

**Denning, Downey & Associates, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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Robert K. Denning, CPA, CGFM, CFF, CITP

February 8, 2017

Ravalli County  
215 South 4<sup>th</sup> Suite A  
Hamilton, MT 59840

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**FEB 13 2017**

**Ravalli County Commissioners**

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*Chris -  
cc to  
Klarryse  
pls.  
mix  
Glenda*

**GASB #75 IMPLEMENTATION (another OPEB)**

Yes the GASB has been busy again, this time with a new twist on an old GASB.

Back in 2010 we all had to implement GASB #45 "Other Post-Employment Benefits" (OPEB). If you remember, GASB #45 made us record a portion of the liability relating to the "implicit rate subsidy" or in everyday language, the benefit that older employees get by staying on the governments health insurance plan. GASB #45 is still alive but is being replaced by GASB #75.

GASB #75 was created to mirror GASB #68 for pensions. We all remember GASB #68 last year, not only did it add new adjustments (and liabilities) to our financial but in most cases 8-22 pages of additional footnotes and 4 pages of Required Supplemental Information.

In a nutshell GASB #75 is different from the old GASB #45 by:

- GASB 75 recognizes all of the pension liability rather than a portion
- Changes disclosure both on the financial statements and the footnotes

The key requirement from GASB #45 that still applies in GASB #75, is if your government has more than 100 plan members then you must hire an actuary to calculate the liability which is to be reported on your annual report. If you have less than 100 plan members you are allowed to use the *Alternate Measurement Method* to calculate your liability.

We can assist you in the preparation of the Alternative Measurement Method.

The following are the fees for this service.

- For small entities (under 25 participants) our fee for these services will be \$1,000.
- For medium size entities (25 to 99 participants) our fee for these serves will be \$1,900.

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*[Handwritten notes and stamps, including "C. J. ...", "K. J. ...", and "L. J. ..."]*

If you are interested in having us assist you with the OPEB calculations please call or email our office. Upon acceptance we will email you the Engagement Letter, OPEB assumptions and census data for you to complete and return. Currently we are providing a two week turn around.

I know you will have questions, so please view the attached Q&A guide referenced above. In addition, you can always call with any questions.

Thanks again.

*Robert K Denning CPA*

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**GASB #75 Question and Answer – OPEB**

**Q. What is OPEB?**

**A.** Other Postemployment Benefits (or OPEB) are benefits (other than pensions) that U.S. state and local governments provide to their retired employees. These benefits principally involve health care benefits, but also may include life insurance, disability, legal and other services.

**Q. What is GASB 75?**

**A.** GASB #75 replaces GASB #45 as the governmental reporting requirements for all state and local governments' employers that have postemployment healthcare benefits. The most common benefits are medical, dental and life insurance.

**Q. Why do we need a new standard on OPEB?**

**A.** The GASB assessed the previous accounting and financial reporting requirements related to OPEB, and determined that in order to increase the usefulness of information about OPEB in the financial reports of state and local governments for making decisions and assessing accountability the requirements needed to be updated to be consistent with recent GASB pronouncements (GASB 67 and 68 – Pension Liabilities)

**Q. How is GASB 75 different from GASB 45?**

**A.** GASB #75 has the following key differences:

- Frequency of valuations for all methods, including the alternative measurement method, is two years
- Only allows one actuarial valuation method = Entry Age Actuarial Cost Method
- Recognition of total liability in the current year removing the Annual Required Contribution (ARC)
- Changes to the long-term obligation and annual costs of OPEB are measured (deferred inflows/outflows of resources)
- Increased footnote disclosures to included further detail on plan description and benefits provide, the assumptions used in the valuations, sensitivity analysis, and number of employees in plan.
- Increased required supplementary information – 10 most recent fiscal years summarizing sources of changes in OPEB liability, components, and other related ratios
- Specified criteria for administering OPEB plans that are funded and unfunded
- Requirements for single, agent, and cost-sharing employees: similar to requirements of GASB 68 – Pensions
- Key terms have changed related to the OPEB liability

**Q. When was this rule created?**

**A.** The GASB issued the statement in June 2015. That is effective for periods after June 15, 2017 with earlier implementation encouraged.

**Q. Do I have to report the OPEB liability in my fund financial statements?**

A. Under the disclosures, the cost of retiree healthcare benefits is treated as current compensation and is expensed during the employee's active career. Similar to the treatment of compensated absences. The liability is reported in all full accrual financial statements.

**Q. Do I have to report the total OPEB liability in the current year?**

A. Yes, the government will recognize the total OPEB liability per the alternative measurement method in the current year. This will require a restatement entry and recording the Service Cost.

**Q. What is Service Cost?**

A. The portions of the actuarial present value of projected benefit payments that are attributed to valuation years for each employee included in the valuation.

**Q. Who can perform the OPEB liability calculation?**

A.

- 100+ members it must be performed by an actuary every 2 years
- 1 to 99 members does not need to be performed by an actuary and is called the Alternative Measurement Method it must be performed every 2 years.

**Q. How is the Alternative Accounting Method different from an actuarial report?**

A. The alternative measurement method is an approach that includes the same broad measurement steps as an actuarial valuation (projecting benefit payments, discounting projected benefit payments to a present value, and attributing the present value of projected benefit payments to periods using an actuarial cost method). However, it permits simplification of certain assumptions.

**Q. Who is included when counting members?**

A. A plan's total membership is the sum of its employees in active service, terminated employees who have accumulated benefits but not receiving them, and retired employees and beneficiaries currently receiving benefits.

**Q. Why is there any OPEB liability if retirees must pay the full rate of coverage?**

A. For most employers, the monthly insurance premium is based on the average cost of participants enrolled in the medical plan. Typically 90% or more of enrollees are actively employed. Medical costs for a retired person are considerably higher than an active population. The benefit for retired participants (liability to the government) is the difference between what they would have to pay on their own verses the lower cost they pay by being a part of the actively employed plan.

**Q. Does the local government have to set aside money for this liability?**

A. There are no requirements that this liability must be funded immediately. Most governments choose to pay as they go.

**Q. What are the disclosure requirements?**

A. Footnotes should include details about the following areas:

- Type of OPEB plan

- Description of the terms and type of plan
- Number of employees covered
- Whether the plan is funded or unfunded by a trust
- Specifics on the significant assumptions and other inputs used to measure OPEB liability
- Measures of the OPEB liability in changes related to healthcare cost trend rates and discount rates (sensitivity analysis)
- Summary of changes in OPEB liability

**Required Supplementary Information (RSI) includes:**

- 10-year schedule of changes in the total OPEB liability
- 10-year schedule that includes the total OPEB liability, covered payroll, and OPEB liability as a percentage of covered payroll

**Q. Does OPEB expense included termination benefits?**

**A.** No, according to paragraph 8 in GASB 75, "OPEB does not include termination benefits or termination payments for sick leave".

**Q. Does GASB #75 apply if the retired employee is given an age related premium rather than using our group premium?**

**A.** In this rare situation GASB #75 would not apply, however I would suggest reading MCA 2-18-704 to see if your plan meets the Montana legal requirements.

**Q. How do I obtain a copy of the GASB?**

**A.** You can view a pdf copy of the pronouncement at

<http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176160042391>, or purchase it at GASB.org for a cost of \$24.00 plus shipping.