



## GASB and Postemployment Benefits

---

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://www.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,

The University of Tennessee  
Municipal Technical Advisory Service  
1610 University Avenue  
Knoxville, TN 37921-6741  
865-974-0411 phone  
865-974-0423 fax  
[www.mtas.tennessee.edu](https://www.mtas.tennessee.edu)

Table of Contents

GASB and Postemployment Benefits .....	3
Postemployment Benefits .....	3
Improved Financial Reporting .....	4
Postemployment Benefits Other Than Pensions (OPEB) – GASB Statements 74 and 75.....	5
Acquiring an Actuarial Firm .....	6
Sample Request for Proposals .....	7

## GASB and Postemployment Benefits

Reference Number: MTAS-741

As an incentive to attract and retain qualified employees, state and local governments often augment the compensation packages they offer employees by including postemployment, or retirement benefits. Postemployment benefits may include some type of retirement income plan and/or other noncash benefits, such as group insurance coverage.

Obviously, employee compensation packages must be funded by the organization offering them. Organizations fund current compensation liabilities for employees and retirees through annual appropriations. But how does the organization account today for liabilities for the benefits promised to retirees in the future?

Since 1984, the Government Accounting Standards Board (GASB) has shouldered the responsibility of establishing consistent financial reporting standards for state and local governments. In the past, GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, adopted reporting standards for state and local governments to account for the liability associated with government pension plans. Newer GASB Statements No. 67, 68, 71 and 73 revised the previous Statements and address new reporting requirements and other related topics. GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, required state and local governments to formally recognize the full cost of retirement promises made to employees, in addition to pensions related to their retirement. GASB Statements No. 74 (effective for fiscal years beginning after June 15, 2016) and No. 75 (effective for fiscal years beginning after June 15, 2017) revise previous Statements and address new reporting requirements and other related topics. Additionally, GASB Statement No. 78 (effective for periods beginning after December 15, 2015) and GASB Statement No. 82 (effective for the first reporting period where the measurement date is on or after June 15, 2017) have revised the standards and should be reviewed carefully. These can be found at [www.gasb.org](http://www.gasb.org) [1].

The cost of retirement benefits continues to grow. Over the past few years, health costs have experienced double digit inflation, escalating the costs associated with promises of postemployment benefit plans other than pensions. The intent of this statement is to address and quantify the total amount of liability associated with employee retirement benefits accumulating with each passing year.

The Government Finance Officers Association Committee on Pension and Benefit Administration has a number of best practices on this and other topics and can be accessed at: <http://www.gfoa.org/best-practices> [2]

## Postemployment Benefits

Reference Number: MTAS-742

### NOTE:

***GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" was issued in June of 2015. GASB's stated objective is to "improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability." It is effective for fiscal years beginning after June 15, 2016 but earlier implementation is encouraged. It amends and/or supersedes a number of previously issued GASB Statements.***

***GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued in June of 2015. GASB's stated objective is to "improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information." It is effective for fiscal years beginning after June 15, 2017 but earlier implementation is encouraged. It amends and/or supersedes a number of previously issued GASB Statements.***

### **Postemployment Benefits**

An employer may offer postemployment benefits to its employees as part of their total compensation package as a reward for years of continuous service. These benefits are authorized in an agreement or policy that defines what the employer promises to provide a qualified retiring employee. Major categories of retirement benefits include retirement income – pensions and any other benefit as an integral part of a pension, such as healthcare or other group benefits.

## **Retirement Income**

The most familiar type of retirement benefit is postemployment income derived from a pension. Pensions may be separated into three categories:

- Defined contribution plan;
- Defined benefit plan; and
- Hybrid.

Although each type of plan provides for postemployment income, the structures are quite different, and, depending on which plan is chosen, the risk of funding retirement income may be with the employee or with the employer.

### **Defined Contribution Plan**

Defined contribution plans focus on the input or contributions made by the employee and, perhaps, on behalf of the employee by the employer. When plan contributions and applicable interest earnings have been distributed, the plan has no further obligation to the retiree. The only retirement promise made to the employee by the employer is that the contributions made toward the employee's retirement, plus interest earned on the investment, will be returned to the employee upon retirement.

Under the defined contribution plan, the complete risk for postretirement income lies with the employee. Will the amount invested by the employee over time, plus the interest earned on the investment, provide enough money for retirement? Most employees do not have the expertise to plan for their income needs at retirement. They often employ the services of financial advisors who assist them in the process of investing for their retirement.

### **Defined Benefit Plan**

A second type of employee retirement pension is the defined benefit plan. This type of pension plan is based on the employer's promise that future investment returns will be paid to the employee. Under this plan, the employer may or may not require the employee to make contributions. The focus of this plan is the guarantee that the employer will make payments to the employee from the time of retirement until the employee's death, regardless of the amount the employee has contributed to the plan. Some of these plans provide options to allow the surviving spouse of an employee to continue to receive payments throughout his or her life as well.

This pension type is a guarantee of retirement income to the employee that is usually based on a formula considering the employee's years of service and average annual compensation. In this case, the employer is assuming the full risk of the promise to provide the retiree's income. In order to determine the future financial exposure to the organization regarding this retirement income guarantee, an employer will hire an actuarial firm to calculate the cost of this retirement promise. Actuarial calculations estimate the cost of the retirement plan by factoring payroll projections, ages, and years of service for all employees of the organization as well as the rate of return on investment of present and future assets of the retirement fund.

Since the organization assumes the total risk for this type of employee pension, the employer typically makes annual deposits into a retirement trust fund in order to guarantee a source of funds for these future obligations. In the past several years there has been a trend by employers to move from a defined benefit plan to a defined contribution plan for the reasons noted above. When this is done, current employees are typically 'grandfathered' into the old plan,, while all new employees fall under the new plan. Over time, the number of employees will increase in the DC plan and decrease in their DB plan.

### **Hybrid**

The hybrid may be any combination of the defined contribution and defined benefit pension plans. Contributions are typically made to the plan each month. Options may include a guarantee from the employer of the rate of interest the employee will earn on the contributions, but there is no full retirement income guarantee.

The Government Finance Officers Association (GFOA) committee on Pension and Benefit Administration has a number of best practices related to pensions and may be accessed at: <http://www.gfoa.org/best-practices> [2]

## **Improved Financial Reporting**

**Reference Number:** MTAS-743

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 contributing entities 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 Reporting 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 entities 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 actuarial 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.

## Postemployment Benefits Other Than Pensions (OPEB) – GASB Statements 74 and 75

**Reference Number:** MTAS-744

Postemployment benefits other than pensions, typically referred to as "OPEB" were addressed in GASB 74 and GASB 75. A brief summary of each statement follows. For a comprehensive study of this topic please refer to the GASB website at [www.GASB.org](http://www.GASB.org) [3].

GASB Statement No. 74, "***Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans***" was issued in June of 2015. GASB's stated objective is to "improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability." It is effective for fiscal years beginning after June 15, 2016 but earlier implementation is encouraged. It amends and/or supersedes a number of previously issued GASB Statements.

The scope of this statement includes OPEB plans, both defined benefit (DB) and defined contribution (DC) administered through trusts where:

- Contributions from employers and non-employer contributing entities, as well as earnings on the 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, non-employer contributing entities, and the plan administrator. If the plan is a defined benefit plan, assets are also legally protected from creditors of the plan members.

The statement also addresses financial statements, the notes to financial statements, required supplementary information and measurement of the Net OPEB liability. Careful study and review is recommended if this statement applies to a

specific local government.

GASB Statement No. 75, "**Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**" was issued in June of 2015. GASB's stated objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governments about financial support for OPEB that is provided by other entities. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/ expenditures.

This statement is very comprehensive and detailed, and beyond the scope of this article. State and local governments should go to [www.GASB.org](http://www.GASB.org) [3] and research this statement carefully, as well as discussing with external auditors and appropriate staff. There are many resources available to assist in implementing this statement. Following are links to some good resources:

- [https://www.gasb.org/cs/ContentServer?c=Pronouncement\\_C&cid=1176166370763&d=&page-name=GASB%2FPronouncement\\_C%2FGASBSummaryPage](https://www.gasb.org/cs/ContentServer?c=Pronouncement_C&cid=1176166370763&d=&page-name=GASB%2FPronouncement_C%2FGASBSummaryPage) [4]
- [https://www.gasb.org/cs/ContentServer?c=Document\\_C&cid=1176166144750&d=&pagename=GASB%2FDocument\\_C%2FDocumentPage](https://www.gasb.org/cs/ContentServer?c=Document_C&cid=1176166144750&d=&pagename=GASB%2FDocument_C%2FDocumentPage) [5]
- [https://www.gasb.org/cs/ContentServer?c=Document\\_C&cid=1176169688973&d=&pagename=GASB%2FDocument\\_C%2FDocumentPage](https://www.gasb.org/cs/ContentServer?c=Document_C&cid=1176169688973&d=&pagename=GASB%2FDocument_C%2FDocumentPage) [6]

## Acquiring an Actuarial Firm

**Reference Number:** MTAS-746

Statement 45 (and subsequent Statements 74 and 75) require, in most instances, that a municipality contract with an actuarial firm to perform the calculations required to determine OPEB liability. Actuarial firms provide financial advisory services that are defined in T.C.A. § 12-3-1209 as professional services and are, therefore, not subject to the competitive bidding process. Contracts for professional services are to be awarded to firms on the basis of recognized competency and integrity rather than competitive bids. The code does, however, stipulate that the services are to be performed by the financial advisor pursuant to a written contract specifying the services to be rendered and the cost of service.

Although competitive bidding is prohibited when awarding contracts with firms offering professional services, municipalities often use the request for proposal (RFP) process to define the scope of services required from the provider and to obtain information needed to evaluate a firm's competency and experience.

The following items are recommended for inclusion in a municipality's request for proposal:

- Background information related to the government
  - Purpose of the valuation;
  - Date of incorporation;
  - Number of active benefit plan participants; and
  - Number of retiree benefit participants.
- Valuation of the current retiree benefit plan.
- Options to the plan if being considered
  - Enhancement of benefits;
  - Reduction of benefits; or
  - Two-tiered benefit plans.
- Submittal requirements
  - Summary of the firm's experience in similar projects;
  - Client reference and contact information;
  - Discussion of methodology to be employed in the valuation;
  - Identification of and biography information for staff members assigned to the project; and
  - RFP submittal time and date.
- Selection criteria
  - Firm's competency, experience and client references;
  - Methodology; and
  - Fee proposal.

By using the request for proposal process, a municipality is better prepared to communicate its needs regarding the

actuarial valuation, and the firm submitting a proposal is better informed of the project parameters. See the sample RFP [7] requesting the services for an actuarial valuation.

This overview is sourced from Statement No. 45 of the Government Accounting Standards Board. For more complete information regarding the implementation of this standard, please refer to the full document entitled *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

## Sample Request for Proposals

**Reference Number:** MTAS-747

### **REQUEST FOR PROPOSALS**

#### **ACTUARIAL VALUATION OF POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

The City of \_\_\_\_\_ (*city/town name*) is seeking proposals from qualified firms to complete an actuarial valuation of the City's retiree \_\_\_\_\_ (*life, health, vision, etc. benefit plan as appropriate*) insurance plans. This valuation shall be performed in compliance with the actuarial standards/methods included in the Government Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB).

#### **Background**

The City of \_\_\_\_\_ (*city/town name*) currently provides \_\_\_\_\_ (*life, health, vision, etc.*) insurance benefits to qualifying retirees through fully insured plans. A summary description of the retiree insurance benefits is included at the end of this RFP.

The City of \_\_\_\_\_ (*city/town name*) was incorporated in \_\_\_\_\_. For the fiscal year beginning July 1, \_\_\_\_\_, there are \_\_\_\_\_ budgeted full-time employees and \_\_\_\_\_ retired employees and spouses. Currently, retiree \_\_\_\_\_ (*life, health, vision, etc.*) insurance benefits are funded on a pay-as-you-go basis.

#### **Purpose of Valuation**

Given the number of retirees who already receive \_\_\_\_\_ (*life, health, vision, etc.*) insurance benefits and the number of current employees who will reach retirement age and qualify for retiree insurance benefits over time, the City wishes to proceed with the actuarial valuation and accurately assess its liability for these postemployment benefits in compliance with GASB Statement 45.

The results of this valuation will be used to assist the City in preparing for compliance with the GASB standard and guide the City in making policy decisions regarding possible modifications to its existing retiree \_\_\_\_\_ (*life, health, vision, etc.*) insurance benefit programs.

#### **Scope of Work**

The proposed valuation shall consist of the following:

**Phase 1** will consist of the actuarial valuation to determine the City's liability for the existing retiree \_\_\_\_\_ (*life, health, vision, etc.*) insurance programs. This valuation shall be completed in a manner so as to comply with all of the actuarial valuation requirements of GASB Standard No. 45.

This phase will include a minimum of three meetings, including a kick-off meeting with City staff to discuss the proposed valuation, clarify issues regarding benefit plans, etc.; a meeting with staff at the conclusion of the valuation to review results; and a briefing for the city's governing body to review the results.

#### **(OPTIONAL)**

**Phase 2** would consist of an analysis of possible plan modifications or alternatives for City consideration. Initiation of Phase 2 would be at the City's option based upon the results of Phase 1. If the City chooses to initiate Phase 2, the exact scope of work and fee would be negotiated at that time.

#### **RFP Submittal Requirements**

Submittals in response to this RFP shall include the following:

1. Summary of the firm's experience in similar projects, including client reference contact information;
2. Discussion of the proposed methodology to be employed in the valuation;
3. Identification of and biography information for staff member(s) to be assigned to the valuation;
4. Proposed valuation schedule;
5. List of required data elements and other information to be provided by the City; and
6. Valuation fee proposal (Phase 1 only) and proposed payment terms.

#### **Selection Criteria**

City staff will review all submitted proposals and may choose to invite one or more firms for an interview to further discuss their proposal. Selection of a recommended firm will be based on three factors:

1. The firm's experience in similar projects;
2. The proposed methodology and valuation schedule; and
3. The fee proposal.

The selection criteria are intended to allow the City to select the firm that submits the best overall proposal, not just the lowest cost proposal.

### **RFP Submittal Deadline**

Proposals in response to this RFP should be sent to:

(Name)

(Title)

(Mailing Address)

(City, State, Zip Code)

To be considered, proposals must be received by \_\_\_\_ (time) on \_\_\_\_ (day, month, year). Electronically submitted proposals will be accepted. All proposals should have the words "RFP Response" on the front of the envelope or electronic submission forms. Proposals will not be opened publicly.

Any questions regarding this RFP should be directed to:

(Name)

(Title)

(Mailing Address)

(City, State, Zip Code)

(Telephone number and email address)

(Attach appendices from appropriate sections of the city personnel policy that describe the health plan benefits for current employees and retirees.)

Thank you to Kirk Bednar for his comments and assistance, to the city of Brentwood, Tennessee, for providing MTAS with a copy of its request for proposal (RFP) for an actuarial study and the permission to use a variation of it in this publication, and to Janice Casteel and Mike Keith at the city of Cleveland, Tennessee, for their knowledge, expertise, and valuable comments.

### **Links:**

[1] <http://www.gasb.org>

[2] <http://www.gfoa.org/best-practices>

[3] <http://www.GASB.org>

[4] [https://www.gasb.org/cs/ContentServer?c=Pronouncement\\_C&cid=1176166370763&d=&pagename=GASB%2FPronouncement\\_C%2FPronouncement\\_C](https://www.gasb.org/cs/ContentServer?c=Pronouncement_C&cid=1176166370763&d=&pagename=GASB%2FPronouncement_C%2FPronouncement_C)

[5] [https://www.gasb.org/cs/ContentServer?c=Document\\_C&cid=1176166144750&d=&pagename=GASB%2FDocument\\_C%2FDocument\\_C](https://www.gasb.org/cs/ContentServer?c=Document_C&cid=1176166144750&d=&pagename=GASB%2FDocument_C%2FDocument_C)

[6] [https://www.gasb.org/cs/ContentServer?c=Document\\_C&cid=1176169688973&d=&pagename=GASB%2FDocument\\_C%2FDocument\\_C](https://www.gasb.org/cs/ContentServer?c=Document_C&cid=1176169688973&d=&pagename=GASB%2FDocument_C%2FDocument_C)

[7] <https://www.mtas.tennessee.edu/reference/sample-request-proposals>

*DISCLAIMER: The letters and publications written by the MTAS consultants were written based upon the law at the time and/or a specific sets of facts. The laws referenced in the letters and publications may have changed and/or the technical advice provided may not be applicable to your city or circumstances. Always consult with your city attorney or an MTAS consultant before taking any action based on information contained in this website.*

**Source URL (retrieved on 09/21/2021 - 2:03pm):** <https://www.mtas.tennessee.edu/reference/gasb-and-postemployment-benefits>



**Municipal Technical Advisory Service**  
INSTITUTE for PUBLIC SERVICE