OPEB COMMUNICATION RESOURCES

The mission of the Governmental Accounting Standards Board (GASB) is to establish and improve accounting and financial reporting standards to provide useful information to investors and other users of financial reports and educate stakeholders on how to most effectively understand and implement those standards.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* in June 2015 as part of its comprehensive review of accounting and financial reporting for postemployment benefits. Statement 75 addresses accounting and financial reporting for postemployment benefits other than pensions (*other postemployment benefits* or *OPEB*) and supersedes Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which governments previously applied to account for OPEB. The new OPEB standards parallel the pension standards issued in 2012, which, together, provide consistent and comprehensive guidance for all postemployment benefits. Statement 75 is effective for periods beginning after June 15, 2017.

The following materials are offered to stakeholders to use in communicating the financial statement effects of the new OPEB standards. The materials primarily focus on major changes from prior accounting standards and the new information that will be provided as a result of the new requirements.

These materials have no standing in the formal hierarchy of generally accepted accounting principles and do not modify or interpret any authoritative pronouncements.

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Did Implementing the OPEB Accounting Standards Create the Liability?

A government's liability for postemployment benefits other than pensions (referred to as *other postemployment benefits* or *OPEB*) is the result of a formal or informal agreement to provide OPEB—for example, retiree healthcare benefits—to its employees, not the result of implementing accounting standards.

Key Points

- Many governments that provide OPEB to their employees have been doing so for many years.
  - An agreement by the employer to provide OPEB to its employees when they retire gives rise to an accounting liability during the periods that the employee provides services to the government.
- New accounting standards require the OPEB liability to be reported in the financial statements.
  - The new standards did not create this OPEB liability; they improved the approach to measuring the liability that is reported in the financial statements.

Q&As

Q: ***Where did the OPEB liability come from?***

A: An accounting liability is an obligation for a government to make a payment (or to give up resources in some manner) in the future as a result of a past event. Governments have OPEB liabilities because they provide OPEB to their employees in the future when those employees retire. Providing OPEB is a part of employee compensation (in addition to a salary and benefits) and constitutes an obligation that will be reported as a liability under the new accounting standards to the extent that OPEB plan assets are not sufficient. In most cases, the obligation to provide OPEB has existed for decades, predating not only the new accounting standards but also the standards they are replacing.

Q: ***Why does the government report an OPEB liability if the government has the ability to modify the benefits it provides at any time?***

A: OPEB is a part of the compensation that employees earn each year, even though those benefits are not received until after employment has ended. OPEB may not have the same legal standing as pensions in some jurisdictions, and, therefore, the government may be able to change or eliminate the benefits when it chooses. However, the obligation to provide OPEB existed as of the date of the financial statements and gives rise to an accounting liability in those statements.

Q: ***What is an implicit rate subsidy and how is it related to a government's OPEB liability?***

A: Generally, the inclusion of retirees in the same pool as active employees for purposes of determining a single health insurance premium rate that applies to all who receive healthcare through the pool (a "blended premium rate") results in a higher premium rate for active employees than would be charged if the premium rate was based on the expected healthcare costs of the active employees alone. (That increase generally is a result of the relationship between healthcare claims costs and age—that is, healthcare claims costs generally increase with age.) The amount by which the premium is higher is sometimes referred to as the implicit rate subsidy and is part of the cost of providing retiree healthcare benefits. Therefore, if a government pays any portion of the blended premium rate for active employees or retirees, it generally would have an OPEB liability to report.

Q: ***What is the relationship between accounting standards for OPEB and a government's liability for OPEB?***

A: The accounting standards specify how a government should measure its liability for OPEB and how that liability should be reported in the government's financial statements. The standards do not tell governments what types of benefits to provide, who should receive the benefits, or how to finance those benefits. The authority to establish, modify, and finance OPEB is a policy matter decided upon by individual governments.

Q: ***Why did the accounting standards change?***

A: The GASB periodically reassesses its previously issued standards. Since the issuance of the prior standards that addressed OPEB, the GASB established a comprehensive definition of what constitutes a liability. The liability that previously was reported in financial statements for OPEB obligations was based on shortfalls between a government's annual contribution target (the annual required contribution) and the contributions it actually made. However, that measure of an obligation did not fully represent the OPEB liability. Likewise, annual contribution targets do not always fully represent OPEB expense for the reporting period.

Moreover, the GASB concluded that it is not within the scope of its activities to set standards that appear to establish a specific method of funding OPEB (that being a policy decision for government officials or other responsible authorities to make) or to regulate a government's compliance with its financing policy or requirements.

Q: ***What are the benefits of an accounting-based approach for reporting OPEB activities?***

A: One of the primary benefits of an accounting-based approach is that it reports (1) a liability for the amount of OPEB that has yet to be financed as of a specific point in time and (2) the OPEB expense that was incurred during the reporting period. The use of an accounting-based approach also enhances comparability between governments because all governments will use the same measurement methods. A funding-based approach generally cannot produce comparable measures of the OPEB liability and OPEB expense because the methods used to determine how much to contribute to an OPEB plan each year may differ substantially from government to government.

Q: ***What are the accounting numbers intended to convey?***

A: The accounting numbers convey the amount of compensation related to healthcare and other non-pension benefits (OPEB) that is expected to be paid to employees after they retire. The amounts reported as liabilities represent the benefits that current and former employees have earned and, therefore, that the government has a present obligation to pay in the future. The *total OPEB liability* represents the government's agreement to provide benefits for the work already performed by employees. When the total OPEB liability exceeds the OPEB plan's net position (formerly referred to as plan net assets) available for paying benefits, there is a *net OPEB liability*. Governments now will be required to report either a total or net OPEB liability in their financial statements.

Measuring and reporting the OPEB liability in the same way that pension liabilities are reported enhances comparability and consistency for postemployment benefits as a whole. In addition, reporting the OPEB liability alongside other liabilities, such as outstanding bonds, claims and judgments, and leases, is a major step toward getting all significant obligations into the financial statements and more completely depicting a government's financial status.

OPEB expense reported in the financial statements also is more closely linked with the periods during which OPEB actually is earned—that is, as employees work for the government.

The accounting numbers are supported by note disclosures and 10-year trend information. Financial statement users will have access to significantly enhanced information about how governments measure their OPEB liabilities and OPEB expense. The information required to be disclosed under the new accounting standards will enable users to determine what has caused increases and decreases in the OPEB liability during the past year.

The 10-year trend information will help users to understand not just where a government stands now with respect to its OPEB obligations, but how it got there. That historical perspective is an important aspect of evaluating government finances.

Why Did the Size of the Government's OPEB Liability Change?

New accounting standards change how the OPEB liability is measured, which, in some cases, might result in the OPEB liabilities recognized on the face of financial statements being significantly larger than they were under the previous standards.

Key Points

- New accounting standards include changes in the methods that governments may use to measure their liability for OPEB.
    - Depending on a government's particular circumstances, these changes might result in a measure of the OPEB liability that is significantly larger than the liability it previously recognized on the face of financial statements and a measure of the OPEB liability that is different than the liability it previously reported in notes to financial statements.
- The new standards change the allowable methods for measuring the OPEB liability in order to improve the comparability of OPEB liability information across governments.
- The new standards *do not* change the amount governments will have to contribute to their OPEB plans or the amount needed to pay for the benefits as they come due (on a "pay-as-you-go" basis).

Q&As

Q: ***How is measurement of OPEB liabilities changing?***

A: Governments will report a new measure as a liability on the face of their financial statements—the *total OPEB liability* or the *net OPEB liability,* depending on whether the OPEB plan is administered through a trust that meets specified criteria.[1] Under the previous standards, some governments reported an OPEB-related liability on the face of the financial statements called a *net OPEB obligation*, which represented the cumulative amount by which a government's contributions to its OPEB plan fell short of the annual required contribution (ARC) targets during the period since the government implemented the previous standards. Some governments also reported the unfunded actuarial accrued liability (UAAL) in the notes to financial statements. The UAAL represented the portion of a government's obligation for OPEB that is not covered by assets contributed to and invested by an OPEB plan. Similar to the UAAL, the new measure (the net or total OPEB liability) also represents a measure of the total cost of future OPEB payments already earned, stated in current dollars, that is not covered by assets (if any) in an OPEB plan that is administered through a trust that meets the specified criteria. However, the new accounting standards have changed how the total cost of OPEB and the value of plan assets are measured. As a result, the new measure might be notably larger or smaller than the measure that was previously reported as the UAAL. However, in some cases, the amount reported on the face of the financial statements is expected to increase.

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[1] The OPEB standards establish the following criteria, hereafter referred to as *the specified criteria:*

a. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
b. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
c. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets are also legally protected from creditors of the plan members.

	Prior Accounting Standards (Statement 45)	New Accounting Standards (Statement 75)
Face of Financial Statements	Net OPEB obligation	Net or total OPEB liability
Notes to Financial Statements	Information about the UAAL	Information about the net or total OPEB liability

Q: ***What are the components of the OPEB liability?***

A: The net OPEB liability equals the total OPEB liability (a measure of the total cost of future OPEB payments already earned, stated in current dollars) minus the net position of the OPEB plan that is administered through a trust that meets the specified criteria (the value of the assets in that OPEB plan that can be used to make benefit payments).

If the OPEB plan is not administered through a trust that meets the specified criteria, the total OPEB liability is recognized.

Q: ***What changes in the accounting standards may increase or decrease the size of the total OPEB liability?***

A: The total OPEB liability may be larger or smaller than the old measure (the actuarial accrued liability or AAL) if the total cost of future benefit payments already earned increases or decreases as a result of measuring those payments in accordance with the new standards.

In simple terms, the measurement of the total OPEB liability involves three steps:

1. Project future benefit payments based on the terms of the substantive OPEB plan.
2. Discount those projected benefit payments to their value today (their present value).
3. Attribute that present value to periods of past service and future service by employees.

The portion of the present value of projected benefit payments that is attributed to past service by employees represents the total OPEB liability.

The following are the changes in how the total OPEB liability is measured that most likely would increase or decrease the size of the OPEB liability that a government reports (if applicable to the government):

Projecting future benefit payments

- The accounting standards always have relied on Actuarial Standards of Practice for certain aspects of the measurement of the total OPEB liability, including the notion that the projection of benefit payments (step 1) should be based on claims costs, or age-adjusted premiums approximating claims costs.

- As a result of revisions to Actuarial Standards of Practice (specifically, ASOP No. 6, *Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions)*, certain OPEB plans that previously were considered “community-rated” and, thus, were not required to use age-adjusted premiums, may now be required to use age-adjusted premiums in the projection of benefit payments.
- Governments that previously reported no OPEB-related liability may recognize a liability as a result of the *implicit rate subsidy*, which is the total amount by which the premiums are higher for active employees when they are pooled with inactive employees than when the active employees are separately rated.

Discounting projected benefit payments to their present value

- Discounting projected benefit payments to their present value (step 2) is based upon an assumed *discount rate.* All things being equal, a smaller discount rate produces a larger present value (and, thus, a larger liability).
- The discount rate for OPEB has, in the past, been based on the long-term expected rate of return on the investments that are expected to be used to pay benefits as they come due. The investments were either plan investments for a funded plan, the employer’s investments for a “pay-as-you-go” plan, or a weighted average of expected plan and employer investments for a plan that is partially funded.
- Under the new accounting standards, if the OPEB is provided through a plan that is not administered through a trust that meets the specified criteria, projected benefit payments will be discounted using a 20-year, tax-exempt general obligation municipal bond rate with an average rating of AA/Aa or higher. If the OPEB is provided through a plan that is administered through a trust that meets the specified criteria, the long-term expected rate of return on OPEB plan investments will be used as the discount rate if assets in the plan that are associated with the liability for current members of the plan are projected (1) to generate that long-term rate of return and (2) to be sufficient to make the projected benefit payments. However, if it is expected that, at a point in the future, those two requirements will no longer be met, a government will incorporate a municipal bond rate into the discount rate. The accounting standards establish a framework for making the evaluation of whether the assets in the plan are projected to be sufficient.

Attribution of present value to past and future periods

- Under the previous accounting standards, governments could choose from six actuarial methods of attributing the present value of projected benefit payments (step 3). The new standards allow only one method of attribution, referred to as *entry age.*
- For governments previously using a method other than entry age, the switch to the new method will change the portion of the present value that is attributed to past periods of employee service. That means that the total OPEB liability will increase or decrease.

The direction and magnitude of any change in the OPEB liability will depend on the specific facts and circumstances of each government.

Q: ***How may other changes in the accounting standards affect the size of the OPEB liability that is reported?***

A: If the OPEB is administered through a trust that meets the specified criteria, changes in how the value of OPEB plan assets is measured will affect the size of the reported OPEB liability. Whether these changes make the net OPEB liability larger or smaller compared with the previously reported OPEB liability (the UAAL) will depend on the particular circumstances of the government in question.

- Under the old accounting standards, to calculate the UAAL, the value of OPEB plan assets often was measured as a *smoothed* value of assets. In other words, when the value of the plan's investments increases or decreases each year, the full amount of the change is introduced into the value of assets gradually over several years (most often, three to five years), rather than immediately.
- Under the new accounting standards, smoothing of asset values has been eliminated. Instead, the net OPEB liability equals the total OPEB liability minus the value of the assets in the OPEB plan that is administered through a trust that meets the specified criteria. The total OPEB liability and the OPEB plan's net position are measured as of the same date.

Q: ***If the government's OPEB liability changes, does that mean governments will need to contribute more or less for OPEB?***

A: The new standards establish how governments should account for and report OPEB but do not address how much governments need to contribute to their OPEB plan or how much they would need to finance their OPEB on a pay-as-you-go basis. Those are policy matters of governments and other relevant parties.

Will Governments in Cost-Sharing OPEB Plans Report OPEB Liabilities?

A government participating in a cost-sharing multiple-employer OPEB plan will recognize its proportionate share of the OPEB liability for the first time under the new accounting standards.

Key Points

- Because the contributions of all of the participating governments in cost-sharing OPEB plans are pooled, the liability for OPEB is measured for all governments combined. Under the previous standards, the portion of the liability not covered by assets in the OPEB plan trust was not divided among the governments for financial reporting purposes. Consequently, these governments generally did not report an OPEB liability in either their audited financial statements or notes, even though they have an obligation to provide OPEB to their employees.
- The new accounting standards require governments to calculate their proportion of the collective net OPEB liability for all governments in the plan. A government in a cost-sharing plan is required to report its portion of the net OPEB liability (the collective net liability multiplied by the government's proportion) in its financial statements, along with other liabilities such as outstanding bonds.

Q&As

Q: ***What is a cost-sharing multiple-employer OPEB plan?***

A: In a cost-sharing multiple-employer OPEB plan, the contributions of multiple governments and their employees are combined in a trust that meets the specified criteria. The OPEB of the retirees of all participating governments is paid out of this common pool of assets.

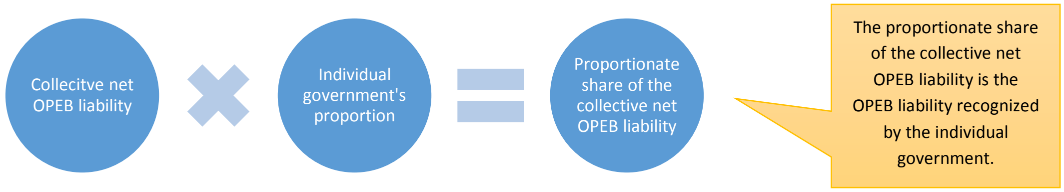
Q: ***Do governments in cost-sharing OPEB plans really have a liability for OPEB?***

A: For accounting purposes, a government's obligation to make contributions going forward to ensure that sufficient resources are available to make OPEB payments constitutes a liability. There are at least two reasons why it previously may not have been apparent to some governments that they had an OPEB obligation that constituted a liability.

- These governments' contributions to their cost-sharing plan typically are determined by a contract with the plan or by statute; some governments might have believed that their obligation for OPEB from an accounting and financial reporting standpoint extended no further than their contractual or statutory requirement to make their contribution.
- Whereas some governments voluntarily choose to provide OPEB through a cost-sharing OPEB plan, other governments are required to do so. In either case, governments have an obligation for the benefits provided to their employees.

Q: ***What do the new accounting standards require for cost-sharing employers?***

A: Governments whose employees are provided with OPEB are required to report a *net OPEB liability* in their financial statements, along with other liabilities such as outstanding bonds. The collective net OPEB liability equals the total OPEB liability (a measure of the total cost of future OPEB payments already earned by all employees in the plan, stated in current dollars) minus the net position of the OPEB plan that is administered through a trust that meets the specified criteria (the value of the assets in that OPEB plan that can be used to make benefit payments). The collective net OPEB liability is measured for all governments in the plan combined; therefore, participating governments are required to report their proportionate share of the collective net OPEB liability in their own financial statements. Doing so requires the governments to determine their individual proportions of the collective OPEB liability. A government's proportionate share of the net OPEB liability would equal its proportion multiplied by the collective net OPEB liability.



Q: ***How is the government's proportion determined?***

A: The new accounting standards encourage that the proportion be calculated as follows: (1) a government's projected long-term contributions to the plan (including those for "implicit rate subsidies") divided by (2) the projected long-term contributions to the plan by all governments (and other entities on behalf of those governments). However, the calculation of a government's individual proportion may be based on other factors that are relevant to how contributions to the plan are determined. For instance, a government's percentage might be determined by dividing (a) the government's contributions in the period prior to the date the net OPEB liability is measured by (b) the contributions of all participating governments during that period.

Q: ***Why are governments in cost-sharing plans required to report their OPEB liabilities?***

A: Taxpayer associations, municipal bond analysts, and others who use audited financial reports need information about government OPEB obligations to make decisions and to assess government accountability. Most notably, users of government financial reports want to know the size of a government's OPEB liability and the degree to which the liability is covered by assets set aside in an OPEB plan that is administered through a trust that meets the specified criteria. Those financial report users need this information regardless of what type of OPEB plan a government participates in. The new OPEB standards require all governments to report their OPEB liabilities regardless of the type of OPEB plan they have.

How Will the New Accounting Standards Change the Way Governments Calculate OPEB Expense?

Governments are implementing new accounting standards that require the annual OPEB expense to be measured differently than in the past.

Key Points

- The prior accounting standards for OPEB were based on the accounting standards for pensions in effect at that time, which were closely linked with the approach governments typically take to financing pensions. That approach recognized certain parts of the costs of postemployment benefits over many years.
- The new accounting standards are no longer based on a financing approach for postemployment benefits and, consequently, governments will immediately report expense for many of the events that affect the OPEB liability. The effects of other events (for example, actual results differing from assumptions) will be recognized in expense over significantly fewer years than in the past.

Q&As

Q: ***How was the annual OPEB expense measured under the prior accounting standards?***

A: The amount reported as the annual OPEB expense under the old accounting standards was based on a measure called the *annual required contribution* (ARC). The ARC had two components. One component—normal or service cost—essentially represented the cost of benefits newly earned by a government's employees during the year. The other component was a portion of the government's unfunded OPEB liability—the amount of its total OPEB obligation that was not covered by assets set aside in an OPEB trust fund. The unfunded liability generally could be introduced into expense over a period of up to 30 years.

Q: ***How do the new accounting standards measure annual OPEB expense?***

A: The new standards base annual OPEB expense on the amount by which the reported OPEB liability increased or decreased during the year. The OPEB liability changes from year to year as a result of factors that cause either the total OPEB liability or the value of plan assets, if any, to increase or decrease. The amount by which those factors cause the OPEB liability to increase or decrease generally is reported as OPEB expense in the year in which the changes occur, although certain amounts are accounted for differently.

Q: ***What types of changes in the OPEB liability are reported in OPEB expense in the period in which they occur?***

A: Most types of increases or decreases in the OPEB liability are recognized in OPEB expense in the period in which they occur. These include the following:

- Benefits earned each year (referred to as *service cost*)
- Interest on the total OPEB liability
- The effect of changes in the benefit terms
- Projected earnings on plan investments, if the OPEB is provided through a plan that is administered through a trust that meets the specified criteria

- Changes in plan net position from events other than contributions and investment earnings, if the OPEB is provided through a plan that is administered through a trust that meets the specified criteria.

Q: ***What types of changes in the OPEB liability are not reported in OPEB expense in the period in which they occur? When are those effects reported in expense?***

A: Increases or decreases in the OPEB liability resulting from certain types of events are introduced into annual OPEB expense over a period of several years. Of these, the following are introduced into annual OPEB expense over the average remaining years of service of all members of the OPEB plan (both current and former employees):

- Changes in the assumptions or other inputs the government uses when measuring its total OPEB liability—for instance, if a government increases its assumption about how long employees live after retirement, the likely result would be an increase in the total OPEB liability (because retirees are living longer and, therefore, receive OPEB for a longer period) or, if the discount rate decreases, the result would be an increase in total OPEB liability
- Differences between (1) the assumptions the government made about demographic and economic factors when measuring its total OPEB liability and (2) what those factors actually turned out to be (often called *experience gains and losses*)—for instance, if actual claims costs were lower than projected claims costs, the effect would be a reduction from what the total OPEB liability was expected to be
- The effects of other changes (1) associated with an individual government that provides benefits through a cost-sharing plan or (2) in circumstances in which the primary government and its component units provide OPEB through the same single-employer or individual agent plan.

If the OPEB is provided through a plan that is administered through a trust that meets the specified criteria, increases or decreases in the OPEB liability resulting from the following type of event are introduced into annual OPEB expense over a five-year period (an approximation of a typical market cycle):

- Differences between (1) what a government assumed would be the income from OPEB plan investments and (2) the actual investment income—for example, if the actual investment income in a particular year was less than expected, the result would be a lower value of plan assets, and a higher net OPEB liability, than was expected.

Q: ***How are the types of changes in the OPEB liability that are discussed in the preceding question and answer introduced into OPEB expense over multiple years?***

A: The amounts of increases and decreases in the OPEB liability resulting from those types of events are required to be introduced into OPEB expense in a "systematic and rational manner." This introduction into OPEB expense happens as follows:

- One part of the amount of the increase or decrease in the OPEB liability is included in OPEB expense in the first year.
- The remainder of the increase or decrease in the OPEB liability is reported in a government's statement of net position as a deferred outflow of resources (for an increase in the OPEB liability) or a deferred inflow of resources (for a decrease in the OPEB liability).

In the next year, another portion of the increase or decrease in the OPEB liability of the prior year is included in OPEB expense and the deferral is reduced by the same amount. This continues until the entire amount has been included in OPEB expense (either the last year of the average remaining years of employee service or the fifth year, as applicable).

Q: ***What is a deferred outflow of resources or a deferred inflow of resources?***

A: Most inflows of resources and outflows of resources—such as the receipt of property tax payments or the payment of salaries to employees—are reported as revenues or expenses in the year in which they happen. However, certain inflows and outflows of resources that occur in a given year actually are related to future years. Thus, they are reported as deferred inflows of resources or deferred outflows of resources in the financial statements until the future year to which they are related, at which time revenues and expenses are reported. Because postemployment benefits are generally associated with the full length of an employee's career, certain changes in the total OPEB liability are applicable to future reporting periods. Those changes are the effects of changes of assumptions or experience gains and losses and are applicable to a future reporting period. Both types of changes are reported as a deferred outflow of resources or deferred inflow of resources and are recognized in expense over the average of the expected remaining service lives of all employees provided with benefits through the plan. Similarly, the portion of changes in the OPEB plan's net position, if any, that represents the difference between the expected return on OPEB plan investments and the actual return on those investments is incorporated into OPEB expense over a closed, five-year period, which reflects the long-term earnings horizon with which OPEB investments are made and provides an opportunity for short-term fluctuations to be offset over a typical market cycle.

Q: ***If the OPEB is provided through a plan that is administered through a trust that meets the specified criteria, how do a government's contributions to an OPEB plan affect OPEB expense?***

A: Contributions made by a government to the OPEB plan reduce the net OPEB liability. However, they do not affect the annual OPEB expense reported by the government.

Q: ***If the OPEB is provided through a plan that is <u>not</u> administered through a trust that meets the specified criteria, how do a government's benefit payments affect OPEB expense?***

A: Benefit payments made by a government reduce the total OPEB liability. However, they do not affect the annual OPEB expense reported by the government.

What Information Will Be Included in Notes and Required Supplementary Information (RSI)?

Expanded note disclosures and required supplementary information (RSI) will provide a more comprehensive picture of OPEB liabilities and OPEB expenses.

Key Points

- The expanded information required by the new accounting standards will provide more comprehensive reporting of a government's OPEB liabilities and expenses and enhance the comparability of OPEB information.
- Expanded RSI schedules will provide information about changes in the OPEB liability (ultimately over a 10-year period) that can be used to analyze trends in the liability.
- Governments that contribute to an OPEB plan that is administered through a trust that meets the specified criteria based on an actuarial valuation or based on statutory or contractual requirements will present schedules in RSI that will demonstrate the degree to which those contribution targets have been met over the past 10 years.

Q&As

Q: ***How will the new standards enhance the usefulness of the information presented in notes to financial statements?***

A: Under the new standards, governments—and cost-sharing governments in particular—will provide more comprehensive information about their OPEB in notes to financial statements.

Information that will be required of all governments participating in defined benefit OPEB plans includes:

- Descriptions of the plan and benefits provided, including changes in the benefits
- Significant assumptions employed in the measurement of the OPEB liability, including information about the discount rate and projected growth in healthcare costs (the healthcare cost trend rate)
- Balances of the OPEB liability and OPEB-related deferred outflows of resources and deferred inflows of resources
- An analysis of the OPEB liability's sensitivity to changes in the discount rate and, if applicable, the healthcare cost trend rate
- Descriptions of changes in the assumptions used when measuring the OPEB liability.

Governments in single-employer or agent OPEB plans also will be required to include information about changes in the components of the government's OPEB liability—the total OPEB liability and the OPEB plan's net position, if any. This information will explain the degree to which changes are due to, for example, changes in benefits or investment earnings.

Some of this information had been required in the past, but the new standards provide greater specificity with respect to what information should be presented.

Q: ***How will the new standards enhance the usefulness of trend information about the OPEB liability?***

A: The new standards expand the number of years of historical information that will be provided about OPEB, as well as the types of information that will be presented about the liability. Under the prior standards, information was provided covering only three data points (covering a three-year to nine-year period, depending on the frequency of actuarial valuations). Under the new standards, governments will include RSI schedules, some of which will be built prospectively until 10 years of historical information is presented. Additional years of information will provide a greater historical context for the reported OPEB information and facilitate trend analysis.

Governments in single-employer or agent OPEB plans will be required to present schedules containing information about the OPEB liability, including changes in the components of the government's OPEB liability (the same information that is required to be presented for the current year in the notes) and important ratios. These ratios indicate the magnitude of the OPEB liability and, if the OPEB is administered through a trust that meets the specified criteria, the degree to which the OPEB plan's net position covers the total OPEB liability.

Governments in cost-sharing plans will be required to include schedules with information about the OPEB liability that they report and relevant ratios.

Governments will be required to include notes to the schedules that provide information about factors that significantly affect trends in the schedules.

Q: ***Will users of financial reports still be able to obtain information about plan funding?***

A: Governments that contribute to an OPEB plan that is administered through a trust that meets the specified criteria based on (1) an actuarial valuation or (2) statutory or contractual requirements will be required to present a 10-year schedule that compares the contribution target to the amount actually contributed by the government, as well as other supporting information. Governments also will be required to disclose information about their funding policy in notes to their financial statements, including the basis for determining contributions and the contribution rate of the employer and other entities.

Q: ***How will the new standards affect the RSI that governments were required to report in the past?***

A: The new standards greatly expand the amount of information that governments will be required to present in RSI. However, the new standards also change the way governments calculate their OPEB liabilities for financial reporting purposes. As a result, some of the new OPEB information governments will be required to present in RSI will not be consistent with the information that they had presented in the past. To prevent a government's RSI schedules from containing information that may not be comparable, governments generally will include only information that is calculated in accordance with the new standards. Thus, in the year of implementation, governments generally would not present historical information in RSI schedules about the OPEB liabilities that they had reported in the years preceding implementation. Instead, governments will develop the new RSI schedules on a prospective basis. They should, however, be able to present information for prior years in the schedule comparing contribution targets with actual contributions, in circumstances in which that schedule is required.

Has the Annual Required Contribution (ARC) Disappeared?

New accounting standards no longer establish parameters for calculation of an annual required contribution (ARC). However, a government that previously reported an ARC generally will report information about their contributions in required supplementary information (RSI) if the OPEB is provided through a plan that is administered through a trust that meets the specified criteria and the government calculates an actuarially determined contribution (ADC) or its contributions are statutorily or contractually required.

Key Points

- The focus of financial reporting will now be on the OPEB liability and OPEB expense, as these amounts provide additional information that is more consistent with accounting and financial reporting principles and more comparable across governments.
- OPEB accounting is no longer based on the ARC, but some governments will continue to present information about contribution measures.

Q&As

Q: ***What happened to the ARC?***

A: Reporting the OPEB liability and expense based on the ARC has been discontinued for financial reporting purposes, and the new accounting standards do not establish parameters for the calculation of an ARC. The amounts presented about OPEB in a government's financial statements come from an accounting-based approach, rather than a funding-based approach. If the government provides OPEB through a plan that is administered through a trust that meets the specified criteria, information about the extent to which a government is keeping up with either an ADC (which is calculated based on a methodology selected by the government rather than GASB-established parameters, as was required for the ARC) or a statutorily or contractually required contribution is provided as RSI.

Q: ***Why not continue to require governments to provide information on the ARC?***

A: The GASB determined that the ARC does not always appropriately reflect the OPEB expense for the reporting period. The ARC-based approach also gave some financial statement users the impression that the measures of the ARC were comparable across governments. This was not the case, however, because there was a range of methods that were acceptable for calculating an ARC. For these and other reasons, the new OPEB accounting is not based on the ARC.

The GASB considered but decided not to establish standards that would require governments to report information about the ARC for two primary reasons:

- Continuing to report an ARC would have, in some cases, resulted in three sets of information related to OPEB in the financial report—the accounting-based information; the ADC-, statutory-, or contractual-based information; and the ARC-based information.
- Information about the government's ADC, if calculated, is more relevant to the accounting liability than information about an ARC because an ADC is developed using methods selected by the government and is a measure that informs the government's funding policy. The ARC might or might not reflect that policy. As previously noted, however, the ADC that a government reports in RSI might essentially be its ARC.

How Does the OPEB Liability Affect Net Position?

Changes in the way governments report OPEB liabilities, expenses, and deferrals might have a significant effect on the net position of governments.

Key Points

- Net position is the residual of all other elements presented in a government's statement of financial position for government-wide activities, proprietary funds, and fiduciary funds.
- The net position of a government indicates whether the government currently has sufficient resources to satisfy its liabilities. It does not provide information about the amount of resources available to the government to satisfy its immediate operational needs.
- In the year of implementation, the new OPEB accounting standards may significantly reduce the net position of many governments because the full OPEB liability and related deferrals will be recognized for the first time.

Q&As

Q: ***What is net position and how is it measured?***

A: Net position is the residual of all other elements presented in a government's statement of financial position. It is calculated by subtracting a government's (1) liabilities and deferred inflows of resources from its (2) assets and deferred outflows of resources. Net position is reported in three components:

- Net investment in capital assets (the net book value of a government's capital assets minus the outstanding debt issued to purchase, construct, or renovate them)
- Restricted (limited by external parties to being used for a specific purpose)
- Unrestricted (legally can be used for any purpose, even if some has been earmarked internally by the government for specific purposes).

The increase or decrease in net position from one year to the next equals the net of all inflows and outflows reported in the financial statements for that period. Unrestricted net position might have a positive or negative balance.

Q: ***How will the recognition of the OPEB liability in the year of implementing the new accounting standards affect the net position of a government?***

A: In the first year of implementing the new standards, the net position of many governments likely will decrease because either (1) the OPEB liability is greater than the "net OPEB obligation" that they had reported in the past or (2) they did not report an OPEB liability of any type in their financial statements. In some instances, the OPEB liability will be so large that the combined liabilities and deferred inflows of resources exceed the value of the assets and deferred outflows of resources, resulting in a negative unrestricted net position and possibly a negative total net position.

Q: ***What does a negative balance in net position signify?***

A: A negative balance in net position essentially means that the government does not currently have all of the resources needed to satisfy all of its accrued liabilities.