**Financial Reporting of Other Postemployment Benefits—Towards More Transparency**

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**ABSTRACT**

Governments have seen extensive changes in the financial reporting of Other Postemployment Benefits (OPEB). The Governmental Accounting Standards Board (GASB) recently issued two new Exposure Drafts to further improve transparency and comparability. New GASB OPEB accounting standards will be adopted after the Exposure Drafts are approved. The purpose of this paper is to shed light on past and current reporting as well as how significantly GASB will change the way governments report their OPEB liabilities in the future through a comprehensive review of 12 U.S. counties’ reporting of OPEB obligations and unfunded liabilities from 2006 to 2013. Our research analyzes the stages of OPEB reporting from Pay-as-You-Go, to recognition of incremental net OPEB obligations, to requiring essentially all unfunded actuarially accrued liabilities to be recognized on governmental financial statements. We found inconsistencies in the 12 counties’ current use of discount rates and other actuarial methods, supporting GASB’s claims that the new standards will make governmental financial statements more comparable. Moreover, by examining current disclosures, we documented the likely magnitude of the increase in liabilities. Our study revealed, after the new GASB standards are implemented, reported OPEB liabilities may increase a sizable six times the amount that are currently disclosed.

**INTRODUCTION**

Although the impact of pension costs on municipal budgets and taxpayers has received a great deal of attention (Cable and Healy, 2011), the important issue of Other Postemployment Benefits (OPEB) often has been overlooked. Governmental Accounting Standards Board (GASB) Chair, David Vaudt stated, “OPEB – which consists of mainly health care benefits – represents a very significant liability for many state and local governments, one that is magnified because relatively few governments have set aside any assets to pay for those benefits” (GASB, 2014, p. 1). Because of this, Eyre observed that many of these liabilities have grown significantly over time (Eyre, 2013). A Pew Charitable Trust report presented an estimate of the funding shortfall. This report found that in addition to more than $750 billion in unfunded pension obligations, states had more than $625 billion unfunded heath care obligations, which make up the majority of OPEB promises(Tysiac, 2014)*.* Pew also studied the thirty largest municipalities and found that they had $225 billion in unfunded liabilities - $121 billion in pensions and $104 billion in retiree and other non-pension benefits (Gilroy, 2013).

David Vaudt stated, “It is vital, therefore, that taxpayers, policymakers, bond analysts, and others receive more and better information about these benefits so that they can better assess the financial obligations and annual costs related to the promise to provide OPEB” (GASB, 2014. p. 1). As a result, in May 2014, GASB issued two new Exposure Drafts. These Drafts are the first step in approving new accounting standards aimed to improve the current ones relating to financial reporting of OPEB by state and local governments.

The first Exposure Draft, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB Employer Exposure Draft), proposes guidance for reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The second Exposure Draft related to OPEB, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (OPEB Plan Exposure Draft), addresses the reporting by the OPEB plans that administer those benefits. Stakeholders were asked to provide their comments in late August 2014, and GASB will host public hearings on the Exposure Drafts in September 2014. New OPEB accounting standards will be approved and become effective in the fiscal year beginning December 15, 2015 for plan requirements and December 15, 2016 for employer requirements. David Vaudt stated, “These proposed standards will usher in for OPEB the same fundamental improvements in accounting and financial reporting approved by the Board in 2012 for pensions” (GASB, 2014, p. 1).

The purpose of this paper is to shed light on past and current reporting as well as how significantly governmental accounting will change the way governments report OPEB liabilities in the future through a comprehensive review of 12 U.S. counties’ reporting of OPEB obligations and unfunded liabilities from 2006 to 2013. This paper analyzes the stages of OPEB reporting from Pay-as-You-Go, to recognition of incremental net OPEB obligations, to requiring essentially all unfunded actuarially accrued liabilities to be recognized on governmental financial statements.

Two objectives of the new GASB Exposure Drafts include improving comparability and transparency. Our study found inconsistencies in the 12 U.S. counties’ current use of discount rates and other actuarial methods, supporting GASB’s claims that the new standards will make governmental financial statements more comparable. Moreover, by examining current disclosures, we documented the likely magnitude of the increase in OPEB liabilities.

**THE EVOLUTION OF OPEB REPORTING**

Prior to 2004, when GASB 43 and 45 were issued, OPEB expenses were reported on a Pay-as-You-Go basis. Accrual accounting for those expenses was not required. GASB 12 required descriptive disclosure information, including the annual expense amount. GASB 26 added additional schedules about the expenses and funding status of the plans. GASB 43 and GASB 45 were major updates in reporting requirements. Following the general principles of government pension reporting at that time, GASB 43 and GASB 45 set forth standards to address how governments should determine, account for, and report both the annual cost and the outstanding financial obligations relating to OPEB.

GASB 43 requires state and local governments to issue a Statement of Plan Net Assets and a Statement of Changes in Plan Assets and multiyear schedules in the notes to the financial statements. The first statement provides all the information about the composition of the assets, liabilities and net assets of the plan held in trusts for OPEB while the second statement tracks the year-to-year changes in plan net assets. The plans must report the current fund status as well as the most recent actuarial valuation date. GASB 43 requires that a defined benefit OPEB plan obtain an actuarial valuation (GASB, 2004). GASB 57 amends this requirement. This Standard states that the fund valuation can be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from the use of the alternative measurement method for individual-employer OPEB plans that are eligible (GASB, 2009).

Under GASB 45 (GASB, 2004) sole and agent employers recognize OPEB expense in an amount equal to annual OPEB cost in government-wide financial statements and in the financial statements of proprietary funds and fiduciary funds from which OPEB contributions are made. OPEB expenditures are recognized on a modified accrual basis in governmental financial statements. Net OPEB obligations, if any, including amounts associated with under- or over contributions from governmental funds, are displayed as liabilities (or assets) in government-wide financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made are displayed as liabilities (or assets) in the financial statements of those funds.

GASB 45 requires local and state governments to account for all OPEBs on an accrual accounting basis (i.e., when the employee earned the OPEB) rather than a pay-as-you-go basis. The pay-as-you-go method allowed employers to wait until the employee retired to begin paying for their OPEB. This method was misleading in that governments were paying employees for benefits they earned some time in the past. Governments were understating liabilities and expenses, as they were not reported on financial statements.

Governments with two hundred or more current and future beneficiaries perform valuations completed at least once every two years whereas governments with less than two hundred beneficiaries perform valuations on a triennial valuation basis. Those plans with less than one hundred beneficiaries are allowed to apply a simpler alternative measurement method.

Actuarial valuations are based on certain assumptions about the current and future costs of OPEBs. The actuary estimates the age and life span of retirees, the cost of medical claims by retirees and active employees, and the discount rate. GASB 45 requires that government’s actuarial valuations include the following liabilities:

1. Actuarial Accrued Liability (AAL) – this account is the present value of the future benefits attributable to prior years of service. The unfunded portion of the AAL is referred to as UAAL. The AAL and UAAL are not reported as a liability on the governments’ financial statements; however, they are disclosed in the notes to the financial statements. The AAL is compared to the actuarial value of the plan assets. If the AAL is greater than the actuarial value of the plan assets, the result is an UAAL.

2. Annually Required Contribution (ARC) – the amount of money the employer is required to contribute to the retiree benefit plans with adjustments for the cumulative under- or overfunding in previous years. The ARC is composed of two parts: (1) the normal cost for the year, which in turn comprises two elements: (a) liabilities for current retirees (under pay-as-you-go accounting) and (b) the present value of future benefits earned by active employees during that year, and (2) the amortized portion of the AAL.

Due to these significant changes in financial reporting, many governments now have substantial liabilities on their balance sheets. Commentators have conjectured that GASB 45 implementation would present “difficult challenges for the U.S. economy” (Zion and Varshney, 2007, p. 3). This bold statement stems from a known issue that the economic status of the United States is threatened by the rising costs of healthcare and the aging population (Zion and Varshney, 2007, p. 3). Many governmental financial statements have been negatively impacted, as their liabilities were increased and became more visible to stakeholders. As a result, many employers decided to cut costs or increase taxes in order to meet the obligations brought to light by this standard. Some employers reduced retirees’ medical costs by implementing and encouraging participation in wellness programs, disease management programs and prevention programs which essentially prevent the occurrence diseases and other serious illnesses that are more costly to treat once they have developed (Thoen and Wade 2008). This cost reducing option is a less harsh way that employers reduced costs without drastically impacting the benefits employees received. Some government employers insisted that employees share the health care costs in order to reduce their overall expense. As the cost of health care increases over time, some employers implemented a clause that restricted the amount of money they will pay in light of inflation or restricted the percentage increase on health care costs that they are willing to pay.

Some governments reduced costs by eliminating certain groups from reaping certain benefits. Changing the requirements for eligibility for benefits did this; “reduce-or even eliminate – benefits for early retirement or spouses” (Thoen and Wade, 2008, p. 42). This way, the employer saved a significant amount of money; enough to possibly cover the entire cost of GASB 45 compliance. Reducing the specific benefits offered within the medical plan and switching from defined benefit plans to defined contribution plans are two other ways employers have cut their costs in order to better manage the costs associated with potential GASB 45 liabilities.

Additionally, some governments may take more drastic measures in the future to continue to provide benefits for their employees. For example, a government may opt to raise its taxes for all residents and businesses in the state, town, or county. By doing so, the governments would have more income coming in that could be used to sustain its current level of OPEB. Governments may cut other services they provide in order to maintain its current state of operations. Governments may increase their income by issuing taxable OPEB obligation bonds. And, in a desperate cry for increased income, governments may sell or lease their assets, for example, “privatizing toll roads, lottery systems, etc.” (Zion and Varshney, 2007, p.4). New Jersey has “considered selling off the New Jersey Turnpike, its lottery and other revenue-producing assets” because its OPEB underfunding was estimated to be possibly be greater than its total assets (Zion and Varshney, 2007, p. 12). GASB 45 implementation has forced governments to rethink the way they go about funding for OPEB. In an effort to cut costs, they may now more seriously consider prefunding their OPEB plans through various new investments (Zion and Varshney, 2007, p. 3).

If the implementation of GASB 45 caused many changes in government behavior, the two new Exposure Drafts relating to OPEB issued in May 2014 (GASB 2014) and subsequent new GASB accounting standards will certainly bring about even more thinking as to how to tackle the challenges of reporting all unfunded AAL on the balance sheet. The OPEB Employer Exposure Draft proposes that governments be required to report a liability for the OPEB on the face of the financial statements. For governments that provide OPEB through a defined benefit OPEB plan administered through a trust meeting specified criteria, this liability would be the net OPEB liability (the difference between the total OPEB liability and net position accumulated in the trust). For governments that do not provide OPEB through such a trust, the total OPEB liability would be the liability reported by the government. The OPEB Employer Exposure Draft also proposes significant changes on how governments would calculate its OPEB liabilities and annual expenses. These proposed changes include:

* Discounting projected OPEB payments using:
  + The long-term expected rate of return on OPEB plan assets administered through a trust meeting specified criteria to the extent that plan assets are expected to be available to make projected benefit payments and be invested using a strategy to achieve that return
  + A 20-year tax-exempt, high-quality general obligation municipal bond yield or index rate to the extent that the conditions above are not met
* Use of a single actuarial cost allocation method (i.e., “entry age actuarial cost method”)
* Immediate recognition of additional components of OPEB expense
* Requiring governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities.

The Employer Exposure Draft also proposes to continue an option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive) in order to reduce costs for smaller governments. It requires a 10-year schedule that separately presents:

* The total OPEB liability
* The OPEB plan’s fiduciary net position
* The net OPEB liability
* The OPEB plan’s fiduciary net position as a percentage of the total OPEB liability
* The covered-employee payroll
* The net OPEB liability as a percentage of the total OPEB liability
* In special funding situations, both the employer and non-employer contributing entities’ total proportionate share (amount) of the collective net OPEB liability.

The OPEB Employer Exposure Draft (and subsequent standard) would supersede the accounting and financial reporting requirements of GASB 45, while the OPEB Plan Exposure Draft (and subsequent standard) would supersede the requirements of GASB 43 and 57.  The OPEB Plan accounting standard would be effective for periods beginning after December 15, 2015, and the OPEB Employer accounting standard would be effective for periods beginning after December 15, 2016.

**METHODOLOGY** **AND RESULTS**

We first compared the requirements of GASB 45 and the GASB Employer Exposure Draft. Table 1 presents the important differences.

**Table 1: Comparison of GASB 45 and the Employer Exposure Draft**

| **Features** | **GASB 45** | **New Exposure Draft** | **Remarks** |
| --- | --- | --- | --- |
| **Reporting liability on Balance Sheet** | Incremental Net OPEB Obligation | Net OPEB Liability (NOL, essentially the entire unfunded liability) | This is a significant change |
| **Discount rate** | Various | Based on a projection of whether the employer’s current assets plus projected contributions are expected to cover current plan members’ future benefit payments | Stricter, two discounting methods allowed |
| **Actuarial allocation of liabilities** | 6 methods allowed-- Selection of actuarial assumptions, including the healthcare cost trend rate for postemployment healthcare plans, be guided by applicable actuarial standards | Use of a single actuarial cost allocation method (“entry age actuarial cost method”) to allocate liabilities between past and future service periods | Makes liabilities more comparable |
| **OPEB expenses** | 30 year open amortizations | Immediate recognition of additional components of OPEB expense | Accelerated recognition of liability changes in OPEB expense |
| **Disclosure** | Contributions, funded status, and the basis for selecting actuarial assumptions | Enhanced disclosures of historical contributions, funded status, and the basis for selecting actuarial assumptions | More extensive |
| **Funding and accounting** | Annual Required Contribution (ARC) | Separate funding from accounting | Funding and accounting are officially separated; no more ARC. |
| **Frequency of actuarial valuation** | Biennial with triennial option for employers with fewer than 200 members | At least biennial | Eliminated the triennial option |

**Table 2: Data for 12 Counties in 2006**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| State | Name | AAL$ 06 | ARC$ 06 | PAYGO | Discount rate | Population | FTEs |
| PA | Chester |  |  | 645,060 | 5% | 482,112 | 2,290 |
| NV | Clark | 372,300,793 | 49,674,823 |  | 4% | 1,777,539 | 18,705 |
| VA | Fairfax | 143,321,000 | 15,196,000 |  | 7.50% | 1,010,443 | 10,999 |
| GA | Gwinnett | 139,840,000 | 13,560,000 |  | 6% | 757,104 | 4,586 |
| TX | Harris | 834,000,000 | 90,000,000 | yes | 7% | 3,886,207 | 15,840 |
| FL | Hillsborough | 99,724,110 | 8,154,863 | $2.1m | 4.50% | 1,157,738 | 10,429 |
| NC | Mecklenburg | 141,825,529 | 14,696,388 | $4.7m | 7.50% | 827,445 | 4,282 |
| MD | Montgomery | 2,600,000,000 | 240,000,000 |  | 7.5-8% | 932,131 | 9,089 |
| OR | Multnomah | 109,900,000 | 12,700,000 | $3.2m |  | 681,454 | 4,281 |
| MI | Oakland | 829,700,000 | 60,200,000 |  | 7.50% | 1,214,255 | 4,536 |
| TN | Shelby | 267,362,000 | 28,222,000 |  | 5.25% | 911,438 | 6,277 |
| CA | Sonoma | 381,583,171 | 37,161,214 | yes | 8 | 466,891 | 4,154 |

Source: Summarized from the Sanford 2007 survey.

To conduct our analysis, we accessed the Comprehensive Annual Financial Reports (CAFR) for the 12 U.S. counties for the years 2006 to 2013. We extracted information from footnotes and Required Supplemental Information (RSI) for each of the 12 counties. Compared to Table 2 when counties started to implement GASB 45, disclosures have become much enhanced with more categories added. In years after the initial reporting of ARC, governments started using Annual OPEB Cost (AOC) in their disclosures. Due to the differences in the size of the counties, reporting percentages provide a basis of comparison among our sample.

**Table 3: Annual OPEB Cost, 2006 - 2013**

| **County** | **Fiscal year** | **AOC (Annual OPEB cost)** | **Actual contribution** | **% of AOC contributed** | **Increase in OPEB obligation** | **Net OPEB obligation balance** | **Discount rate** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Chester | 2006 | 647,000 | 645,060 | 99.70% | 1,940 | 1,940 |  |
| Chester | 2007 | 647,000 | 647,482 | 100.07% | (482) | 1,458 |  |
| Chester | 2008 | 588,349 | 524,037 | 89.07% | 64,312 | 65,770 | 5% |
| Chester | 2009 | 588,349 | 389,674 | 66.23% | 198,675 | 264,445 | 5% |
| Chester | 2010 | 450,445 | 107,553 | 23.88% | 977,642 | 1,242,087 |  |
| Chester | 2011 | 447,771 | 237,880 | 53.13% | 209,891 | 1,451,978 |  |
| Chester | 2012 | 490,889 | 206,400 | 42.05% | 284,489 | 1,736,467 |  |
| Clark | 2008 | 39,526,617 | 8,893,489 | 22.50% | 30,633,128 | 34,385,709 | 4.00% |
| Clark | 2009 | 45,137,935 | 6,361,423 | 14.10% | 38,776,512 | 73,162,221 |  |
| Clark | 2010 | 51,088,752 | 6,310,461 | 12.40% | 44,778,291 | 117,940,512 |  |
| Clark | 2011 | 79,237,356 | 7,947,782 | 10% | 71,289,574 | 189,230,086 |  |
| Clark | 2012 | 78,338,302 | 6,679,395 | 8.50% | 71,658,907 | 251,163,322 |  |
| Clark | 2013 | 76,335,351 | 8,982,188 | 11.80% | 67,353,163 | 318,516,485 |  |
| Fairfax | 2009 | 24,764,000 | 21,557,000 | 87% | 3,207,000 | (23,825,610) |  |
| Fairfax | 2010 | 32,091,000 | 17,771,000 | 55% | 14,320,000 | (9,505,610) |  |
| Fairfax | 2011 | 35,189,000 | 21,004,000 | 60% | 14,185,000 | 4,679,390 |  |
| Fairfax | 2012 | 37,700,000 | 44,421,000 | 118% | (6,721,000) | (2,041,610) |  |
| Fairfax | 2013 | 38,832,000 | 38,306,000 | 99% | 526,000 | (1,515,610) | 7.5% |
| Gwinnett | 2007 | 15,305,000 | 21,714,000 | 142% | (6,409,000) | (6,409,000) |  |
| Gwinnett | 2008 | 15,234,691 | 14,574,000 | 96% | 660,691 | (5,748,229) | 7.00% |
| Gwinnett | 2009 | 14,244,718 | 16,520,683 | 116% | (2,275,965) | (8,024,194) |  |
| Gwinnett | 2010 | 15,097,989 | 26,840,151 | 178% | (11,742,162) | (19,766,356) |  |
| Gwinnett | 2011 | 15,956,178 | 24,312,764 | 152% | (8,356,586) | (28,122,942) |  |
| Gwinnett | 2012 | 15,216,243 | 16,876,530 | 111% | (1,660,287) | (29,783,229) |  |
| Harris | 2008 | 97,628,162 | 27,418,754 | 28% | 70,209,408 | 70,209,408 | 5.25% |
| Harris | 2009 | 96,615,958 | 26,823,612 | 28% | 69,792,346 | 140,001,754 | 5% |
| Harris | 2010 | 89,338,513 | 30,407,276 | 34% | 58,931,237 | 198,932,991 |  |
| Harris | 2011 | 88,451,513 | 33,588,280 | 38% | 54,863,233 | 253,796,224 |  |
| Harris | 2012 | 92,618,903 | 38,812,133 | 42% | 53,806,770 | 307,602,994 |  |
| Harris | 2013 | 91,773,629 | 38,172,557 | 42% | 53,601,072 | 361,204,066 | 4.75% |
| Hillsborough | 2008 | 8,958,000 | 3,965,000 | 44% | 3,965,000 | 4,993,000 | 4.5% |
| Hillsborough | 2009 | 5,204,000 | 4,111,000 | 76% | 1,093,000 | 6,086,000 | 3.5% |
| Hillsborough | 2010 | 5,544,000 | 4,476,000 | 81% | 1,068,000 | 7,154,000 | 4.5% |
| Hillsborough | 2011 | 5,973,000 | 4,206,000 | 70% | 1,767,000 | 8,921,000 | 4.5% |
| Hillsborough | 2012 | 6,269,000 | 3,510,000 | 56% | 2,759,000 | 11,680,000 | 4.5% |
| Hillsborough | 2013 | 6,047,000 | 5,266,000 | 87% | 781,000 | 12,461,000 | 4.5% |
| Mecklenburg | 2008 | 14,696,388 | 14,696,388 | 100.00% | - | - | 7.5% |
| Mecklenburg | 2009 | 16,708,724 | 16,102,222 | 96.37% | 606,502 | 606,502 | 7.5% |
| Mecklenburg | 2010 | 16,715,920 | 16,002,628 | 95.73% | 713,292 | 1,316,182 |  |
| Mecklenburg | 2011 | 32,253,235 | 6,788,811 | 21.05% | 25,464,424 | 26,780,606 | 3.5% |
| Mecklenburg | 2012 | 38,654,483 | 15,663,056 | 40.52% | 22,991,427 | 49,772,033 |  |
| Mecklenburg | 2013 | 48,172,622 | 15,476,590 | 32.13% | 32,696,032 | 82,468,065 |  |
| Montgomery | 2008 | 102,320,000 | 43,721,209 | 42.73% | 58,598,791 | 58,598,791 | 8% |
| Montgomery | 2009 | 113,139,000 | 58,202,852 | 51.44% | 54,936,148 | 113,534,939 | 8% |
| Montgomery | 2010 | 109,738,000 | 42,560,350 | 38.78% | 67,177,650 | 180,712,589 | 8% |
| Montgomery | 2011 | 150,836,000 | 44,051,098 | 29.20% | 106,784,902 | 287,497,491 | 6% |
| Montgomery | 2012 | 161,060,000 | 67,863,681 | 42.14% | 93,196,319 | 380,693,810 | 6.0% |
| Montgomery | 2013 | 138,891,000 | 90,526,766 | 65.18% | 48,364,234 | 429,058,044 | 7.5% |
| Multnomah | 2004 | 9,165,000 | 1,833,000 | 20.00% | 7,332,000 | 23,335,000 |  |
| Multnomah | 2005 | 12,438,000 | 2,238,840 | 18.00% | 10,199,160 | 34,099,000 | 3.5% |
| Multnomah | 2006 | 12,716,000 | 2,073,000 | 16.30% | 10,643,000 | 44,742,000 |  |
| Multnomah | 2007 | 15,083,000 | 1,835,000 | 12.17% | 13,248,000 | 57,990,000 | 4.5% |
| Multnomah | 2008 | 14,902,000 | 2,756,000 | 18.49% | 12,146,000 | 70,136,000 |  |
| Multnomah | 2009 | 12,232,000 | 2,195,000 | 17.94% | 10,037,000 | 80,173,000 | 4.5% |
| Multnomah | 2010 | 12,313,000 | 2,438,000 | 19.80% | 9,875,000 | 90,048,000 |  |
| Multnomah | 2011 | 14,689,000 | 7,334,000 | 49.93% | 7,355,000 | 97,403,000 | 4.0% |
| Multnomah | 2012 | 15,260,000 | 7,476,000 | 48.99% | 7,784,000 | 105,187,000 |  |
| Multnomah | 2013 | 11,980,000 | 6,467,000 | 53.98% | 5,513,000 | 110,700,000 | 3.5% |
| Oakland | 2006 | 37,488,000 | 37,488,000 | 100% |  |  |  |
| Oakland | 2007 | 54,780,659 | 54,780,659 | 100% |  |  | 7.5% |
| Oakland | 2008 | 60,200,684 | 60,200,684 | 100% |  |  | 7.5% |
| Oakland | 2009 | 61,863,580 | 61,863,580 | 100% |  |  | 7.5% |
| Oakland | 2010 | 45,839,484 | - | 0% |  | 364,912,625) | 7.5% |
| Oakland | 2011 | 37,116,312 | - | 0% |  | (327,796,313) | 7.5% |
| Oakland | 2012 | 27,858,341 | - | 0% | 27,858,341 | 299,937,972) | 7.5% |
| Oakland | 2013 | 28,359,365 | - | 0% | 101,694,365 | (198,243,607) | 7.5% |
| Shelby | 2008 | 34,227,000 | 42,228,042 | 123% | (8,001,042) | (8,001,042) |  |
| Shelby | 2009 | 31,600,000 | 18,329,123 | 58% | 13,270,877 | 5,269,835 |  |
| Shelby | 2010 | 29,007,000 | 20,611,575 | 71% | 8,395,425 | 13,665,260 |  |
| Shelby | 2011 | 30,122,000 | 24,850,458 | 82% | 5,271,542 | 18,936,802 |  |
| Shelby | 2012 | 26,928,000 | 31,914,109 | 119% | (4,986,109) | 13,950,693 |  |
| Shelby | 2013 | 32,983,377 | 29,232,920 | 89% | 3,750,457 | 17,701,150 |  |
| Sonoma | 2008 | 37,039,000 | 19,543,000 | 53% | 17,496,000 | 17,496,000 |  |
| Sonoma | 2009 | 39,009,000 | 21,982,000 | 56% | 17,027,000 | 34,523,000 |  |
| Sonoma | 2010 | 22,548,000 | 18,226,000 | 81% | 4,322,000 | 38,845,000 |  |
| Sonoma | 2011 | 24,465,000 | 23,042,000 | 94% | 1,423,000 | 40,268,000 |  |
| Sonoma | 2012 | 26,313,000 | 21,814,000 | 83% | 4,499,000 | 44,767,000 |  |
| Sonoma | 2013 | 27,692,000 | 21,851,000 | 79% | 5,841,000 | 50,608,000 |  |

*Variable definitions: AOC = ARC+interest on Net OPEB obligation- adjustment for annual required contribution (ARC); Increase in net OPEB Obligation = AOC-Contribution; % of AOC contributed = actual contribution/AOC. It measures the amount actually contributed as a % of Annual OPEB Cost.*

Table 3 shows that the OPEB balance for most counties is increasing steadily. Note that a negative balance means there is a net asset rather than an obligation. For Oakland County (note earlier years’ OPEB balances are not available), beginning in 2010, the Interim Retiree Health Care trust is treated as a trust fund, and included in OPEB Plan Assets. Oakland has 0% contribution because it overfunds its OPEB cost. Even with a net asset, Oakland’s asset balance is decreasing over the years. One exception is Gwinnett because it prefunds its OPEB. It is showing a trend of an increasing net asset.

The Employer Exposure Draft requires essentially all UAAL be reported on the balance sheet. As our next table shows, the UAAL is a much larger number compared to the current incremental net OPEB obligations. It will be interesting to see the differences in the amount between the current OPEB obligation and the new OPEB liabilities to be reported on future financial statements.

There is no pattern in the percentage of AOC contributed, ranging from 18% to over 178%. Within the same county, there is also variation in percentages contributed. Since the Employer Exposure Draft separates funding from accounting and removes ARC, such percentages may not be reported anymore, but variations in funding percentages shed light on what governments are doing to meet their funding and financial reporting requirements.

Discount rates used by counties vary significantly, from 3.5% to 8%, confirming concerns that the variation in discount rates makes reporting unreliable. The Exposure Drafts address this issue when they reduce the variation in the discount rates used. Rates will be more consistently applied, making governmental financial information more comparable.

Since the Employer Exposure Draft essentially requires all UAAL be recognized on the balance sheet, we reported the current amount of UAAL from accessing the Required Supplemental Information (RSI). An analysis of the 12 counties shows that none of the counties experienced a consistent increase in AAL and UAAL between the years 2006 to 2013. The AAL and UAAL of most counties analyzed were volatile with no visible consistent pattern.

Of particular interest is the variation in funded ratio, from 0% to 118%. As expected, overall covered payroll has been steadily increasing over the years. However, there is no discernable pattern in the UAAL as a percentage of covered payrolls, as it ranged from 18% to 200%. In Oakland, due to overfunding (negative percentage) beginning in 2010, the percentage ranges from 262% prior to 2010 to -100% in 2013.

If we compare the current OPEB obligations in Table 3 with the UAAL in Table 4, we see dramatic increases of liabilities if almost all UAAL are to be recognized on the balance sheet. For example, in 2013, Mecklenburg reports its OPEB Obligation of $82,468, 065, but if it were to report the UAAL on the balance sheet, it would have been $441,887,035. The average OPEB obligation for all counties from 2006 to 2013 is $49,500,345, a fraction of the average UAAL, $352,469,500. Importantly, almost every county will need to report a significant increase in liabilities under the Employer Exposure Draft, if the UAAL in Table 4 is essentially the amount that will be shown on governmental financial statements. Our study revealed that the average magnitude of this increase would be approximately six times the amount currently reported.

Given that GASB 45 already made governments reconsider some of their health benefit plans in order to cut costs, we wonder if the new standards will cause governments to further reevaluate the cost of offering OPEB plans. It remains to be seen whether what drastic measures, if any, governments will take to reduce their potential liabilities.

**Table 4: AAL, UAAL and Percentage of Covered Payroll, 2006-2013**

| **County** | **Actuarial Valuation Date** | **Actuarial Value of Assets $ (a)** | **Actuarial Accrued Liability (AAL) $ (b)** | **Unfunded AAL (UAAL) (b-a)** | **Funded Ratio (a/b)** | **Covered Payroll (c)** | **% of Covered Payroll ((b-a)/c)** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Chester | 2006 | - | 4,398,000 | 4,398,000 | 0% | 85,371,000 | 5% |
| Chester | 2008 | - | 3,901,184 | 3,901,184 | 0% | 105,176,504 | 4% |
| Chester | 2010 | - | 3,289,672 | 3,289,672 | 0% | 107,176,528 | 3% |
| Chester | 2012 | - | 3,923,000 | 3,923,000 | 0% | 102,091,544 | 4% |
| Clark | 2006 | - | 369,159,987 | 369,159,987 | 0% | 713,875,929 | 52% |
| Clark | 2008 | - | 447,990,595 | 447,990,595 | 0% | 766,272,363 | 59% |
| Clark | 2010 | - | 693,803,547 | 693,803,547 | 0% | 765,110,216 | 91% |
| Clark | 2012 | - | 732,005,639 | 732,005,639 | 0% | 739,832,130 | 99% |
| Fairfax | 2007 | - | 379,856,000 | 379,856,000 | 0% | 650,106,000 | 58% |
| Fairfax | 2008 | 48,207,000 | 350,709,000 | 302,502,000 | 14% | 697,253,000 | 43% |
| Fairfax | 2009 | 50,233,000 | 441,286,000 | 391,053,000 | 11% | 761,303,000 | 51% |
| Fairfax | 2010 | 60,473,000 | 489,203,000 | 428,730,000 | 12% | 777,040,000 | 55% |
| Fairfax | 2011 | 80,087,000 | 474,229,000 | 394,142,000 | 17% | 799,500,000 | 49% |
| Fairfax | 2012 | 103,270,000 | 503,786,000 | 400,516,000 | 20% | 824,504,000 | 49% |
| Gwinnett | 2006 | - | 163,211,000 | 163,211,000 | 0% | 190,897,000 | 85% |
| Gwinnett | 2007 | 16,646,000 | 159,202,000 | 142,556,000 | 10% | 213,050,000 | 67% |
| Gwinnett | 2008 | 17,788,000 | 166,922,000 | 149,134,000 | 11% | 225,465,000 | 66% |
| Gwinnett | 2009 | 28,135,000 | 200,041,182 | 171,906,182 | 14% | 212,204,479 | 81% |
| Gwinnett | 2010 | 51,362,000 | 194,311,000 | 142,949,000 | 26% | 219,527,000 | 65% |
| Gwinnett | 2011 | 68,117,000 | 155,737,000 | 87,620,000 | 44% | 211,636,000 | 41% |
| Gwinnett | 2012 | 87,136,272 | 154,126,909 | 66,990,637 | 57% | 210,699,665 | 32% |
| Harris | 2008 | - | 852,350,950 | 852,350,950 | 0% | 698,535,669 | 122% |
| Harris | 2009 | - | 852,350,950 | 852,350,950 | 0% | 760,995,816 | 112% |
| Harris | 2010 | - | 859,681,747 | 859,681,747 | 0% | 766,400,980 | 112% |
| Harris | 2011 | - | 859,681,747 | 859,681,747 | 0% | 722,468,180 | 119% |
| Harris | 2012 | - | 976,631,331 | 976,631,331 | 0% | 751,741,400 | 130% |
| Harris | 2013 | - | 976,631,331 | 976,631,331 | 0% | 727,014,798 | 134% |
| Hillsborough | 2008 | - | 118,543,000 | 118,543,000 | 0% | 537,882,000 | 22% |
| Hillsborough | 2009 | - | 60,978,000 | 60,978,000 | 0% | 541,162,000 | 11% |
| Hillsborough | 2010 | - | 63,944,000 | 63,944,000 | 0% | 520,719,000 | 12% |
| Hillsborough | 2011 | - | 62,197,000 | 62,197,000 | 0% | 501,910,000 | 12% |
| Hillsborough | 2012 | - | 62,507,000 | 62,507,000 | 0% | 499,426,000 | 13% |
| Hillsborough | 2013 | - | 79,965,000 | 79,965,000 | 0% | 507,657,000 | 16% |
| Mecklenburg | 2007 | - | 141,825,529 | 141,825,529 | 0% | 196,700,000 | 72% |
| Mecklenburg | 2008 | 8,770,000 | 176,699,985 | 167,929,985 | 5% | 204,000,000 | 82% |
| Mecklenburg | 2009 | 20,453,803 | 181,646,055 | 161,192,252 | 11% | 223,100,000 | 72% |
| Mecklenburg | 2010 | 30,403,865 | 383,025,283 | 352,621,418 | 8% | 214,800,000 | 164% |
| Mecklenburg | 2011 | 32,792,954 | 387,947,405 | 355,154,451 | 8% | 214,550,188 | 166% |
| Mecklenburg | 2012 | 38,317,546 | 463,282,925 | 424,965,379 | 8% | 210,482,384 | 202% |
| Mecklenburg | 2013 | 48,536,553 | 490,423,588 | 441,887,035 | 10% | 227,162,263 | 195% |
| Montgomery | 2007 | - | 1,176,000,000 | 1,176,000,000 | 0% | 602,006,000 | 195% |
| Montgomery | 2008 | 35,279,000 | 1,161,222,000 | 1,125,943,000 | 3% | 667,400,000 | 169% |
| Montgomery | 2010 | 47,962,000 | 1,859,450,000 | 1,811,488,000 | 3% | 694,040,000 | 261% |
| Montgomery | 2012 | 92,610,000 | 1,403,693,000 | 1,311,083,000 | 7% | 618,227,000 | 212% |
| Multnomah | 2002 | - | 61,290,000 | 61,290,000 | 0% | 212,833,000 | 29% |
| Multnomah | 2005 | - | 109,895,000 | 109,895,000 | 0% | 228,597,000 | 48% |
| Multnomah | 2007 | - | 122,905,000 | 122,905,000 | 0% | 246,343,000 | 50% |
| Multnomah | 2009 | - | 122,605,000 | 122,605,000 | 0% | 263,090,000 | 47% |
| Multnomah | 2011 | - | 154,198,000 | 154,198,000 | 0% | 273,983,000 | 56% |
| Multnomah | 2013 | - | 134,712,000 | 134,712,000 | 0% | 278,474,000 | 48% |
| Oakland | 2006 | 303,053,196 | 829,684,653 | 526,631,457 | 37% | 201,019,205 | 262% |
| Oakland | 2007 | 366,334,143 | 886,143,963 | 519,809,820 | 41% | 200,409,433 | 259% |
| Oakland | 2008 | 411,280,137 | 888,582,402 | 477,302,265 | 46% | 186,274,882 | 256% |
| Oakland | 2009 | 452,506,005 | 818,854,197 | 366,348,192 | 55% | 180,539,069 | 203% |
| Oakland | 2010 | 854,387,415 | 794,094,818 | (60,292,597) | 108% | 175,316,170 | -34% |
| Oakland | 2011 | 854,534,524 | 814,581,872 | (39,952,652) | 105% | 173,903,452 | -23% |
| Oakland | 2012 | 942,378,801 | 867,622,212 | (74,756,589) | 109% | 162,819,440 | -46% |
| Oakland | 2013 | 1,023,100,574 | 869,485,146 | (153,615,428) | 118% | 154,128,944 | -100% |
| Shelby | 2007 | - | 319,685,000 | 319,685,000 | 0% | 218,583,000 | 146% |
| Shelby | 2008 | 36,770,000 | 310,527,000 | 273,757,000 | 12% | 256,191,000 | 107% |
| Shelby | 2009 | 45,847,000 | 303,390,000 | 257,543,000 | 15% | 248,298,000 | 104% |
| Shelby | 2010 | 61,592,000 | 322,954,000 | 261,362,000 | 19% | 253,977,000 | 103% |
| Shelby | 2011 | 88,232,000 | 320,558,000 | 232,326,000 | 28% | 252,878,000 | 92% |
| Shelby | 2012 | 105,472,000 | 410,938,000 | 305,466,000 | 26% | 241,767,000 | 126% |
| Sonoma | 2007 | 7,000,000 | 414,419,000 | 407,419,000 | 2% | 286,742,000 | 142% |
| Sonoma | 2009 | 9,716,000 | 268,454,000 | 258,738,000 | 4% | 308,594,000 | 84% |
| Sonoma | 2011 | 19,046,000 | 316,737,000 | 297,691,000 | 6% | 314,045,000 | 95% |
| Sonoma | 2013 | 23,694,000 | 335,364,000 | 311,670,000 | 7% | 327,651,000 | 95% |

*Variable definitions: AAL (Actuarial Accrued Liability) is the present value of the future benefits attributable to prior years of service; UAAL=AAL - Actuarial Value of Plan Assets*

**CONCLUSIONS**

In this study, we explored the three stages of reporting OPEB liabilities. In the first stage, pay-as-you-go, OPEB liabilities were recognized on the cash versus the accrual basis of accounting. In the second stage, ushered in by GASB 45, governments used the accrual basis of accounting for recognition of incremental OPEB obligations and provided extensive supplemental information. GASB 45 also made governments reevaluate plan offerings and funding policies. In the third stage, the two Exposure Drafts and subsequent two new GASB standards, balance sheet recognition of essentially all unfunded liabilities and more stringent use of actuarial methods will be required. Future research may track the changes in governmental financial statements after the implementation of the new GASB standards.

Our study found inconsistencies in the way 12 U.S. counties used discount rates and other actuarial methods, supporting GASB’s claims that the new standards will make governmental financial statements more comparable. Moreover, by examining current disclosures, we documented the likely magnitude of the increase in liabilities. Our study revealed, after the new GASB standards are implemented, reported OPEB liabilities may increase a whopping seven times the amount that they are currently reported. We believe the new GASB standards will improve the accountability and transparency of reporting OPEB. Governmental financial statements will become more useful for future decision-making by policymakers, investors and other stakeholders.

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