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Improved Financial Reporting

Dear Reader:

The following document was created from the MTAS website (mtas.tennessee.edu). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Due to the nature of the liability associated with retirement income, GASB established financial reporting standards regarding pensions with Statement No. 27. However, the costs of other postretirement benefits, such as group insurance benefits, were not being considered as an “accrued” liability.

As its budget is prepared each year, a government makes appropriations to fund the group-related benefits of its employees and, if applicable, the benefits of its retirees. If part of the employee’s total compensation package includes group insurance benefits at retirement, where is the line item appropriation? Since the payment of this portion of the employee’s compensation is not made until later, often many years later, the promise goes unfunded. Regardless of when the payment is actually made, the liability of the promise is accruing year by year at an ever-increasing cost.

Compensation related to benefits at retirement other than pensions are called other postemployment benefits (OPEBs) and are a part of the exchange of salaries and benefits for employee services rendered. Some of the exchange is used concurrent with the employee’s service as payment of salary and health insurance benefits. OPEBs are the part of compensation taken later when the employee’s services have ended.

The intent of GASB 45 is to account for the unused portion of compensation that has been promised to employees today for payment in the future. These costs of benefits should be accounted for when the promise is made, even if the payment is many years later.

NOTE: GASB Statements No. 74 and 75, issued in June of 2015 significantly amend and supersede a number of previously issued authoritative literature, including GASB 45. The implementation date for GASB 74 is for fiscal years beginning after June 15, 2016, and for GASB 75 fiscal years beginning after June 15, 2017. Many of the new requirements attributable to pensions are mirrored in the new OPEB reporting requirements.

GASB Statement No. 74 (Titled "*Financial Reporting for Postemployment Benefit Plans other Than Pension Plans")* replaces Statements No. 43 and 57, as well as parts of Nos. 25, 43 and 50. The scope of the new statement includes OPEB plans, both defined benefit and defined contribution, administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributiing enties to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator.

The statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts. There are also new requirements for inclusion in the Notes to Financial Statements and Required Supplementary Information. GASB Statement No. 74 is complex and the prudent finance director should obtain a copy of the statement and become familiar with its requirements.

GASB Statement No 75 (Titled *"Accounting and Financial Rporting for Postemployment Benefits Other Than Pensions"*) replaces Statements Nos. 45 and 57. The Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The same three criteria noted above apply to this statement as well.

This statement requires the liability of employers and nonemployer contributing enties to employees for defined benefit OPEB to be measured as the portion of the present value of projected benefit payments to be provided to current and inactive employees. Total OPEB liability generally is required to be determined through an acturarial valuation. There are exceptions for entities with fewer than 100 employees. This statement is very complex and will require a detailed analysis and study beyond the scope of this publication. A copy of the statement should be obtained and thoroughly studied.

Municipal Technical Advisory Service
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