FREQUENTLY ASKED QUESTIONS (FAQ'S)
ABOUT OTHER POST EMPLOYMENT BENEFITS (OPEBs)

What benefits are considered OPEBs?

While the most common OPEB is retiree healthcare coverage, there are many other benefits that may be considered OPEBs, including life insurance, long-term care insurance, disability benefits, and certain sick leave conversion programs.

OPEBs can be paid in whole or in part by the employer, but could also be completely paid by the retiree. OPEBs do not include pension benefits or compensated absences, which are treated differently under the applicable accounting standards.

Can an employer have an OPEB liability if no contributions are made directly to the cost of retirees' coverage?

Yes, liabilities arise when continued medical coverage is offered to retirees at the same premium rate as active employees, even if that coverage is on a self-pay basis. Since retirees are generally older than an active population, retirees can be expected to generate higher medical claims, and therefore higher premiums for the active population. When the total premium does not represent the full cost of covering the retirees, the additional cost is called the "implicit rate subsidy." The various accounting standards that apply to OPEBs all require that the implicit rate subsidy be valued and reflected in the financial statements.

Virtually all public sector employers have an implicit rate subsidy to value under the applicable GASB Statements due to Oregon Revised Statute (ORS) 243.303. This statute mandates that retirees of Oregon public employers be provided continued access to that employer's health plan until Medicare-eligibility, and can be charge a rate no higher than the COBRA rate for that coverage.

What accounting standards Govern OPEBs?

In most situations, plan sponsors need to report the value of their OPEBs directly on their financial statements. Governmental entities sponsoring retirement plans follow the accounting standards of the Governmental Accounting Standards Board (GASB). For OPEB plans, the most recent and applicable GASB Statements are 74 and/or 75.

Private sector employers sponsoring retirement plans follow the accounting standards of the Financial Accounting Standards Board (FASB). Accounting Standards Codification Topic 715 governs the accounting for OPEB plans.

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What impact will GASB Statements 74 and 75 have on the reporting of OPEBs?

In 2012, GASB released Statements 67 and 68 (and later, Statement 73), which revised the existing financial reporting standards in Statements 25, 27 and 50 for pension plans. In 2015, GASB released Statements 74 and 75 for OPEB plans, which will replace statements 43 and 45, and result in fundamental change to the existing financial reporting standards for state and local governments providing postemployment benefits other than pensions.

GASB 74 applies to OPEB plans with irrevocable prefunded assets. GASB 75 applies to employers sponsoring OPEB plans. In the year of implementation, employers are required to recognize an obligation equal to the Net OPEB Liability (NOL), which is essentially the excess of the present value of accrued benefits over the market value of assets. (Under previous accounting standards, this amount was called the Unfunded Actuarial Accrued Liability, and was a footnote disclosure item). In subsequent years, changes in the NOL must be recognized as OPEB expense, or be reported as deferred inflows/outflows of resources.

The statements also include more extensive note disclosures. Specific changes in the requirements include:

1. Liabilities must be discounted using a rate reflecting a 20-year tax exempt general obligation municipal bond.

2. Actuarial present value must be attributed using the Entry Age Normal cost method.

3. Deferred components of OPEB expense will be recognized over defined, closed periods.

4. Information related to the assumptions used to determine the liability should be disclosed, including the impact of a +/- 1% change in discount rate or healthcare trend rates.

5. Required Supplemental Information will now include a 10-year schedule of information relating to the NOL, changes to the liability, and information related to contributions to the plan.

Statement 74 is first effective for fiscal years beginning June 15, 2016, and Statement 75 is first effective for fiscal years beginning June 15, 2017.

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What are community-rated plans?

In the past, relatively small employers participating in a large, pooled health plan were sometimes exempt from having to account for an implicit rate subsidy, due to a "community-rating" exception. In general, this exception applied when the claims experience of an individual employer would have virtually no impact on the premium being charged to that employer.

The accounting standards that apply to OPEBs refer to the Actuarial Standards of Practice (ASOPs) in determining whether a community-situation applies. However, the revised ASOP 6 essentially eliminated the concept of the community-rating exception. As a result, agencies participating in community-rated plans that have previously been exempt from reporting liabilities due to an implicit rate subsidy may now be required to do so.

How often does a governmental agency need a new OPEB valuation report completed?

GASB Statement 45 required OPEB valuations every two years with one exception. Agencies with less than 200 employees that have not experienced a significant change in their benefit structure over the period of time can use their valuation for up to three years. With the release of GASB Statements 74 and 75, OPEB valuations are required to be performed every two years, but the board encourages annual valuations. Triennial valuations will no longer be available under the new GASB standard.

What are the advantages to pre-funding OPEB liabilities?

OPEBs are considered pre-funded when the employer makes annual contributions to an irrevocable trust account (funds can only be used for retiree benefits). The account balance of the trust offsets the actuarial accrued liability, reducing the agency's unfunded liability.

When an agency pre-funds its OPEB liabilities, the actuary may generally use a higher discount rate to value the liabilities of the plan, reflecting the higher expected earnings of the OPEB trust.

How long does a valuation take to be completed?

The first step to beginning the process of having an OPEB valuation completed is to have a conversation with one of our consultants so that we can understand the benefit structure, demographics, and other aspects of the benefits to be valued. From that point, we request necessary employee data and any other information needed to do the valuation. Typically, from beginning to end, our process is completed within 3 months. However, we work with each individual client to meet your needs. Contact a consultant today to see if your OPEB needs to be valued, or to get a free quote on Independent Actuaries, Inc.'s valuation and reporting services.

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