The Governmental Accounting Standards Board (GASB) issued two related statements which substantially change the accounting and financial reporting of OPEB for Colorado PERA and PERA-affiliated employers. GASB Statement No. 74 (GASB 74), Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, affects the financial statements of PERA. GASB Statement No. 75 (GASB 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, affect certain financial statements of PERA-affiliated employers. PERA’s Health Care Trust Fund and DPS Health Care Trust Fund are considered OPEB plans under these new reporting standards. Many requirements of the new OPEB standards parallel the current pension standards (GASB 67 and 68).

OVERVIEW

GASB 75 is effective for fiscal years beginning after June 15, 2017, and replaces the requirements of GASB Statement No. 45 (GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended.

Under GASB 45, each employer’s obligation was simply considered to be the amount that the employer was contributing toward the OPEB plan on an annual basis. For purposes of governmental financial reporting, GASB will now require that a portion of the collective net OPEB liability be shown on each employer’s balance sheet.

It is also important to note that the new Statements no longer require disclosure of funding requirements, but focus only on accounting and financial reporting issues—how OPEB costs and obligations are measured and reported in financial statements. Although a proportionate share of the collective net OPEB liability will be reported on each employer’s balance sheet, contribution requirements to PERA are not impacted by the issuance of these new standards. Employer contribution rates are set by the Colorado Legislature. Current statute requires employer contributions equal to 1.02 percent of PERA-includable salary be allocated by PERA to the appropriate health care trust fund.

In accordance with state statute, PERA employers in the State, School, Local Government, and Judicial Divisions contribute to the Health Care Trust Fund. PERA employers in the Denver Public Schools (DPS) Division contribute to the DPS Health Care Trust Fund.

Previously, there has been a close relationship between how governments fund OPEB and how they account and report information. This new guidance is a shift from a funding-based approach to an accounting-based approach. According to GASB, these new standards will improve the decision-usefulness of information in employer 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.

ITEMS REQUIRING DISCLOSURE AND DESCRIPTION

The collective total OPEB liability will be calculated annually by PERA’s actuaries and accounts for projected OPEB benefit payments that will be made, decades into the future, to eligible PERA members. The collective net OPEB liability, as defined by GASB, represents the liability of employer entities for “unfunded” benefits provided through a defined benefit OPEB plan that is administered through a trust. The collective net OPEB liability is determined by subtracting the OPEB plan’s fiduciary net position from the collective total OPEB liability.

Under the new GASB standards, each employer will be required to report their proportionate share of the collective net OPEB liability of the health care trust fund in which they participate. As defined in the standard, an employer’s proportion is determined considering the employer’s contributions for the current year as a percentage of the current year total contributions from all employers to

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the OPEB plan. This percentage is then applied to the
major reporting elements, including the net OPEB liability,
deferrals related to OPEB, and OPEB expense, to determine
the employer’s proportionate share of these items.

Keep in mind that the net OPEB liability reported on an
employer’s balance sheet is similar to the current net
pension liability in that these liabilities are not immediately
due, nor can they be paid off under any accelerated
schedule. Contribution rates are set in statute therefore
employers cannot remit payment, in addition to their
statutory contribution amount, for their proportionate
share of the net OPEB liability in order to remove this
liability from their financial statements.

GASB 75 also requires employers to recognize a
new measure of the OPEB expense on their financial
statements. The OPEB expense will no longer be equal
to the contribution amount pursuant to the contribution
rate that is set by statute. Rather, the new OPEB expense
will represent the change in an employer’s share of the
collective net OPEB liability from year-to-year and will
include a number of individual elements specific to the
calculation of the collective net OPEB liability; such as:

- Annual cost of the current service accrual; plus
- Interest on the total OPEB liability; plus
- Amortization of experience gains/losses, changes in
  assumptions, expected vs. actual investment earnings,
  and changes in plan benefits; plus
- Administrative expenses; less
- Expected return on plan assets.

Please note, this new measure of OPEB expense includes
items that can change materially from one year to the
next and it’s imperative to recognize that the amount of
OPEB expense may be volatile from year to year.

GASB 75 also requires employers to recognize, if
applicable, additional deferred outflows and/or deferred
inflows of resources related to OPEB, which are amortized
into OPEB expense over time. The three additional
deferrals include the change in employer proportion
between reporting periods, the difference between actual
contributions from the employer and the employer’s
proportionate share of total employer contributions to
the OPEB plan and employer contributions recognized
subsequent to the measurement date. Similar to the
pension standards, employers are responsible for
calculating and maintaining this information as PERA
may not possess all required information to accurately
calculate these amounts.

Currently, employers are required to include basic footnote
disclosures in their financial statements while expanded
information is included in PERA’s financial statements.
GASB 75 requires additional footnote disclosures in the
financial statements of PERA’s affiliated employers. PERA
intends to make available a sample set of note disclosures
as well as extensive disclosures contained in PERA’s
financial statements to assist PERA-affiliated employers in
preparation of their footnote disclosure requirements.

INFORMATION PERA INTENDS TO PROVIDE

Similar to the information that is currently provided
to assist PERA-affiliated employers with their financial
reporting requirements for pensions under GASB 68,
PERA is planning to make the following OPEB information
available on PERA’s secure employer website (STARS):

- Audited Schedule of Employer Allocations and Schedule
  of Collective OPEB Amounts and related notes
- Employer-Specific Payroll Contribution Reconciliation
- Sample note disclosures

CONCLUSION

GASB has released two new statements that will
substantially change the accounting and financial
reporting of OPEB. The key implications of these changes
for PERA-affiliated employers are:

- A new balance sheet liability (the net OPEB liability)
- A new definition of OPEB expense (or income)
- Recognition of deferred outflows and deferred inflows
  of resources
- Additional OPEB disclosures in the financial statements

PERA is currently working to understand the changes
required by GASB 75 and we encourage PERA-affiliated
employers to share this information with their
external auditors. Please feel free to contact PERA’s
GASB workgroup with questions or comments at
GASBM@copera.org.

This fact sheet provides general information about GASB reporting standards. It is not intended to be a substitute for professional actuarial, accounting, legal or other advise. PERA membership rights, benefits, and obligations are
governed by Title 24, Article 51 of the Colorado Revised Statutes, and the
Rules of the Colorado Public Employees’ Retirement Association, which take
precedence over any interpretations in this fact sheet.