



## Exposure Draft

**May 28, 2014**

**Comments Due: August 29, 2014**

Proposed Statement  
of the Governmental Accounting Standards Board

### **Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans**

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities  
Project No. 34-1P

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**Governmental Accounting Standards Board**

# FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS

## Notice of Public Hearings and Request for Written Comments

### PUBLIC HEARINGS

#### Public hearings are scheduled as follows:

- September 10, 2014, at Courtyard by Marriott LaGuardia Airport Hotel, 90-10 Grand Central Parkway, Queens, NY
- September 11, 2014, at Sheraton Chicago O'Hare Airport Hotel, 6501 North Mannheim Road, Rosemont, IL
- September 12, 2014, at DoubleTree by Hilton San Francisco Airport North, 5000 Sierra Point Parkway, Brisbane, CA

The public hearings are scheduled to begin at 8:30 a.m. local time. Interested individuals or organizations may participate in a public hearing in person or by telephone. Details regarding participation will be provided after the GASB receives a notice of intent to participate.

#### **Deadline for written notice of intent to participate in public hearings: August 29, 2014**

**Basis for public hearings.** The GASB has scheduled the public hearings to obtain information from interested individuals and organizations about the issues discussed in this Exposure Draft. The hearings will be conducted by one or more members of the Board and its staff. Interested parties are encouraged to participate at the hearings and through written response.

**Public hearing oral presentation requirements.** Individuals or organizations that want to make an oral presentation in person or by telephone at a public hearing are required to provide, **by the deadline for notice of intent to participate (August 29, 2014)**, a written notification of that intent and a copy of written comments addressing the issues discussed in this Exposure Draft. The notification and written submission should be addressed to the Director of Research and Technical Activities, Project No. 34-1P, and emailed to [director@gasb.org](mailto:director@gasb.org) or mailed to the address below. The notification should indicate a preference for participating in person or via telephone. A public hearing may be canceled if sufficient interest is not expressed by the deadline.

The Board intends to schedule all respondents who want to make oral presentations and will notify each individual or organization of the expected time of the presentation. The time allotted each individual or organization will be limited to about 30 minutes—10 minutes to summarize or elaborate on the written submissions, or to comment on the written submissions or presentations of others, and 20 minutes to respond to questions from those conducting the hearing.

**Observers.** Observers are welcome at the public hearings and are urged to submit written comments.

## WRITTEN COMMENTS

**Deadline for submitting written comments: August 29, 2014**

**Requirements for written comments.** Any individual or organization that wants to provide written comments but does not intend to participate in a public hearing should provide those comments by **August 29, 2014**. Comments should be addressed to the Director of Research and Technical Activities, Project No. 34-1P, and emailed to [director@gasb.org](mailto:director@gasb.org) or mailed to the address below.

## OTHER INFORMATION

**Public files.** Written comments and transcripts of the public hearings will become part of the Board's public file. Written comments also are posted on the GASB's website. Copies of the transcripts may be obtained for a specified charge.

**Orders.** This Exposure Draft may be downloaded from the GASB's website at [www.gasb.org](http://www.gasb.org). For information on prices for printed copies, please contact the Order Department at the following address:

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## **Notice to Recipients of This Exposure Draft**

The Governmental Accounting Standards Board (GASB) is responsible for developing standards of state and local governmental accounting and financial reporting and other accounting and financial reporting communications that will (1) result in useful information for users of financial reports and (2) guide and educate the public, including issuers, auditors, and users of those financial reports.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, we are issuing this Exposure Draft setting forth a proposed Statement that would supersede the requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for defined benefit OPEB plans. This proposed Statement also would supersede the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*, for defined contribution OPEB plans.

This Exposure Draft is being issued together with a related Exposure Draft, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which proposes new standards for accounting and financial reporting for governments whose employees are provided with postemployment benefits other than pensions and for certain nonemployer governments that provide financial support for those benefits. A third Exposure Draft, *Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered through Trusts That Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68*, also is being issued to propose new standards primarily for accounting and financial reporting for pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, and for certain pension plans through which those benefits are provided.

We invite your comments on all matters in this proposed Statement. Because this proposed Statement may be modified before it is issued as a final Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe we should consider.

All responses are distributed to the Board and to staff members assigned to this project, and all comments are considered during the Board's deliberations leading to a final Statement. When the Board is satisfied that all alternatives have adequately been considered, and modifications have been made as appropriate, a vote is taken on the Statement. A majority vote is required for adoption.

## Summary

The objective of this proposed Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This proposed Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This proposed Statement includes requirements for defined benefit OPEB plans that would replace the requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that would replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

A related proposed Statement, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, would establish new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this proposed Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of plan members.

This proposed Statement also includes requirements to address financial reporting for defined benefit OPEB plans that are not administered through trusts that meet the specified criteria.

## **Defined Benefit OPEB Plans**

### **Defined Benefit OPEB Plans That Are Administered through Trusts That Meet the Specified Criteria**

#### *Financial Statements*

For defined benefit OPEB plans that are administered through trusts that meet the specified criteria, this proposed Statement would require two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position.

In addition to the requirements of this proposed Statement, those plans also would continue to be required to follow all accounting and financial reporting requirements of other standards, as applicable.

#### *Notes to Financial Statements and Required Supplementary Information*

##### **Notes to financial statements**

For defined benefit OPEB plans that are administered through trusts that meet the specified criteria, distinctions are made regarding information that would be required to be included in notes to financial statements depending upon the type of OPEB plan administered.

This proposed Statement would require that notes to financial statements of all defined benefit OPEB plans that are administered through trusts that meet the specified criteria include descriptive information, such as the types of OPEB provided, the classes of plan members covered, and the composition of the OPEB plan's board. Such OPEB plans also would be required to disclose information about OPEB plan investments, including the OPEB plan's investment policies, a description of how fair value is determined, concentrations of investments with individual organizations equaling or exceeding 5 percent of the OPEB plan's fiduciary net position, and the annual money-weighted rate of return on OPEB plan investments. Other required note disclosures would include information about contributions, reserves, and allocated insurance contracts.

For single-employer and cost-sharing OPEB plans that are administered through trusts that meet the specified criteria, the following information also would be required to be disclosed in notes to financial statements:

- Information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll
- Significant assumptions and other inputs used to measure the total OPEB liability and information about the sensitivity of the measure of the net OPEB liability to changes in the discount rate, changes in the healthcare cost trend rate, and combinations of changes in the two rates.

## **Required supplementary information**

All defined benefit OPEB plans that are administered through trusts that meet the specified criteria would be required to present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes the annual money-weighted rate of return on OPEB plan investments for each year.

For single-employer and cost-sharing OPEB plans that are administered through trusts that meet the specified criteria, the following information for each of the 10 most recent fiscal years would be required to be presented in schedules of required supplementary information:

- Sources of changes in the net OPEB liability
- Information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll.

If an actuarially determined contribution is calculated for employers or nonemployer contributing entities in a single-employer or cost-sharing OPEB plan that is administered through a trust that meets the specified criteria, the OPEB plan would be required to present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the OPEB plan, and related ratios. Significant methods and assumptions used in calculating the actuarially determined contributions would be required to be presented as notes to the schedules.

In addition, all OPEB plans, including agent OPEB plans, should explain certain factors that significantly affect trends in the amounts reported in the schedules of required supplementary information, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

### ***Measurement of the Net OPEB Liability***

This proposed Statement would require the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The total OPEB liability would be required to be determined through an actuarial valuation. However, if an OPEB plan has fewer than 100 plan members (active and inactive), use of a specified alternative measurement method in place of an actuarial valuation would be permitted. Actuarial valuations, or calculations using the specified alternative measurement method, of the total OPEB liability would be required to be performed at least every two years, with more frequent valuations or calculations encouraged. If a valuation or calculation is not performed as of the OPEB plan's fiscal year-end, the total OPEB liability would be required to be based on update procedures to roll forward amounts from an earlier actuarial valuation or alternative measurement method calculation (performed as of a date no more than 24 months prior to the OPEB plan's fiscal year-end). Unless otherwise specified by this proposed Statement, all assumptions underlying the determination of the total OPEB liability would be required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments would be required to be based on claims costs, or age-adjusted premiums approximating claims costs, and the benefit terms and legal agreements existing at the OPEB plan's fiscal year-end. For purposes of evaluating the benefit terms, consideration would be required to be given to the written plan document, as well as other information, including other communications between the employer and plan members and an established pattern of practice with regard to the sharing of benefit-related costs with inactive plan members. Certain legal or contractual caps on benefit payments to be provided would be considered in projections of benefit payments.

This proposed Statement would require that projections of benefit payments incorporate the effects of projected salary changes (if the OPEB formula incorporates compensation levels) and service credits (if the OPEB formula incorporates periods of service), as well as projected automatic postemployment benefit changes (including automatic cost-of-living adjustments [COLAs]). The effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic, also would be required to be included in the projections. This proposed Statement also would require that projections of benefit payments include certain taxes or other assessments expected to be imposed on benefit payments and specifies that projected benefit payments would not be reduced by subsidies expected to be received for making benefit payments other than those received for providing Medicare benefits.

Projected benefit payments would be required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on OPEB plan investments to the extent that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

This proposed Statement would require that the actuarial present value of projected benefit payments be attributed to periods of plan member service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value would be required to be attributed for each plan member individually, from the period when the plan member first accrues OPEB through the period when the plan member retires.

### **Alternative measurement method**

This proposed Statement includes an option for the use of a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). The alternative measurement method would be 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 would permit simplification of certain assumptions so that the method potentially could be applied by nonspecialists.

## **Defined Benefit OPEB Plans That Are Not Administered through Trusts That Meet the Specified Criteria**

This proposed Statement would require that, for accounting and financial reporting purposes, assets accumulated for purposes of providing OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria not be accounted for as OPEB plan assets. Instead, if a single-employer OPEB plan is not administered through a trust that meets the specified criteria, any assets accumulated for OPEB purposes would continue to be reported as assets of the employer or nonemployer contributing entity.

If a multiple-employer defined benefit OPEB plan is not administered through a trust that meets the specified criteria, a government that holds assets accumulated for OPEB purposes in a custodial capacity would report those assets in an agency fund. The amount of assets accumulated in excess of liabilities for benefits due to plan members and accrued investment and administrative expenses would be required to be reported as liabilities to participating employers or nonemployer contributing entities. If the agency fund is included in the financial report of an employer whose employees are provided with benefits through the OPEB plan or a nonemployer contributing entity that makes benefit payments as OPEB comes due, balances reported by the agency fund would exclude amounts that pertain to the employer or nonemployer contributing entity that reports the agency fund.

This proposed Statement also would require that a government that reports (in an agency fund) assets accumulated for OPEB purposes and held in a custodial capacity to disclose in notes to financial statements information about the number of participating employers and, if any, nonemployer contributing entities; a description of how the fair value of investments is determined; and that each employer that provides benefits through the OPEB plan and, if applicable, certain nonemployer contributing entities, are required to disclose additional information, including the total OPEB liability for benefits provided through the OPEB plan.

## **Defined Contribution OPEB Plans That Are Administered through Trusts That Meet the Specified Criteria**

In the notes to financial statements, defined contribution OPEB plans that are administered through trusts that meet the specified criteria would be required to disclose the classes of plan members covered; the number of plan members, participating employers, and, if any, nonemployer contributing entities; and the authority under which the OPEB plan is established or may be amended.

## **Effective Date and Transition**

This proposed Statement would be effective for financial statements for fiscal years beginning after December 15, 2015. Earlier application would be encouraged.

## **How the Changes in This Proposed Statement Would Improve Financial Reporting**

The requirements of this proposed Statement would improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that would be presented by OPEB plans that are administered through trusts or equivalent arrangements that meet the specified criteria. The new information would enhance the decision-usefulness of the financial reports of these OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. The net OPEB liability information, including ratios, would offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans would be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule would provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. In that circumstance, it also would provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with actuarially determined contribution measures. In addition, new information about rates of return on OPEB plan investments would inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due.

<p>Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 4 and 5 discuss the applicability of this Statement.</p>
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**Proposed Statement of the Governmental Accounting Standards Board**  
**Financial Reporting for Postemployment Benefit Plans Other Than**  
**Pension Plans**

**May 28, 2014**

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# Proposed Statement of the Governmental Accounting Standards Board

## Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

May 28, 2014

### INTRODUCTION

1. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than **pensions**<sup>1</sup> included in the general purpose external financial reports (financial reports) of state and local governmental benefit plans for making decisions and assessing accountability. These benefits are referred to as **other postemployment benefits (OPEB)**, and the plans through which the benefits are provided are referred to as **OPEB plans**.

2. A related Statement, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes standards for governmental employer recognition, measurement, and presentation of information about OPEB. That Statement also establishes requirements for reporting information about financial support provided by certain nonemployer entities for OPEB that is provided to the employees of other entities. The two Statements are closely related in some areas, and certain provisions of this Statement refer to the related Statement.

### STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

#### Scope and Applicability of This Statement

3. This Statement establishes financial reporting standards for state and local governmental OPEB plans—**defined benefit OPEB plans** and **defined contribution OPEB plans**—that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

- a. Contributions from employer<sup>2</sup> and **nonemployer contributing entities** to the OPEB plan and earnings on those contributions are irrevocable.<sup>3</sup>

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<sup>1</sup>Terms defined in the Glossary are shown in **boldface type** the first time they appear in this Statement.

<sup>2</sup>In some circumstances, contributions are made by the employer to satisfy plan member contribution requirements. If the contribution amounts are recognized by the employer as salary expense, those contributions should be classified as plan member contributions for purposes of this Statement. Otherwise, those contributions should be classified as employer contributions.

<sup>3</sup>For purposes of this Statement, refunds to an employer or nonemployer contributing entity of the nonvested portion of its contributions that are forfeited by plan members in a defined contribution OPEB plan are consistent with this criterion.

- b. OPEB plan assets are dedicated to providing OPEB to **plan members** in accordance with the benefit terms.<sup>4</sup>
- c. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also establishes requirements for financial reporting standards for state and local governmental defined benefit OPEB plans that are *not* administered through trusts or equivalent arrangements that meet the above criteria. If OPEB is provided through an OPEB plan in which assets are accumulated in a trust that meets the above criteria and OPEB provided through the same OPEB plan also is paid with assets other than those from that trust, the OPEB plan should be reported as an OPEB plan administered through a trust that meets the criteria of this paragraph.

4. The requirements of paragraphs 14–54 and 57 of this Statement apply to state and local governmental OPEB plans administered through trusts that meet the criteria in paragraph 3. The requirements of paragraphs 55 and 56 of this Statement apply to state and local governmental defined benefit OPEB plans that are not administered through trusts that meet the criteria in paragraph 3. The requirements of this Statement apply whether (a) the OPEB plan’s financial statements are included in a **stand-alone OPEB plan financial report** or (b) the OPEB plan is included in the financial report of another government.

5. This Statement includes only provisions specific to OPEB plans. OPEB plans should continue to follow all other accounting and financial reporting requirements applicable to the transactions and other events reported in their basic financial statements, including notes to those statements, and required supplementary information. This Statement does not establish requirements for **insured plans**.

6. This Statement supersedes Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, paragraph 27; and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, paragraphs 7 and 8. In addition, this Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, paragraph 2; Statement No. 14, *The Financial Reporting Entity*, paragraph 81; Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, footnote 12; Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, paragraph 8; Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, paragraphs 2 and 4; Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, paragraphs 70, 106–109, 129, 140, 141, and footnotes 43, 44, 63, and 64;

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<sup>4</sup>For purposes of this Statement, the use of OPEB plan assets to pay OPEB plan administrative costs or to refund plan member contributions in accordance with benefit terms is consistent with this criterion.

Statement No. 44, *Economic Condition Reporting: The Statistical Section*, paragraphs 10 and 39; Statement No. 50, *Pension Disclosures*, paragraph 3; Statement 57, paragraphs 3 and 4; Statement No. 67, *Financial Reporting for Pension Plans*, footnote 6; and Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*, paragraphs 5, 8, 9, and 10.

## Types of OPEB and OPEB Plans

7. As used in this Statement, the term *OPEB* includes the following:
  - a. **Postemployment healthcare benefits**—including medical, dental, vision, hearing, and other health-related benefits—whether provided separately from or provided through a **pension plan**
  - b. Other forms of **postemployment** benefits—for example, death benefits, life insurance, disability, and long-term care—when provided separately from a pension plan.

OPEB does not include **termination benefits**<sup>5</sup> or termination payments for sick leave.<sup>6</sup> When postemployment benefits other than postemployment healthcare benefits are provided through a pension plan, they are classified as pensions, and the plans through which those benefits are provided should be accounted for and reported as pension plans.<sup>7</sup>

8. **Defined benefit OPEB** is OPEB for which the benefits that the plan member will receive at or after separation from employment are defined by the benefit terms. The OPEB may be stated as (a) a specified dollar amount; (b) an amount that is calculated based on one or more factors such as age, years of service, and compensation; or (c) a type or level of coverage such as prescription drug coverage or a percentage of health insurance premiums. **Defined contribution OPEB** is OPEB having terms that:

- a. Provide an individual account for each plan member

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<sup>5</sup>Termination benefits primarily are addressed in Statement No. 47, *Accounting for Termination Benefits*, as amended. However, the effects of a termination benefit on the defined benefit OPEB liabilities of an employer or governmental nonemployer contributing entity should be included in measures of those OPEB liabilities that are required by this Statement.

<sup>6</sup>Termination payments for sick leave are addressed in Statement No. 16, *Accounting for Compensated Absences*, and include the conversion of a terminating employee's sick leave credits to an individual account to be used for payment of postemployment benefits on that employee's behalf. However, when a terminating employee's unused sick leave credits are converted to provide or enhance defined benefit OPEB, the resulting benefit or increase in benefit should be included in measures of OPEB liabilities that are required by this Statement.

<sup>7</sup>Financial reporting for pension plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 primarily is addressed in Statement 67. Financial reporting for other pension plans primarily is addressed in the Statement, *Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered through Trusts That Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

- b. Define the contributions that an employer or nonemployer contributing entity is required to make (or credits that it is required to provide) to an active plan member's account for periods in which that member renders service
- c. Provide that the OPEB a plan member will receive will depend only on the contributions (or credits) to the plan member's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other plan members, as well as OPEB plan administrative costs, that are allocated to the plan member's account.

If the OPEB to be provided has all of the terms identified in (a)–(c) above, the OPEB plan through which the OPEB is provided should be classified as a defined contribution OPEB plan. Defined contribution OPEB plans that are administered through trusts that meet the criteria in paragraph 3 should apply the requirements for note disclosures in paragraph 57 of this Statement. If the OPEB to be provided does not have all of the above terms—for example, if the OPEB is a function of factors other than those identified in (c) above—the OPEB is classified as defined benefit OPEB and the plan through which the OPEB is provided should be classified as a defined benefit OPEB plan.

### **Types of Defined Benefit OPEB Plans**

9. For purposes of this Statement, defined benefit OPEB plans other than insured plans are classified first according to the number of employers whose employees are provided with OPEB through the OPEB plan. For purposes of this classification, a primary government and its component units are considered to be one employer. If a defined benefit OPEB plan is used to provide OPEB to the employees of only one employer, the OPEB plan should be classified for financial reporting purposes as a **single-employer defined benefit OPEB plan (single-employer OPEB plan)**. If a defined benefit OPEB plan is used to provide OPEB to the employees of more than one employer, the OPEB plan should be classified for financial reporting purposes as a **multiple-employer defined benefit OPEB plan**.

10. If a multiple-employer defined benefit OPEB plan is administered through a trust that meets the criteria in paragraph 3, the OPEB plan is then classified according to whether OPEB obligations and OPEB plan assets are shared by employers. In a multiple-employer defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3, if the assets of the OPEB plan are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees, the OPEB plan should be classified as an **agent multiple-employer defined benefit OPEB plan (agent OPEB plan)**. In a multiple-employer defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3, if the OPEB obligations to the employees of more than one employer are pooled and OPEB plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan, the OPEB plan should be classified as a **cost-sharing multiple-employer defined benefit OPEB plan (cost-sharing OPEB plan)**.

11. For defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3, single-employer, agent, and cost-sharing OPEB plans should apply the measurement and recognition requirements of paragraphs 15–30 of this Statement. Single-employer and cost-sharing OPEB plans should apply the requirements for note disclosures and required supplementary information in paragraphs 31–33 and 35, and agent OPEB plans should apply the requirements for note disclosures and required supplementary information in paragraphs 31, 34, and 35. For agent OPEB plans, the provisions of this Statement apply at the aggregate plan level for each agent OPEB plan administered.

12. For defined benefit OPEB plans other than insured plans that are not administered through trusts that meet the criteria in paragraph 3, any assets accumulated for purposes of providing OPEB through single-employer or multiple-employer defined benefit OPEB plans should be reported in conformity with the requirements of paragraph 55 or paragraph 56 of this Statement, respectively.

13. In many cases, a state or local government acts as the fiduciary entrusted with administering one or more OPEB plans. Some governments also administer other types of plans, including deferred compensation plans and pension plans. If the financial report of a government includes more than one OPEB plan that is within the scope of this Statement, the provisions of this Statement should be applied separately to each such OPEB plan administered. Paragraph 14 discusses considerations that are relevant to the determination of the number of defined benefit OPEB plans administered through trusts that meet the criteria in paragraph 3.

## **Defined Benefit OPEB Plans That Are Administered through Trusts That Meet the Criteria in Paragraph 3**

### **Number of OPEB Plans**

14. If, on an ongoing basis, all assets accumulated in a defined benefit OPEB plan for the payment of benefits may legally be used to pay benefits (including refunds of plan member contributions) to *any* of the plan members, the total assets should be reported as assets of one defined benefit OPEB plan even if (a) administrative policy requires that separate reserves, funds, or accounts for specific groups of plan members, employers, or types of benefits be maintained (for example, a reserve for plan member contributions, a reserve for disability benefits, or separate accounts for the contributions of state government versus local government employers) or (b) separate actuarial valuations are performed for different classes of plan members (for example, general employees and public safety employees) or different groups of plan members because different contribution rates may apply for each class or group depending on the applicable benefit structures, benefit formulas, or other factors. A separate defined benefit OPEB plan should be reported for a portion of the total assets, even if the assets are pooled with other assets for investment purposes, if that portion of assets meets both of the following criteria:

- a. The portion of assets is accumulated solely for the payment of benefits to certain classes or groups of plan members or to plan members who are the active or inactive employees of certain entities (for example, state government employees).
- b. The portion of assets may not legally be used to pay benefits to other classes or groups of plan members or other entities' plan members (for example, local government employees).

## **Financial Statements**

15. A defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3 should present the following financial statements, prepared using the economic resources measurement focus and accrual basis of accounting:

- a. *A statement of fiduciary net position*, which includes information about assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, as applicable, as of the end of the OPEB plan's reporting period
- b. *A statement of changes in fiduciary net position*, which includes information about the additions to, deductions from, and net increase (or decrease) in fiduciary net position for the OPEB plan's reporting period.

### ***Statement of Fiduciary Net Position***

#### **Assets**

16. OPEB plan assets should be subdivided into (a) the major categories of assets held (for example, cash and cash equivalents, receivables, investments, and assets used in OPEB plan operations) and (b) the principal components of the receivables and investments categories.

#### ***Receivables***

17. OPEB plan receivables generally are short term and consist of contributions due as of the end of the reporting period from employers, nonemployer contributing entities, and plan members, and interest and dividends on investments. OPEB plan receivables should include amounts of benefit payments that are due and payable from employers or nonemployer contributing entities for OPEB as the benefits come due and that will not be reimbursed to the employers or nonemployer contributing entities using OPEB plan assets. Amounts recognized as receivables for contributions should include only those due pursuant to legal requirements.

18. Receivables for contributions that are payable to the OPEB plan more than one year after the end of the reporting period (for example, pursuant to installment contracts) should be recognized in full in the period the receivable arises. If a receivable is recognized at its discounted present value, interest should be accrued using the effective interest method, unless use of the straight-line method would not produce significantly different results.

## ***Investments***

19. Purchases and sales of investments should be recorded on a trade-date basis. Unless otherwise provided for in this paragraph, OPEB plan investments—whether equity or debt securities, real estate, investment derivative instruments, or other investments—should be reported at their fair value at the end of the OPEB plan’s reporting period. The fair value of an investment is the price, unadjusted for transaction costs, that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value should be measured by the market price if there is an active market for the investment. If such prices are not available, fair value should be estimated. The fair value of open-end mutual funds, external investment pools, and interest-earning investment contracts should be determined as provided in Statement 31, paragraphs 7–11, as amended, and in Statement No. 59, *Financial Instruments Omnibus*, paragraph 5. Investments in life insurance should be reported at cash surrender value. **Unallocated insurance contracts** should be reported as interest-earning investment contracts according to the provisions of Statement 31, paragraph 8. Synthetic guaranteed investment contracts that are fully benefit responsive (as defined in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, paragraph 67) should be reported at contract value.

20. **Allocated insurance contracts** should be excluded from OPEB plan assets if (a) the contract irrevocably transfers to the insurer the responsibility for providing the benefits, (b) all required payments to acquire the contracts have been made, and (c) the likelihood is remote that the employer, nonemployer contributing entities, or OPEB plan will be required to make additional payments to satisfy the benefit payments covered by the contract.

## **Liabilities**

21. OPEB plan liabilities generally consist of benefit payments (including refunds of plan member contributions) due to plan members and accrued investment and administrative expenses. OPEB plan liabilities for benefit payments should be recognized when the benefit payments are currently due and payable in accordance with the benefit terms. OPEB plan liabilities should include amounts of benefit payments that are due and payable from employers or nonemployer contributing entities for OPEB as the benefits come due. Benefit payments to be provided by means of allocated insurance contracts excluded from OPEB plan assets in conformity with paragraph 20 should be excluded from OPEB plan liabilities.

## **Fiduciary net position**

22. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources at the end of the OPEB plan’s reporting period should be reported as *net position restricted for OPEB*.

## *Statement of Changes in Fiduciary Net Position*

### **Additions**

23. The additions section of the statement of changes in fiduciary net position should include separate display of the following, if applicable:
- a. Contributions from employers, including amounts for OPEB as the benefits come due that are paid by (or due and payable from) employers and that will not be reimbursed to the employers using OPEB plan assets
  - b. Contributions from nonemployer contributing entities (for example, state government contributions to a local government OPEB plan), including amounts for OPEB as the benefits come due that are paid by (or due and payable from) nonemployer contributing entities and that will not be reimbursed to the nonemployer contributing entities using OPEB plan assets
  - c. Contributions from **active plan members** and **inactive plan members** not yet receiving benefit payments, including those transmitted by employers
  - d. Net investment income, including separate display of (1) investment income (see paragraphs 24–26) and (2) investment expense, including investment management and custodial fees and all other significant investment-related costs (see paragraph 27).

### *Investment income*

24. For purposes of this Statement, investment income includes (a) the net increase (decrease) in the fair value of OPEB plan investments and (b) interest income, dividend income, and other income not included in (a). Components (a) and (b) of investment income may be separately displayed or combined and reported as one amount.

25. The net increase (decrease) in the fair value of investments should include realized gains and losses on investments that were both bought and sold during the period. Realized and unrealized gains and losses should not be separately displayed in the financial statements. Realized gains and losses, computed as the difference between the proceeds of sale and the original cost of the investments sold, may be disclosed in notes to financial statements.<sup>8</sup> The disclosure also should state:

- a. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of OPEB plan investments.
- b. Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

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<sup>8</sup>The disclosure of default losses and recoveries on reverse repurchase agreements and securities lending transactions, as provided by paragraph 80 of Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and paragraph 15 of Statement 28, respectively, does not constitute a reporting of realized losses that under the provisions of this Statement would require reporting of all realized gains and losses for the year.

26. Consistent with reporting investments at fair value, interest income should be reported at the stated interest rate. Any premiums or discounts on debt securities should not be amortized.

### ***Investment expense***

27. Investment-related costs should be reported as investment expense if they are separable from (a) investment income and (b) the administrative expenses of the OPEB plan.

### **Deductions**

28. The deductions section of the statement of changes in fiduciary net position should separately display, at a minimum, (a) benefit payments to plan members (including refunds of plan member contributions and amounts for OPEB as the benefits come due that are paid by, or due and payable from, employers or nonemployer contributing entities) and (b) total administrative expense. Benefit payments should exclude amounts paid by inactive plan members.

29. Amounts paid by the OPEB plan, an employer, or a nonemployer contributing entity to an insurance company pursuant to an allocated insurance contract that is excluded from OPEB plan assets in conformity with paragraph 20, including purchases of annuities with amounts allocated from existing investments with the insurance company, should be included in amounts recognized as benefit payments. Dividends from an allocated insurance contract should be recognized as a reduction of benefit payments recognized in the period. Benefit payments should not include benefits paid by an insurance company in accordance with such a contract.

### **Net increase (decrease) in fiduciary net position**

30. The difference between total additions and total deductions presented in the statement of changes in fiduciary net position should be reported as the *net increase (or decrease) in net position*.

### **Notes to Financial Statements<sup>9</sup>**

31. The following should be disclosed in notes to financial statements, as applicable:

a. Plan description:

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<sup>9</sup>The notes to financial statements of a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3 should include all disclosures required by paragraphs 31 and 32, as applicable, when the financial statements are presented in a stand-alone OPEB plan financial report or solely in the financial report of another government. If (a) a defined benefit OPEB plan is included in the financial report of a government that applies the requirements of the related Statement for benefits provided through the OPEB plan and (b) similar information is required by this Statement and the related Statement, the government should present the disclosures in a manner that avoids unnecessary duplication.

- (1) The name of the OPEB plan, identification of the entity that administers the OPEB plan, and identification of the OPEB plan as a single-employer, agent, or cost-sharing OPEB plan.
- (2) The number of participating employers (if the OPEB plan is an agent or cost-sharing OPEB plan) and the number of nonemployer contributing entities, if any.
- (3) Information regarding the OPEB plan's board and its composition (for example, the number of trustees by source of selection or the types of constituency or credentials applicable to selection).
- (4) Classes of plan members covered and the number of plan members, separately identifying numbers of the following:
  - (a) Inactive plan members currently receiving benefit payments
  - (b) Inactive plan members entitled to but not yet receiving benefit payments
  - (c) Active plan members.

If the OPEB plan is closed to new entrants, that fact should be disclosed.

- (5) The authority under which benefit terms are established or may be amended and the types of benefits provided through the OPEB plan. If the OPEB plan or the entity that administers the OPEB plan has the authority to establish or amend benefit terms, a brief description should be provided of the benefit terms, including the key elements of the OPEB formulas and the terms or policies, if any, with respect to **automatic postemployment benefit changes**, including **automatic cost-of-living adjustments (automatic COLAs)**; **ad hoc postemployment benefit changes**, including **ad hoc cost-of-living adjustments (ad hoc COLAs)**; and the sharing of benefit-related costs with inactive plan members.
- (6) A brief description of contribution requirements, including (a) identification of the authority under which contribution requirements of employers, nonemployer contributing entities, if any, and plan members are established or may be amended; (b) the contribution rates (in dollars or as a percentage of covered payroll) of the employer, nonemployer contributing entities, if any, and plan members for the reporting period; and (c) legal or contractual maximum contribution rates, if applicable. If the OPEB plan or the entity that administers the OPEB plan has the authority to establish or amend contribution requirements, disclose the basis for determining contributions (for example, statute, contract, an actuarial basis, or some other manner).

b. OPEB plan investments:

- (1) Investment policies, including:
  - (a) Procedures and authority for establishing and amending investment policy decisions
  - (b) Policies pertaining to asset allocation
  - (c) Description of significant investment policy changes during the reporting period.
- (2) A brief description of how the fair value of investments is determined, including the methods and significant assumptions used to estimate the fair value of investments if that fair value is based on other than quoted market prices.

- (3) Identification of investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of the OPEB plan's fiduciary net position.
  - (4) The annual **money-weighted rate of return** on OPEB plan investments calculated as the internal rate of return on OPEB plan investments, net of OPEB plan investment expense, and an explanation that a money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested. OPEB plan investment expense should be measured on the accrual basis of accounting. Inputs to the internal rate of return calculation should be determined at least monthly. The use of more frequently determined inputs is encouraged.
- c. Receivables—The terms of any long-term contracts for contributions to the OPEB plan between (1) an employer or nonemployer contributing entity and (2) the OPEB plan, and the balances outstanding on any such long-term contracts at the end of the OPEB plan's reporting period.
  - d. Allocated insurance contracts excluded from OPEB plan assets:
    - (1) The amount reported in benefit payments in the current period that is attributable to the purchase of allocated insurance contracts
    - (2) A brief description of the OPEB for which allocated insurance contracts were purchased in the current period
    - (3) The fact that the obligation for the payment of benefits covered by allocated insurance contracts has been transferred to one or more insurance companies.
  - e. Reserves—In circumstances in which there is a policy of setting aside, for purposes such as benefit increases or reduced employer contributions, a portion of the OPEB plan's fiduciary net position that otherwise would be available for existing OPEB or for OPEB plan administration:
    - (1) A description of the policy related to such reserves
    - (2) The authority under which the policy was established and may be amended
    - (3) The purposes for and conditions under which the reserves are required or permitted to be used
    - (4) The balances of the reserves.

### ***Disclosures Specific to Single-Employer and Cost-Sharing OPEB Plans***

32. In addition to the information required by paragraph 31, the information identified in subparagraphs (a)–(c) below, should be disclosed in notes to financial statements. All information should be measured as of the OPEB plan's most recent fiscal year-end. Information about cost-sharing OPEB plans should be presented for the OPEB plan as a whole.

- a. The components of the liability of the employers and nonemployer contributing entities to plan members for benefits provided through the OPEB plan (**net OPEB liability**),<sup>10</sup> calculated in conformity with the requirements of paragraphs 36–47:
  - (1) The **total OPEB liability**
  - (2) The OPEB plan’s fiduciary net position
  - (3) The net OPEB liability
  - (4) The OPEB plan’s fiduciary net position as a percentage of the total OPEB liability.
- b. Significant assumptions and other inputs used to measure the total OPEB liability, including assumptions about inflation, **healthcare cost trend rates**, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and the sharing of benefit-related costs with inactive plan members. With regard to the sharing of benefit-related costs, if projections are based on a historical pattern, that fact should be disclosed. With regard to mortality assumptions, the source of the assumptions (for example, the published tables on which the assumptions are based or that the assumptions are based on a study of the experience of the covered group) should be disclosed. The dates of experience studies on which significant assumptions are based also should be disclosed. For all significant assumptions, if different rates are assumed for different periods, information should be disclosed about what rates are applied to the different periods of the measurement. In addition, if the alternative measurement method is used to measure the total OPEB liability, that fact, as well as the source or basis for all significant assumptions selected in conformity with paragraph 53 should be disclosed.
  - (1) The following information should be disclosed about the **discount rate**:
    - (a) The discount rate applied in the measurement of the total OPEB liability and the change in the discount rate since the OPEB plan’s prior fiscal year-end, if any
    - (b) Assumptions made about projected cash flows into and out of the OPEB plan, such as contributions from employers, nonemployer contributing entities, and plan members
    - (c) The long-term expected rate of return on OPEB plan investments and a description of how it was determined, including significant methods and assumptions used for that purpose
    - (d) If the discount rate incorporates a municipal bond rate, the municipal bond rate used and the source of that rate
    - (e) The periods of **projected benefit payments** to which the long-term expected rate of return and, if used, the municipal bond rate are applied in determining the discount rate

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<sup>10</sup>In this Statement, unless otherwise indicated, references to a net OPEB liability also apply to the situation in which the OPEB plan’s fiduciary net position exceeds the total OPEB liability (see paragraph 37), resulting in a net OPEB asset. In the related Statement, the net OPEB liability is referred to as the collective net OPEB liability when benefits are provided through (a) a cost-sharing OPEB plan that is administered through a trust that meets the criteria in paragraph 4 of that Statement or (b) a single-employer or agent OPEB plan that is administered through a trust that meets the criteria in paragraph 4 of that Statement in certain circumstances in which a nonemployer entity has a legal requirement to contribute to the plan.

- (f) The assumed asset allocation of the OPEB plan’s portfolio, the long-term expected **real rate of return** for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means, if not otherwise disclosed.
- (2) Measures of the net OPEB liability, calculated using all nine combinations of each of the following rates in (a) with each of the following rates in (b), should be disclosed:
  - (a) The assumed healthcare cost trend rate, a healthcare cost trend rate that is 1-percentage-point higher than the assumed healthcare cost trend rate, and a healthcare cost trend rate that is 1-percentage-point lower than the assumed healthcare cost trend rate
  - (b) The discount rate required by paragraph 45, a discount rate that is 1-percentage-point higher than that required by paragraph 45, and a discount rate that is 1-percentage-point lower than that required by paragraph 45.
- c. The date of the **actuarial valuation** or alternative measurement method calculation on which the total OPEB liability is based and, if applicable, the fact that update procedures were used to roll forward the total OPEB liability to the OPEB plan’s fiscal year-end.

## **Required Supplementary Information<sup>11</sup>**

### ***Single-Employer and Cost-Sharing OPEB Plans***

33. Schedules of required supplementary information that include the information indicated in subparagraphs (a)–(d) below, should be presented. The information in subparagraphs (a) and (b) may be presented in a single schedule. Information for each year should be measured as of the OPEB plan’s most recent fiscal year-end. Information about cost-sharing OPEB plans should be presented for the OPEB plan as a whole.

- a. A 10-year schedule of changes in the net OPEB liability, presenting for each year (1) the beginning and ending balances of the total OPEB liability, the OPEB plan’s fiduciary net position, and the net OPEB liability, calculated in conformity with paragraphs 36–51, and (2) the effects on those items during the year of the following, as applicable. If the alternative measurement method is used to measure the total OPEB liability, the information indicated in subparagraphs (4) and (5) may be presented as a single amount.
  - (1) **Service cost**
  - (2) Interest on the total OPEB liability

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<sup>11</sup>Required supplementary information presented by a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3 should include all information required by paragraphs 33–35, as applicable, when the financial statements are included in a stand-alone OPEB plan financial report or solely in the financial report of another government. If (a) a defined benefit OPEB plan is included in the financial report of a government that applies the requirements of the related Statement for benefits provided through the OPEB plan and (b) similar information is required by this Statement and the related Statement, the government should present the information in a manner that avoids unnecessary duplication.

- (3) Changes of benefit terms
  - (4) Differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total OPEB liability
  - (5) Changes of assumptions about future economic or demographic factors or of other inputs
  - (6) Contributions from employers, including amounts for OPEB as the benefits come due that are paid by (or due and payable from) employers and that will not be reimbursed to the employers using OPEB plan assets
  - (7) Contributions from nonemployer contributing entities, including amounts for OPEB as the benefits come due that are paid by (or due and payable from) nonemployer contributing entities and that will not be reimbursed to the nonemployer contributing entities using OPEB plan assets
  - (8) Contributions from active plan members and inactive plan members not yet receiving benefit payments
  - (9) OPEB plan net investment income
  - (10) Benefit payments (including refunds of plan member contributions and amounts for OPEB as the benefits come due that are paid by, or due and payable from, employers or nonemployer contributing entities)
  - (11) OPEB plan administrative expense
  - (12) Other changes, separately identified if individually significant.
- b. A 10-year schedule presenting the following for each year:
- (1) The total OPEB liability
  - (2) The OPEB plan's fiduciary net position
  - (3) The net OPEB liability
  - (4) The OPEB plan's fiduciary net position as a percentage of the total OPEB liability
  - (5) The **covered-employee payroll**
  - (6) The net OPEB liability as a percentage of covered-employee payroll.
- c. A 10-year schedule presenting for each year the information indicated in subparagraphs (1)–(6) below, if an **actuarially determined contribution** is calculated for employers or nonemployer contributing entities. The schedule should identify whether the information relates to the employers, nonemployer contributing entities, or both.
- (1) The actuarially determined contributions of employers or nonemployer contributing entities. For purposes of this schedule, actuarially determined contributions should exclude amounts, if any, associated with payables to the OPEB plan that arose in a prior fiscal year and those associated with **separately financed specific liabilities to the OPEB plan.**
  - (2) For cost-sharing OPEB plans, the statutorily or contractually required contribution of employers or nonemployer contributing entities, if different from (1). For purposes of this schedule, statutorily or contractually required contributions should include amounts for OPEB as the benefits come due that are paid by (or due and payable from) employers or nonemployer contributing entities and that will not be reimbursed to the employers or nonemployer contributing entities using OPEB plan assets and should exclude amounts, if any, associated with payables to the OPEB plan that arose in a prior fiscal year

and those associated with separately financed specific liabilities to the OPEB plan.

- (3) The amount of contributions, including amounts for OPEB as the benefits come due that are paid by (or due and payable from) employers or nonemployer contributing entities and that will not be reimbursed to the employers or nonemployer contributing entities using OPEB plan assets, recognized during the fiscal year by the OPEB plan in relation to the actuarially determined contribution in (1). For purposes of this schedule, contributions should exclude amounts resulting from contributions recognized by the OPEB plan as noncurrent receivables.
  - (4) The difference between the actuarially determined contribution in (1) and the amount of contributions recognized by the OPEB plan in relation to the actuarially determined contribution in (3).
  - (5) The covered-employee payroll.
  - (6) The amount of contributions recognized by the OPEB plan in relation to the actuarially determined contribution in (3) as a percentage of covered-employee payroll in (5).
- d. A 10-year schedule presenting for each fiscal year the annual money-weighted rate of return on OPEB plan investments calculated as required by paragraph 31b(4).

### ***Agent OPEB Plans***

34. A 10-year schedule presenting for each fiscal year the annual money-weighted rate of return on OPEB plan investments calculated as required by paragraph 31b(4) should be presented in required supplementary information.

### ***Notes to the Required Schedules***

35. Significant methods and assumptions used in calculating the actuarially determined contributions, if any, should be presented as notes to the schedule required by paragraph 33c. In addition, for each of the schedules required by paragraphs 33 and 34, information should be presented about factors that significantly affect trends in the amounts reported (for example, changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions). Information about investment-related factors that significantly affect trends in the amounts reported should be limited to those factors over which the OPEB plan or the participating governments have influence (for example, changes in investment policies). Information about external, economic factors (for example, changes in market prices) should not be presented. (The amounts presented for prior years should not be restated for the effects of changes—for example, changes of benefit terms or changes of assumptions—that occurred subsequent to the end of the fiscal year for which the information is reported.)

## **Measurement of the Net OPEB Liability**

36. The net OPEB liability should be measured as the total OPEB liability (determined in conformity with paragraphs 37–51), net of the OPEB plan’s fiduciary net position. The net OPEB liability should be measured as of the OPEB plan’s most recent fiscal year-end.

### ***Total OPEB Liability***

37. The total OPEB liability is the portion of the **actuarial present value of projected benefit payments** that is attributed to past periods of plan member service in conformity with the requirements of paragraphs 38–51. However, if the criterion in paragraph 52 is met, the total OPEB liability may be measured in conformity with the requirements in paragraphs 53 and 54 for the alternative measurement method.

### **Timing and frequency of actuarial valuations**

38. The total OPEB liability should be determined by (a) an actuarial valuation as of the OPEB plan’s most recent fiscal year-end or (b) the use of update procedures to roll forward to the OPEB plan’s most recent fiscal year-end amounts from an actuarial valuation as of a date no more than 24 months earlier than the OPEB plan’s most recent fiscal year-end. If update procedures are used and significant changes occur between the **actuarial valuation date** and the OPEB plan’s fiscal year-end, professional judgment should be used to determine the extent of procedures needed to roll forward the measurement from the actuarial valuation to the OPEB plan’s fiscal year-end, and consideration should be given to whether a new actuarial valuation is needed. For purposes of this determination, the effects of changes in the discount rate resulting from changes in the OPEB plan’s fiduciary net position or from changes in the municipal bond rate, if applicable (see paragraphs 45–50), should be among the factors evaluated. For financial reporting purposes, an actuarial valuation of the total OPEB liability should be performed at least biennially. More frequent actuarial valuations are encouraged.

### **Selection of assumptions**

39. Unless otherwise specified by this Statement, the selection of all assumptions used in determining the total OPEB liability should be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board. The OPEB plan, employers, and, if any, governmental nonemployer contributing entities that make contributions to the OPEB plan, including payments that are made for OPEB as the benefits come due and that will not be reimbursed to the employer or nonemployer contributing entity using OPEB plan assets, should use the same assumptions when measuring similar or related OPEB information.

### **Projection of benefit payments**

40. Projected benefit payments should include all benefits (including refunds of plan member contributions) to be provided to current active and inactive plan members through the OPEB plan (including amounts for OPEB to be paid by employers or nonemployer

contributing entities as the benefits come due) in accordance with the benefit terms and any additional legal agreements to provide benefits that are in force at the OPEB plan's fiscal year-end. Usually, a written document is the best evidence of the benefit terms. However, in some cases the substantive plan may differ from the written document. Accordingly, other information also should be taken into consideration in determining the benefits to be provided, including other communications between the employer and plan members (active and inactive) and an established pattern of practice with regard to the sharing of benefit-related costs with inactive plan members.

41. Projected benefit payments should include the effects of automatic postemployment benefit changes, including automatic COLAs. In addition, projected benefit payments should include the effects of (a) projected ad hoc postemployment benefit changes, including ad hoc COLAs, to the extent that they are considered to be substantively automatic;<sup>12</sup> (b) projected salary changes (in circumstances in which the OPEB formula incorporates future compensation levels); and (c) projected service credits (both in determining a plan member's probable eligibility for benefits and in the projection of benefit payments in circumstances in which the OPEB formula incorporates years of service). Benefit payments to be provided by means of an allocated insurance contract excluded from OPEB plan assets in conformity with paragraph 20 should be excluded from projected benefit payments. Benefit payments to be provided through an insured plan also should be excluded.

42. Projected benefit payments also should include taxes or other assessments expected to be imposed on benefit payments using the rates in effect at the OPEB plan's fiscal year-end or, if different rates have been approved by the assessing government to be applied in future periods, the rates approved by the assessing government associated with the periods in which the assessments on the benefit payments will be imposed. However, projected benefit payments should not be reduced by subsidies expected to be received for making benefit payments other than those received for providing Medicare benefits.<sup>13</sup>

43. Projected benefit payments should be based on claims costs, or age-adjusted premiums approximating claims costs, in accordance with Actuarial Standards of Practice issued by the Actuarial Standards Board.

44. A legal or contractual cap on benefit payments for OPEB each period should be considered in projecting benefit payments, if the cap is assumed to be effective taking into consideration whether the cap has been enforced in the past and other relevant factors and circumstances.

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<sup>12</sup>Considerations that might be relevant in determining whether such changes are substantively automatic include the historical pattern of granting the changes, the consistency in the amounts of the changes or in the amounts of the changes relative to a defined cost-of-living or inflation index, and whether there is evidence to conclude that changes might not continue to be granted in the future despite what might otherwise be a pattern that would indicate such changes are substantively automatic.

<sup>13</sup>For this purpose, payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D that are addressed in Technical Bulletin 2006-1 should not reduce projected benefit payments.

## **Discount rate**

45. The discount rate should be the single rate that reflects the following:
  - a. The long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that (1) the OPEB plan's fiduciary net position is projected (in conformity with paragraphs 46–48) to be sufficient to make projected benefit payments (determined in conformity with paragraphs 40–44) and (2) OPEB plan assets are expected to be invested using a strategy to achieve that return
  - b. A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), to the extent that the conditions in (a) are not met.

## ***Comparing projections of the OPEB plan's fiduciary net position to projected benefit payments***

46. For purposes of applying paragraph 45, the amount of the OPEB plan's projected fiduciary net position and the amount of projected benefit payments should be compared in each period of projected benefit payments. Projections of the OPEB plan's fiduciary net position should incorporate all cash flows for contributions from employers and nonemployer contributing entities, if any, intended to finance benefits of current active and inactive plan members (status at the OPEB plan's fiscal year-end) and all cash flows for contributions from current active plan members. It should not include (a) cash flows for contributions from employers or nonemployer contributing entities intended to finance the service costs of future plan members or (b) cash flows for contributions from future plan members, unless those contributions are projected to exceed service costs for those plan members. In each period, contributions from employers and nonemployer contributing entities should be considered to apply, first, to service costs of plan members in the period and, second, to past service costs, unless the effective OPEB plan terms related to contributions indicate that a different relationship between contributions to the OPEB plan from nonemployer contributing entities and service costs should be applied. Contributions from active plan members should be considered to be applied to service costs before contributions from employers and nonemployer contributing entities.

47. Professional judgment should be applied to project cash flows for contributions from employers and nonemployer contributing entities in circumstances in which (a) those contribution amounts are established by statute or contract or (b) a formal, written policy related to those contributions exists. Application of professional judgment should consider the most recent five-year contribution history of the employers and nonemployer contributing entities as a key indicator of future contributions from those sources and should reflect all other known events and conditions. In circumstances other than those described in (a) and (b), the amount of projected cash flows for contributions from employers and nonemployer contributing entities should be limited to an average of contributions from those sources over the most recent five-year period and may be modified based on consideration of subsequent events. For this purpose, the basis for the

average (for example, percentage of covered payroll contributed or percentage of actuarially determined contributions made) should be a matter of professional judgment.

48. If the evaluations required by paragraph 46 can be made with sufficient reliability without a separate projection of cash flows into and out of the OPEB plan, alternative methods may be applied in making the evaluations.

#### ***Calculating the discount rate***

49. For each future period, if the amount of the OPEB plan's fiduciary net position is projected to be greater than or equal to the benefit payments that are projected to be made in that period and OPEB plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, the actuarial present value of benefit payments projected to be made in the period should be determined using the long-term expected rate of return on those investments. The long-term expected rate of return should be based on the nature and mix of current and expected OPEB plan investments over a period representative of the expected length of time between (a) the point at which a plan member begins to provide service to the employer and (b) the point at which all benefits to the plan member have been paid. For this purpose, the long-term expected rate of return should be determined net of OPEB plan investment expense but without reduction for OPEB plan administrative expense. The municipal bond rate discussed in paragraph 45 should be used to calculate the actuarial present value of all other benefit payments.

50. For purposes of this Statement, the discount rate is the single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the actuarial present values determined in conformity with paragraph 49.

#### **Attribution of the actuarial present value of projected benefit payments to periods**

51. The **entry age actuarial cost method** should be used to attribute the actuarial present value of projected benefit payments of each plan member to periods in conformity with the following:

- a. Attribution should be made on an individual plan-member-by-plan-member basis.
- b. Each plan member's service costs should be level as a percentage of that member's projected pay. For purposes of this calculation, if a member does not have projected pay, the projected inflation rate should be used in place of the projected rate of change in salary.
- c. The beginning of the attribution period should be the first period in which the member's service accrues OPEB under the benefit terms, notwithstanding vesting or other similar terms.
- d. The service costs of all OPEB should be attributed through all assumed exit ages, through retirement.

- e. Each plan member's service costs should be determined based on the same benefit terms reflected in that member's actuarial present value of projected benefit payments.

### **Alternative measurement method**

52. In place of an actuarial valuation, the total OPEB liability may be measured using the alternative measurement method discussed in paragraphs 53 and 54 if there are fewer than 100 plan members (active and inactive) as of the beginning of the OPEB plan's fiscal year.

53. If the alternative measurement method is used, one or more of the specific modifications discussed in this paragraph may be incorporated into application of the requirements of paragraphs 38–51:

- a. *General considerations.* Assumptions other than those specifically identified in paragraphs 38–51 might be needed depending on the benefits provided. Assumptions generally should be based on the actual experience of the covered group, to the extent that credible experience data are available, but should emphasize expected long-term future trends rather than give undue weight to recent past experience. However, grouping techniques that base the selection of assumptions on combined experience data for similar plans may be used, as discussed in subparagraph (i) of this paragraph. The reasonableness of each assumption should be considered independently based on its own merits and its consistency with each other assumption. For example, each assumption of which general inflation is a component should include the same assumption with regard to that component. In addition, consideration should be given to the reasonableness of the combined impact of all assumptions.
- b. *Expected point in time at which benefit payments will begin to be made.* The assumption should reflect past experience and future expectations for the covered group. The assumption may incorporate a single assumed age at which benefit payments will begin to be made to all active plan members or an assumption that benefit payments will begin to be made to all active plan members upon attaining a certain number of years of service.
- c. *Marital and dependency status.* These assumptions may be based on the current status of active and inactive plan members or on historical demographic data for inactive plan members.
- d. *Mortality.* This assumption should be based on current published mortality tables.
- e. *Turnover.* The assumed probability that an active plan member will remain employed until the assumed age at which benefit payments will begin to be made for purposes of allocating the present value of projected benefit payments to periods generally should be based on the historical age-based turnover experience of the covered group, adjusted for any expected long-term future trends using the calculation method identified in paragraph 54a. However, if experience data are not available, the probability of remaining employed until the assumed age at which benefit payments will begin to be made should be assigned using the method identified in paragraph 54b.

- f. *Healthcare cost trend rate.* Assumptions about changes in healthcare cost in future periods for which benefit payments are projected should be derived from an objective source.
- g. *Use of health insurance premiums.* If experience-rated healthcare benefits are provided through premium payments to an insurer or other service provider, the OPEB plan's current premium structure may be used as the initial per capita healthcare rates for the purpose of projecting healthcare benefit payments. However, if the same premium rates are given for both active employees and inactive plan members, age-adjusted premium rates for inactive plan members should be obtained from the insurer or, if that information cannot be obtained from the insurer, age-adjusted premiums for inactive plan members should be estimated using the method identified in paragraph 54c.
- h. *Coverage options.* If the terms of an OPEB plan provide inactive plan members with coverage options, assumptions regarding coverage choices should be based on the experience of the covered group, considering differences, if any, in choices of pre- and post-Medicare-eligible plan members.
- i. *Use of grouping.* Grouping techniques may be used. One such technique is to group plan members based on common demographic characteristics (for example, plan members within a range of ages or years of service), when the obligation for each plan member in the group is expected to be similar for commonly grouped individuals. Another technique is to group OPEB plans with similar expected costs and benefits.

54. The following calculation methods and default values should be used, if applicable, to meet the requirements of (a) paragraph 53e to determine the probability that active plan members will remain employed until the expected point in time that benefit payments will begin to be made and (b) paragraph 53g to determine age-adjusted premiums for inactive plan members.

- a. For purposes of applying the requirements of paragraph 53e, if historical age-based turnover experience of the covered group is used when applying the alternative measurement method, the following methodology should be used to calculate the probability of remaining employed until the assumed age at which benefit payments will begin to be made:

Age	Probability of Termination in Next Year (a)	Probability of Remaining Employed for Next Year (b)	Probability of Remaining Employed from Earliest Entry Age to Beginning of Year (c)	Probability of Remaining Employed from Age Shown to Assumed Age at Which Benefit Payments Will Begin to Be Made (d)
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Column a: For each age (*n*) from the earliest entry age to assumed age at which benefit payments will begin to be made, list the age-based *probability of termination in the next year* for the covered group.

Column b: Compute the *probability at each age of remaining employed for the next year*. This value should be calculated as  $1 - a$ .

Column c: Set the initial value in column c to equal 1.000. For each subsequent age ( $n$ ), column c values should be calculated as:  $c_{(n-1)} \times b_{(n-1)}$ .

Column d: For each age ( $n$ ), these values should be calculated as the product of the values in column b from age  $n$  to the year prior to the assumed age at which benefit payments will begin to be made.

- b. For purposes of applying the requirements of paragraph 53e, if historical age-based turnover experience of the covered group is not used when applying the alternative measurement method, historical age-based turnover should be derived from data maintained by the U.S. Office of Personnel Management regarding the most recent experience of the employee group covered by the Federal Employees Retirement System.
- c. For purposes of applying the requirements of paragraph 53g, when the same premiums are charged to active employees and inactive plan members and age-adjusted premium information for inactive plan members is not able to be obtained from the insurer or service provider, the following approach should be used to age-adjust premiums for purposes of projecting benefit payments:
  - (1) To adjust premiums for ages under 65:
    - (a) Identify the premium charged for active and inactive employees under age 65.
    - (b) Calculate the average age of the employees to which the premium identified in step a applies.
    - (c) For each employee under age 65, identify the greater of expected age at which benefit payments will begin to be made or current age.
    - (d) Calculate the average of the ages identified in step c.
    - (e) Calculate the midpoint age between the result of step d and age 65: result of step d +  $[0.5 \times (65 - \text{result of step d})]$ .
    - (f) Using the results of steps b and e, calculate a factor with the following formula:  $1.04^{(\text{result of step e} - \text{result of step b})}$ .
    - (g) Multiply the factor identified in step f by the premium identified in step a. The result is the current-year age-adjusted premium that should be used as the basis for projecting benefit payments for ages under age 65.
  - (2) To adjust premiums for ages 65 or older:<sup>14</sup>
    - (a) Identify the premium charged for active and inactive employees age 65 or older.
    - (b) Calculate the average age of the employees to which the premium identified in step a applies.

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<sup>14</sup>The procedures described in paragraph 54c(2) would be applied only in cases in which inactive employees age 65 or older are included in a single, blended premium assessed by the insurer or service provider for active and inactive employees. If separate rates are assessed for inactive employees age 65 or older, preparers would follow the steps in paragraph 54c(1) for age-adjusting blended premiums for under age 65 and would use the separately assessed premium rates (without additional age adjustment) for age 65 or older.

- (c) For each employee (whether age pre-65 or age 65 or older), identify the greater of current age or age 65.
- (d) Calculate the average of the ages identified in step c.
- (e) Calculate the average life expectancy of all employees.
- (f) Calculate the midpoint age between the result of step d and the result of step e: result of step d +  $[0.5 \times (\text{result of step e} - \text{result of step d})]$ .
- (g) Using the results of steps b and f, calculate a factor with the following formula:  $1.04^{(64 - \text{result of step b})} \times 1.03^{(\text{result of step f} - 64)}$  (for plans with no Medicare coordination) or  $0.5 \times 1.04^{(64 - \text{result of step b})} \times 1.03^{(\text{result of step f} - 64)}$  (for plans with Medicare coordination).
- (h) Multiply the factor identified in step g by the premium identified in step a. The result is the current-year age-adjusted premium that should be used as the basis for projecting benefit payments for age 65 or older.

### **Defined Benefit OPEB Plans That Are Not Administered through Trusts That Meet the Criteria in Paragraph 3**

55. If a single-employer OPEB plan is not administered through a trust that meets the criteria in paragraph 3, any assets accumulated for OPEB purposes should continue to be reported as assets of the employer or nonemployer contributing entity.

56. If a multiple-employer OPEB plan is not administered through a trust that meets the criteria in paragraph 3, a government that holds assets accumulated for OPEB purposes in a custodial capacity should:

- a. Report the assets in an agency fund. The amount of assets accumulated in excess of liabilities for benefits due to plan members and accrued investment and administrative expenses should be reported as liabilities to participating employers and nonemployer contributing entities. If the agency fund is included in the financial report of an employer whose employees are provided with benefits through the OPEB plan or a nonemployer contributing entity that makes benefit payments as OPEB comes due, balances reported by the agency fund should exclude amounts that pertain to the employer or nonemployer contributing entity that reports the agency fund. Instead, those amounts should continue to be reported as balances of the employer or nonemployer contributing entity.
- b. Disclose the following information:
  - (1) The number of participating employers and the number of nonemployer contributing entities, if any.
  - (2) A brief description of how the fair value of investments is determined, including the methods and significant assumptions used to estimate the fair value of investments if that fair value is based on other than quoted market prices.
  - (3) The fact that there are no assets accumulated in a trust that meets the criteria in paragraph 3. If the OPEB plan is administered through a trust and that trust does not meet the criteria in paragraph 3, each criterion in paragraph 3 that the trust does not meet should be disclosed.

- (4) That each employer that provides benefits through the OPEB plan and, if applicable, certain nonemployer contributing entities, are required to disclose additional information, including the total OPEB liability for benefits provided through the OPEB plan.

### **Defined Contribution OPEB Plans That Are Administered through Trusts That Meet the Criteria in Paragraph 3**

57. The following information should be disclosed in notes to financial statements of a defined contribution OPEB plan that is administered through a trust that meets the criteria in paragraph 3:<sup>15</sup>

- a. Identification of the OPEB plan as a defined contribution OPEB plan
- b. Classes of plan members covered (for example, general employees or public safety employees), the number of plan members, participating employers (if the OPEB plan is used to provide OPEB to the employees of more than one employer), and, if any, nonemployer contributing entities
- c. The authority under which the OPEB plan is established or may be amended.

### **EFFECTIVE DATE AND TRANSITION**

58. This Statement is effective for financial statements for fiscal years beginning after December 15, 2015. Earlier application is encouraged.

59. In the first period that this Statement is applied, changes made to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.

60. In the fiscal year in which this Statement is first implemented (transition year), the 10-year schedule of information about contributions required by paragraph 33c should be presented, if applicable. OPEB plans are encouraged, but not required, to present all years of other required supplementary information retroactively. If retroactive information is not presented for the full 10 years, required supplementary information should be presented for as many years for which information measured in conformity with the requirements of this Statement is available in the transition year and until 10 years of such information is

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<sup>15</sup>The notes to financial statements of a defined contribution OPEB plan that is administered through a trust that meets the criteria of paragraph 3 should include all disclosures required by paragraph 57, as applicable, when the financial statements are presented in a stand-alone OPEB plan financial report or solely in the financial report of another government. If (a) a defined contribution OPEB plan is included in the financial report of a government that applies the requirements of the related Statement for benefits provided through the OPEB plan and (b) similar information is required by this Statement and the related Statement, the government should present the information in a manner that avoids unnecessary duplication.

available. The schedules should not include information that is not measured in conformity with the requirements of this Statement.

**The provisions of this Statement need not be applied to immaterial items.**

## GLOSSARY

61. This paragraph contains definitions of certain terms *as they are used in this Statement*; the terms may have different meanings in other contexts.

### **Active plan members**

Employees in active service that are covered under the terms of an OPEB plan.

### **Actuarially determined contribution**

A target or recommended contribution to a defined benefit OPEB plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

### **Actuarial present value of projected benefit payments**

Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

### **Actuarial valuation**

The determination, as of a point in time (the actuarial valuation date), of the service cost, total OPEB liability, and related actuarial present value of projected benefit payments for OPEB performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

### **Actuarial valuation date**

The date as of which an actuarial valuation is performed.

### **Ad hoc cost-of-living adjustments (ad hoc COLAs)**

**Cost-of-living adjustments** that require a decision to grant by the authority responsible for making such decisions.

### **Ad hoc postemployment benefit changes**

**Postemployment benefit changes** that require a decision to grant by the authority responsible for making such decisions.

### **Agent multiple-employer defined benefit OPEB plan (agent OPEB plan)**

A multiple-employer defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of this Statement and in which OPEB plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

### **Allocated insurance contracts**

Contracts with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities for individual plan members. Also may be referred to as annuity contracts.

**Automatic cost-of-living adjustments (automatic COLAs)**

Cost-of-living adjustments that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the OPEB plan) or to another variable (such as an increase in the consumer price index).

**Automatic postemployment benefit changes**

Postemployment benefit changes that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the OPEB plan) or to another variable (such as an increase in the consumer price index).

**Cost-of-living adjustments**

Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.

**Cost-sharing multiple-employer defined benefit OPEB plan (cost-sharing OPEB plan)**

A multiple-employer defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of this Statement and in which the OPEB obligations to the employees of more than one employer are pooled and OPEB plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

**Covered-employee payroll**

The payroll of employees that are provided with OPEB through the OPEB plan.

**Defined benefit OPEB**

OPEB for which the benefits that the plan member will receive at or after separation from employment are defined by the benefit terms. The OPEB may be stated as (a) a specified dollar amount; (b) an amount that is calculated based on one or more factors such as age, years of service, and compensation; or (c) a type or level of coverage such as prescription drug coverage or a percentage of health insurance premiums. (OPEB that does not have all of the terms of defined contribution OPEB is classified as defined benefit OPEB for purposes of this Statement.)

**Defined benefit OPEB plans**

OPEB plans that are used to provide defined benefit OPEB.

**Defined contribution OPEB**

OPEB having terms that (a) provide an individual account for each plan member; (b) define the contributions that an employer or nonemployer contributing entity is required to make (or the credits it is required to provide) to an active plan member's account for periods in which that member renders service; and (c) provide that the OPEB a plan member will receive will depend only on the contributions (or credits) to the plan member's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other plan

members, as well as OPEB plan administrative costs, that are allocated to the plan member's account.

### **Defined contribution OPEB plans**

OPEB plans that are used to provide defined contribution OPEB.

### **Discount rate**

The single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the following:

- a. The actuarial present value of benefit payments projected to be made in future periods in which (1) the amount of the OPEB plan's fiduciary net position is projected (under the requirements of this Statement) to be greater than the benefit payments that are projected to be made in that period and (2) OPEB plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, calculated using the long-term expected rate of return on OPEB plan investments
- b. The actuarial present value of projected benefit payments not included in (a), calculated using a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

### **Entry age actuarial cost method**

A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the *normal cost*.<sup>16</sup> The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the *Actuarial accrued liability*.<sup>17</sup> [This definition is from "Definitions from ASOPs [Actuarial Standards of Practice] and ACGs [Actuarial Compliance Guidelines] of the ASB [Actuarial Standards Board] (including those from current exposure drafts) January 2014." Actuarial Standards Board, <http://www.actuarialstandardsboard.org/pdf/definitions.pdf>. Accessed on May 28, 2014. Footnotes not part of original definition.]

### **Healthcare cost trend rates**

The rates of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

### **Inactive plan members**

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<sup>16</sup>For purposes of application to the requirements of this Statement, the term *normal cost* is the equivalent of *service cost*.

<sup>17</sup>For purposes of application to the requirements of this Statement, the term *actuarial accrued liability* is the equivalent of *total OPEB liability*.

Employees no longer in active service (or their beneficiaries) who have accumulated benefits under the terms of an OPEB plan.

**Insured plans**

Defined benefit OPEB plans in which benefits are financed through an arrangement whereby premiums are paid to an insurance company while employees are in active service, in return for which the insurance company unconditionally undertakes an obligation to pay the postemployment benefits of those employees as defined in the OPEB plan terms.

**Money-weighted rate of return**

A method of calculating period-by-period returns on OPEB plan investments that adjusts for the changing amounts actually invested. For purposes of this Statement, money-weighted rate of return is calculated as the internal rate of return on OPEB plan investments, net of OPEB plan investment expense.

**Multiple-employer defined benefit OPEB plan**

A defined benefit OPEB plan that is used to provide OPEB to the employees of more than one employer.

**Net OPEB liability**

The liability of employers and nonemployer contributing entities to plan members for benefits provided through a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of this Statement.

**Nonemployer contributing entities**

For arrangements in which OPEB is provided through an OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of this Statement, entities that make contributions, including amounts paid (or due and payable) for OPEB as the benefits come due, to an OPEB plan that is used to provide OPEB to the employees of other entities. For arrangements in which OPEB is provided through an OPEB plan that is not administered through a trust that meets the criteria in paragraph 3 of this Statement, entities that make benefit payments as OPEB comes due for employees of other entities, whether directly or through the use of the entity's assets held by others for the purpose of providing OPEB. For purposes of this Statement, plan members are not considered nonemployer contributing entities.

**Other postemployment benefits (OPEB)**

Benefits (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as healthcare benefits paid in the period after employment, regardless of the manner in which they are provided. OPEB does not include termination benefits or termination payments for sick leave.

**OPEB plans**

Arrangements through which OPEB is determined, assets dedicated for OPEB (if any) are accumulated and managed, and benefits are paid as they come due.

**Pension plan**

An arrangement through which pensions are determined, assets dedicated for pensions (if any) are accumulated and managed, and benefits are paid as they come due.

**Pensions**

Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.

**Plan members**

Employees (or their beneficiaries) that are covered under the terms of an OPEB plan.

**Postemployment**

The period after employment.

**Postemployment benefit changes**

Adjustments to the OPEB of an inactive plan member.

**Postemployment healthcare benefits**

Medical, dental, vision, hearing, and other health-related benefits paid subsequent to the termination of employment.

**Projected benefit payments**

All benefits (including refunds of plan member contributions) estimated to be payable through the OPEB plan (including amounts to be paid by employers or nonemployer contributing entities as the benefits come due) to current active and inactive plan members as a result of their past service and their expected future service.

**Real rate of return**

The rate of return on an investment after adjustment to eliminate inflation.

**Separately financed specific liabilities to the OPEB plan**

Specific contractual liabilities to a defined benefit OPEB plan for one-time assessments to an individual employer or nonemployer contributing entity of amounts resulting from increases in the total OPEB liability due to an individual employer joining an OPEB plan or changes of benefit terms specific to an individual employer. The term *separately financed* is intended to differentiate these payables to the OPEB plan from payables to the OPEB plan that originate from the portion(s) of the total OPEB liability that is pooled by two or more employers (or by a single, agent, or cost-sharing employer and a nonemployer contributing entity in a **special funding situation**) for financing purposes. Payables to the OPEB plan for unpaid (legal, contractual, or statutory) financing obligations associated with the pooled portion of

the total OPEB liability are not considered to be separately financed specific liabilities, even if separate payment terms have been established for those payables.

**Service cost**

The portion of the actuarial present value of projected benefit payments that is attributed to a valuation year.

**Single-employer defined benefit OPEB plan (single-employer OPEB plan)**

A defined benefit OPEB plan that is used to provide OPEB to employees of only one employer.

**Special funding situation**

Circumstances in which a nonemployer entity is legally responsible for making contributions, including amounts paid (or due and payable) for OPEB as the benefits come due, directly to an OPEB plan that is used to provide OPEB to the employees of another entity or entities and either of the following conditions exists:

- a. The amount of contributions for which the nonemployer contributing entity legally is responsible is *not* dependent on one or more events or circumstances unrelated to OPEB
- b. The nonemployer contributing entity is the only entity with a legal obligation to make contributions directly to an OPEB plan.

**Stand-alone OPEB plan financial report**

A report that contains the financial statements of an OPEB plan and is issued by the OPEB plan or by the public employee retirement system that administers the OPEB plan. The term *stand-alone* is used to distinguish such a financial report from OPEB plan financial statements that are included as an OPEB trust fund of another government.

**Termination benefits**

Inducements offered by employers to active employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early retirement incentives, severance benefits, and other termination-related benefits.

**Total OPEB liability**

The portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service in conformity with the requirements of this Statement. The total OPEB liability is the liability of employers and nonemployer contributing entities to plan members for benefits provided through a defined benefit OPEB plan that is not administered through a trust that meets the criteria in paragraph 3 of this Statement.

**Unallocated insurance contracts**

Contracts with an insurance company under which payments to the insurance company are accumulated in an unallocated pool or pooled account (not allocated to specific plan members) to be used either directly or through the purchase of annuities to meet benefit payments when plan members retire. Monies held by the insurance company under an unallocated contract may be withdrawn and otherwise invested.

## Appendix A

### BACKGROUND

A1. This Statement was preceded by Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which was issued in April 2004 and was effective one year prior to the effective date of the related Statement, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the governmental employer in a single-employer plan or for the largest participating employer in a multiple-employer plan. The requirements of the related Statement were effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999, using the same criteria as was used previously for phased implementation of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, starting for periods beginning after December 15, 2006.

A2. The approach taken in the development of Statements 43 and 45 was to apply the requirements for financial reporting for pension plans and accounting and financial reporting for pensions established in Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, respectively, with adaptations only as necessary to accommodate differences between pensions and OPEB. The use of this approach allowed for the adoption of a common overall accounting and financial reporting model applicable to all postemployment benefits (pensions and OPEB). That model continued in effect until Statement 25 was amended by Statement No. 67, *Financial Reporting for Pension Plans*, in June 2012. Statement 67 is effective for fiscal years beginning after June 15, 2013.

A3. Statement 67 and its companion Statement—Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amended Statement 27—were the result of a comprehensive review of postemployment benefit accounting and financial reporting. Since the issuance of Statements 25 and 43, significant work was completed on the GASB's conceptual framework. Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, issued in April 2005, and Concepts Statement No. 4, *Elements of Financial Statements*, issued in June 2007, are of particular significance for considering pension and OPEB accounting and financial reporting issues. Concepts Statement 3 established criteria for selecting the appropriate method of communication for items of reportable financial information—recognition in basic financial statements, disclosure in notes to basic financial statements, or presentation as required supplementary information or supplementary information. Concepts Statement 4 established definitions and characteristics of elements of financial statements, such as assets and liabilities.

A4. Consistent with the GASB's commitment to periodically reexamine its standards, in January 2006, the Board approved research activities to gather information regarding how effective Statements 25 and 27 had been in meeting financial reporting objectives and to

determine whether improvements were needed. As a result of issues identified in the research project and changes in the GASB's conceptual framework, the Board added a project on postemployment benefit accounting and financial reporting to the GASB's current technical agenda in April 2008. The first phase of that project focused on issues related to pensions that are administered through trusts that meet specified criteria, with the intent that any changes to the pension accounting and financial reporting approach subsequently would be considered in relation to OPEB. In June 2012, the GASB approved Statements 67 and 68, which concluded the first phase of the postemployment benefit accounting and financial reporting project.

A5. In April 2011, the second phase of the postemployment benefit accounting and financial reporting project was added to the GASB's current technical agenda to consider issues related to OPEB and OPEB plans, as well as issues related to pension plans and pensions that are not within the scope of Statement 67 or Statement 68. Specific research activities were performed to gather information about the nature of OPEB provided by state and local governments, as well as information about application of the alternative measurement method that was provided for in Statements 43 and 45. Board deliberation of project issues began in November 2011.

A6. The Board assembled a task force comprising persons broadly representative of the GASB's stakeholders. The task force members were provided with papers prepared for the Board's deliberations and drafts of the Exposure Draft for review and comment. In addition, further input was sought from the members of the Governmental Accounting Standards Advisory Council at its meetings.

A7. In addition to this Statement, two related Statements were issued as part of the second phase of the postemployment benefit accounting and financial reporting project. *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* addresses issues associated with accounting and financial reporting for OPEB by employers and certain nonemployer contributing entities, and *Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered through Trusts That Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68*, addresses issues associated with financial reporting for pensions and pension plans that are not within the scopes of Statements 67 and 68 and clarifies application of certain requirements of Statements 67 and 68.

## **Appendix B**

### **BASIS FOR CONCLUSIONS**

#### **Introduction**

B1. This appendix summarizes factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

B2. The reexamination project that led to the issuance of this Statement included consideration of issues related to financial reporting by governmental OPEB plans, as well as those related to accounting and financial reporting by governmental employers whose employees are provided with OPEB and by governmental nonemployer entities that are responsible for contributions to OPEB plans. Because of the relationships among OPEB plans, employers, and nonemployer contributing entities, the Board has given joint consideration to this Statement and the related Statement, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Board believes that consistency in the measurement and disclosure of OPEB information reported by all governments associated with OPEB transactions will enhance the understandability and usefulness of OPEB information to users of governmental financial reports. Therefore, many of the measurement and disclosure requirements of the two Statements are the same or closely related.

#### **Overview**

B3. As noted in Appendix A, the accounting and financial reporting guidance for OPEB plans that this Statement supersedes is based on prior guidance for accounting and financial reporting for pension plans that has since been amended. The Board continues to believe that OPEB generally is similar in nature to pensions in that both are part of the transaction in which compensation, including OPEB and pensions, is offered by employers in exchange for services provided by employees and that plans that are used to provide OPEB function in a similar manner as plans that are used to provide pensions. Therefore, the Board has followed the same general approach to financial reporting for OPEB plans that are administered through trusts that meet the criteria in paragraph 3 as was required in Statement 67 for pension plans that are administered through trusts that meet the same criteria. That approach generally reflects an overall decision of the Board to carry forward without detailed reexamination the basic accounting and financial reporting model for fiduciary activities from Statement 34. As applied in this Statement, that model focuses on the recognition and disclosure of information essential to assessing the accountability of those that have a fiduciary responsibility for holding and managing OPEB plan resources. The decision to continue to apply the fiduciary model is discussed in more detail in paragraphs B11–B13.

B4. Similar to recognition of liabilities to plan members for pensions by a pension plan administered through a trust that meets the specified criteria, the Board determined that the event that creates a present obligation of the OPEB plan to sacrifice resources is the occurrence of the date that a benefit payment is due to a plan member. As a result, this Statement carries forward the requirement from Statement 43 that defined benefit OPEB plans recognize a liability to plan members for OPEB in the amount of benefits due and payable, limited by the availability of the OPEB plan's fiduciary net position. The decision to continue this requirement is discussed in more detail in paragraph B15.

B5. In addition, because accountability within the context of the fiduciary role of a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of this Statement includes the effective use of assets to generate additional resources, this Statement establishes recognition and disclosure requirements related to assets held in trust and managed by the OPEB plan, with detailed requirements related to investment policies and performance. Factors considered with regard to investment-related requirements of this Statement are discussed in more detail in paragraphs B17–B19 and B24–B26. In addition, the Board concluded that information about the total OPEB liability—for which the assets of a defined benefit OPEB plan is restricted—is essential to understanding the fiduciary activities of a single-employer or cost-sharing OPEB plan. Therefore, this Statement requires single-employer and cost-sharing OPEB plans that are administered through trusts that meet the criteria in paragraph 3 to disclose summary information in notes to financial statements about the OPEB liability of employers and nonemployer contributing entities to plan members for benefits provided through the OPEB plan (net OPEB liability). Similar information is not required to be disclosed by agent OPEB plans. The Board's view regarding presentation and measurement of this information is discussed in more detail in paragraphs B27–B35. This Statement also requires single-employer and cost-sharing OPEB plans that are administered through trusts that meet the criteria in paragraph 3 to present schedules of required supplementary information, including those that present details of sources of changes in the net OPEB liability and, in certain circumstances, information about employer and nonemployer contributing entity contributions to such OPEB plans. These requirements result from the Board's conclusion that such information is essential to providing context for the fiduciary activities of those OPEB plans. Considerations related to these requirements are discussed in more detail in paragraphs B36–B39.

## **Scope and Applicability**

B6. This Statement establishes financial reporting requirements for both defined benefit OPEB plans and defined contribution OPEB plans that are administered through trusts that meet the criteria in paragraph 3 and for defined benefit OPEB plans that do not meet that same criteria. Those criteria are the same as the criteria established in Statement 67 for defined benefit pension plans and defined contribution pension plans and are based on the criteria established for OPEB plans in Statement 43. The criteria reflect the Board's conclusion that it would be misleading to report resources over which an employer retains some level of control and, therefore, could be used for other purposes, as assets restricted to pay OPEB.

B7. For OPEB plans that are administered through trusts that meet the criteria in paragraph 3, this Statement classifies defined benefit OPEB plans as single-employer, agent, or cost-sharing. Similar to the Board's conclusions in Statement 67 in relation to information in financial reports of pension plans that are within the scope of that Statement, the Board believes that the needs of users of the financial statements of all three types of OPEB plans generally are similar. Therefore, the requirements of this Statement related to all three types of defined benefit OPEB plans also generally are similar. As was done in Statement 67, an exception was made in this Statement for the presentation of aggregated information about the OPEB liabilities of agent employers in notes to financial statements and required supplementary information of agent OPEB plans. This exception is discussed in more detail in paragraphs B30 and B31.

B8. This Statement carries forward from Statement 43 the requirement that assets held in multiple-employer defined benefit OPEB plans that are not administered through trusts that meet the criteria in paragraph 3 be reported in agency funds in external financial reports. This Statement also establishes financial reporting requirements for single-employer OPEB plans that are not administered through trusts that meet the criteria in paragraph 3. These decisions are discussed in more detail in paragraphs B40–B42.

B9. This Statement establishes disclosure requirements for defined contribution OPEB plans that are administered through trusts that meet the criteria in paragraph 3. Considerations related to those defined contribution OPEB plans are discussed in more detail in paragraphs B43 and B44.

### **Definition of OPEB Plan**

B10. For financial reporting purposes, this Statement establishes a definition of the term *OPEB plan* that is similar to the definition of the term *pension plan* in Statement 67. Prior to this Statement, no formal definition had existed for the term *OPEB plan*, and the term has been used in different ways in different contexts. For example, the general arrangement for OPEB between an employer and its employees has been referred to as an OPEB plan. In other contexts, the term *OPEB plan* has referred to the trust or other fund through which OPEB is provided. The definition established for use in this Statement and the related Statement clarifies that the term describes the arrangement through which OPEB is determined; assets dedicated for OPEB, if any, are accumulated and managed; and benefits are paid as they become due to plan members. The primary implication of the definition of OPEB plan established in this Statement is that the reporting required by OPEB plans administered through trusts that meet the criteria in paragraph 3 includes reporting of plan activities that are undertaken directly by an employer or nonemployer contributing entity, as well as those activities that involve trust assets. For example, for an OPEB plan in which assets are accumulated in a trust that meets the criteria in paragraph 3, if benefit payments for OPEB are made by the employer as the benefits come due and the employer will not be reimbursed by the OPEB plan for those payments, this Statement requires the OPEB plan to report the amounts paid by the employer as contributions and benefit payments.

## **Defined Benefit OPEB Plans That Are Administered through Trusts That Meet the Criteria in Paragraph 3**

### **Financial Reporting Objectives**

B11. The Board believes that the users of OPEB plan financial statements primarily include (a) the plan members and their representatives; (b) legislative and executive officials of the OPEB plan sponsor, participating employers, nonemployer contributing entities, and agencies with OPEB plan oversight responsibilities; (c) the OPEB plan's board of trustees or other governing body; (d) municipal analysts; and (e) citizens.

B12. As noted earlier, the Board concluded that issues related to OPEB plan financial reporting are similar to issues related to pension plan reporting. Therefore, the Board decided to address issues related to OPEB plan financial reporting within the existing fiduciary reporting framework, as was done for pension plan financial reporting in Statement 67. As a result, this Statement reflects a continuation of a financial reporting approach that is intended to provide the primary users of OPEB plan financial statements with information that is useful in assessing (a) the stewardship of OPEB plan resources and the ongoing ability of the OPEB plan to pay benefits when due, (b) the results of the OPEB plan's fiduciary operations, and (c) compliance with finance-related statutory, regulatory, and contractual requirements.

B13. To accomplish these objectives, the Board concluded that the financial report of a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3 should provide the same information that was required to be presented by defined benefit pension plans that are within the scope of Statement 67. This includes information about assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of the OPEB plan, as applicable, as well as period-to-period changes in the OPEB plan's fiduciary net position and disclosures about the OPEB plan's activities that are essential to determining how the fiduciary responsibilities of the trustees and administrators have been discharged. In addition, the Board concluded that financial reports of defined benefit OPEB plans should contain information about trends that allow the user to place information in the financial statements in appropriate historical and economic context.

### **General Approach to Developing Financial Reporting Standards**

B14. The requirements of this Statement are not intended to present a comprehensive reporting model for defined benefit OPEB plans. Similar to the decision made by the Board in relation to establishing requirements in Statement 67 for defined benefit pension plans, the Board considered it impractical for this Statement to present a comprehensive reporting model specific to defined benefit OPEB plans. Therefore, this Statement excludes requirements that are general and for which guidance is provided in other literature. The Statement includes only requirements specific to defined benefit OPEB plans (for example, requirements related to the display of information in the OPEB plan's statement of fiduciary net position and statement of changes in fiduciary net position, note disclosures about the net OPEB liability and investment returns on OPEB plan assets, and

requirements regarding transactions addressed more broadly in Statements that exclude OPEB plans from their scopes). This approach resulted in the omission from this Statement of some requirements that are included in Statement 43—for example, requirements related to accounting for assets used in OPEB plan operations, which are addressed in general requirements related to accounting for and reporting capital assets, and certain note disclosure requirements that were repetitive of similar requirements in other pronouncements. Those requirements in other pronouncements remain in effect for OPEB plans. Requirements specific to defined benefit OPEB plans that have been carried forward from Statement 43 because other Statements exclude OPEB plans from their scope include provisions related to disclosure of realized gains and losses consistent with the provisions in Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended.

## **Statement of Fiduciary Net Position**

### ***Benefit Liability Recognition***

B15. For defined benefit OPEB plans, this Statement carries forward the requirement of Statement 43 to recognize liabilities to plan members to the extent that benefits are currently due and payable, limited by the availability of the OPEB plan’s fiduciary net position, based on the current fiduciary model. As discussed in Appendix A, subsequent to the issuance of Statement 43, the Board established definitions for elements of financial statements of state and local governments, which apply to OPEB plans of state and local governments. Concepts Statement 4 defines liabilities as “present obligations to sacrifice resources that the government has little or no discretion to avoid” (paragraph 17). Because of the ultimate purpose for which an OPEB plan is created—payment of OPEB as the benefits come due—an OPEB plan has an obligation related to OPEB. However, for that obligation also to be considered a liability and recognized in the statement of fiduciary net position, it also is required to be a present obligation—a condition that requires that the event creating the liability has taken place. The Board concluded that the event that makes a portion of the obligation for OPEB a present obligation of the OPEB plan is the occurrence of the date that a benefit payment is due to a plan member.

### ***Receivables***

B16. Under the requirements of Statement 43, OPEB plans are required to recognize receivables for contributions pursuant to formal commitments to contribute to the OPEB plan, as well as for those resulting from statutory or contractual contribution requirements. In this Statement, recognition of contributions receivable by OPEB plans is limited to receivables that are due pursuant to legal requirements, consistent with the definition of an asset in Concepts Statement 4, which was issued subsequent to Statement 43. Concepts Statement 4 defines assets as “resources with present service capacity that the government presently controls” (paragraph 8). Similar to receivable recognition requirements for pension plans under the requirements of Statement 67, the Board concluded that balances related to formal commitments do not meet the definition of an asset because employers or nonemployer contributing entities do not have a requirement to make the contributions to the OPEB plan. Therefore, formal commitments for contributions do not represent

resources in the control of the OPEB plan and are not recognized as assets of the OPEB plan.

### ***Investments***

B17. This Statement carries forward from Statement 43 the requirement for OPEB plans to report investments generally at fair value. The Board continues to believe that OPEB plan financial statements should focus on providing information to assess accountability for the resources held and managed by the OPEB plan and concluded that fair value measures support that objective. Within the context of OPEB plan fiduciary activities, accountability for resources comprises not only the safekeeping of assets but also the effective use of assets in order to generate additional resources. Consequently, the Board determined that information about investment performance is essential in assessing accountability.

B18. Fair value provides the most relevant information about the composition, value, and recent changes in the value of OPEB investments. Fair value results in reporting identical and interchangeable securities at the same amounts regardless of when they were acquired. Reporting changes in fair value provides information necessary for assessing investment performance, including the results of holding, as well as selling, investments. The definition of fair value of investments put forth in this Statement is based on tentative decisions of the Board that are being exposed for public comment as part of the GASB's Fair Value Measurement and Application project. Any modifications made to the definition proposed in that project will affect the definition in this Statement.

B19. The Board did not consider measurement issues associated with specific investment types as part of the project leading to this Statement. The Board determined that the assessments of methods of determining fair values of investments, including life insurance, has broader implications for accounting and financial reporting than for OPEB plans. Consequently, the Board concluded that methods of determining fair value should be considered more comprehensively in the GASB's Fair Value Measurement and Application project.

### **Statement of Changes in Fiduciary Net Position—Net Investment Income**

B20. Similar to its decision to require investments to be reported at fair value, the Board believes that changes in fair value should be included as a component of net investment income in the period in which they occur. Changes in fair value are as relevant as other earnings on investments, such as dividends and interest, to assessments of investment management and performance and the financial position of the OPEB plan. An OPEB plan is in a better financial position when investment values increase and in a worse position when they decline. From that perspective, failure to include changes in fair value in net investment income would result in a misstatement of the period-to-period changes in the OPEB plan's fiduciary net position. The Board also notes that reporting fair value eliminates the potential for distortions of investment income caused by timing investment sales to produce a particular result.

## Notes to Financial Statements and Required Supplementary Information

B21. As described in Appendix A, subsequent to the issuance of Statement 43, the Board completed the conceptual framework project on methods of communication with the issuance of Concepts Statement 3. Concepts Statement 3 provides specific guidance for the Board in evaluating what information should be presented as notes to financial statements and what information should be presented as required supplementary information.

B22. Paragraph 31 of Concepts Statement 3 states that a financial statement “displays either (a) the financial position of the reporting unit (that is, the group of activities covered by the financial statement) at a moment in time or (b) inflows and outflows of resources from transactions or other events during a period of time” (footnote omitted). Paragraph 36 of Concepts Statement 3 explains the role of notes to financial statements as follows:

Notes have a clear and demonstrable relationship to information in the financial statements to which they pertain and are essential to a user’s understanding of those financial statements. In this context, “essential to a user’s understanding” means so important as to be indispensable to a user (a) with a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting and (b) with a willingness to study the information with reasonable diligence. The use of professional judgment may be necessary for making a determination about whether an item of information is “essential to a user’s understanding.”

Concepts Statement 3 also describes information reported in basic financial statements or notes to basic financial statements as “essential for communicating with users the financial position or inflows and outflows of resources of the reporting unit in conformity with generally accepted accounting principles” (paragraph 39). In addition, Concepts Statement 3 states required supplementary information is “supporting information that the GASB has concluded is essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context” (paragraph 42).

B23. The Board reviewed the requirements for note disclosures and required supplementary information in Statement 67 for defined benefit pension plans and considered their applicability to defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 with respect to the guidance in Concepts Statement 3. In comparison to Statement 43, new requirements for information that the Board concluded to be essential to a user’s understanding of an OPEB plan’s financial statements have been included in this Statement, and certain other requirements (for example, funding-based measures of OPEB plan assets relative to employer liabilities) have been omitted because the Board evaluated the information and concluded that it did not have the characteristics discussed in Concepts Statement 3 relative to the information that this Statement requires be included in basic financial statements. Paragraphs B24–

B39 discuss in more detail certain information considered for inclusion in note disclosures and in schedules of required supplementary information.

### ***Concentrations of Investments***

B24. This Statement requires that OPEB plans that are administered through trusts that meet the criteria in paragraph 3 disclose investments (other than those issued or guaranteed by the U.S. Government) in any one organization that equate to 5 percent or more of fiduciary net position. Statement No. 40, *Deposit and Investment Risk Disclosures*, requires governments to disclose concentrations of credit risk—a notion associated with the risk of loss on fixed-income investments if a creditor or other counterparty fails to meet its obligations to repay—that represent 5 percent or more of fiduciary net position. However, because OPEB plans tend to invest a higher percentage of their portfolios in equities than do general governments, the Board believes that it is appropriate to require disclosure of concentrations of investments, which is a broader notion.

### ***Rates of Return on Investments***

B25. Similar to the requirements for defined benefit pension plans under Statement 67, this Statement establishes a requirement that the financial reports of defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 include certain information about the rate of return on OPEB plan investments, net of OPEB investment expense. As notes to financial statements, the Board concluded that this information is essential to understanding investment performance and, therefore, is an essential element in assessing stewardship responsibility of the OPEB plan. As required supplementary information, the Board concluded that actual annual rates of return are essential for providing historical and economic context about the amount of investment earnings reported in the OPEB plan's statement of changes in fiduciary net position. OPEB plans generally invest in a portfolio designed in accordance with a long-term investment strategy. Rates of return for a single year should be considered in the context of the rates of return that have been earned over time. After observing the variability of rates of return over various periods, the Board was persuaded that 10 years of annual rates would provide an appropriate context for a rate of return of an individual year.

B26. Under Statement 67, defined benefit pension plans are required to present information about money-weighted rates of return. In this Statement, the Board established a similar requirement for defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3. A money-weighted rate of return provides information about the actual performance of the OPEB plan's investment portfolio because it takes into account the timing of effects of transactions that increase the amount of OPEB investments (such as contributions from employers, nonemployer contributing entities, and plan members) and those that decrease the amount of OPEB plan investments (such as benefit payments). Additionally, the money-weighted rate of return provides information that is comparable with the long-term expected rate of return on OPEB plan investments, which is used in calculating information presented in other disclosures.

### ***Information about the Net OPEB Liability***

B27. Statement 43 required defined benefit OPEB plans to include information about the most recent actuarially calculated funded status in notes to financial statements, with multiple years of such information required to be presented as a schedule in required supplementary information. The information presented is required to be measured in the same manner by the OPEB plan and its participating employers.

B28. In the related Statement, the Board has established a reporting approach for defined benefit OPEB based on the requirements for reporting defined benefit pensions under Statement 68, which separates accounting measures from funding-oriented measures. With this separation, the Board concluded that it is not within the scope of its activities to set standards that establish a specific method of financing OPEB (that being a policy decision for government officials or other responsible authorities to make) or to regulate a government's compliance with the financing policy or method it adopts.

B29. However, because assets accumulated in a defined benefit OPEB plan cannot be used for purposes other than those related to the provision of OPEB to plan members, the Board concluded that information about the magnitude of the total OPEB liability for which assets are being accumulated is essential to understanding the balance of fiduciary net position reported by the OPEB plan. The Board believes that without this information, the balance of the OPEB plan's fiduciary net position potentially would be misleading. Therefore, this Statement requires that single-employer and cost-sharing OPEB plans disclose the components of the net OPEB liability as of the OPEB plan's fiscal year-end and the OPEB plan's fiduciary net position as a percentage of the total OPEB liability as of that date. In addition, because measurement of the net OPEB liability necessarily involves assumptions about future events, significant assumptions used to measure the total OPEB liability also should be disclosed.

### ***Net OPEB Liabilities of Agent Plans***

B30. Similar to the requirements for agent pension plans under Statement 67, this Statement does not require disclosure of aggregated information about the net OPEB liabilities of individual agent employers. The Board concluded that the potential relative benefit of plan-level aggregated information about net OPEB liabilities of individual agent employers is lower than for similar information about liabilities of employers in single-employer and cost-sharing OPEB plans because the relationship between the total OPEB liability associated with each individual employer and the portion of the fiduciary net position of the OPEB plan associated with that employer is obscured.

B31. With regard to the presentation of multi-year information about the net OPEB liability as required supplementary information, the Board concluded that information about the components of the net OPEB liability and related information presented for each of the most recent 10 years would provide economic context regarding an amount in the OPEB plan's financial statements—the balance of the OPEB plan's fiduciary net position—as well as historical context for the OPEB plan's fiduciary net position relative to the total OPEB liability. Similar to the single-period note disclosure requirements for

the same information, the Board concluded that, although essential for single-employer and cost-sharing OPEB plans, the expected benefit of aggregated information about the net OPEB liabilities of individual agent employers would not exceed the perceived cost to provide the information. Therefore, this requirement similarly has been limited to single-employer and cost-sharing OPEB plans.

### ***Measurement of the Net OPEB Liability***

B32. For purposes of this Statement, the net OPEB liability is required to be measured in the same manner as required in the related Statement, with the exception of certain requirements related to the timing of the measurement of the net OPEB liability relative to the fiscal year-end of the entity reporting that measure. The reasons for requiring the specified measurement method are discussed in detail in Appendix B of the related Statement.

### **Timing of measurements**

B33. This Statement requires that the information about the net OPEB liability disclosed in notes to financial statements by OPEB plans that are administered through trusts that meet the criteria in paragraph 3 be measured as of the OPEB plan's fiscal year-end. This differs from the requirements of the related Statement, which permits employers and nonemployer contributing entities to recognize and disclose additional information about liabilities for defined benefit OPEB that are measured as early as the end of the prior fiscal year. For OPEB plans, similar information in schedules of required supplementary information also should be presented as of the OPEB plan's most recent fiscal year-end. These disclosures and required supplementary information include details about the components of the net OPEB liability.

B34. The Board believes that it would be confusing and potentially misleading if disclosures that include the OPEB plan's fiduciary net position were to present information about that balance as of a date other than the OPEB plan's fiscal year-end or if disclosures that include both the OPEB plan's fiduciary net position and the total OPEB liability were to present balances that are not as of the same date. Furthermore, disclosure of the relative amounts of the total OPEB liability and the OPEB plan's fiduciary net position would not be effective in providing information for understanding the OPEB plan's fiduciary net position reported in the financial statements unless the disclosure is presented as of the same date as the balance reported in the financial statements. Consequently, the Board concluded that all information disclosed in notes to an OPEB plan's financial statements should reflect measures as of the OPEB plan's fiscal year-end. The Board believes that the information needed to present the required supplementary information as of the OPEB plan's fiscal year-end should be readily available because (a) the information in the 10-year schedules that should be presented as required supplementary information is derived from amounts disclosed in notes to financial statements in the current or prior years and (b) such information already would have been measured as of the OPEB plan's fiscal year-end for purposes of note disclosures.

### **Alternative measurement method**

B35. This Statement and the related Statement carry forward from Statements 43 and 45 the optional application of an alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability to be reported by a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3 and that is used to provide OPEB to fewer than 100 plan members. The alternative measurement method in Statements 43 and 45 was developed with input from members of the OPEB task force at that time and additional assistance from committees and individuals from the actuarial and auditing professions. The exception for small OPEB plans to report measures of OPEB liabilities that are developed using an alternative measurement method was a direct result of the Board's concern that the cost of obtaining an actuarial valuation would arguably exceed the benefits obtained by users of the information for OPEB plans that are used to provide benefits to fewer than 100 plan members. The specific requirements of the alternative measurement method are discussed in detail in Appendix B of the related Statement.

### ***Information about Changes in the Net OPEB Liability***

B36. This Statement requires that a 10-year schedule of changes in the net OPEB liability be presented as required supplementary information by single-employer and cost-sharing OPEB plans. This schedule presents detailed information about the OPEB liabilities for which the OPEB plan's assets are held and managed. As such, the Board concluded that the information in this schedule is essential for providing historical and economic context for the balance of fiduciary net position reported in the OPEB plan's financial statements. For the same cost-benefit reasons identified in paragraphs B30 and B31, the Board concluded that this requirement for presentation of detailed information about changes in the net OPEB liability should apply to single-employer and cost-sharing OPEB plans only.

### ***Information about Actuarially Determined Contributions***

B37. Statement 43 requires that OPEB plans present a schedule of employer contributions as required supplementary information. The employer contributions reported in that schedule are presented in comparison to an annual required contribution, for which calculation requirements are established in Statement 43. As previously discussed, in this Statement and the related Statement, for OPEB provided through defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3, the Board has removed the specific link between (a) the accounting measures of the net OPEB liability and OPEB expense and (b) the actuarially determined funding-based measures. However, the Board concluded that, in circumstances in which an actuarially determined contribution is established, a 10-year schedule providing information about the actuarially determined contribution amount, contributions recognized by the OPEB plan related to the actuarially determined contribution amount, and certain ratios is essential for providing historical and economic context for the amount of contributions reported as additions to the OPEB plan's fiduciary net position. Therefore, this information should be presented as required supplementary information. The detail of contributions in relation to actuarially

determined rates over a 10-year period provides historical context for the amount of contributions in the current period. Information about actuarially determined contributions (and, for cost-sharing OPEB plans, contractually required contributions), as well as covered-employee payroll, provides economic context for the amounts of contributions reported.

B38. As previously discussed with regard to other information aggregated for all employers whose employees are provided with benefits through an agent OPEB plan, the Board concluded that aggregated information about contributions to agent OPEB plans has limited decision utility because the pattern of contributions to each individual agent employer's OPEB plan would be obscured if the plan-level aggregated amounts were reported. Consequently, this Statement does not require information about contributions to be presented in required supplementary information by agent OPEB plans.

### ***Ten-Year Schedules***

B39. The provisions of earlier standards include a requirement to present required supplementary information about (funding-based) funded status and employer contributions for three actuarial valuations. The number of years spanned by that information varies from three to seven depending upon the frequency with which actuarial valuations are obtained—that is, annually, biennially, or triennially. From research performed in relation to the development of Statement 67, the Board received feedback from some constituents that, if the intent of required supplementary information is to provide historical context, information covering additional years is needed. To provide information that is essential to understanding trends and to placing the OPEB information reported for the current period into historical perspective, this Statement requires that all schedules of required supplementary information for OPEB plans present information for 10 years. The Board concluded that a period of 10 years will provide information to identify some cyclical factors and other trends in the information without resulting in an overly burdensome presentation.

### **OPEB Plans That Are Not Administered through Trusts That Meet the Criteria in Paragraph 3**

B40. This Statement establishes financial reporting requirements for single-employer and multiple-employer OPEB plans that are not administered through trusts that meet the criteria in paragraph 3. The Board concluded that when an employer includes an OPEB plan in its own financial statements based on its fiduciary relationship with that OPEB plan, it would be inappropriate to report the assets in a fiduciary fund. The Board believes that OPEB plans should be reported as other employee benefit trust funds in financial statements only when they are administered through trusts that meet the criteria in paragraph 3 of this Statement. The only other fiduciary fund type that could be used for this purpose is an agency fund. However, current financial reporting guidance in paragraph 111 of Statement 34 requires that agency funds not report balances that pertain to other funds of the government. Rather, those balances should be reported as assets in the appropriate funds. Therefore, the Board concluded that in a single-employer OPEB

plan that is not administered through a trust that meets the criteria in paragraph 3, any assets accumulated for OPEB should be reported as assets of the employer.

B41. For multiple-employer OPEB plans that are not administered through trusts that meet the criteria in paragraph 3, this Statement carries forward the requirement from Statement 43 that the OPEB plan be reported in an agency fund. In this Statement, the Board reaffirmed its prior conclusion that in these circumstances, the structure of the OPEB plan does not support the accumulation of plan net position causing an inability of participating employers to effectively share assets or obligations to finance OPEB costs of their respective employees. Instead, the OPEB plan acts as an agent for the participating employers by collecting amounts from the participating employers and paying benefits when the OPEB comes due. Consequently, the OPEB plan should recognize liabilities to the participating employers equal to the assets accumulated in excess of the combination of (a) liabilities for benefits that are due to plan members and (b) accrued investment and administrative expenses. No fiduciary net position should be reported. However, if the multiple-employer OPEB plan is included in the financial statements of an employer based on its fiduciary relationship with that OPEB plan and that employer also participates in the OPEB plan, the assets in the OPEB plan that pertain to the employer should be reported as assets of the employer, as discussed in paragraph B40.

B42. This Statement requires multiple-employer OPEB plans to provide disclosures related to the number of participating employers and nonemployer contributing entities, a description of how the fair value of investments is determined, the fact that there are no assets accumulated in a trust that meets the criteria in paragraph 3 and, if a trust is used to accumulate assets, which of the criteria in paragraph 3 are not met, and information about the availability of additional information about the OPEB obligation in the financial reports of employers and nonemployer contributing entities. Several disclosures that were required under Statement 43 for multiple-employer OPEB plans that are not administered through trusts that meet the criteria specified in that Statement were not carried forward to this Statement. The Board evaluated those disclosures within the context of the discussion in Concepts Statement 3 and determined that they were either already required by other accounting literature or were not essential to understanding the inflows and outflows of resources of these OPEB plans.

### **Defined Contribution OPEB Plans That Are Administered through Trusts That Meet The Criteria in Paragraph 3**

B43. This Statement and the related Statement adopt a definition of defined contribution OPEB that is similar to the definition of defined contribution pensions that is included in Statements 67 and 68. That is, OPEB is classified as defined contribution for accounting and financial reporting purposes if the amount of the OPEB that the plan member will receive will depend only on the contributions or credits to the plan member's account, actual earnings on the underlying assets associated with contributions or credits to the plan member's account, and adjustments for forfeitures of contributions or credits made for other plan members, as well as OPEB plan administrative costs, that are allocated to the plan member's account. The definition includes the possibility that the timing of payments into a plan member's account might not coincide with the period of plan member service

to which defined contributions pertain. That is, the Board believes that arrangements in which amounts are credited to a plan member's account can qualify as defined contribution plans.

B44. Similar to the approach applied in the Statement to requirements for defined benefit OPEB plans with regard to repetition of requirements that are contained in other pronouncements, the Board believes that for defined contribution OPEB plans, this Statement should include only requirements that are specific to those plans. Therefore, this Statement omits measurement, recognition, and disclosure requirements (such as those for information in the summary of significant accounting policies and those related to investments) that are the subject of other pronouncements applicable to defined contribution OPEB plans. Nonetheless, defined contribution OPEB plans should continue to meet the requirements of all other applicable pronouncements.

### **Effective Date and Transition**

B45. Because of the importance that users of financial statements place on information about OPEB provided by governments and the OPEB plans through which those benefits are provided, the Board believes that the requirements of this Statement should be implemented as soon as practicable. The Board considered the need for OPEB plans to schedule an actuarial valuation in order to obtain the information to comply with the reporting requirements of this Statement, including integrating the timing of an actuarial valuation to implement the provisions of this Statement with an actuarial valuation already scheduled to be performed for the measurement of OPEB information in conformity with Statements 43 and 45. For some plans, the next actuarial valuation of OPEB for financial reporting purposes might not be scheduled to be performed until two or three years following issuance of this Statement. The Board concluded that information required by this Statement should be included in OPEB plan financial reports sooner than two to three years after issuance of this Statement. Therefore, the Board determined the provisions of this Statement should be effective for fiscal years beginning after December 15, 2015.

### **Considerations Related to Benefits and Costs**

B46. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and the perceived costs. The Board strives to determine that its standards (including disclosure requirements) address a significant need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B47. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in conformity

with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze information to meaningfully inform their assessments and decisions.

B48. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified to date for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has actually taken place. Nonetheless, the Board undertakes this assessment based on the available evidence regarding expected benefits and perceived costs, with the objective of achieving an appropriate balance between increasing benefits and minimizing costs.

B49. The Board assessed the expected benefits and perceived costs of its proposed requirements at two levels—for individual decisions and for the entirety of the Statement. Throughout its deliberations, the Board specifically considered the relative expected benefits and perceived costs of individual decisions and also considered information gathered related to pensions from the research performed and respondent comments received on the due process documents that led to Statements 67 and 68. For example, similar to the requirements for pension plans in Statement 67, the Board did not require disclosure by agent OPEB plans of information in notes and as required supplementary information about the aggregated liabilities of employers and nonemployer contributing entities. The Board recognizes that this information has less decision utility in relation to the OPEB plan than similar information for single and cost-sharing OPEB plans.

B50. The Board also considered the aggregate expected benefits and perceived costs associated with the entirety of the requirements in this Statement. The Board is cognizant that the costs of implementing the changes required by this Statement may be significant, though principally in terms of the initial implementation effort rather than the ongoing compliance in subsequent years. As discussed in paragraph B35, the Board decided to permit use of an alternative measurement method for OPEB measurements by OPEB plans that are used to provide benefits to fewer than 100 plan members to alleviate some of the ongoing costs of complying with the requirements in this Statement. The Board believes for OPEB plans of that size, the perceived ongoing costs of obtaining actuarial valuations to comply with the provisions in this Statement are substantial relative to the expected incremental benefit of actuarial valuations. The Board believes that the expected benefits—improved decision-usefulness and enhanced value of information for assessing accountability and interperiod equity, greater comparability and consistency, and increased transparency—that will result from the information provided through implementation of this Statement, both initially and on an ongoing basis, are significant.

## **Appendix C**

### **ILLUSTRATIONS**

C1. This appendix illustrates certain requirements of this Statement. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Disclosures set forth in this Statement and in other GASB pronouncements, in addition to those shown in Illustrations 1 and 2, are required, if applicable. Illustration 1 is coordinated with Illustration 1 of Appendix C of the related Statement. Amounts presented may include rounding differences.

Illustration 1—Financial Statements, Note Disclosures, and Required Supplementary Information for a Single-Employer OPEB Plan Administered through a Trust That Meets the Criteria in Paragraph 3 of This Statement (No Nonemployer Contributing Entities)

Illustration 2—Financial Statements, Note Disclosures, and Required Supplementary Information for an Agent Multiple-Employer OPEB Plan Administered through a Trust That Meets the Criteria in Paragraph 3 of This Statement (No Nonemployer Contributing Entities)

**Illustration 1—Financial Statements, Note Disclosures, and Required Supplementary Information for a Single-Employer OPEB Plan Administered through a Trust That Meets the Criteria in Paragraph 3 of This Statement (No Nonemployer Contributing Entities)**

*[Note: This illustration includes only note disclosures and required supplementary information required by this Statement. If the OPEB plan is included in the financial report of a government that applies the requirements of the related Statement for benefits provided through the OPEB plan, the OPEB plan should apply the requirements of footnotes 9 and 11 of this Statement, as applicable. The circumstances of this OPEB plan do not include all circumstances for which note disclosures and required supplementary information should be presented.]*

**CITY EMPLOYEES RETIREMENT SYSTEM**

**Sample City Retiree Benefits Plan**

**Statement of Fiduciary Net Position  
June 30, 20X9**

(Dollar amounts in thousands)

	<u>20X9</u>
<b>Assets</b>	
Cash and deposits	\$ 9,173
Receivables:	
Contributions	132
Due from broker for investments sold	5,322
Investment income	<u>493</u>
Total receivables	<u>5,947</u>
Investments:	
Domestic equities	196,836
Fixed income	165,103
Private equity	91,058
Real estate	<u>15,368</u>
Total investments	<u>468,365</u>
Total assets	<u>483,485</u>
<b>Liabilities</b>	
Payables:	
Investment management fees	245
Due to broker for investments purchased	<u>6,394</u>
Total liabilities	<u>6,639</u>
<b>Net position restricted for postemployment benefits other than pensions</b>	<u>\$ 476,846</u>

**Statement of Changes in Fiduciary Net Position  
for the Year Ended June 30, 20X9**

(Dollar amounts in thousands)

	<b>20X9</b>
<b>Additions</b>	
Employer contributions	\$ 22,424
Investment income:	
Net increase in fair value of investments	37,842
Interest and dividends	7,625
Less investment expense	(1,252)
Net investment income	44,215
Total additions	66,639
<b>Deductions</b>	
Benefit payments	7,899
Administrative expense	148
Total deductions	8,047
Net increase in net position	58,592
<b>Net position restricted for postemployment benefits other than pensions</b>	
Beginning of year	418,254
End of year	\$ 476,846

**Notes to the Financial Statements  
for the Year Ended June 30, 20X9**

(Dollar amounts in thousands)

**Summary of Significant Accounting Policies**

*Methods used to value investments.* Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. In the absence of readily ascertainable market values, the fair value of private equities is based on management’s valuation of estimates and assumptions from information and representations provided by the respective general partners. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair value of the real estate assets.

**Plan Description**

*Plan administration.* The Sample City Employees Retirement System (SCERS) administers the Sample City Retiree Benefits Plan (SCRBP)—a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for all permanent full-time general and public safety employees of the City.

Management of the SCRBP is vested in the SCERS Board of Trustees (SCERS Board), which consists of nine members—four elected by plan members, four appointed by the City Council, and the City Treasurer, who serves as an ex-officio member.

*Plan membership.* At June 30, 20X9, SCRBP plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	1,307
Inactive plan members entitled to but not yet receiving benefit payments	142
Active plan members	<u>8,356</u>
	<u>9,805</u>

[If the OPEB plan was closed to new entrants, the OPEB plan should disclose that fact, as required by paragraph 31a(4) of this Statement.]

*Benefits provided.* SCRBP provides healthcare and vision benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. Chapter 21 of the Sample City Code grants the authority to establish and amend the benefit terms to the SCERS Board. [If the benefit terms included automatic or ad hoc postemployment benefit changes, the OPEB plan should disclose information about those terms, as required by paragraph 31a(5) of this Statement.]

*Contributions.* Chapter 21 of the Sample City Code grants the authority to establish and amend the contribution requirements of the City and plan members to the SCERS Board. The Board establishes rates based on an actuarially determined rate. For the year ended June 30, 20X9, the City’s average contribution rate was 4.22 percent of annual payroll. Plan members are not required to contribute to the plan.

**Investments**

*Investment policy.* SCRBP’s policy in regard to the allocation of invested assets is established and may be amended by the SCERS Board by a majority vote of its members. It is the policy of the SCERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. SCRBP’s investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board’s adopted asset allocation policy as of June 30, 20X9:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	40%
Fixed income	35
Private equity	20
Real estate	3
Cash	2
Total	<u>100%</u>

[If there had been a change in the OPEB plan’s investment policy during the reporting period, the OPEB plan should disclose information required by paragraph 31b(1)(c) of this Statement.]

*Concentrations.* [If the OPEB plan held investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of the OPEB plan’s fiduciary net position, the OPEB plan should disclose information required by paragraph 31b(3) of this Statement.]

*Rate of return.* For the year ended June 30, 20X9, the annual money-weighted rate of return on investments, net of investment expense, was 10.34 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Receivables**

[If the OPEB plan reported receivables from long-term contracts with the City for contributions, the OPEB plan should disclose information required by paragraph 31c of this Statement.]

## Allocated Insurance Contracts

[If the OPEB plan had allocated insurance contracts that are excluded from OPEB plan assets, the OPEB plan should disclose information required by paragraph 31d of this Statement.]

## Reserves

[If the OPEB plan had reserves, the OPEB plan should disclose information required by paragraph 31e of this Statement.]

## Net OPEB Liability of the City

The components of the net OPEB liability of the City at June 30, 20X9, were as follows:

Total OPEB liability	\$ 483,212
Plan fiduciary net position	<u>(476,846)</u>
City's net OPEB liability	<u>\$ 6,366</u>
Plan fiduciary net position as a percentage of the total OPEB liability	98.68%

*Actuarial assumptions.* The total OPEB liability was determined by an actuarial valuation as of June 30, 20X9, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	9.5 percent for 20Y0, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent for 20Y8 and later years

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 20X9 valuation were based on the results of an actuarial experience study for the period July 1, 20X5–April 30, 20X7.

[If the benefit terms included ad hoc postemployment benefit changes or provisions for the sharing of benefit-related costs with inactive plan members, the OPEB plan should disclose information about assumptions related to those changes, as required by paragraph 32b of this Statement.]

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each

major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 20X9 (see the discussion of SCRBP’s investment policy), are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	5.8%
Fixed income	1.3
Private equity	6.4
Real estate	6.4
Cash	0.0

*Discount rate.* The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. [If there had been a change in the discount rate since the end of the prior fiscal year, the OPEB plan should disclose information about that change, as required by paragraph 32b(1)(a) of this Statement.]

*Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates.* The following presents the net OPEB liability of the City, calculated using the discount rate of 7.0 percent and the healthcare cost trend rates of 9.5–5.5 percent, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current discount rate and healthcare cost trend rates that are 1-percentage-point lower (8.5–4.5 percent) or 1-percentage-point higher (10.5–6.5 percent) than the current healthcare cost trend rates:

	<u>1% Decrease (6.0%)</u>	<u>Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
<b>1% Decrease (8.5%–4.5%)</b>	\$ (12,963)	\$ (61,284)	\$ (104,773)
<b>Healthcare Cost Trend Rates (9.5%–5.5%)</b>	\$ 54,687	\$ 6,366	\$ (51,620)
<b>1% Increase (10.5%–6.5%)</b>	\$ 165,825	\$ 88,512	\$ 20,862

## Schedules of Required Supplementary Information

### SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY AND RELATED RATIOS

Last 10 Fiscal Years  
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
<b>Total OPEB liability</b>										
Service cost	\$ 19,051	\$ 18,190	\$ 16,642	\$ 16,732	\$ 18,099	\$ 16,798	\$ 16,334	\$ 14,102	\$ 13,574	\$ 12,190
Interest	30,663	27,176	26,061	25,394	22,538	20,779	18,120	14,402	13,412	9,999
Changes of benefit terms	-	-	-	(36,889)	-	-	23,566	-	-	-
Differences between expected and actual experience	8,925	11,845	(18,490)	11,845	8,945	(4,425)	(11,780)	18,015	(5,215)	33,350
Changes of assumptions	-	-	(1,369)	-	-	-	-	13,568	-	-
Benefit payments	(7,899)	(7,758)	(7,601)	(7,425)	(8,758)	(8,598)	(8,369)	(7,817)	(7,981)	(6,966)
<b>Net change in total OPEB liability</b>	<b>50,740</b>	<b>49,453</b>	<b>15,243</b>	<b>9,657</b>	<b>40,824</b>	<b>24,554</b>	<b>37,871</b>	<b>52,270</b>	<b>13,790</b>	<b>48,573</b>
<b>Total OPEB liability—beginning</b>	<b>432,472</b>	<b>383,019</b>	<b>367,776</b>	<b>358,119</b>	<b>317,295</b>	<b>292,741</b>	<b>254,870</b>	<b>202,600</b>	<b>188,810</b>	<b>140,237</b>
<b>Total OPEB liability—ending (a)</b>	<b>\$ 483,212</b>	<b>\$ 432,472</b>	<b>\$ 383,019</b>	<b>\$ 367,776</b>	<b>\$ 358,119</b>	<b>\$ 317,295</b>	<b>\$ 292,741</b>	<b>\$ 254,870</b>	<b>\$ 202,600</b>	<b>\$ 188,810</b>
<b>Plan fiduciary net position</b>										
Contributions—employer	\$ 22,424	\$ 25,255	\$ 28,260	\$ 24,737	\$ 24,597	\$ 21,444	\$ 19,059	\$ 17,762	\$ 17,495	\$ 17,549
Net investment income	44,215	28,698	32,698	25,691	(1,369)	13,256	14,941	27,851	18,597	(1,869)
Benefit payments	(7,899)	(7,758)	(7,601)	(7,425)	(8,758)	(8,598)	(8,369)	(7,817)	(7,981)	(6,966)
Administrative expense	(148)	(144)	(137)	(128)	(112)	(104)	(104)	(96)	(96)	(92)
<b>Net change in plan fiduciary net position</b>	<b>58,592</b>	<b>46,051</b>	<b>53,220</b>	<b>42,875</b>	<b>14,358</b>	<b>25,998</b>	<b>25,527</b>	<b>37,700</b>	<b>28,015</b>	<b>8,622</b>
<b>Plan fiduciary net position—beginning</b>	<b>418,254</b>	<b>372,203</b>	<b>318,983</b>	<b>276,108</b>	<b>261,750</b>	<b>235,752</b>	<b>210,225</b>	<b>172,525</b>	<b>144,510</b>	<b>135,888</b>
<b>Plan fiduciary net position—ending (b)</b>	<b>\$ 476,846</b>	<b>\$ 418,254</b>	<b>\$ 372,203</b>	<b>\$ 318,983</b>	<b>\$ 276,108</b>	<b>\$ 261,750</b>	<b>\$ 235,752</b>	<b>\$ 210,225</b>	<b>\$ 172,525</b>	<b>\$ 144,510</b>
<b>City's net OPEB liability—ending (a) – (b)</b>	<b>\$ 6,366</b>	<b>\$ 14,218</b>	<b>\$ 10,816</b>	<b>\$ 48,793</b>	<b>\$ 82,011</b>	<b>\$ 55,545</b>	<b>\$ 56,989</b>	<b>\$ 44,645</b>	<b>\$ 30,075</b>	<b>\$ 44,300</b>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>	98.68%	96.71%	97.18%	86.73%	77.10%	82.49%	80.53%	82.48%	85.16%	76.54%
<b>Covered-employee payroll</b>	\$ 535,043	\$ 524,209	\$ 511,884	\$ 510,760	\$ 512,874	\$ 506,779	\$ 496,272	\$ 472,246	\$ 471,093	\$ 462,133
<b>City's net OPEB liability as a percentage of covered-employee payroll</b>	1.19%	2.71%	2.11%	9.55%	15.99%	10.96%	11.48%	9.45%	6.38%	9.59%

**Notes to Schedule:**

*Benefit changes.* In 20X6, benefit terms were modified to increase copayments for prescription drugs. In 20X3, benefit terms were modified to add vision benefits.

*Changes of assumptions.* In 20X7, expected retirement ages of general employees were adjusted to more closely reflect actual experience. In 20X2, assumed life expectancies were adjusted as a result of adopting the RP-2000 Healthy Annuitant Mortality Table. In prior years, those assumptions were based on the 1994 Group Annuity Mortality Table.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.

**SCHEDULE OF CITY CONTRIBUTIONS**  
**Last 10 Fiscal Years**  
(Dollar amounts in thousands)

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>	<u>20X5</u>	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>	<u>20X1</u>	<u>20X0</u>
Actuarially determined contribution	\$ 22,424	\$ 25,255	\$ 28,260	\$ 24,737	\$ 24,597	\$ 21,444	\$ 19,059	\$ 17,762	\$ 17,495	\$ 17,549
Contributions in relation to the actuarially determined contribution	<u>22,424</u>	<u>25,255</u>	<u>28,260</u>	<u>24,737</u>	<u>24,597</u>	<u>21,444</u>	<u>19,059</u>	<u>17,762</u>	<u>17,495</u>	<u>17,549</u>
Contribution deficiency (excess)	<u>\$ -</u>									
Covered-employee payroll	\$ 535,043	\$ 524,209	\$ 511,884	\$ 510,760	\$ 512,874	\$ 506,779	\$ 496,272	\$ 472,246	\$ 471,093	\$ 462,133
Contributions as a percentage of covered-employee payroll	4.19%	4.82%	5.52%	4.84%	4.80%	4.23%	3.84%	3.76%	3.71%	3.80%

**Notes to Schedule**

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.0 percent
Healthcare cost trend rates	9.5 percent initial, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation
Retirement age	In the 20X7 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	In the 20X2 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Healthy Annuitant Mortality Table. In prior years, those assumptions were based on the 1994 Group Annuity Mortality Table.

Other information:

The results of the 20X6 actuarial valuation reflect a modification to benefit terms that increased retiree copayments for prescription drugs. The results of the 20X3 actuarial valuation reflect the addition of vision benefits.

**SCHEDULE OF INVESTMENT RETURNS**

Last 10 Fiscal Years

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>	<u>20X5</u>	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>	<u>20X1</u>	<u>20X0</u>
Annual money-weighted rate of return, net of investment expense	10.34%	7.55%	9.96%	9.05%	(0.51)%	5.49%	6.95%	15.75%	12.51%	(1.33)%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.

**Illustration 2—Financial Statements, Note Disclosures, and Required Supplementary Information for an Agent Multiple-Employer OPEB Plan Administered through a Trust That Meets the Criteria in Paragraph 3 of This Statement (No Nonemployer Contributing Entities)**

*[Note: This illustration includes only note disclosures and required supplementary information required by this Statement. If the OPEB plan is included in the financial report of a government that applies the requirements of the related Statement for benefits provided through the OPEB plan, the OPEB plan should apply the requirements of footnote 9 of this Statement, as applicable. The circumstances of this OPEB plan do not include all circumstances for which note disclosures and required supplementary information should be presented.]*

# COUNTY EMPLOYEES RETIREMENT SYSTEM

## County Retiree Healthcare Benefit Plan

### Statement of Fiduciary Net Position June 30, 20X9

(Dollar amounts in thousands)

	<u>20X9</u>
<b>Assets</b>	
Cash and deposits	\$ 154
Securities lending cash collateral	33,601
Total cash	<u>33,755</u>
Receivables:	
Contributions	36,098
Due from broker for investments sold	113
Investment income	3
Total receivables	<u>36,214</u>
Investments:	
Domestic fixed income securities	373,287
Domestic equities	715,912
International equities	619,745
Private equity	191,327
Real estate	163,342
Total investments	<u>2,063,613</u>
Total assets	<u>2,133,582</u>
<b>Liabilities</b>	
Payables:	
Benefits payable	22,135
Investment management fees	19
Due to broker for investments purchased	16
Collateral payable for securities lending	32,933
Other	245
Total liabilities	<u>55,348</u>
<b>Net position restricted for postemployment benefits other than pensions</b>	<u>\$ 2,078,234</u>

**Statement of Changes in Fiduciary Net Position  
for the Year Ended June 30, 20X9**

(Dollar amounts in thousands)

	<b>20X9</b>
<b>Additions</b>	
Employer contributions	\$ 771,750
Investment income:	
Net increase in fair value of investments	7,412
Interest and dividends	43
Less: investment expenses other than from securities lending	(382)
Net income from investing, other than from securities lending	7,073
Securities lending income	1,168
Less securities lending expense	(175)
Net income from securities lending	993
Net investment income	8,066
Total additions	779,816
<b>Deductions</b>	
Benefit payments	566,360
Administrative expense	1,910
Total deductions	568,270
Net increase in net position	211,546
<b>Net position restricted for postemployment benefits other than pensions</b>	
Beginning of year	1,866,688
End of year	\$ 2,078,234

**Notes to the Financial Statements  
for the Year Ended June 30, 20X9**

(Dollar amounts in thousands)

**Summary of Significant Accounting Policies**

*Methods used to value investments.* Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. In the absence of readily ascertainable market values, the fair value of private equities is based on management’s valuation of estimates and assumptions from information and representations provided by the respective general partners. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair value of the real estate assets.

**Plan Description**

*Plan administration.* The County Employees Retirement System (CERS) administers the County Retiree Healthcare Benefit Plan (CHRBP)—an agent multiple-employer defined benefit OPEB plan that provides healthcare benefits for all permanent full-time general and public safety employees of the County and the six cities in the County. Article 133 of the State statutes grants the authority to the County to establish a healthcare benefit trust fund for purposes of providing retiree healthcare benefits to employees of the County and cities within the County. City participation is voluntary.

Management of the CHRBP is vested in the CERS Board of Trustees (CERS Board), which consists of 12 members—4 elected by plan members, 1 appointed by the County, 1 appointed by each participating city, and the County Treasurer, who serves as an ex-officio member.

*Plan membership.* At June 30, 20X9, OPEB plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	36,096
Inactive plan members entitled to but not yet receiving benefit payments	852
Active plan members	<u>49,492</u>
	<u><u>86,440</u></u>

[If the OPEB plan was closed to new entrants, the OPEB plan should disclose that fact, as required by paragraph 31a(4) of this Statement.]

*Benefits provided.* Under CHRBP’s benefit terms, 100 percent of health insurance premiums for inactive plan members that are retired through CERS are paid through the plan. Article 133 also grants the ability to amend the benefit terms to the CERS Board. [If the benefit terms included automatic or ad hoc postemployment benefit changes, the OPEB plan should disclose information about those terms, as required by paragraph 31a(5) of this Statement.]

*Contributions.* Article 133 of the State statutes grants the authority to establish and amend the contribution requirements of the participating employers to the CERS Board. The Board establishes rates for each employer based on an actuarially determined rate for each employer. For the year ended June 30, 20X9, the contribution rates of the employers ranged from 6.2 percent to 9.3 percent of annual payroll.

## **Investments**

*Investment policy.* CHRBP’s policy in regard to the allocation of invested assets is established and may be amended by the CERS Board by a majority vote of its members. It is the policy of the CERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. CHRBP’s investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board’s adopted asset allocation policy as of June 30, 20X9:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic fixed income	20%
Domestic equity	35
International equity	30
Private equity	8
Real estate	7
Total	<u>100%</u>

[If there had been a change in the OPEB plan’s investment policy during the reporting period, the OPEB plan should disclose information required by paragraph 31b(1)(c) of this Statement.]

*Concentrations.* [If the OPEB plan held investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of the OPEB plan’s fiduciary net position, the OPEB plan should disclose information required by paragraph 31b(3) of this Statement.]

*Rate of return.* For the year ended June 30, 20X9, the annual money-weighted rate of return on investments, net of investment expense, was 0.02 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## **Receivables**

[If the OPEB plan reported receivables from long-term contracts with employers for contributions, the OPEB plan should disclose information required by paragraph 31c of this Statement.]

### **Allocated Insurance Contracts**

[If the OPEB plan had allocated insurance contracts that are excluded from OPEB plan assets, the OPEB plan should disclose information required by paragraph 31d of this Statement.]

### **Reserves**

[If the OPEB plan had reserves, the OPEB plan should disclose information required by paragraph 31e of this Statement.]

## **Schedule of Required Supplementary Information**

### **SCHEDULE OF OPEB PLAN INVESTMENT RETURNS**

Last 10 Fiscal Years

<u>Year</u>	<u>Annual Money- Weighted Rate of Return, Net of Investment Expense</u>
20X9	0.02%
20X8	21.71%
20X7	13.28%
20X6	(24.82)%
20X5	(5.14)%
20X4	19.14%
20X3	11.77%
20X2	12.26%
20X1	16.59%
20X0	3.68%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.

## Appendix D

### CODIFICATION INSTRUCTIONS

D1. The sections that follow update the June 30, 2013, *Codification of Governmental Accounting and Financial Reporting Standards*, for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

\* \* \*

[In all sections, update cross-references.]

\* \* \*

### SUMMARY STATEMENT OF PRINCIPLES

### SECTION 1100

[In sources of section, revise reference to GASBS 34, ¶107 as follows:] GASBS 34, ¶107, as amended by GASBS 67, ¶20, and GASBS XX, ¶21

\* \* \*

### FUND ACCOUNTING

### SECTION 1300

.103 [In footnote 1, revise sources as follows:] [GASBS 34, fn43, as amended by GASBS 63, ¶8, GASBS 67, ¶14, and GASBS XX, ¶15]

.111 [Revise as follows:] *Pension (and other employee benefit) trust funds* should be used to report resources that are required to be held in trust for the members and beneficiaries of the following:

- a. Defined benefit and defined contribution pension plans
- b. Postemployment benefit plans other than pension plans that are administered through trusts that meet the criteria set forth in paragraph .101 of Section Po50 or paragraph .101 of Section Po51, “Postemployment Benefit Plans Other Than Pension Plans—Defined Contribution”
- c. Employee benefit plans other than pension or other postemployment benefit plans.

[GASBS 34, ¶70, as amended by GASBS XX, ¶55 and ¶56]

\* \* \*

### BASIS OF ACCOUNTING

### SECTION 1600

[In list of sources for the Statement of Principle, revise reference to GASBS 34, ¶107 as follows:] GASBS 34, ¶107, as amended by GASBS 67, ¶20, and GASBS XX, ¶21

.138 [Replace *paragraph .117 of Section Po50* with *paragraph .119 of Section Po50*.] [GASBS 34, ¶107, as amended by GASBS 67, ¶20, and GASBS XX, ¶21]

\* \* \*

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

## SECTION 2200

Sources: [Delete GASB Statement 43.]

.196 [Revise sources as follows:] [GASBS 34, ¶106, as amended by GASBS 63, ¶8, and GASBS XX, ¶15]

[In footnote 46, revise sources as follows:] [GASBS 34, fn43, as amended by GASBS 67, ¶14, and GASBS XX, ¶15]

[In footnote 47, replace *paragraph .110 of Section Po50* with *paragraph .113 of Section Po50*, and *paragraph .111 of Section Po52*.] [GASBS 34, fn44, as amended by GASBS 67, ¶14, and GASBS XX, ¶15 and ¶56]

.197 [Revise sources as follows:] [GASBS 34, ¶108, as amended by GASBS 63, ¶7 and ¶8, GASBS 67, ¶15–¶21, and GASBS XX, ¶16–¶22]

.198 [Revise sources as follows:] [GASBS 34, ¶109, as amended by GASBS 63, ¶8, GASBS 67, ¶22–¶29, and GASBS XX, ¶23–¶30]

.208 [In footnote 55, delete cross-reference to Section Po50; delete GASBS 43, ¶13 from sources.]

\* \* \*

## NOTES TO FINANCIAL STATEMENTS

## SECTION 2300

Sources: [Delete GASB Statement 43; add GASB Statement XX.]

.107 [In sources, remove GASBS 43, ¶30, and insert GASBS XX, ¶31, ¶32, ¶56, and ¶57.]

\* \* \*

## STATISTICAL SECTION

## SECTION 2800

.109 [In subparagraph (b), replace the italicized phrase with the following:] *for each individual pension plan that is reported as a pension (or other employee benefit) trust fund and other postemployment benefit plan* [GASBS 44, ¶10, as amended by GASBS 63, ¶8, and GASBS XX, ¶3]

.138 [Replace the italicized phrase with the following:] *for each individual pension plan that is reported as a pension (or other employee benefit) trust fund and other postemployment benefit plan* [GASBS 44, ¶39, as amended by GASBS XX, ¶3]

\* \* \*

**INVESTMENTS**

**SECTION I50**

.101 [Revise sources as follows:] [GASBS 3, ¶1; GASBS 31, ¶2, as amended by GASBS 32, ¶5, GASBS 52, ¶4, and GASBS XX, ¶19; GASBS 52, ¶5; GASBS 53, ¶19–¶21, ¶67, ¶76, and ¶79]

.103 [Revise sources as follows:] [GASBS 31, ¶4, as amended by GASBS 53, ¶20 and ¶67, GASBS 67, ¶18, and GASBS XX, ¶19]

\* \* \*

**INVESTMENTS—SECURITIES LENDING**

**SECTION I60**

Sources: [Add the following:] GASB Statement XX

.113 [In footnote 12, add cross-reference to Section Po50; revise sources of footnote as follows:] [GASBS 28, fn12, as amended by GASBS 67, ¶24, and GASBS XX, ¶25; GASBS 67, fn8; GASBS XX, fn8]

\* \* \*

**ACCOUNTING FOR PARTICIPATION IN JOINT VENTURES  
AND JOINTLY GOVERNED ORGANIZATIONS**

**SECTION J50**

.115 [Revise sources as follows:] [GASBS 14, ¶81, as amended by GASBS 67, ¶13–¶32 and ¶34–¶46, and GASBS XX, ¶14–¶33, ¶35–¶54, and ¶56]

\* \* \*

**POSTEMPLOYMENT BENEFITS OTHER THAN PENSION  
BENEFITS—EMPLOYER REPORTING**

**SECTION P50**

[Delete paragraph .125; renumber subsequent paragraphs.]

.602 [Revise the second paragraph of the Response to Question 2 as follows:] If a multiple-employer plan is not administered as a qualifying trust (or equivalent arrangement), paragraph .120 of this section requires that employers in such a plan apply the requirements of this section pertaining to agent employers. [GASBTB 2006-1, ¶8, as amended by GASBS XX, ¶56]

\* \* \*

**PENSION PLANS ADMINISTERED THROUGH TRUSTS  
THAT MEET SPECIFIED CRITERIA— DEFINED BENEFIT**

**SECTION Pe6**

.103 [Revise sources of footnote 5 as follows:] [GASBS 67, fn6, as amended by GASBS XX, ¶3 and ¶4]

\* \* \*

**PENSION PLANS NOT ADMINISTERED THROUGH TRUSTS      SECTION Pe7  
THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT**

.101 [In second sentence, replace *defined contribution plans* with *defined contribution pension plans*.] [GASBS 25, ¶8, as amended by GASBS 67, ¶3 and GASBS XX, ¶3]

\* \* \*

**PENSION PLANS NOT ADMINISTERED THROUGH TRUSTS      SECTION Pe8  
THAT MEET SPECIFIED CRITERIA—DEFINED  
CONTRIBUTION**

.101 [Revise sources as follows:] [GASBS 25, ¶8, as amended by GASBS 67, ¶3, and GASBS XX, ¶3; GASBS 50, ¶3, as amended by GASBS 67, ¶3 and ¶5, and GASBS XX, ¶3]

\* \* \*

**PUBLIC ENTITY RISK POOLS      SECTION Po20**

.102 [In the first sentence, delete *and retirees*.] [GASBS 10, ¶2, as amended by GASBS XX, ¶3]

\* \* \*

[Revise title of current Section Po50 as follows:]

**POSTEMPLOYMENT BENEFIT PLANS (OTHER THAN      SECTION Po50  
PENSION PLANS) ADMINISTERED THROUGH TRUSTS  
THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT**

[Replace entire section with the following:]

Sources: GASB Statement XX, GASB Technical Bulletin 2006-1

See also: Section I50, “Investments”

Section N50, “Nonexchange Transactions”

Section P50, “Postemployment Benefits Other Than Pension Benefits—  
Employer Reporting”

Section Sp20, “Special-Purpose Governments”

Section T25, “Termination Benefits”

**Scope and Applicability of This Section**

.101 This section establishes financial reporting standards for state and local governmental **defined benefit other postemployment benefit (OPEB) plans**<sup>1</sup> that are

administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

- a. Contributions from employers<sup>2</sup> and **nonemployer contributing entities** to the **OPEB plan** and earnings on those contributions are irrevocable.
- b. OPEB plan assets are dedicated to providing **other postemployment benefits (OPEB)** to **plan members** in accordance with the benefit terms.<sup>3</sup>
- c. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and plan members.

[GASBS XX, ¶3]

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<sup>1</sup>Terms defined in paragraphs .502–.547 are shown in **boldface type** the first time they appear in this section. [GASBS XX, fn1]

<sup>2</sup>[GASBS XX, fn2]

<sup>3</sup>[GASBS XX, fn4]

.102 If OPEB is provided through a defined benefit OPEB plan in which assets are accumulated in a trust that meets the criteria in paragraph .101 of this section and OPEB provided through the same OPEB plan also is paid with assets other than those from that trust, the OPEB plan should be reported as an OPEB plan administered through a trust that meets the criteria of paragraph .101 of this section. [GASBS XX, ¶3]

.103 [GASBS XX, ¶4; omit second sentence.]

.104 [GASBS XX, ¶5]

.105–.109 [GASBS XX, ¶7–¶11, including headings and footnotes]

.110 [GASBS XX, ¶13]

.111–.151 [GASBS XX, ¶14–¶54, including headings and footnotes]

## **DEFINITIONS**

.501 Paragraphs .502–.547 contain definitions of certain terms *as they are used in this section, Section Po51, and Section Po52*; the terms may have different meanings in other contexts. [GASBS XX, ¶61]

.502–.547 [GASBS XX, ¶61, including footnotes; in paragraph .533, boldface *pensions*. Insert GASBS XX, ¶61 as the source of each paragraph.]

## **TECHNICAL BULLETINS EFFECTIVE AFTER MARCH 15, 1992**

**Accounting and Financial Reporting by OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D**

.601 This paragraph clarifies the application of existing standards of accounting and financial reporting to payments that a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of this section receives from the federal government pursuant to the retiree drug subsidy (RDS) provisions of Medicare Part D, as established in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. [GASBTB 2006-1, ¶1]

### **Question 1**

How does an RDS payment from the federal government to an employer affect the accounting and financial reporting by a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of this section? [GASBTB 2006-1, ¶4]

### **Response**

An RDS payment to an employer is a voluntary nonexchange transaction between the federal government and the employer. The transaction does not affect accounting for employer contributions or the financial reporting presentation by a defined benefit OPEB plan in which an employer participates. A defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of this section should apply the measurement requirements of this section to determine the total OPEB liability *without reduction* for RDS payments. [GASBTB 2006-1, ¶5, as amended by GASBS XX, ¶3, ¶4, ¶42, and fn13]

### **Question 2**

How should a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph .101 of this section account for and report an RDS payment from the federal government to the plan? [GASBTB 2006-1, ¶9, as amended by GASBS XX, ¶55 and ¶56]

### **Response**

In the statement of changes in plan fiduciary net position, the plan should display separately contributions from the employer(s) and the on-behalf payment from the federal government, as required by paragraph .120 of this section. For single-employer OPEB plans that are administered through trusts that meet the criteria in paragraph .101 of this section and cost-sharing OPEB plans, paragraph .139 of this section requires that for purposes of determining the total OPEB liability, benefit payments be projected without reduction for RDS payments. For those plans, in the schedule of required supplementary information required by paragraph .130 of this section, the measure of the actuarially determined contribution should not be reduced for RDS payments. [GASBTB 2006-1, ¶10, as amended by GASBS 63, ¶8, and GASBS XX, ¶15, ¶23, and ¶33]

\* \* \*

[Revise the title of current Section Po51 as follows:]

**POSTEMPLOYMENT BENEFIT PLANS (OTHER THAN PENSION PLANS) ADMINISTERED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED CONTRIBUTION**

**SECTION Po51**

[Replace entire section with the following:]

Source: GASB Statement XX

See also: Section P50, “Postemployment Benefits Other Than Pension Benefits—Employer Reporting”  
Section Sp20, “Special-Purpose Governments”

**Scope and Applicability of This Section**

.101 This section establishes financial reporting standards for state and local governmental **defined contribution other postemployment benefit (OPEB) plans**<sup>1</sup> that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

- a. Contributions from employers<sup>2</sup> and **nonemployer contributing entities** to the **OPEB plan** and earnings on those contributions are irrevocable.<sup>3</sup>
- b. OPEB plan assets are dedicated to providing **other postemployment benefits (OPEB)** to **plan members** in accordance with the benefit terms.<sup>4</sup>
- c. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator.

[GASBS XX, ¶3]

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<sup>1</sup>Terms defined in paragraphs .502–.547 of Section Po50 are shown in **boldface type** the first time they appear in this section. [GASBS XX, fn1]

<sup>2–4</sup>[GASBS XX, fn2–fn4]

.102 If OPEB is provided through a defined contribution OPEB plan in which assets are accumulated in a trust that meets the criteria in paragraph .101 of this section and OPEB provided through the same OPEB plan also is paid with assets other than those from that trust, the OPEB plan should be reported as an OPEB plan administered through a trust that meets the criteria of this paragraph. [GASBS XX, ¶3]

.103 [GASBS XX, ¶4; include only last sentence.]

.104 [GASBS XX, ¶5]

.105 [GASBS XX, ¶7, including heading and footnotes]

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<sup>5</sup>[GASBS XX, fn5; include only last sentence.]

<sup>6–7</sup>[GASBS XX, fn6–fn7]

.106 [GASBS XX, ¶8]

.107 Defined contribution OPEB is OPEB having terms that:

- a. Provide an individual account for each plan member
- b. Define the contributions that an employer is required to make (or credits that it is required to provide) to an active plan member's account for periods in which that member renders service
- c. Provide that the OPEB a plan member will receive will depend only on the contributions (or credits) to the plan member's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other plan members, as well as OPEB plan administrative costs, that are allocated to the plan member's account.

If the OPEB to be provided has all of the terms identified in (a)–(c) above, the OPEB plan through which the OPEB is provided should be classified as a defined contribution OPEB plan. Defined contribution OPEB plans that are administered through trusts that meet the criteria in paragraph .101 of this section should apply the requirements of this section. If the OPEB to be provided does not have all of the above terms—for example, if the OPEB is a function of factors other than those identified in (c) above—the OPEB is classified as defined benefit OPEB and the plan through which the OPEB is provided should be classified as a **defined benefit OPEB plan**. [GASBS XX, ¶8]

.108 In many cases, a state or local government acts as the fiduciary entrusted with administering one or more OPEB plans. Some governments also administer other types of plans, including deferred compensation plans and **pension plans**. If the financial report of a government includes more than one OPEB plan that is within the scope of this section, the provisions of this section should be applied separately to each such OPEB plan administered. [GASBS XX, ¶13]

### Notes to Financial Statements

.109 [GASBS XX, ¶57, including footnote]

\* \* \*

[Insert new Section Po52 as follows:]

**POSTEMPLOYMENT BENEFIT PLANS (OTHER THAN SECTION Po52  
PENSION PLANS) NOT ADMINISTERED THROUGH TRUSTS  
THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT**

Sources: GASB Technical Bulletin 2006-1, GASB Statement XX

See also: Section N50, “Nonexchange Transactions”  
Section P50, “Postemployment Benefits Other Than Pension Benefits—  
Employer Reporting”

### Scope and Applicability of This Section

.101 This section establishes financial reporting standards for state and local governmental **defined benefit other postemployment benefit (OPEB) plans**<sup>1</sup> that are not administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

- a. Contributions from employers<sup>2</sup> and **nonemployer contributing entities** to the **OPEB plan** and earnings on those contributions are irrevocable.
- b. OPEB plan assets are dedicated to providing **other postemployment benefits (OPEB)** to **plan members** in accordance with the benefit terms.<sup>3</sup>
- c. OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and plan members.

[GASBS XX, ¶3]

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<sup>1</sup>Terms defined in paragraphs .502–.547 of Section Po50, “Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria—Defined Benefit,” are shown in **boldface type** the first time they appear in this section. [GASBS XX, fn1]

<sup>2</sup>[GASBS XX, fn2]

<sup>3</sup>[GASBS XX, fn4]

.102 If OPEB is provided through a defined benefit OPEB plan in which assets are accumulated in a trust that meets the criteria in paragraph .101 of this section and OPEB provided through the same OPEB plan also is paid with assets other than those from that trust, the OPEB plan should be reported as an OPEB plan administered through a trust that meets the criteria of paragraph .101 of this section. [GASBS XX, ¶3]

.103 [GASBS XX, ¶4; include only last sentence.]

.104 [GASBS XX, ¶5]

.105–.107 [GASBS XX, ¶7–¶9, including headings and footnotes]

.108 [GASBS XX, ¶12]

.109 [GASBS XX, ¶13; omit last sentence.]

.110–.111 [GASBS XX, ¶55–¶56, including heading]

### TECHNICAL BULLETINS EFFECTIVE AFTER MARCH 15, 1992

#### Accounting and Financial Reporting by OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D

.601 This paragraph clarifies the application of existing standards of accounting and financial reporting to payments that a defined benefit OPEB plan that is not administered through a trust that meets the criteria in paragraph .101 of this section receives from the federal government pursuant to the retiree drug subsidy (RDS) provisions of Medicare Part D, as established in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. [GASBTB 2006-1, ¶1]

### **Question 1**

How does an RDS payment from the federal government to an employer affect the accounting and financial reporting by a defined benefit OPEB plan that is not administered through a trust that meets the criteria in paragraph .101 of this section? [GASBTB 2006-1, ¶4]

### **Response**

An RDS payment to an employer is a voluntary nonexchange transaction between the federal government and the employer. The transaction does not affect accounting for employer contributions or the financial reporting presentation by a defined benefit OPEB plan in which an employer participates. [GASBTB 2006-1, ¶5]

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## **SPECIAL-PURPOSE GOVERNMENTS**

## **SECTION Sp20**

.109 [Revise sources as follows:] [GASBS 34, ¶140, as amended by GASBS 63, ¶8, GASBS 67, ¶5 and ¶11, and GASBS XX, ¶3–¶5 and ¶12]

[In footnote 7, add cross-reference to Section Po51; revise sources of footnote as follows:] [GASBS 34, fn63, as amended by GASBS 67, ¶11 and ¶51, and GASBS XX, ¶12 and ¶61]

[Revise sources of footnote 8 as follows:] [GASBS 34, fn64, as amended by GASBS 67, ¶9, and GASBS XX, ¶9]

.110 [Revise sources as follows:] [GASBS 34, ¶141, as amended by GASBS XX, ¶13]

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D2. The sections that follow update the Codification Instructions of Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the effects of this Statement. The requirements of Statement 68 are effective for periods beginning after June 15, 2014.

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**SECTION 2200**

.181 [Revise sources as follows:] [GASBS 25, ¶44; GASBS 27, ¶39; GASBS 34, ¶6; GASBS 34, ¶129, as amended by GASBS 45, ¶40, GASBS 67, ¶32–¶34, GASBS 68, ¶46, ¶47, ¶82, ¶114, ¶115, and ¶117, and GASBS XX, ¶33–¶35]

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**PENSION ACTIVITIES—REPORTING FOR BENEFITS NOT PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA**

**SECTION P21**

.584 [Delete cross-references to Sections Po50 and Po51.]

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