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STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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Memorandum #2018-08

TO: Local Government Finance Officials and Their Independent Auditors

FROM: Sharon Edmundson, Director, Fiscal Management Section

SUBJECT: Other Postemployment Benefits Accounting and Reporting Issues

DATE: May 4, 2018

The Governmental Accounting Standards Board (GASB) 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*](#), which outline the reporting guidance for Other Postemployment Benefits (OPEB) for plans and employers. GASB 74 addresses units that have assets set aside in a trust or trust-like arrangement that meets the requirements in the statement. Units that provide benefits through the Retiree Health Benefits Fund (State Health Plan) or do not have a qualifying trust need comply only with GASB 75. This memo will address OPEB reporting changes and specific issues regarding OPEB trusts. [Memo # 2016-14](#), which offered a more general discussion on these two statements was issued earlier.

Though the new reporting for OPEB does share some similarities with pension reporting, there are some differences that should be considered. The most obvious difference, of course, regards the benefits covered. GASB 74 does not address pensions of any sort; the GASB has issued other statements that address pensions. OPEB includes health, dental, vision, and life insurance benefits not administered through a pension system; however, termination benefits are not included. Most of the local governments in North Carolina offer OPEB benefits through single-employer plans. Unlike with the pension rollout, each unit will be responsible for the reporting specifics, both in terms of amounts and note disclosures, for their individual OPEB plans. The State and Local Government Finance Division (SLGFD) will not provide amounts for net OPEB liabilities, expense, or deferred outflows or inflows of resources for single-employer plans. Those numbers will be in each plan's actuarial valuation report. The SLGFD will provide a blank journal entry template that can be used to prepare journal entries for employer reporting of OPEB. Units will have to enter the numbers from the valuation report in the template. However, please keep in mind that the template cannot feasibly accommodate every unique situation and may need to be tweaked. Units that offer **retiree** health benefits through the State Health Plan (LEAs, some charter schools and a **very** few counties and municipalities) will receive amounts and entries that will closely mirror what is provided annually for the Local Government Employees' Retirement System (LGERS) and Teachers' and State Employees' Retirement System (TSERS) employer participants.

Reporting changes

As with most all new GASB pronouncements there are new reporting requirements. Units will be required to disclose, among other things, the following:

Notes to the financial statements

Information about the OPEB liabilities (both total and net)
Significant assumptions and inputs used to measure the total OPEB liability
Sensitivity analyses of the net OPEB liability for changes in the discount and healthcare cost trend rates

Required Supplementary Information

A schedule of changes in the net OPEB liability
Information about components of the net OPEB liability
The plan's fiduciary net position as a percentage of the total OPEB liability
The net OPEB liability as a percentage of covered payroll

The SLGFD will prepare sample financial statements illustrating these requirements. These sample statements will be available on our [Sample Financial Statements](#) page.

OPEB Trusts

It is important to remember that Statements 74 and 75 are reporting standards – they do not require units to fund their OPEB plans; units may still opt to pay as they go. However, it is equally important to remember that **if** a unit chooses to establish a trust, any funds put in trust are no longer assets of the government and can be used only for OPEB purposes.

There are several benefits to establishing an OPEB trust. One is that the liability reported on the full accrual balance sheet can be lower. When there are assets held in trust, the actuaries can use a blended discount rate that reflects both the expected long term rate of return on the trusts' assets and the short term rate of return that GASB requires them to use for unfunded liabilities. This will reduce the OPEB liability that will be recorded on the unit's financial statements. Assets that are not in a trust, even if committed or assigned, cannot be counted against the OPEB liability and they cannot be reflected in the discount rate used to calculate the present value of the OPEB liability. Another advantage is that all earnings must be used toward paying the OPEB liability. Setting aside an amount now, if left to grow, will reduce the amount that the unit must pay over time in benefit payments because any earnings will be used to pay benefit payments as well.

OPEB liabilities are expected to be significant for some local governments. It would behoove a local government to consider ways to mitigate these liabilities to make them more manageable in the future. The April 2018 issue of the Government Finance Officers Association's magazine, [Government Finance Review](#), includes an article, "Incrementalism - A Solution for Local Governments' Unfunded Liabilities?" that outlines some strategies governments can use to begin to address these liabilities in manageable steps.

A unit may wish to hold some funds in cash within the trust, either on a temporary basis (waiting to move to a longer term investment for example) or for a longer period, particularly if you are paying benefits directly from the trust. There are two ways to handle the cash, the first being by having a separate bank account in the name of the trust. This is the simplest way but also could be costly depending on bank charges. If your unit maintains a true central depository (i.e. not utilizing the cash account in the General Fund as your central account but actually having a separate central depository set of accounts) you may be able to hold trust fund cash in the central depository if you meet additional qualifications. You must keep

your accounting records accurate and up to date and you must manage your cash in such a way that the cash in the trust fund is not spent by another fund. If you are not certain that your trust fund cash can be maintained intact, you should not utilize the central depository for the trust fund. You always have the alternative of maintaining the separate bank account for the trust fund.

The most prudent use of a trust is to hold investments in it for the long term; however, this might not be practical in all cases. To reap the greatest benefit, the trust should be used more as a savings rather than a checking account for the long term. Many units set funds aside in a trust and continue to pay monthly benefits from other funds, allowing the trust assets to accumulate untouched until needed for future expenditures. Conceptually, the assets in the trust will be left to grow and will be used to subsidize future benefit payments as costs increase.

Units have several possibilities available to them regarding what investment vehicle they choose for their OPEB funds held in trust. One option is the Ancillary Governmental Participant Investment Program (AGPIP). Managed by the NC Department of State Treasurer Investment Management division (IMD), the AGPIP has been authorized by North Carolina law to help units benefit from low cost professional management of investments. Units will have a choice of three funds and will allocate money according to their preferences and policies. For more information on the AGPIP, please visit the [AGPIP web page](#) or contact IMD at AGPIP@nctreasurer.com.

Another option is to establish an investment held in trust outside of the AGPIP, with a local bank, for example. However, the AGPIP is the only investment option that gives units access to investments other than those currently permitted by GS 159-30. Whichever option is chosen, it is important to remember that any contributions to the trust must be made before the end of the fiscal year to reduce the reported OPEB liability. When planning the timing of contributions, units should allow enough time to accommodate any administrative functions to ensure that the deposit is complete before year end.

There are some other things to consider before setting assets aside, however. The decision is irreversible. One of the criteria in GASB 74 that a qualifying trust must meet is that contributions are irrevocable. Once funds are in the trust, they are no longer assets of the units and may not be used for general expenditures. There are some costs associated with properly setting up a trust as well. Units are encouraged to consult an attorney for legal advice.

Reporting

Units will be heavily reliant on their actuary for numbers used to report OPEB activity. It is crucial that all activity be reported in the trust. Generally speaking all contributions, net investment income, benefit payments, and administrative expenses associated with OPEB should be reported in the financial statements for the trust. For example, benefit payments, even if paid by another operating fund, must be included as an addition to and a deduction from the trust fund. See following example.

Payment arrangement	General Fund		Trust Fund	
	DR	CR	DR	CR
1) General Fund pays retiree directly	Expenditure - benefit payment	Cash	Deductions - benefit payment	Additions - Employer contributions
2) General Fund "transfers" money to Trust Fund and payments are paid from Trust Fund funds	Expenditure - contributions to Trust Fund	Cash	Cash	Additions - Employer contributions
			Deductions - benefit payment	Cash

Each unit will have its own approach to the practical administration of OPEB. Please contact the SLGFD staff with questions on specific arrangements within your unit.

If you have questions or need further guidance, please contact our staff at 919-814-4299.