



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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GASB Staff Proposes Guidance on Accounting for Medicare Part D Payments

When Congress was crafting the law that created the Medicare Part D prescription drug benefit program, some lawmakers were concerned that employers already providing prescription drug benefits to their retirees would cease to do so. As a result, the law provides an incentive to employers to continue providing coverage—a payment of as much as 28 percent of the cost of providing coverage to persons who would otherwise be eligible to enroll in Medicare Part D. This provision prompted questions from state and local governments about how to account for the federal payments, including:

- How should the payments be reported in the financial statements?
- How should the payments be treated as the new accounting standards for other postemployment benefits (OPEB) are implemented?

The Governmental Accounting Standards Board (GASB) has authorized the GASB staff to issue a proposed Technical Bulletin to answer these questions.

Additional Revenue, or Lower Costs?

A key to the proposed guidance is that the payment from the federal government is a separate transaction from the exchange between a state or local government and its employees for salaries and benefits. By making the payment, the federal government has not assumed responsibility for any portion of state and local governments' obligations to provide prescription drug benefits to their qualifying retirees. Rather, a government must first provide eligible benefits in order to receive the federal payment.

The GASB staff concluded that existing accounting standards are applicable to the Medicare Part D payments—GASB Statement 33 for payments made to a government and Statement 24 regarding on-behalf payments for payments made directly to an OPEB plan. Based on these standards, the staff determined that Medicare Part D payments should be reported as revenue, and that the costs a government reports in its financial statements should not be reduced or “netted” by the amount of the payment. Reporting a net amount would understate the actual cost of the benefits.

Impact on OPEB Calculations

State and local governments are currently preparing to implement GASB Statements 43 and 45. These standards require governments to calculate and report the costs and long-term obligations related to benefits they provide to retirees in addition to pensions. OPEB is mainly health insurance coverage and other health-related benefits, such as prescription drug plans.

Consistent with the guidance described above, the GASB staff proposed that the accounting and reporting for OPEB not be affected by the Medicare Part D payment. In other words, the calculation of the long-term obligation related to OPEB, the annual OPEB cost, and a government's annual required contribution for OPEB, would not be reduced by the federal payment.

When Would the Proposal Take Effect?

The guidance in the proposal would be implemented by governments beginning in financial reports issued after June 30, 2006. However, the portion specifically related to OPEB would be implemented simultaneously with the OPEB standards.

The Process for Finalizing the Technical Bulletin

The proposed Technical Bulletin can be downloaded free of charge from the GASB Web site (<http://www.gasb.org/exp/exdfpq.html>). The public is invited to read and respond to the proposal; directions for responding can be found in the proposal. The deadline for public comment is April 17, 2006. The GASB staff will analyze the comments it receives and make revisions as appropriate. The GASB members will then review the revisions. The final document is scheduled to be released in June.