October 2015
Government Brief
From the **Business, Industry & Government** Team

Impact of Implementing GASB 75 – Part II

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Purpose

The Governmental Accounting Standards Board (GASB), recently issued two standards related to other postemployment benefits (OPEB), Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (OPEB Plan), and Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB Employer). This article presents highlights of the anticipated impact on accounting and financial reporting for state and local government employers relative to the implementation of GASB Statement 75. Information regarding OPEB-related legislation proposed by the New York State Comptroller is also provided.

Implications for New York State

Health Care Benefits in New York State

New York State provides health insurance benefits to its employees and retirees through the New York State Health Insurance Plan (NYSHIP), which is administered by the Department of Civil Service. The benefit design is the result of collective bargaining between the State and the various unions representing its employees and is subject to periodic change. Contribution requirements of NYSHIP members and the State are established by statute and may be amended by the Legislature. As a result, there are options available for addressing the cost of such benefits, including potentially modifying benefit levels or eliminating them for certain employees, or shifting cost shares between employer, employee and/or retiree. Retiree health care benefits are not constitutionally protected against diminution.

Currently, almost all of the State's employees may become eligible for post retirement health insurance benefits if they reach retirement age while working for the State and have at least 10 years of NYSHIP qualifying service. The costs of providing post retirement health care benefits are shared between the State and the retired employee. New York offers a benefit structure with no prefunding, relying on a pay-as-you-go approach, and has not yet established a trust mechanism to begin pre-funding these costs.

Significant Changes

The most significant changes issued by GASB are:

1. **Total unfunded OPEB liabilities would be reported on the face of a government's financial statements.** Currently, total unfunded actuarial accrued liabilities (UAAL) are reported in the footnotes to the statements ($63.4 billion for New York State, excluding State University of New York, as of fiscal year ended 2014-15). Including this long-term liability into the State's Statement of Net Position will create a negative net position, from a once positive net position of nearly $33 billion for State fiscal year 2014-15.

2. **The methodology for valuing OPEB liabilities would be standardized**. These new standards will change the current reported liability amount and could, in some cases, increase OPEB obligations.
3. **The timing of when plan changes would be incorporated into the calculations of OPEB expense would be changed.** Instead of being amortized over a period of up to 30 years, certain changes in OPEB liability would be factored into the calculation of OPEB expense immediately, potentially adding volatility to the reported liability.

Proposed Legislation in New York State

Thomas P. DiNapoli, Comptroller of the State of New York, has proposed legislation to create an optional investment pool to help the state and local governments fund OPEB. Comptroller DiNapoli estimates the total unfunded OPEB liability of New York State to be $78.7 billion, and an additional $69.5 billion for local governments outside of New York City that have reported data to the Comptroller.

When a public employee retires, the individual is often eligible for benefits including pension and health insurance. While pension costs are pre-funded and invested to help pay for these future benefits, most governments, including New York State, do not set aside funds for retiree health insurance and instead fund such costs on a "pay-as-you-go" basis or out of pocket. The funding mechanism Comptroller DiNapoli is proposing would give public employers another option to help fund these benefits.

"New York is behind the eight ball on this issue. More than thirty states have already put rules in place that allow public employers to set aside money today to pay for these benefits," DiNapoli said. "The numbers are daunting, but there is a real cost to doing nothing and leaving the bill for future generations of taxpayers to cover. The legislation would establish the legal structure for creating optional but irrevocable trust funds that the state and local governments could use to start saving the funds needed to pay for these health insurance and other benefits. The responsible, good government thing to do is to start preparing for the future and plugging the hole before we reach a crisis moment."

Although GASB does not require the funding of OPEB liabilities, GASB has indicated that, in order to be considered funded in accordance with GASB, the employer must transfer assets to a "qualifying trust or equivalent arrangement" in which OPEB assets are held in trust for the exclusive benefit of plan members and their beneficiaries in accordance with the terms of the OPEB plan. To the extent allowed by law, OPEB plan assets must be legally protected from creditors of the employer. The construct of the trusts authorized by this bill is intended to be consistent with the "staff guidance" provided by GASB in this regard.

The State Comptroller, as the chief fiscal officer for the State, believes that the fiscally responsible and prudent approach is to start preparing for the future in order to protect these health care benefits for New Yorkers. His legislation would, if enacted, authorize the State and certain local governments to establish OPEB trusts and to establish an OPEB investment fund. In addition, school districts would be allowed to transfer excess reserve balances to an OPEB trust once it is established. These measures would provide a mechanism to accumulate funds for OPEB costs, should the State or local government decide to fund these liabilities.

The State-administered OPEB investment fund would be separate and distinct from the Common Retirement Fund, which was established to hold all plan assets and record changes in the net plan assets allocated to the New York State and Local Retirement System. Assets of the OPEB investment fund would be invested pursuant to prudent person investment guidelines, and investors would be provided with several investment options. Separate accounts would be established for the State and any participating local governments, but amounts would be commingled for investment purposes. Actuarial assumptions and amounts of contributions would be determined by individual participating local governments, and withdrawals would be scheduled by participating local governments. Administrative costs of the investment fund would be charged against the fund and supported by an administrative fee charged to participants.

Contributions into OPEB trusts would be made at the option of the State and local employers and would be irrevocable before all OPEB liabilities have been satisfied; assets of such trusts could be used only for OPEB liabilities and proper expenses of the trust and, to the extent allowed by law, would be protected from the creditors of the sponsoring governments. The trusts may be terminated only when all OPEB liabilities have been satisfied and there is no present or future obligation, contingent or otherwise, to provide OPEB. Under DiNapoli's proposal, there is no limit on how much or how little a government could deposit into the trust. If the State were to begin making regular annual contributions to a trust and earn a return on its investments, it could potentially save billions of dollars in future OPEB cash payments.

Guidance Summary for New York State

Guidance provided by the GASB concerning OPEB is intended to help to improve financial reporting by requiring governments to recognize the entire liability on the face of the financial statements, or the net amount in an OPEB plan's fiduciary net position. The guidance in the standards draws from concepts similar to the guidance provided in the recently issued pension standards. Additionally, use of a single method to allocate the present value over past and future periods of employee service is designed to provide for a more comparable liability calculation from government to government. The expense related to the change in liability for changes in assumptions and differences between assumptions and actual experience will be recognized over the period when employees continue to earn the benefit. This is intended to improve inter-period equity, one of the main objectives of financial reporting. The additional note disclosures and required supplementary information required by the standards may strengthen the usefulness of the financial statements, provide for better decision making and enable the reader to better assess accountability, a cornerstone of financial reporting.

Specific to the State of New York, legislation currently proposed by the State Comptroller would give public employers another option to help fund these benefits for present day employees by providing a mechanism to accumulate and invest funds for OPEB costs, should the State or local government decide to prefund these liabilities.

For more detailed information on the OPEB Standards, please refer to www.gasb.org.

Author's Bio

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Mr. Traylor serves as the New York State Executive Deputy Comptroller for Operations overseeing the state's accounting, payroll, and financial reporting functions. He has helped lead the push for OPEB trust legislation under State Comptroller Thomas P. DiNapoli.

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Mrs. Baker is the Executive Director for the Bureau of Financial Reporting and Oil Spill Remediation in the Office of the State Comptroller. Suzette has implemented the OPEB standards for New York State and has reviewed the new OPEB standards and the impact the standards have on financial reporting for the State of New York.

Maria Elena Moran, CPA, CGFM
Mrs. Moran is an Associate Accountant in the Bureau of Financial Reporting and Oil Spill Remediation in the Office of the State Comptroller. Maria Elena has reviewed the OPEB standards and will assist in implementing the standard for the State of New York.