



## GOVERNMENT FINANCE OFFICERS ASSOCIATION

### **GASB 43 & 45**

#### **FREQUENTLY ASKED QUESTIONS**

Presented by the Technical Accounting Review Committee

#### **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 dedicated trusts, or other third parties acting as trustee. GASB 45 applies to governmental employer groups such as: state and local governments, public employee retirement systems, state universities, state hospitals and utility companies.

#### **I work for an Illinois municipality that doesn't subsidize any post employment benefits for employees, does GASB 45 have any impact on me?**

Yes, specifically the implicit rate subsidy. Illinois statutes require that your IMRF, Article 3 (Police) & Article 4(Fire) retirees are offered the ability to purchase medical insurance from you. You cannot charge them more than the premiums of your active employees. That doesn't mean you have to pay any part of their premiums, even though you may be paying a portion of your active employees' premiums, but you cannot require them to pay a higher premium than applies to your active employees. The GASB said that this creates an "implicit rate subsidy" in that the costs for medical insurance for your retirees is typically higher than for your active employees, which are typically younger (think, if they each had to go out in the open market and get their own insurance, who would pay the higher premiums, your 25 year old male active employee or your 62 year old retired male?). So GASB 45 requires that you recognize that subsidy over the worker's employment with your entity. This is implemented on a prospective basis and is based upon an actuarial calculation.

#### **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.

**What are the actuarial requirements related to GASB 45? I have two different plans one for my unions and one for non-unions where one has 75 employees and one has 80, am I still required to get an actuarial study done?**

An actuarial study is required if the entity has more than 100 employees. If the entity has less than 100 employees, they can utilize the alternative measurement method outlined in the GASB Statement. An actuarial study is required once every two years if you have greater than 200 individuals eligible for the program. The requirement changes to once every three years if the entity has less than 200 individuals. The requirements for an actuarial study are on an employer basis not on a plan basis.

**Once an entity’s net OPEB obligation is determined, is the entity required to fund it in its entirety?**

No, an entity is not required to fund the OPEB obligation; however, they must amortize it over thirty years.

**In order for an OPEB obligation to be considered funded, what must happen with the money set aside? Is it possible to set it aside in another fund on the entity’s balance sheet?**

No. In order for an OPEB obligation to be considered funded, if only partially, the money must be set aside in a separate trust account.

**If my government has a “pay as you go” funding policy, how will the liability for OPEB costs be reduced?**

The actual “pay as you go” amount paid each year will be the only amount which reduces the liability.

**I work for an Illinois unit of local government that was a Phase 2 GASB 34 implementer, when do I have to implement GASB 45?**

GASB 45 is implemented in phases, just like GASB 34 was. A phase 2 government must implement GASB 45 in the financial statements for periods beginning after December 15, 2007.