Accounting Standards and Reporting

Governmental Accounting Standards Board (GASB) Statements 43 and 45 are the current accounting standards that local governments who provide other postemployment benefits (OPEB) must use to prepare their financial statements. In June of 2015, the GASB released Statements 74 and 75 that represent a fundamental overhaul to the OPEB standards for accounting and financial reporting. GASB 74 applies to OPEB plans and is effective for plan fiscal years beginning after June 15, 2016. GASB 75 applies to employers that sponsor OPEB plans and is effective for employer fiscal years beginning after June 15, 2017. As defined in GASB 74 and 75, OPEB includes medical, dental, vision, hearing, death benefits, life insurance, disability, and long-term care (when provided separately from a pension plan).

Many of these GASB OPEB provisions are parallel to the previously implemented pension provisions of GASB 67 and 68. The new standards change from a funding based approach to a reporting based approach. There are a number of important issues that are addressed. In summary, they included:

- A requirement to recognize the net OPEB liability on the face of the financial statements,
- A requirement to present more extensive note disclosures and related schedules, and
- Changes that affect how the long-term obligation and the annual costs of OPEB are measured.
    - This includes changes to the calculation of the discount rate similar to GASB 67.

Actuary Standards

Similar to actuary standards on pensions, the Actuary Standards Board has issued 16 Actuary Standards of Practice (ASOPs) regarding health and 13 ASOPs regarding life insurance. Also similar to pension standards, actuaries make assumptions when valuing OPEB benefits, many of which are the same for pension calculations. These assumptions include the investment rate of return, mortality, and inflation. Below is a common list of key actuary assumptions that are specific for OPEB:

- Election of two person retiree health coverage: When retiree health costs are valued, an assumption must be made regarding the probability that the plan will be providing coverage during the retiree's lifetime to the retiree only or to the retiree and spouse
- Opt-out assumptions: The actuary can assume the number of recipients who will opt out of the retiree health care plan in lieu of other options.
- Medical inflation assumption: The actuary will make assumptions about premium increases in healthcare, prescription drug, dental, and vision costs.

For local governments who prefund the benefit, various asset valuation methods are commonly used in the context of OPEB valuations for funding purposes. Most Michigan actuaries value assets based on a smoothing of investment returns; however, it should be noted other methods can be used. Once the actuarial asset value is determined, contributions are calculated so that these smooth actuarial gains/losses are amortized over some future interval.