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Memorandum # 2016-14

TO: Local Government Finance Officials and Their Independent Auditors

FROM: Sharon Edmundson, Director, Fiscal Management Section

SUBJECT: GASB Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

DATE: March 29, 2016

The Governmental Accounting Standards Board (GASB) has issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These statements are similar to the GASB Statements 67 and 68 Pension standards. However, GASB Statements 74 and 75 apply to postemployment benefits, the most common being health, dental, vision, and life insurance benefits for retirees. Governmental units who have Other Postemployment Benefits (OPEB) plans (this statement does not apply to termination benefits) administered through a trust (either defined benefit or defined contribution) and meet the requirements of GASB 74 must implement this standard for fiscal years beginning after June 15, 2016. This means units with a June 30th fiscal year ends will implement GASB Statement 74 in their financial statements ending June 30, 2017. (Units that do not have assets set aside in a GASB defined trust do not have anything to implement with GASB Statement 74.) GASB Statement 75 must be implemented for all plans with fiscal years beginning after June 15, 2017. This means units with a June 30 fiscal year end will implement GASB Statement 75 in their June 30, 2018 financial statements. The purpose of this memo is to provide a timeline of steps units should be taking to ensure they are able to meet the requirements of GASB 74 and 75.

Immediate Steps a Unit Should Take:

- **Evaluate your benefits.** Determine if your OPEB benefit falls under GASB Statement 74, GASB Statement 75, or is actually a non-trust pension benefit under GASB Statement 73. Please review Memorandum 2016-13 [Memo 2016-13](#) that discusses GASB Statement 73 for further information on that standard. Attachment A contains a question and answer from the implementation the Comprehensive Implementation Guide – Chapter 8 on this issue.
- **Make sure your OPEB plan is well-documented.** It should clearly describe your benefits and vesting requirements in writing. We encourage you to involve your Human Resource Department and Unit Attorney in this process. If you are considering making changes to your plan, we strongly recommend you read this article published by the School of Government (SOG): [Can a Public Employer Reduce Benefits?](#) Please contact the author, Diane Juffras, at the SOG with any questions you have about the contents of the article.
- **Determine if your OPEB benefit has assets.** If so, you will need to implement GASB Statement 74 as of June 30, 2017. A memo discussing the accounting and reporting for this standard will be issued within a few months. Contact your professional actuary immediately to contract for a study.
- **Include an actuarial study in your 2016-2017 budget.** The cost of this service might increase due to additional work the actuary may have to perform. Given the potential liability that will be reported, we expect each unit to have an actuarial study performed by a professional actuary for the first year to determine the extent of the liability. However, units that only have implicit rate subsidies may use the alternative method to determine their liability if they qualify to do so.
- **Discuss these standards with your auditor.** You want to make sure he/she is aware of these standards and is equipped to provide the necessary expertise that will be needed to audit statements prepared these standards. Have your auditor list what records he/she will need from the unit. As soon as you get your initial or updated actuarial report, have your auditor review it to make sure he/she is comfortable that it provides all the necessary information.
- **Consider the materiality of the actuarially determined liability.** If you think that your OPEB benefit is obviously immaterial and that you should be exempt from OPEB reporting standards, both you and your current auditor should submit via email to Sharon Edmundson, (sharon.edmundson@nctreasurer.com), a request for exemption due to

immateriality. We will respond via email. Keep in mind that it will likely be easier to implement from the beginning rather than to decide a few years down the road that the plan needs to be reported. Please note - approved exemptions for immateriality will be rare.

Actuarial Valuations

Actuarial valuations to determine the total OPEB liability will be required to be performed at least biennially. GASB Statement 74 and 75 allow for the use of the alternative measurement method if there are fewer than 100 plan members (active and inactive) at the beginning of the plan's fiscal year. Due to the potential materiality of the total OPEB liability and our experience with the alternative measurement method in the past, we are limiting the use of the alternative measurement method to units of government whose OPEB liability is a result of an implicit rate subsidy only. In other words, if the unit of government ever has to pay out any funds towards a retiree's OPEB benefit, the unit will not be allowed to use the alternative measurement method.

Currently our web site provides an alternative measurement method worksheet based on GASB Statement 45, the current guidance for reporting OPEB, which is being replaced by GASB Statement 75. Once GASB Statements 74 and 75 take effect, this worksheet will be removed. We are discussing with the NC League of Municipalities the possibility of contracting with a vendor that will provide this service via a web-based platform. We will keep you updated on the status of that contract. Also members of the NC League of Municipalities can take advantage of preferred pricing for actuarial services through a contract the League has with an actuarial firm. The NC Association of County Commissioners is working on a similar arrangement for its members.

We will continue to post memorandums on this topic, providing details on accounting for OPEB and the new financial statement note disclosures. For the most current resources on OPEB standards please visit our OPEB webpage, [OPEB Resources](#).

If you have questions or comments on this memorandum, please contact Melinda Canady [(919) 814-4302 or Melinda.canady@nctreasurer.com] or Preeta Nayak [(919) 814-4291 or Preeta.nayak@nctreasurer.com].

Question 8.6.4 from the Comprehensive Implementation Guide – Chapter 8

Q—The employment contract between a government and certain of its employees includes a provision that those who retire from service will receive one or more cash payments defined in terms of a dollar amount or a formula. (For example, the payments may be defined as a percentage of final salary.) For accounting purposes, what type of benefit is this (for example, is it OPEB, a pension benefit, or a termination benefit), and what is the criterion or process for classification? (Q&A43/45-15) [Amended 2008 and 2013]

A—The first determination that should be made is for what purpose the benefit is given. That is, are the cash payments compensation for an employee's services, or are they offered as an early termination incentive? If the benefit is part of the employment contract and is not conditioned on early termination of employment, these factors would strongly indicate that the benefit is part of an employee's total compensation for services; thus, it is a postemployment benefit. The second determination that should be made is whether the cash payments are a pension benefit or an OPEB (postemployment benefit other than a pension benefit) for accounting purposes. The benefit, however labeled, is provided in the form of cash payments with no limitation as to their use, fitting the term retirement income. (A limitation with regard to the use of the cash payments might be evidenced by, for example, the employer reimbursing retirees for documented healthcare payments—a condition that does not exist in this question.) Therefore, based on the definitions of pension benefits (in Statements 25, 27, 43, and 45, as amended) and pensions (in Statement 67) and other postemployment benefits (in Statements 25, 27, 43, and 45, as amended, and Statement 67) the benefit in this question is a pension benefit that should be accounted for in accordance with the requirements of Statement 27, as amended. The cash payments do not fit the definition of OPEB because (a) their use is not limited to a postemployment healthcare benefit (although healthcare is one among numerous possible goods or services to which a retiree might choose to apply his or her assets from this or other sources) or, more pertinently, (b) they are not a postemployment benefit that is provided through a plan that does not provide retirement income.