

GASB

Frequently Asked Questions



What are GASB and OPEB?

GASB is the **G**overnment **A**ccounting **S**tandards **B**oard, an organization that establishes standards of financial accounting and reporting for U.S. state and local governments. OPEB is **O**ther (than pension) **P**ost **E**mployment **B**enefits. Benefits defined as OPEB can be medical, prescription drug, dental, vision, hearing, life insurance and long-term care, or any coverage paid by the plan sponsor after active employee service.

Who is affected by GASB?

Governmental employer groups such as: state and local governments, public employee retirement systems, state universities, state hospitals, and utility companies.

What is the difference between GASB 43 and 45?

GASB 43 applies to entities with a separate trust established in order to pre-fund OPEB benefits referred to, in GASB regulations, as plans. Those entities identified as plans are plans of State and local governments (i.e. State Teachers Retirement Plan), dedicated trusts, or other third parties acting as trustee. GASB 45 applies to governmental employer groups listed above.

When must employers comply with GASB reporting regulations pertaining to OPEB?

GASB is implementing the reporting of OPEB in phases. The phase in which an employer must comply is based upon annual revenue reported in the first fiscal year ending after June 15, 2003. The following illustrates compliance dates (GASB 45). Plans (GASB 43) will need to comply one year prior to these dates.

- Phase I - for employers with annual revenues greater than 100 million dollars is for fiscal years beginning after December 15, 2006.
- Phase II – for employers with annual revenues between 10 million and 100 million dollars is for fiscal years beginning after December 15, 2007.
- Phase III – for employers with annual revenues less than 10 million dollars is for fiscal years beginning after December 15, 2008.

What is the purpose of GASB OPEB?

GASB began reviewing OPEB due to the growing concern of the potential magnitude of employer obligations. The reporting of OPEB will:

- Recognize the cost of benefits in the period when services are received.

- Provide information about the actuarial liabilities for the promised benefits.
- Provide information useful in assessing potential demands on future cash flows.

Does the GASB OPEB liability require funding?

No. At this point, GASB only requires that the OPEB liability be recognized through disclosure within the financial reports.

What is an implicit subsidy?

GASB requires that the true rates for retiree benefits be identified. Currently, many employers provide benefits for actives and retirees under one rating structure. Because retirees utilize benefits at a greater rate than the active population, the active employees are “implicitly” subsidizing the retirees’ cost of the plan of benefits.

GASB requires that an employer utilize actual experience or actuarial adjustments in order to calculate the true cost of retiree benefits in order to calculate the present value of the retiree benefits.

For example: Assume the average cost of benefits is \$100 for the total active and retired population. Currently, the employer requires the retirees to contribute the “full” cost of the plan, or \$100. After analyzing the claims experience it is discovered that the retiree population’s average cost is \$175. The difference between the retiree’s average cost and the combined population average cost, \$75, is the employer’s implicit rate subsidy. GASB requires the implicit rate subsidy be recognized in calculating the OPEB liability.

Is there a limit regarding how long the liability can be amortized?

Yes. Liabilities cannot be amortized for more than 30 years, or less than 10 years.

How often does GASB require an actuarial valuation of the OPEB benefits?

If the plan has more than 200 participants, active and retired, valuation is required every two years – three years for plans with less than 200 active and retired participants.

How will GASB OPEB regulations affect an organization’s plan of benefits?

GASB will have a significant affect. These regulations will:

- Bring the aging of our population to the forefront;
- Apply additional fiscal pressures on an already tight municipal budget;
- Bring the scrutiny of tax-payers and public officials;
- Force consideration of plan re-design; and
- Force a separation of active and retiree benefits plans.

What vehicles can I utilize to pre-fund the OPEB liabilities?

The following vehicles may be utilized:

- Employer general asset accounts – These are easy to set up and allow the employer flexibility. However, contributions are only permitted on an after tax basis.
- State Law Grantor Trusts – There is flexibility in funding and plan design and the trust assets may be limited to the exclusive benefits of the employee. However, employee contributions are only on an after tax basis and varying State laws may effect establishment and governance.
- IRC Section 501(c)(9) Trusts, or Voluntary Employees' Beneficiary Association Trusts (VEBA) – Plan design and funding is flexible. Assets are utilized for the specific purpose of providing certain defined benefits. However, there are limits on the types of benefits offered. Employee contributions are made on an after tax basis and may have differing limits for union and non-union members.
- Section 401(h), Retiree medical accounts within a pension plan – Employee contributions are made on a pre-tax basis, but all eligible employees must participate. Excess assets at the time of termination revert to the employer. Contributions may be limited based upon employer's pension funding status.
- Health Reimbursement Arrangements (HRA) – Promotes health consumerism and balances can be carried forward from year to year. Coordination with Medicare may be complicated.

What solutions does The Hartford offer to help reduce an employer's GASB 43/45 liability?

The Hartford's Group Retiree Health Insurance Products are designed to integrate with Medicare and to meet the ever changing needs of today's employers. We offer solutions to help employers reduce their short-term annual premium expense, as well as their long-term FAS 106 or GASB 43/45 liability. *For more information, call The Hartford Group Retiree Health Sales Contact line at 877-223-9782.*



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