



State of North Carolina

Department of State Treasurer

RICHARD H. MOORE
TREASURER

*State and Local Government Finance Division
and the Local Government Commission*

T. VANCE HOLLOMAN
DEPUTY TREASURER

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TO: Local Government Officials, School Board Officials and
Certified Public Accountants

FROM: Sharon Edmundson, Director
Fiscal Management Section

SUBJECT: Governmental Accounting Standards Board Statement No. 43 – Financial
Reporting for Post-employment Benefit Plans Other Than Pension Plans
Governmental Accounting Standards Board Statement No. 45 – Accounting
and Financial Reporting by Employers for Post-employment Benefits Other
Than Pensions

The Governmental Accounting Standards Board (GASB) has issued Statements 43 and 45 regarding the accounting and reporting requirements for Other Post-employment Benefits (OPEB). In addition, the impact of these statements will create issues that management must address beyond the basics of accounting and reporting. The purpose of Statement No. 43 is to establish reporting standards for post-employment benefit plans legally established as “irrevocable trusts.” The purpose of Statement No. 45 is to establish the accounting and reporting requirements for an employer’s expenses, and liabilities (assets) related to their post-employment benefit plan(s) regardless of funding. Statement No. 45 addresses defined benefit and defined contribution OPEB plans and, for full accrual purposes, will match the cost of benefits to the time period when the employee’s service is rendered as a form of employee compensation, rather than years later when the benefit is paid, as is done for modified accrual. Statement No. 45 will require the calculation of actuarial liabilities for benefits related to past service and assess to what extent those benefits have been funded. It will help provide information for the assessment of future cash demands.

Statement No. 45 will affect every local government that offers post-employment benefits, including those who provide benefits passively through an “implicit rate subsidy.” An OPEB benefit is being provided to retirees for those units whose retirees pay for their own healthcare when a blended or common premium cost is charged for both current employees and retirees without any cost differentiation for age adjusted premiums. This use of a blended rate between current employees and retirees results in an “implicit rate subsidy” where retiree healthcare is being subsidized by the employer (the local government). Statement No. 45 requires that costs be isolated between current employees and retirees; i.e. the implicit rate subsidy will be a factor in the actuarial valuation. OPEB reporting requirements apply whether the retiree benefit cost is explicitly stated in a defined plan or

implicitly applied by letting retirees participate at group rates in a rate subsidy. Statement No. 43 will only affect those units that have created and are funding an “irrevocable trust” fund for their OPEB benefits. Irrevocable trusts are defined as plans in which a) employer contributions to the plan are irrevocable; b) plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan; and c) plan assets are legally protected from creditors of the employer(s) or the plan administrator. Once assets have been placed in the irrevocable trust fund, they are not available to the local government for any purpose other than the payment of OPEB benefits. Establishment of an irrevocable trust requires legal steps not yet clearly defined. A Board resolution and the creation of a pension trust fund will not be sufficient to protect assets from creditors and meet the requirements of the Statements. A memo addressing the legal requirements for creating an irrevocable trust will be issued in the future.

Definition of OPEB Benefits and Substantive Plan:

Other post-employment benefits are defined as those benefits, paid at retirement, that are not offered through a pension plan and post-employment healthcare regardless of how it is provided. OPEB can include such items as life insurance, disability insurance, and long-term care insurance for retirees and their dependents. If these benefits are provided as part of a local government’s pension plan then they are considered to be pension benefits. If they are provided at retirement separate from the pension plan, then they are OPEB benefits. **Post-employment healthcare**, however, is always classified as a post-employment benefit regardless of whether or not it is included in a pension plan. This includes medical, dental, vision, hearing, and any other health-related benefits. The determination of a unit’s OPEB benefits should be based on the current “substantive plan”, i.e. the plan terms as understood by both the unit and the employees. It should be noted that the unit’s written OPEB plan documents may not adequately convey what has been communicated to employees, especially if the written documents have not be updated. If written plan documents are not current, then the “substantive plan” is used as the basis for the actuarial study. Any future changes to the plan must have been formally approved by the persons or body having the authority to amend benefits and communicated to plan members before the change can be factored into the actuarial study. Units are encouraged to keep their written documents up to date.

Surveys Results on Post-employment Healthcare Benefits:

Statistical data regarding post-employment healthcare has been gathered for counties from a survey by the UNC School of Government (SOG) and for municipalities from a survey performed by the North Carolina League of Municipalities (NCLM). The SOG survey of county governments shows which counties offer benefits over and under age 65 and how many years service are required for 100% coverage of healthcare benefits. Of the counties responding, 86 or 91% of respondents are providing benefits for retirees under age 65; 40 or 43% of respondents provide benefits after age 65. For retirees under age 65, qualification for 100% payment of healthcare benefits occurs in 2 counties with as little as 5 years of service increasing to 41 of the responding counties paying 100% for healthcare at 20 years service. For retirees over age 65, 100% coverage of healthcare occurs at 5 years for 2 counties and at 20 years for 9 counties. (See Exhibit I)

The municipal data from the League’s survey was collected as part of their annual survey of salary and benefit information. The NCLM survey indicates that 170 units or 63% of respondents offer healthcare benefits to retirees under age 65 and that 137 units or 81% of the 170 respondents offering benefits, pay part of the premiums. Another 33 units or 19% of

respondents are offering benefits but not paying part of the premium which implies that perhaps these units are allowing retirees to participate in healthcare at a group rate creating the implied rate subsidy explained previously in this memo. For retirees over age 65, 93 units or 34% of responding municipalities are offering benefits; 63 units or 68% of the 93 respondents offering benefits are paying part of the premiums; and another 30 units or 32% of respondents are offering benefits but not paying part of the premium which implies again that perhaps these units are creating the implied rate subsidy. (See Exhibit II)

Also, there is data summarized from the Local Government Employees' Retirement System (LGERS) providing information on the number of plan members by unit. (See Exhibits IIIa and b) There have been assumptions made regarding the summarization of data as we rolled up information from the LGERS system such that there could be differences between our information and the unit's records regarding number of plan members. If there are questions, Ken Wease of the Fiscal Management staff can provide information regarding how the data was summarized (919-807-2391). Specific questions about plan members for your unit should be addressed to Janice Wilkins of the Retirement Division (919-508-5348). The Exhibits are found in a separate Excel file on the Memo page at our website.

Most Plans are Single Employer Defined Benefit Plans:

Most local government OPEB plans will meet the requirements of a single employer "defined benefit plan" meaning that only that one government is in the plan and that the plan has specified terms regarding the benefits to be provided after separation from employment. This type of plan will be unique for each local government based on factors such as age, years of service, or other factors as defined in their substantive plan. The plan can vary from covering total healthcare cost and/or other types of benefits to a specified cap on the annual or monthly healthcare benefits per employee. Each local government that qualifies as a single employer plan will be required to have an actuarial valuation to compute the annual required contribution (ARC) unless the unit has less than 100 total plan members. Units with less than 100 total plan members are allowed to complete calculations under the alternative method.

There may be a few local governments who have single employer "defined contribution plans." This type of plan provides an account for each plan member, and specifies how contributions are to be determined for each account. In this type plan, benefits depend on the amounts contributed, and interest earned there on, rather than on specified benefits (e.g. healthcare, life insurance). At retirement, the balance of these accounts can then be used by the member to purchase life insurance or healthcare benefits. For defined contribution plans, the annual cost is equal to the contractually required contribution as prescribed by the plan. An OPEB liability (or asset) arises from the difference between contributions required and the actual contributions made to the plan. If a unit has a mixture of a defined benefit plan and a defined contribution plan, the requirements for defined benefit plans should be applied. To qualify as a defined contribution plan, the payment of fixed amounts must be paid to the members' accounts during the active service of the employees. If these payments are made following retirement, then the plan is really a defined benefit plan with a certain amount specified to be paid toward the retiree's healthcare per question 19 of the *Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits (Implementation Guide)*.

Single Employer Plans versus Boards of Education (LEAs):

As previously discussed, most local governments offering other post-employment benefits in North Carolina will operate as “single-employer” plans responsible for the accounting and reporting of their own plan as stipulated in Statements No. 43 and 45. LEAs, on the other hand, have a “cost-sharing multiple-employer plan” operating similarly to the Teachers’ and State Employees’ Retirement System (TSERS) where contributions are made to and administered by the State. This arrangement means that for LEAs, the annual OPEB cost will equal the contractually required contribution to the State plan and that no individual actuarial valuations will be required. If a Charter school participates in TSERS and offers OPEB benefits, their requirements for Statement 45 are the same as the LEAs. All other local governments offering OPEB benefits, including Charter Schools not participating in TSERS, operate independently and will be required to obtain an actuarial valuation (or use the alternative method for units with less than 100 plan members) to arrive at the expense, liability and disclosure information needed to meet the requirements of Statement No. 45. The alternative method will be discussed later in the memo.

Management Issues Including Advanced Funding of OPEB benefits:

There are many management issues and concerns arising from these GASB statements beyond the accounting requirements. Questions arise regarding the funding of OPEB benefits. What if benefits are limited by the amount appropriated by the governing body? What if there is no annual appropriation for OPEB benefits? What if the unit pays only the annual pay-as-you-go amount without advancing any funds for the net OPEB obligation? The GASB does not require funding of OPEB and Questions 6 and 57 of the *Implementation Guide* indicate that funding decisions do not limit the projection of benefits and their cost. The actuarial valuations and cost projections required by Statement No. 45 should be done regardless of funding decisions. Over time the lack of funding would be considered as it may impact the “substantive plan” and the portion of cost paid by the local government versus the employee. Choices to advance fund could impact the computation of the annual required contribution (ARC) by allowing assumptions in the actuarial valuation to use a higher rate of return. However, let us repeat that advance funding decisions do not change the requirement to compute and report the OPEB cost and liability and the responsibility to pay vested benefits as they come due.

In addition to advance funding decisions, there are other management issues to consider. If your local government offers OPEB benefits, you should obtain an actuarial study soon. The contract from the League of Municipalities (NCLM) and the NC Association of County Commissioners (NCCA), discussed later in this memo, is available and should be more reasonable in cost than a valuation you procure on your own. However, each unit of government is free to contract with an actuary of their choice. If you have already had a study done and you plan to issue bonded debt, note that the results from the most recent actuarial valuation must be disclosed in the offering statement. The rating agencies also are expecting to see a plan to address OPEB obligations. They are not requiring every unit to fully fund their plans but they do expect to see that the unit has a strategy for addressing the obligations. As previously discussed, the GASB does not require funding of OPEB benefits; they see funding as independent from calculating the cost and liability. However, if the unit cannot afford to fund the annual required contribution (ARC), the question should be asked if your unit can afford to continue to offer these benefits. Of course there are legal restrictions for when and how benefits can be changed. You also should remember that if a unit funds these benefits, the calculation for the value of the investments and their actuarial rate of return will be higher than when not fully funding. In addition, be aware

that the unit can charge the federal grants received for OPEB benefit costs if the funds are set aside as previously discussed.

There are options that management can consider for controlling future cost but there are constraints as to what benefits can be changed legally. Per Diane Juffras, an attorney on the staff of the UNC School of Government specializing in employment law, legal changes can only be made prospectively for future employees or non-vested current employees. Benefits cannot be cutoff or reduced for retirees or vested current employees as ruled in recent court cases.¹ An article discussing these issues written by Ms. Juffras for *Popular Government* can be accessed through the link in the footnotes of this memo. Further discussions can be found in the *Public Employment Law Bulletin #30* on the School of Government's website (See footnote for link).² Please consult with your attorney or the School of Government before making any changes to your benefit plans. Costs may be reduced for the future by changing benefits prospectively for new employees and non-vested employees, particularly healthcare coverage, since it is the rising of future healthcare cost that creates the highest cost component in your actuarial valuation and contributes to a growing OPEB liability. By restricting the health benefits provided as retirees reach age 65, future cost can be capped. The options for retirees over age 65 are as follows:

1. Pay 100% for supplemental insurance – Medicare is primary
2. Pay a portion of supplemental insurance cost or provide a fixed rate contribution towards supplemental – Medicare is primary
3. Cut off healthcare benefits at 65 – Medicare is primary
4. Eliminate retiree healthcare benefits – regardless of age

By eliminating healthcare coverage for retirees regardless of age much of the unit's future OPEB costs will be eliminated. Assuming that Medicare is always primary after age 65, option 3 will drastically reduce future cost since rising healthcare costs are no longer a factor; option 2 will contain future cost. Option 1, with rising healthcare cost contributing to the cost of supplemental insurance, will continue to drive up projected benefits cost. There is the option to change deductible amounts and co-payments as long as the change is uniform across current employees and retirees and the changes do not result in a net disadvantage to the retiree, (See page 21 of article in *Popular Government*). Another issue to consider is the number of years it takes an employee to vest before qualifying for post-retirement benefits. Longer vesting periods will better control future cost. Units may decide to move from defined benefit plans to defined contribution plans. Also, some units offer family coverage and that or other benefits could be revised. There are options such as setting a percentage of cost to be paid, or setting a maximum contribution amount per employee. Health insurance rates could be changed for new or non-vested employees such that their rate at retirement is age adjusted rather than being a blended group rate. Whatever benefit changes your unit deems appropriate can only be made prospectively for new or non-vested employees. The purpose of this memo is to provide guidelines for local governments. Please obtain legal advice before proceeding with any benefit changes.

If not already in process, please plan for an actuarial valuation and start the process of talking with the unit's governing board and management. Although this may appear to be

¹ Juffras, Diane M., "Can Public Employers Eliminate or Reduce Health Benefits?" *Popular Government* (Winter 2004): 16-26.

<http://ncinfo.iog.unc.edu/pubs/electronicversions/pg/pgwin04/article2.pdf>

² Juffras, Diane M., "When Can A Public Employer Reduce Employee Benefits?" *Public Employment Law Bulletin*, No. 30, (May 2004) <http://ncinfo.iog.unc.edu/pubs/electronicversions/pdfs/pelb30.pdf>

an accounting issue, there are long-term implications from the decisions made regarding funding, the commitment of future resources, and whether to change the benefits being offered. The rating agencies do not require advance funding of the OPEB liability but large net OPEB obligations may impact a unit's future bond rating. The data resulting from the actuarial valuation will be needed to make decisions including how much difference might be realized if benefits are changed for new employees.

Accounting and Reporting of Funds Set Aside for OPEB:

Statement No. 43 applies to OPEB plans for all state and local governments for which an irrevocable trust has been set up and assets are accumulated and benefits are paid as they come due from the trust fund. As irrevocable trusts, these funds are legally protected from both the creditors of the employer and any plan administrators and they are reported as pension trust funds. When assets have been placed in an irrevocable trust, the OPEB actuarial liability is considered to be funded or partially funded depending on the calculations. Assets set aside for OPEB as designations of fund balance or earmarked for OPEB purposes within a governmental or proprietary fund do not qualify under the definitions of Statement No. 43 and do not count as OPEB contributions against the "unfunded accrued actuarial liability" (UAAL) under the requirements of Statement No. 45. Assets that have been accumulated for OPEB purposes that have not been placed in an irrevocable trust fund should be set aside in an agency fund. Agency funds, however, will not count against the UAAL. The cost management and allocation of OPEB expenses/expenditures to governmental functions and proprietary funds can be handled via an internal service fund if desired; however, units should remember the complications of internal service funds in preparing the government-wide statements under Statement No. 34 before creating a new internal service fund. As previously mentioned, assets committed for OPEB must be in an irrevocable trust to qualify as contributions against the UAAL under the two statements; i.e. the assets cannot be held in governmental, proprietary or agency funds, or held in an internal service fund and qualify to be counted as funding against the calculation of the UAAL.

Actuarial Valuations:

For the defined benefit plans, the actuarial valuation will assist in calculating OPEB cost for employers by projecting future cash flows based on the substantive plan; 2) discounting those cash flows to their present value; and 3) allocating that amount to specific years of employee service using one of several acceptable actuarial cost allocation methods – entry age, frozen entry age, attained age, frozen attained age, aggregate, or unit credit. Assumptions will be made as part of the valuation including the healthcare cost trend rate, and experience rates for the covered group to the extent that credible data is available. If a trust fund has been set up and fully funded, the funding progress for actuarial purposes will be assessed using a higher discount rate based on the long-term investment rate of return; blended discount rates will be used when evaluating partially funded plans. Please note that investment income recognized in the unit's financial statements is the actual rate of return.

As required by Statement No. 45, actuarial valuations should be obtained based on the following timetable:

- a) Biennial valuations for plans with total membership equal to 200 or more,
- b) Triennial valuations for plans with total membership less than 200.

Total plan membership is defined as current employees, separated employees who are vested but not yet drawing benefits, and retirees. Family members or dependents are not included when counting members even if they are covered by the benefit (Question 37 –

Implementation Guide). The actuarial valuation must be performed within two years (24 months) of the start of the year for which the statements are presented; i.e. the ARC reported in the notes should be based on an actuarial valuation as of a date not more than 24 months before the beginning of that fiscal year. Please note that plans with smaller membership have greater volatility than those plans with larger numbers of members, and the triennial valuation will provide data less frequently. Even though Statement No. 45 allows for valuations every two or three years, more frequent valuations would present trends with more timeliness and provide the unit the opportunity to make changes sooner. Any governments which have already obtained actuarial valuations should note that any official statements issued must include the data from their most recent valuation including the unfunded accrued actuarial liability.

The NC League of Municipalities (NCLM) and the NC County Commissioners Association (NCACC) have jointly arranged a statewide contract in which all local governments in North Carolina may participate with Cavanaugh Macdonald Consulting (CMC), an actuarial consulting firm out of Atlanta. This has been established similarly to the previous contract for actuarial studies for the LEO Separation Allowance which also will now be handled by CMC. **Remember that even those units who have only an implicit rate subsidy (blended or common healthcare premiums for current employees and retirees) will be required to have an actuarial study, except for those units allowed to use the alternative method (units having less than 100 members).** Specific contract terms for the studies will vary based on annual revenues, number of employees, membership in the retirement system, membership in MIT (NCLM Risk Management Services insurance pool), and other factors. Costs appear to range from approximately \$1,290 for a Town with 10 employees to \$5,050 for a Town with 800 employees. If there are questions, please see the information at the NCLM website (www.nclm.org) or NCACC website (www.ncacc.org) or contact Todd Green of Cavanaugh Macdonald Consulting at 678-388-1705 or ToddG@CavMacConsulting.com. The contract information as presented came from material distributed by Todd Green at the State Treasurer's conference in May 2006.

For those units with less than 100 total members, the **alternative method** is allowed to be used rather than obtaining an actuarial valuation. The alternative method uses certain simplified choices for the purposes of making actuarial assumptions. Assumptions are required to complete the calculations including issues such as expected age for benefits to begin; marital status; mortality rates; turnover rates; healthcare cost trend rate; age-adjusted insurance premiums; and other plan coverage options. The alternative method, although simplified from a true actuarial valuation, may require professional assistance to complete. Our office is working on an Excel spreadsheet that will apply the alternative method. It is being tested and should be available at our website later this year. We are recommending that only units with an implicit rate subsidy and less than 100 members should use the worksheet. Multiple versions of the worksheet may be required if a unit has differing cost pools within its membership. Units having a defined plan and paying benefits should obtain an actuarial valuation. Units using the spreadsheet will need to obtain certain information from their insurance companies and must enter each employee and retiree into the worksheet. The local government's auditor may be able to assist with this task as long as any decisions arising from the use of the LGC alternative method spreadsheet are made by the management of the local government. The original exposure draft for Statement 45 did not require any type of actuarial valuations for smaller units that had only an implicit rate subsidy. The alternative worksheet is to help those units by

providing a simpler valuation method with limited assumptions; however, these units could still benefit from a professional actuarial valuation. In fact, we encourage all units to obtain at least one actuarial valuation whether or not they intend to use the worksheet in order to establish accurate baseline information. Please note that once plan members equal 100 members or more, an actuarial valuation is required. Using immateriality as a reason for avoiding the actuarial valuation or the alternative method is strongly discouraged.

OPEB Liabilities and Reporting:

The actuarial study, or the alternative method, will calculate the amounts required to be disclosed for OPEB costs, liabilities, funding and the other required disclosures. The computation for the net OPEB obligation will begin with the annual required contribution (ARC), and adjust for the interest lost on amounts not contributed towards the OPEB obligation and adjust for the amortization related to the recapture of prior years underfunding. The sum of these amounts is then adjusted for contributions made in the current fiscal year to arrive at the net increase or decrease in the OPEB obligation. These calculations will be actuarially determined based on certain standard actuarial and economic assumptions. The "healthcare cost trend rate," the inflation rate for medical cost, will be a significant factor potentially contributing to high cost for units that offer retiree healthcare since healthcare cost is currently subject to double digit inflation. As previously discussed, the discount rate the actuary uses to evaluate investment returns and funding requirements will vary based on how the plan is funded. The maximum amortization period allowed for the computation is thirty (30) years and amortization can be applied on a "closed" basis (declines to zero over 30 years) or "open" basis (recalculated with each valuation). The amortization method may be applied based on a level dollar amount or a level percentage of projected payroll.

The actuarial valuation will determine the unfunded accrued actuarial liability (UAAL) and the annual required contribution (ARC) for OPEB benefits. Since the UAAL includes benefits earned in years past for employees and retirees as well as benefits being earned by current employees, the amount could be very large. The UAAL will only be disclosed in the notes. It is not presented on the Balance Sheet or Statement of Net Assets. In contrast, the OPEB obligation is the accounting liability and begins at zero in the year of implementation. It only rises when the ARC is not funded. It must be recorded on the government-wide Statement of Net Assets and on the proprietary fund statements. If a local government makes annual contributions equal to the ARC, then no OPEB obligation will be recorded. If the ARC cannot be fully funded or is partially funded, then the calculation gives rise to the OPEB obligation. This approach will apply to all single employer defined benefit plans, which covers most NC local governments except for the LEAs. For the LEAs and Charter Schools participating in TSERS, (cost sharing multi-employer plan) the annual cost/contribution will equal the ARC. Individual valuations will not be required. In summary, for all non-school local governments, the annual expense equals the ARC in year 1 and subsequently, if the ARC is fully funded. If the unit pays the ARC, then there is no liability on the Balance Sheet or Statement of Net Assets. When the ARC is not paid in full, the annual OPEB cost will be increased for subsequent years by the effect of interest and decreased by the amortization factor and a liability must be recorded for the OPEB obligation. The recognition of this OPEB liability is required in full accrual statements and is reported on the government-wide Statement of Net Assets and the proprietary fund statements. For modified accrual, as in the General Fund, no OPEB liability is recorded and governmental funds would report expenditures for the amount that the unit actually paid out including any contribution made to the irrevocable trust.

As we discussed, failure to pay the full amount of the ARC creates the net OPEB obligation. Payment of the ARC is defined as two payments. The first piece is the payment of benefits to retirees, beneficiaries or insurers (otherwise known as the pay-as-you-go amount); second is the payment to the irrevocable trust. Please be aware that designations of fund balance or transfers to funds other than an irrevocable trust do not count as a contribution towards the ARC. Short term timing delays are allowed. If an employer makes the required contribution after year end but before the next actuarial valuation is done or within one year (whichever is later), the OPEB obligation is not recorded (Questions 105 & 106 of the *Implementation Guide*). In this case, timing differences must be recorded to show current payables in the governmental activity or proprietary funds where contributions would have been charged and to show a receivable in the pension trust fund.

Statement No. 43 Reporting:

As required by Statement No. 43, irrevocable trust funds will be reported as pension trust funds. Two statements will be required. There should be a Statement of Plan Net Assets showing the different asset categories of cash, receivables, investments at fair value, and any other property and then any liabilities for payments due to retirees or beneficiaries. "Net assets held in trust for other employment benefits" is the equity caption. The second statement is the Statement of Changes in Plan Net Assets. It shows Additions consisting of contributions, investment income (less investment expense) and Deductions for benefits paid and administrative expense. The difference between additions and deductions creates the increase or decrease to beginning plan net assets.

Note Disclosures and Required Supplementary Information:

Local governments should include OPEB information similar to other pension plans in the notes to the financial statements. There should be a description of the plan including the types of benefits provided. The funding policy should be disclosed including the authority to establish or amend the policy. Contribution rates of plan members and the employer should be presented and when contribution rates significantly differ from the ARC, the notes should identify how the rate was determined or specify that the plan was financed on a "pay-as-you-go" basis. Annual OPEB cost and the dollar amount of contributions made would be presented as well as the computation for the net OPEB obligation (ARC, interest on the net OPEB obligation, actuary's adjustment for amortization) arriving at the increase or decrease in the net OPEB obligation. For the current year and each of the two preceding years, certain disclosures are required including annual OPEB cost, percentage of annual OPEB cost contributed that year, and net OPEB obligation at year-end. There also must be information regarding the actuarial valuation. These disclosures include: the actuarial cost method; the method used for valuing assets, the assumptions regarding the inflation rate, investment return, projected salary increases, and post-retirement benefit increases; the amortization method (level dollar or level percentage of projected payroll); and the amortization period. For those units that have an LEO Separation Allowance note, the reporting for OPEB is similar and most of the information will come from the actuary.

There are however, disclosures required in addition to the basic pension disclosures mentioned above. Some of it is information presented in the Required Supplementary Information (RSI) which the GASB wants reiterated in the notes. The unique OPEB requirements include any legal or contractual maximums on contributions rates for employers; the healthcare cost trend data used; the different rates used for economic assumptions; an explanation of the investment return assumption for partially funded

plans; most recent data on funding progress; an explanation about estimates and assumptions for the distant future; an explanation that benefits are based on benefit levels as of the valuation and do not reflect the potential impact of legal or contractual funding limitations; and explanations that actuarial valuations take a long term view and use techniques designed to reduce volatility. If the unit has an irrevocable trust fund, disclosures can be combined for Statements No. 43 and 45.

Statement No. 43 Note Disclosure Requirements	Statement No. 45 Note Disclosure Requirements
Plan Description	Plan Description
Summary of Significant Accounting Policies - Basis of Accounting - Method Used to Value Investments	Funding Policy
Contribution Information	Annual OPEB Cost and Net OPEB Obligation
Funded Status & Funding Progress	Funded Status & Funding Progress
	Actuarial Methods & Assumptions

As with pensions, there also is a requirement for required supplementary information (RSI) for both statements. RSI must present trend data on funding progress based upon the three most recent actuarial valuations (or the alternative method for smaller employers). The basic requirements are valuation date, actuarial value of assets (AVA), accrued actuarial liability (AAL), unfunded accrued actuarial liability (UAAL), the funded ratio (AVA as a percentage of AAL), the annual covered payroll, and the UAAL as a percentage of annual covered payroll. This schedule of funding progress shows the extent to which an employer has been successful in setting aside assets to cover the actuarial liability. In addition, Statement No. 43 will require a Schedule of Employer Contributions showing the ARC and the percentage contributed for the most recent valuation and the previous two valuations.

School (LEAs) Disclosure Requirements:

The LEAs, and any Charter schools participating in TSERS who offer OPEB benefits, with their “cost-sharing multiple-employer plan,” will have much simpler disclosures and reporting requirements. Statement No. 45 will require disclosure of the name of the plan, the fact that the State administers the plan, a brief description of the types of benefits and the authority for amending said benefits, and information on a separately issued plan report (State CAFR) and how it can be obtained. Also there will need to be funding policy information including the authority for establishing and amending the funding policy, the contribution rates of active members, the employer’s required contribution rate, in dollars or as a percentage of payroll. This information also will have to be provided for the previous two years.

Effective Dates:

The effective dates for Statements No. 43 and 45 are based on the phase in which a primary government was required to implement Statement No. 34. For component units, defined under GASB Statement No. 14, the implementation date for Statements No. 43 and 45 is the fiscal year of its primary government. Phase I governments implement Statement No. 45 for periods beginning after December 15, 2006. This means that most Phase I

governments and their component units must report OPEB expenses and liabilities as of June 30, 2008 (or their appropriate year-end). Phase II governments and their component units would typically implement and report as of June 30, 2009, and Phase III governments and their component units would typically implement and report as of June 30, 2010. If a unit of government has set up an irrevocable trust fund for its OPEB benefits, Statement 43 must be implemented a year before Statement No. 45, or June 30, 2007 for Phase I governments, and so on. Most local governments have yet to set up irrevocable trust funds for their OPEB benefits such that Statement No. 43 will apply initially to only a handful of units. **For those units who have not set up a trust fund, Statement No. 43 would only apply if and when a unit established an irrevocable trust fund for OPEB funding.** If there are questions regarding the implementation phase for your unit of Statement No. 34, a phase listing was created with Memo #928. If a unit early implemented Statement No. 34, it does not have to early implement Statements No. 43 and 45. Even if the size of a unit has changed from the original determination for Statement 34, the OPEB statements should still be implemented based on the unit's Statement No. 34 implementation phase. Primary governments should contact their component units to ensure that they are preparing for the proper year of implementation. We suggest that units not early implement these standards. It will be the summer of 2007 before the illustrated financials are updated to reflect the OPEB statements and disclosures.

Several units have expressed interest in the State Treasurer's office providing investment and administrative services for funds set aside for OPEB benefits. However, such an arrangement would require legislative changes. If you are interested in this issue, please contact your representative at the League of Municipalities or the Association of County Commissioners, or contact this office. If there are questions or comments regarding this memo, please contact Sara Shippee at (919) 807-2356 or sara.shippee@nctreasurer.com.