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Statement of Position

Other Post-Employment Benefits (OPEB) for Local Governments

Based on GASB Statement No. 75

Background

Public entities that provide health and dental benefits to their employees are required to make those same benefits available to retirees. Under Minn. Stat. § 471.61, subd. 2b, public entities cannot create a separate group for retirees. The Government Accounting Standards Board (GASB) has concluded that this type of arrangement involves an “implicit subsidy” because premiums paid by the employer for current employees are based on a pool that consists of both current employees and retired employees. It is presumed that the premium charged for the group is higher due to the inclusions of retirees.

Since the implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, state and local governments were required to consider the impact of any OPEB liability on their financial reporting. For many small governments, the requirements of GASB 45 were considered immaterial. For many public entities in Minnesota, the only OPEB liability is this implicit rate subsidy. However, with the implementation of GASB 75, which replaces much of GASB 45, the total OPEB liability has greater potential to be material to their financial statements.

Need for Actuarial Valuations

Small public entities that are required to report in accordance with generally accepted accounting principles (GAAP) also are subject to OPEB reporting requirements. Unlike pension plans, OPEB plans in Minnesota generally are not centrally administered and there is no single actuarial valuation. Many local governments who provide OPEB will need to arrange for an actuarial valuation. GASB does allow for an alternative measurement method valuation. This is an alternative to a professional actuarial valuation and is specified by paragraphs 225 and 226 of GASB 75, as amended by GASB Statement No. 85, *Omnibus 2017* paragraphs 16 and 17. The alternative measurement method uses simplified assumptions and calculations. It can be used to measure the total

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This Statement of Position is not legal advice and is subject to revision.

An Equal Opportunity Employer

OPEB liability if the public entity has fewer than 100 plan members (including active employees and retirees) as of the beginning of the year.

Some public entities may wish to calculate the total OPEB liability using the alternative measurement method but may not have the time or expertise needed to do so. Those public entities should seek the assistance of an actuary or other knowledgeable professional, excluding their independent external auditor, to calculate the total OPEB liability using the alternative measurement method. The entity's external auditor should be excluded because of the impact on the auditor's independence.

No OPEB Plan?

Some public entities in Minnesota do not offer insurance for health and dental, but instead offer contributions for employees to externally locate and purchase insurance in a plan that is not associated with the public entity. In this scenario, assuming the public entity does not offer contributions or other benefits to retirees, there is no OPEB liability to report and an OPEB measurement is not necessary. However, a public entity that offers flat rate contributions that allows employees to purchase insurance offered by the public entity would be subject to GASB 75 requirements.

Experience Rated as a Single Pool

Sometimes public entities allow other, generally smaller, public entities' employees to purchase health or dental coverage offered to its own employees. Under GASB 75, unless there is a trust that is accumulating assets for both employers that meet the definition of paragraph 4 of GASB 75, this relationship probably does not qualify as a cost-sharing multiple employer defined benefit plan, and thus, each entity would be classified as a single employer defined benefit plan. As such, each employer is separately required to measure and determine its OPEB liability.

No Retirees in the Plan

Despite state statute allowing retirees to continue health and dental coverage under public entities' health plans, many public entities have not experienced retirees continuing on the plan after retirement. While the experience of the plan may have a significant impact on the OPEB liability, the historical experience of retirees staying on the plan alone may not be representative of future outcomes. Under GASB 75, the liability is recognized when earned by the employee rather than showing the full cost when paid during retirement years. Because of this, to ensure compliance with GASB 75, it is recommended that all public entities providing health and dental benefits to their employees measure its OPEB liability. If the amounts are determined to be immaterial, the entity should then determine reasonable timeframes to "recheck" that amounts continue to be immaterial to the fair presentation of their financial statements.