to persons who would otherwise be eligible to enroll in Medicare Part D. The TB provides guidance to governments and other postemployment benefit (OPEB) plans regarding how to account for and report these retiree drug subsidy payments, which can be as much as 28 percent of the cost of providing prescription drug coverage.

What Does the TB Say?

The TB describes how to deal with payments made either to a government or directly to an OPEB plan. Payments made to a government should be reported by the government as revenue, rather than being netted against the government's prescription drug coverage costs.

If the subsidy payment is made to an OPEB plan, the plan should report the payment separately from the contributions it receives from the government. The government should treat the subsidy as an *on-behalf payment for fringe benefits*, according to GASB Statement 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. On-behalf payments are made by a government *on behalf* of another government or a nongovernmental organization for such things as salaries and fringe benefits of the other government's or organization's employees.

As with subsidy payments made to a government, when the payments are made to an OPEB plan on behalf of a government, the government's costs would be fully reported on the accrual basis of accounting and not reduced by the federal subsidy that is expected to be received in the future when payments are actually made for drug coverage. The government also would disclose in the notes to its financial statements the amount of the subsidy payment made to the OPEB plan on its behalf.

What Impact Does the TB Have on OPEB Calculations?

State and local governments are currently preparing to implement GASB Statements 43 and 45, which require them to report the costs and long-term obligations related to benefits they provide to retirees in addition to pensions. OPEB is mainly health insurance coverage and other health-related benefits, such as prescription drug plans.

The TB clarifies that the accounting and reporting for OPEB is not affected by the Medicare Part D payment. In other words, the calculation of the long-term obligation related to OPEB, the annual OPEB cost, and a government's annual required contribution for OPEB, would not be reduced by the federal payments that are expected in the future.

When Does the TB Take Effect?

The guidance in the TB is effective immediately. However, the portion specifically related to OPEB would be implemented simultaneously with the OPEB standards.

How Can the TB Be Obtained?

The TB can be purchased through the GASB's on-line store (<http://gasbpubs.stores.yahoo.net>) or by calling 800-748-0659.