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Statement No. 43 of the
Governmental Accounting
Standards Board

Financial Reporting for
Postemployment Benefit Plans
Other Than Pension Plans



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

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Summary

In addition to pensions, many state and local governmental employers provide *other postemployment benefits* (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes *postemployment healthcare*, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan.

What This Statement Does

This Statement establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, with modifications to reflect differences between pension plans and OPEB plans.

The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This Statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. A related Statement, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (referred to as the related Statement), addresses standards for the measurement, recognition, and display of employers' OPEB expense/ expenditures and related liabilities (assets); note disclosures; and, if applicable, required supplementary information (RSI). The measurement and disclosure requirements of the two Statements are related, and disclosure requirements are coordinated to avoid duplication when an OPEB plan is included as a trust or agency fund in an employer's financial report. In addition, reduced disclosures are acceptable for OPEB trust or agency funds when a stand-alone plan financial report is publicly available and contains all required information.

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Summary of Standards

OPEB Plans That Are Administered as Trusts (or Equivalent Arrangements)

Financial Reporting Framework

The financial reporting framework for defined benefit OPEB plans that are administered as trusts or equivalent arrangements includes two financial statements and two multiyear schedules that are required to be presented as RSI immediately following the notes to the financial statements. The financial statements focus on reporting current financial information about plan net assets held in trust for OPEB and financial activities related to the administration of the trust. The *statement of plan net assets* provides information about the fair value and composition of plan assets, plan liabilities, and plan net assets held in trust for OPEB. The *statement of changes in plan net assets* provides information about the year-to-year changes in plan net assets, including *additions* from employer, member, and other contributions and net investment income and *deductions* for benefits and refunds paid, or due and payable, and plan administrative expenses.

Required notes to the financial statements include a brief plan description, a summary of significant accounting policies, and information about contributions and legally required reserves. In addition, OPEB plans are required to disclose information about the current funded status of the plan as of the most recent actuarial valuation date, and actuarial methods and assumptions used in the valuation.

The required schedules (RSI) provide actuarially determined historical trend information from a long-term perspective, for a minimum of three valuations, about (a) the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due and (b) employer contributions to the plan. The *schedule of funding progress* reports the actuarial value of assets, the actuarial accrued liability, and the relationship between the two over time. The *schedule of employer contributions* reports the annual required contributions of the employer(s) (ARC) and the percentage of ARC recognized by the plan as contributions. The required schedules are accompanied by notes regarding factors that significantly affect the identification of trends in the amounts reported.

Measurement (the Parameters)

Plans are required to measure all actuarially determined information included in their financial reports in accordance with certain parameters. The parameters include requirements for the frequency and timing of actuarial valuations as well

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as for the actuarial methods and assumptions that are acceptable for financial reporting. If the methods and assumptions used in determining a plan's funding requirements meet the parameters, the same methods and assumptions are required for financial reporting by both a plan and its participating employer(s). However, if a plan's method of financing does not meet the parameters (for example, the plan is financed on a pay-as-you-go basis), the parameters apply, nevertheless, for financial reporting purposes.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, and at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current *substantive plan* (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The parameters require that the selection of actuarial assumptions, including the *healthcare cost trend rate* for postemployment healthcare plans, be guided by applicable actuarial standards.

Alternative Measurement Method

OPEB plans with a total membership of fewer than one hundred have the option to apply a simplified *alternative measurement method* instead of obtaining actuarial valuations. This alternative method includes the same broad measurement steps as an actuarial valuation (projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of projected benefits to periods using an actuarial cost method). However, it permits simplification of certain assumptions to make the method potentially usable by nonspecialists.

OPEB Plans That Are Not Administered as Trusts or Equivalent Arrangements

Multiple-employer defined benefit OPEB plans that are not administered as trusts or equivalent arrangements should be reported as agency funds. Any assets accumulated in excess of liabilities to pay premiums or benefits, or for investment or administrative expenses, should be offset by liabilities to participating employers. Required notes to the financial statements include a brief plan description, a summary of significant accounting policies, and information about contributions.

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Defined Contribution Plans

Defined contribution plans that provide OPEB are required to follow the requirements for financial reporting by fiduciary funds generally, and by component units that are fiduciary in nature, set forth in Statement 34 and the disclosure requirements set forth in paragraph 41 of Statement 25.

Effective Dates and Transition

The requirements of this Statement for OPEB plan reporting are effective *one year prior* to the effective date of the related Statement for the employer (single-employer plan) or for the largest participating employer in the plan (multiple-employer plan). The requirements of the related Statement are effective in three phases based on a government's total annual revenues, as defined in that Statement, in the first fiscal year ending after June 15, 1999—the same criterion used to determine a government's phase for implementation of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Plans in which the sole or largest participating employer is a *phase 1 government* (those with total annual revenues of \$100 million or more) are required to implement this Statement in financial statements for periods beginning after December 15, 2005. Plans in which the sole or largest participating employer is a *phase 2 government* (total annual revenues of \$10 million or more but less than \$100 million) are required to implement this Statement in financial statements for periods beginning after December 15, 2006. Plans in which the sole or largest participating employer is a *phase 3 government* (total annual revenues of less than \$10 million) are required to implement this Statement in financial statements for periods beginning after December 15, 2007. If comparative financial statements are presented, restatement of the prior-year financial statements is required. Early implementation of this Statement is encouraged.

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, 7, and 8 discuss the applicability of this Statement.

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Postemployment Benefit Plans
Other Than Pension Plans

April 2004



Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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INTRODUCTION

1. The objective of this Statement is to establish uniform standards of financial reporting by state and local governmental entities for other **postemployment**¹ benefit plans (OPEB plans). The term **other postemployment benefits** (OPEB) refers to postemployment benefits other than **pension benefits** and includes (a) **postemployment healthcare benefits** and (b) other types of postemployment benefits (for example, life insurance) if provided separately from a pension plan. The term *plans*, in this context, refers to trust or other funds through which assets are accumulated to finance OPEB, and benefits are paid as they come due. This Statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The requirements of this Statement apply whether an OPEB plan is reported as a trust or agency fund or a fiduciary component unit of a participating employer or plan **sponsor**, or the plan is separately reported by a **public employee retirement system (PERS)** or other entity that administers the plan.

2. The approach adopted in this Statement generally is consistent with that of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and results in a common overall approach to financial reporting for all postemployment benefit plans. However, certain requirements of this Statement differ from the requirements of Statement 25 to reflect differences between pension benefits and OPEB.

3. A related Statement, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (referred to as the related Statement), establishes standards for accounting and financial reporting of OPEB costs and obligations by state and local governmental employers that

¹Consistent with previous GASB pronouncements, the glossary and actuarial terminology presented in paragraphs 46 and 47 are authoritative elements of this Statement. Terms defined in those paragraphs are printed in **boldface type** when they first appear.

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offer OPEB. The effective dates and many of the measurement and disclosure requirements of the two Statements are closely related, and certain provisions of this Statement refer to the related Statement. The two Statements include provisions to coordinate disclosures to avoid duplication when a government that participates in an OPEB plan also reports the plan as a fiduciary fund or component unit, or when a separately issued plan report, prepared in accordance with the requirements of this Statement, is publicly available.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

4. This Statement establishes financial reporting standards for OPEB plans of all state and local governments. Paragraphs 16 through 40 discuss reporting requirements for OPEB plans that are administered as trusts, or equivalent arrangements, through which assets are accumulated and benefits are paid as they come due in accordance with an agreement between the employer(s) and **plan members** and their beneficiaries (the **substantive plan**), and in which:

- a. Employer contributions to the plan are irrevocable
- b. Plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan
- c. Plan assets are legally protected from creditors of the employer(s) or the plan administrator.

For such plans, this Statement provides standards for (a) financial reporting of the **plan assets, liabilities, net assets**, and changes in net assets held in trust for payment of benefits and (b) disclosure of actuarial information about the funded status and funding progress of the plan (the extent to which resources have been accumulated in comparison to actuarially accrued liabilities for benefits) and the contributions made to the plan by participating employers in comparison to **annual required contributions of the employer(s) (ARC)**.

5. This Statement also applies to financial reporting for funds that are used to accumulate assets and to pay benefits in a multiple-employer OPEB plan that does not meet the criteria stated in the preceding paragraph. Paragraph 41 discusses reporting requirements for such plans. This Statement does *not* apply to assets that an employer earmarks for OPEB purposes within its government-

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tal or proprietary funds by designation of fund balance(s) or net assets or to assets that an employer transfers to and accumulates in a separate governmental or proprietary fund for that purpose.

6. OPEB plans are plans that provide:

- a. *Postemployment healthcare benefits, either separately or through a **defined benefit pension plan**.* Postemployment healthcare benefits include medical, dental, vision, hearing, and other health-related benefits. For financial reporting purposes, postemployment healthcare benefits provided through a defined benefit pension plan, and the assets accumulated by the plan for the payment of postemployment healthcare benefits, are considered, in substance, a postemployment healthcare plan administered by, but not part of, the pension plan.
- b. *Other forms of postemployment benefits, when provided separately from a defined benefit pension plan.* Examples include life insurance, disability, long-term care, and other benefits if provided as compensation for employee services rendered. Such forms of benefits are considered pensions when provided through a defined benefit pension plan.

7. The requirements of this Statement address financial reporting by **defined benefit OPEB plans** and **defined contribution plans**. Defined benefit OPEB plans are plans having terms that specify the *benefits* to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums). In contrast, a defined contribution plan is a plan having terms that (a) provide an individual account for each plan member and (b) specify *how contributions to an active plan member's account are to be determined*, rather than the income or other benefits the member or his or her beneficiaries are to receive at or after separation from employment. In a defined contribution plan, those benefits will depend *only* on the amounts contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account. An OPEB plan may have both defined benefit and defined contribution characteristics. If the plan provides a defined benefit in some form—that is, if the benefit to be provided is a function of factors other than the amounts contributed and amounts earned on contributed assets—the provisions of this Statement for defined benefit plans apply.

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8. The provisions of this Statement apply whether the plan is a **single-employer, agent multiple-employer, or cost-sharing multiple-employer plan** and regardless of how or when OPEB provided by the plan is financed.

The requirements apply whether:

- a. The plan's financial statements are included in a separate financial report issued by the plan or by the PERS or other entity that administers the plan (**stand-alone plan financial report**)
- b. The plan is included as a trust or agency fund or a fiduciary component unit in the statement of fiduciary net assets and statement of changes in fiduciary net assets of the plan sponsor or employer.

9. OPEB arises from an exchange of salaries and benefits for employee services, and it is part of the compensation that employers offer for services received. In contrast, **termination offers and benefits** are inducements offered by employers to employees to hasten the *termination of services*, or payments made in consequence of the early termination of services. Because they are different in nature from OPEB, termination offers and benefits—including **special termination benefits** as defined in National Council on Governmental Accounting (NCGA) Interpretation 8, *Certain Pension Matters*, early-retirement incentive programs, and other termination-related benefits—are generally excluded from the scope of this Statement, regardless of who provides or administers them. However, the effects, if any, of an employee's acceptance of a special termination offer on OPEB obligations incurred *through an existing defined benefit plan* (for example, an increase in the employer's obligation to provide postemployment healthcare benefits) should be accounted for in accordance with the requirements of this Statement and the related Statement.

10. Conversion of a terminating employee's unused sick leave credits to an *individual account* to be used for payment of postemployment benefits on that person's behalf is a *termination payment*, as the term is used in Statement No. 16, *Accounting for Compensated Absences*. The portion of sick leave expected to be compensated in that manner should be accounted for as a compensated absence in accordance with the requirements of that Statement. However, when a terminating employee's unused sick leave credits are converted to provide or to enhance a *defined benefit OPEB* (for example, post-employment healthcare benefits), the resulting benefit or increase in benefit should be accounted for in accordance with the requirements of this Statement and the related Statement.

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11. This Statement supersedes footnote 3 of GASB Statement 25; GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*; and footnote 18 of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. In addition, it amends the authoritative guidance in paragraph 5 of NCGA Interpretation No. 6, *Notes to the Financial Statements Disclosure*; paragraph 81 of GASB Statement No. 14, *The Financial Reporting Entity*; paragraphs 4, 26, 42, and 44 and footnotes 5 and 16 of GASB Statement 25; paragraph 2 of GASB Statement 27; paragraph 4 of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*; and paragraphs 106 through 109, 140, and 141 and footnotes 43 and 44 of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, with regard to financial reporting for OPEB plans.

Public Employee Retirement Systems

12. Many PERS administer more than one employee benefit plan, including defined benefit OPEB plans, as well as, for example, defined benefit pension plans, defined contribution plans, and deferred compensation plans. As used in this Statement, the term *public employee retirement system* refers to a state or local governmental fiduciary entity entrusted with administering a plan (or plans), and not to the plan itself. This Statement does not address the financial reports of PERS, except to the extent that the systems' reports include financial statements for defined benefit OPEB plans and defined contribution plans. Financial reporting requirements for special-purpose governments engaged only in fiduciary activities (including the requirement to present management's discussion and analysis, or MD&A) are discussed in Statement 34, as amended.

13. When the financial report of a PERS includes more than one defined benefit OPEB plan, the provisions of this Statement apply separately to *each plan administered*. That is, the system's report should present combining financial statements and required schedules for all defined benefit OPEB plans administered by the system. If the system administers one or more agent

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multiple-employer plans (agent plans), the provisions of this Statement apply at the *aggregate plan* level for each plan administered. The system is not required to include financial statements and schedules for the individual plans of the participating employers.²

14. The principles described in this paragraph should be applied in determining whether a PERS is administering a single plan or more than one plan for which paragraph 13 requires separate reporting.

- a. A PERS is administering a *single plan* if, on an ongoing basis, all assets accumulated for the payment of benefits may *legally* be used to pay benefits, including refunds of member contributions, to *any* of the plan members or beneficiaries, as defined by the terms of the plan. If this criterion is met, the plan is considered a single plan for financial reporting even if (1) the system is required by law or administrative policy to maintain separate reserves, funds, or accounts for specific groups of plan members, employers, or types of benefits (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 (2) separate **actuarial valuations** are performed for different classes of covered employees or groups (tiers) within a class because different contribution rates may apply for each class or group depending on the applicable benefit structures, benefit formulas, or other factors.
- b. A PERS is administering *more than one plan* if any portion of the total assets administered by the system is accumulated solely for the payment of benefits to certain classes of employees or to employees of certain entities (for example, public safety employees or state government employees) and may not legally be used to pay benefits to other classes of employees or other entities' employees (for example, general employees or local government employees). That portion of the total assets and the associated benefits constitutes a separate plan for which separate financial reporting is required, even if the assets are pooled with other assets for investment purposes.

15. The requirements of paragraph 13 also apply for the annual financial reports of a sponsor or employer when, based on the principles described in paragraph 14, the report includes more than one defined benefit OPEB plan. Financial statements for individual defined benefit OPEB plans should be

²Throughout this Statement, the terms *agent multiple-employer plan* and *agent plan* refer to the aggregate of the individual plans of all participating employers. For agent plans, references to *plan*, *single plan*, *each plan*, and so forth, should be interpreted in that context.

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presented in the notes to the financial statements of the sponsor or employer if separate financial statements prepared in conformity with generally accepted accounting principles (GAAP) and, if applicable, **required supplementary information (RSI)** have not been issued. If separate financial reports meeting those specifications have been issued, the notes should include information about how to obtain those separate reports.

OPEB Plans That Are Administered as Trusts (or Equivalent Arrangements)

16. A defined benefit OPEB plan that meets the requirements of paragraph 4 should be reported in conformity with the requirements of paragraphs 17 through 40. (For reporting requirements applicable to a defined benefit OPEB plan that does not meet the preceding criteria, see paragraph 41.)

Financial Reporting Framework

17. The financial report of a defined benefit OPEB plan that meets the criteria in paragraph 4 should include two financial statements and two schedules of historical trend information, as summarized in this paragraph. The schedules should be presented as RSI immediately after the notes to the financial statements. The requirements for the recognition, measurement, and display of information in the financial statements and required schedules and for the notes to the financial statements and schedules are addressed in subsequent paragraphs. The financial statements and required schedules are:

- a. A *statement of plan net assets* that includes information about the plan assets, liabilities, and net assets as of the end of the plan's fiscal year (**reporting date**). The statement of plan net assets should provide information about the **fair value** and composition of net assets.
- b. A *statement of changes in plan net assets* that includes information about the additions to, deductions from, and net increase (or decrease) for the year in plan net assets. The statement should provide information about significant year-to-year changes in plan net assets.
- c. A required *schedule of funding progress* that includes historical trend information about the actuarially determined funded status of the plan from a long-term, ongoing plan perspective and whether and to what extent progress is being made in accumulating sufficient assets to pay benefits when due.

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- d. A required *schedule of employer contributions* that includes historical trend information about the ARC and the contributions made by the employer(s) in relation to the ARC. The schedule should provide information that contributes to understanding the changes over time in the funded status of the plan.

Financial Statements

Statement of Plan Net Assets

Assets

18. The statement of plan net assets should be prepared on the accrual basis of accounting. Accordingly, purchases and sales of investments should be recorded on a trade-date basis.

19. 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 plan operations) and (b) the principal components of the receivables and investments categories.

Receivables

20. Plan receivables generally are short term and include contributions due as of the reporting date from the employer(s), plan members, and other contributors, and interest and dividends on investments. Amounts recognized as receivables should include those due pursuant to formal commitments as well as statutory or contractual requirements. With respect to an **employer's contributions**, evidence of a formal commitment may include (a) an appropriation by the employer's governing body of a specified contribution or (b) a consistent pattern of making payments after the plan's reporting date pursuant to an established **funding policy** that attributes those payments to the preceding plan year. When combined with either (a) or (b), the recognition in the employer's financial statements of a contribution payable to the plan may be supporting evidence of a formal commitment. However, the plan should not recognize a receivable based *solely* on the employer's recognition of a liability for contributions to the plan.

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21. Receivables and additions for contributions payable to the plan more than one year after the reporting date (pursuant to, for example, installment contracts) should be recognized in full in the year the contract is made.³

Investments

22. Plan investments, whether equity or debt securities, real estate, or other investments (excluding **insurance contracts**), should be reported at their fair value at the reporting date. The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller—that is, other than in a forced or liquidation sale.⁴ 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. **Unallocated insurance contracts** may be reported at **contract value**. **Allocated insurance contracts** should be excluded from plan assets.⁵

Assets used in plan operations

23. Plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) should be reported at historical cost less accumulated depreciation or amortization.

Liabilities

24. Plan liabilities generally consist of benefits and refunds due to plan members and beneficiaries and accrued investment and administrative expenses. All plan liabilities should be recognized on the accrual basis. Plan liabilities for benefits and refunds should be recognized when due and payable in accordance with the terms of the plan. Benefits payable from contracts excluded from plan assets for which payments to the insurance company have been made should be excluded from plan liabilities.

³Paragraph 30c(4) requires disclosure of the terms of the contract and the outstanding balances. When a contract 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.

⁴The fair value of an investment should reflect brokerage commissions and other costs normally incurred in a sale, if determinable.

⁵Paragraphs 24, 29, and 34a(4) include provisions for excluding benefits covered by allocated insurance contracts from benefit amounts reported by the plan and from the actuarially determined information required by this Statement.

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Net Assets Held in Trust for OPEB

25. The difference between total plan assets and total plan liabilities at the reporting date should be captioned *net assets held in trust for OPEB*.

Statement of Changes in Plan Net Assets

26. The statement of changes in plan net assets should be prepared on the accrual basis, consistent with the requirements of paragraphs 20, 21, and 24 for the recognition of plan receivables and liabilities. The information should be presented in two principal sections: *additions* and *deductions*. The difference between total additions and deductions should be reported as the *net increase* (or *decrease*) for the year in plan net assets.

Additions

27. The additions section of the statement of changes in plan net assets should include the information in these four categories, separately displayed:

- a. Contributions from the employer(s), determined in a manner consistent with the requirements for recognition of receivables in paragraphs 20 and 21
- b. Contributions from plan members, including those transmitted by the employer(s)
- c. Contributions from sources other than the employer(s) and plan members (for example, state government contributions to a local government plan)
- d. Net investment income, including (1) the net appreciation (depreciation) in the fair value of plan investments,⁶ (2) interest income, dividend income, and

⁶The net appreciation (depreciation) in the fair value of investments should include realized gains and losses on investments that were both bought and sold during the year. Realized and unrealized gains and losses should not be separately displayed in the financial statements. Plans may disclose realized gains and losses in the notes to the financial statements, provided that the amounts disclosed include all realized gains and losses for the year, computed as the difference between the proceeds of sale and the original cost of the investments sold. The disclosure also should state that (a) the calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments and (b) unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in the net appreciation (depreciation) reported in the prior year(s) and the current year.

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other income not included in (1),⁷ and (3) total investment expense, separately displayed, including investment management and custodial fees and all other significant investment-related costs.⁸

Deductions

28. The deductions section of the statement of changes in plan net assets should include (a) benefits and refunds paid to plan members and beneficiaries and (b) total administrative expense, separately displayed.

29. Benefits paid should not include payments made by an insurance company in accordance with a contract that is excluded from plan assets. However, amounts paid by the plan to an insurance company pursuant to such a contract, including purchases of annuities with amounts allocated from existing investments with the insurance company, should be included in benefits paid. (The amounts reported may be net of the plan's dividend income for the year on excluded contracts.)

Notes to the Financial Statements

30. The notes to the financial statements of a defined benefit OPEB plan should include all disclosures required by this paragraph when the financial statements are presented (a) in a stand-alone plan financial report or (b) *solely* in the financial report of an employer (that is, as an other employee benefit trust fund). When a plan's financial statements are presented in both an employer's

⁷Consistent with reporting investments at their fair value, interest income should be reported at the stated interest rate; any premiums or discounts on debt securities should not be amortized. Components (1) and (2) of net investment income may be separately displayed or may be combined and reported as one amount.

⁸Plans are not required to include in the reported amount of investment expense those investment-related costs that are not readily separable from (a) investment income (the income is reported net of related expenses) or (b) the general administrative expenses of the plan.

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report and a publicly available stand-alone plan financial report that complies with this Statement, the employer may limit its plan disclosures to those required by paragraphs 30a(1), 30b, and 30c(4), provided that the employer discloses information about how to obtain the stand-alone plan financial report.⁹

a. Plan description

- (1) Identification of the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer defined benefit OPEB plan and disclosure of the number of participating employers and other contributing entities.
- (2) Classes of employees covered (for example, general employees and public safety employees) and the number of plan members, including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits. If the plan is closed to new entrants, that fact should be disclosed.
- (3) Brief description of benefit provisions, including the types of benefits, the provisions or policies with respect to **automatic** and **ad hoc postretirement benefit increases**, and the authority under which benefit provisions are established or may be amended.

b. Summary of significant accounting policies

- (1) Basis of accounting, including the policy with respect to the recognition in the financial statements of contributions, benefits paid, and refunds paid.
- (2) 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.

⁹The related Statement includes the requirements for notes to the employer's financial statements concerning the employer's OPEB expense/expenditures.

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c. Contributions and reserves

- (1) Authority under which the obligations of the plan members, employer(s), and other contributing entities to contribute to the plan are established or may be amended.
- (2) Funding policy, including a brief description of how the contributions of the plan members, employer(s), and other contributing entities are determined (for example, by statute, through an actuarial valuation, or in some other manner) and how the costs of administering the plan are financed. Legal or contractual maximum contribution rates should be disclosed, if applicable.
- (3) Required contribution rate(s) of active or retired plan members, as applicable, in accordance with the funding policy.¹⁰ The required contribution rate(s) should be expressed as a rate (amount) per member or as a percentage of covered payroll.
- (4) Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date.
- (5) The balances in the plan's legally required reserves at the reporting date. Amounts of net assets designated by the plan's board of trustees or other governing body for a specific purpose(s) also may be disclosed but should be captioned *designations*, rather than *reserves*.¹¹ Also include a brief description of the purpose of each reserve and designation disclosed and whether the reserve is fully funded.

d. Funded status and funding progress

- (1) Information about the funded status of the plan as of the most recent valuation date, including the **actuarial valuation date**, the **actuarial value of assets**, the **actuarial accrued liability**, the total **unfunded actuarial accrued liability**, the actuarial value of assets as a percentage of the actuarial accrued liability (**funded ratio**), the annual **covered payroll**, and the ratio of the unfunded actuarial liability to annual covered payroll.¹² The information should be calculated in accordance with the **parameters** set forth in paragraphs 33 and 34. However, plans with fewer than one hundred plan members, as defined in paragraph 30a(2),

¹⁰Information that should be reported about contributions from the employer(s) and from other contributing entities, if applicable, is addressed in the required supplementary information section (paragraphs 31–37) of this Statement.

¹¹Paragraphs 118 and 120 of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, address the distinction between *reserves* and *designations*.

¹²Paragraph 35 requires plans to disclose the same elements of information for each of the three most recent actuarial valuations of the plan as RSI (schedule of funding progress).

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may elect to use the alternative measurement method discussed in paragraphs 38 through 40. Plans that use the **aggregate actuarial cost method** should prepare this information using the **entry age actuarial cost method** for that purpose only.

- (2) Disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the ARC and the funded status and funding progress of OPEB plans are based, including the following:
 - (a) Disclosure that actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.
 - (b) Disclosure that the required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.
 - (c) Disclosure that calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, if applicable, the plan should disclose that the projection of benefits for financial reporting purposes *does not* explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.¹³
 - (d) Disclosure that actuarial calculations reflect a long-term perspective. In addition, if applicable, disclosure that, consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

¹³If a plan also elects to include in the annual financial report pro forma *quantitative information* about postemployment healthcare benefits (for example, pro forma calculations of the ARC, annual OPEB cost, or the funded status of the plan) recalculated to take into consideration a funding limitation, that information should be presented as supplementary information.

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- (e) Identification of the actuarial methods and significant assumptions used to determine the ARC for the current year and the information required by paragraph 30d(1). The disclosures should include:
- i. The **actuarial cost method**.
 - ii. The method(s) used to determine the actuarial value of assets.
 - iii. The assumptions with respect to the inflation rate, **investment return (discount rate)** (including the method used to determine a blended rate for a partially funded plan, if applicable), **projected salary increases** if relevant to determination of the level of benefits, and, for postemployment healthcare plans, the **healthcare cost trend rate**. If the economic assumptions contemplate different rates for successive years (**year-based** or **select and ultimate rates**), the rates that should be disclosed are the initial and **ultimate rates**.
 - iv. The **amortization method (level dollar or level percentage of projected payroll)** and the amortization period (**equivalent single amortization period**, for plans that use multiple periods) for the most recent actuarial valuation and whether the period is **closed** or **open**. Plans that use the aggregate actuarial cost method should disclose that because the method does not identify or separately amortize unfunded actuarial accrued liabilities, information about the plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and that the information presented is intended to approximate the funding progress of the plan.

Required Supplementary Information

31. Except as indicated in paragraph 32, a schedule of funding progress and a schedule of employer contributions should be presented immediately after the notes to the financial statements. Paragraphs 33 and 34 include the requirements for measuring the actuarially determined information to be reported in the schedules and related note disclosures (the parameters). However, plans with fewer than one hundred plan members may elect to use the alternative measurement method discussed in paragraphs 38 through 40. Paragraphs 35 through 37 include the requirements for the content of the schedules and related notes.

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32. When a cost-sharing or agent plan's financial statements are included in an employer's financial report (that is, as an other employee benefit trust fund), the employer is not required to present schedules of RSI *for that plan* if both of these situations exist:

- a. The required schedules are included with the plan's financial statements in a publicly available, stand-alone plan financial report.
- b. The employer includes in its notes to the financial statements information about how to obtain the stand-alone plan financial report.

When the financial statements of a single-employer plan are included in the employer's report, the employer should disclose the availability of the stand-alone plan report and present the information required for the schedule of funding progress for the three most recent actuarial valuations. (The employer should not present the schedule of employer contributions for the plan.) If the financial statements and required schedules of the plan (whether single-employer, agent, or cost-sharing) are not publicly available in a stand-alone plan financial report, the employer should present both schedules for each plan included in the employer's report for all years required by this Statement.¹⁴

The Parameters

33. For financial reporting purposes, an actuarial valuation should be performed in accordance with this paragraph and paragraph 34 at the following minimum frequency:

- a. For plans with a total membership of 200 or more—at least biennially
- b. For plans with a total membership of fewer than 200—at least triennially.

The actuarial valuation date need not be the plan's reporting date, but generally should be the same date each year (or other applicable interval). However, a new valuation should be performed if, since the previous valuation, significant changes have occurred that affect the results of the valuation, including significant changes in benefit provisions, the size or composition of the population covered by the plan, or other factors that impact long-term assumptions. All actuarially determined information reported for the current year in the schedule of funding progress should be based on the results of the most recent actuarial

¹⁴The related Statement includes the requirements for RSI that should be presented in relation to the employer's OPEB expense/expenditures.

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valuation, performed in accordance with the parameters as of a date not more than two years before the plan's reporting date for that year, if valuations are biennial, and not more than three years before the plan's reporting date for that year, if valuations are triennial.

34. For financial reporting purposes, all actuarially determined OPEB information should be calculated in accordance with this paragraph, consistently applied. The actuarial methods and assumptions applied for financial reporting should be the same methods and assumptions applied in determining the plan's funding requirements, unless compliance with this paragraph requires the use of different methods or assumptions. A plan and its participating employer(s) should apply the same actuarial methods and assumptions in determining similar or related information included in their respective financial reports.¹⁵

a. Benefits to be included:

- (1) The **actuarial present value of total projected benefits** should include all benefits to be provided by the plan to plan members or beneficiaries in accordance with the current substantive plan (the plan terms as understood by the employer and plan members) at the time of each valuation, including any changes to plan terms that have been made and communicated to employees. Usually, the written plan is the best evidence of the terms of the exchange; however, in some cases the substantive plan may differ from the written plan. Accordingly, other information also should be taken into consideration in determining the benefits to be provided, including other communications between the employer and employees and an established pattern of practice with regard to the sharing of benefit costs between the employer and plan members. Calculations should be made based on the benefits in force at the time of the valuation and the pattern of sharing of benefit costs to that point.
- (2) When benefits are provided to both active employees and retirees through the same plan, the benefits to retirees should be segregated for actuarial measurement purposes, and the projection of future retiree benefits should be based on claims costs, or age-adjusted premiums approximating claims costs, for retirees, in accordance with actuarial

¹⁵The related Statement includes the same parameters for measuring OPEB expense/ expenditures and related actuarially determined information to be disclosed by the employer(s). The related Statement also requires the employer(s) and the plan to use the same methods and assumptions when reporting similar or related OPEB information.

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standards issued by the Actuarial Standards Board.¹⁶ However, when benefits are provided through a community-rated plan, in which premium rates reflect the projected health claims experience of all participating employers, rather than that of any single participating employer, and the insurer or provider organization charges the same unadjusted premiums for both active employees and retirees, it is appropriate to use the unadjusted premiums as the basis for projection of retiree benefit, to the extent permitted by actuarial standards.¹⁷

- (3) A legal or contractual cap on the employer's share of the benefits to be provided to retirees and beneficiaries each period should be considered in projecting benefits to be provided by the employer(s) in future periods, if the cap is assumed to be effective taking into consideration the employer's record of enforcing the cap in the past and other relevant factors and circumstances.
- (4) Benefits to be provided by means of allocated insurance contracts for which payments to an insurance company (a) have been made and (b) have irrevocably transferred to the insurer the responsibility for providing the benefits, should be excluded (and allocated insurance contracts should be excluded from plan assets).

b. **Actuarial assumptions**—The selection of all actuarial assumptions, including the healthcare cost trend rate in valuations of postemployment health-care plans, should be guided by actuarial standards. Accordingly, actuarial assumptions 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

¹⁶See Actuarial Standard of Practice No. 6 (ASOP 6), *Measuring Retiree Group Benefit Obligations*, revised edition (Washington, DC: Actuarial Standards Board, December 2001), or its successor documents.

¹⁷ASOP 6, as revised in December 2001, discusses the issue as follows:

Use of Premium Rates—Although an analysis of the plan sponsor's actual claims experience is preferable, the actuary may use premium rates as the basis for initial per capita health care rates, with appropriate analysis and adjustment for the premium rate basis. The actuary who uses premium rates for this purpose should adjust them for changes in benefit levels, covered population, or program administration. The actuary should consider that the actual cost of health insurance varies by age . . . , but the premium rates paid by the plan sponsor may not. For example, the actuary may use a single unadjusted premium rate applicable to both active employees and non-Medicare-eligible retirees if the actuary has determined that the insurer would offer the same premium rate if only non-Medicare-eligible retirees were covered. [paragraph 3.4.5]

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- to recent past experience. The reasonableness of each actuarial assumption should be considered independently based on its own merits, its consistency with each other assumption, and the combined impact of all assumptions.
- c. Economic assumptions—In addition to complying with the guidance in subparagraph b of this paragraph, the investment return assumption (discount rate) should be the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits, with consideration given to the nature and mix of current and expected investments and the basis used to determine the actuarial value of assets (subparagraph e). For this purpose, the investments expected to be used to finance the payment of benefits are (1) *plan assets* for plans for which the employer's funding policy is to contribute consistently an amount at least equal to the ARC, (2) *assets of the employer* for plans that have no plan assets, or (3) a *combination of the two* for plans that are being partially funded. The discount rate for a partially funded plan should be a blended rate that reflects the proportionate amounts of plan and employer assets expected to be used. The investment return assumption and other economic assumptions should include the same assumption with respect to inflation.
 - d. Actuarial cost method—One of the following actuarial cost methods should be used: entry age, **frozen entry age, attained age, frozen attained age, projected unit credit**,¹⁸ or aggregate, as described in paragraph 47, Section B. A plan that uses the aggregate actuarial cost method should prepare a schedule of funding progress following the requirements of paragraph 35 using the entry age actuarial cost method for that purpose and should follow the related disclosure requirement of that paragraph.
 - e. Actuarial value of assets—Plan assets should be valued using methods and techniques that are consistent with the class and anticipated holding period of the assets, the investment return assumption, other assumptions used in determining the actuarial present value of total projected benefits, and current actuarial standards for asset valuation.¹⁹ Accordingly, the actuarial value of plan assets generally should be **market related**.
 - f. Annual required contributions of the employer (ARC)—The ARC should be actuarially determined in accordance with the parameters. The amount should include the employer's **normal cost** and a provision(s) for amortizing

¹⁸**Unprojected unit** credit is acceptable for plans in which benefits already accumulated for years of service are not affected by future salary levels.

¹⁹See footnote 16.

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the total unfunded actuarial accrued liability (unfunded actuarial liability), in accordance with the following requirements:²⁰

- (1) Maximum amortization period—The maximum acceptable amortization period for the total unfunded actuarial liability is thirty years. The total unfunded actuarial liability may be amortized as one amount, or components of the total may be separately amortized. When components are amortized over different periods, the individual amortization periods should be selected so that the equivalent single amortization period for all components combined does not exceed the maximum acceptable period.
- (2) Equivalent single amortization period—The equivalent single amortization period is the number of years incorporated in a weighted average amortization factor for all components of the total UAL combined and should be calculated as follows:
 - (a) Determine the amortization factor for each component of the total UAL using its associated amortization period and the discount rate selected in accordance with subparagraphs b and c of this paragraph.
 - (b) Calculate next year's amortization payment for each of the components by dividing each component by its associated amortization factor.
 - (c) Calculate the weighted average amortization factor by dividing the total UAL by the sum of next year's individual amortization payments.
 - (d) Calculate the equivalent single amortization period as the number of years incorporated in the weighted average amortization factor (from c) at the discount rate used in subparagraph f(2)(a) of this paragraph.
- (3) Minimum amortization period—A significant decrease in the total unfunded actuarial liability generated by a change from one of the actuarial cost methods specified in subparagraph d of this paragraph to another of those methods, or by a change in the method(s) used to determine the actuarial value of assets (for example, a change from a method that

²⁰The total unfunded actuarial liability may be positive (actuarial accrued liability greater than the actuarial value of assets) or negative (actuarial accrued liability less than the actuarial value of assets, or **funding excess**). The term *unfunded actuarial liability* refers to either situation. Separate determination and amortization of the unfunded actuarial liability are not part of the aggregate actuarial cost method and are not required when that method is used, with regard to the computation of the ARC; however, the disclosure requirements of paragraphs 30d(1), 30d(2)(e)(iv), and 35 are applicable when that method is used.

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- spreads increases or decreases in market value over five years to a method that uses current market value), should be amortized over a period of not less than ten years. The minimum amortization period is not required when a plan is closed to new entrants and all or almost all of the plan members have retired.
- (4) **Amortization method**—The provision(s) for amortizing the total unfunded actuarial liability may be determined in level dollar amounts or as a level percentage of the projected payroll of active plan members. If the level percentage of projected payroll method is used, the assumed **payroll growth rate** should not include an assumed increase in the number of active plan members; however, projected decreases in that number should be included if no new members are permitted to enter the plan (for example, a plan that covers only employees hired before a certain date).
- g. **Contribution deficiencies or excess contributions** of the employer—A contribution deficiency or excess contribution is the difference between the ARC for a given year and the employer's contributions in relation to the ARC. For the purposes of this Statement, an employer has made a contribution in relation to the ARC if the employer has (1) made payments of benefits directly to or on behalf of a retiree or beneficiary, (2) made premium payments to an insurer, or (3) irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator. Earmarking of employer assets or other means of financing that do not meet the conditions in the preceding sentence do not constitute contributions in relation to the ARC, and the assets earmarked or otherwise accumulated should be considered employer assets for the purposes of this Statement. Amortization of a contribution deficiency or excess contribution should begin at the next actuarial valuation, unless settlement is expected not more than one year after the deficiency or excess occurred. If settlement has not occurred by the end of that term, amortization should begin at the next actuarial valuation.

Schedule of Funding Progress

35. The schedule of funding progress should present information about the funding progress of each plan for the most recent valuation and the two preceding valuations, including, for each valuation, each of the elements of information listed in paragraph 30d(1). All actuarially determined information reported should be calculated in accordance with the parameters and should be

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presented as of the actuarial valuation date.²¹ Plans that use the aggregate actuarial cost method should prepare the information using the entry age actuarial cost method and should disclose that fact and that the purpose of this disclosure is to provide information that *approximates* the funding progress of the plan.

Schedule of Employer Contributions

36. The schedule of employer contributions should present the following information for the most recent valuation and the two preceding valuations, at a minimum: (a) the dollar amount of the ARC applicable to that year, calculated in accordance with paragraph 34f, and (b) the percentage of that ARC that was recognized in the plan's statement of changes in plan net assets for that year as contributions from the employer(s), in accordance with paragraphs 26 and 27.²² When the plan's funding policy includes contributions from sources other than the plan members and the employer(s) (for example, contributions from a state government to a local government plan), the required contributions of those other contributing entities and the percentage recognized as made should be included in the schedule of employer contributions. The schedule should be titled *schedule of contributions from the employer(s) and other contributing entities*.

Notes to the Required Schedules

37. The schedules of RSI should be accompanied by disclosure of factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.)

²¹A funding excess (and related ratios) should be reported in the same manner as a positive unfunded actuarial liability. Plans with biennial or triennial valuations need not present duplicate information for the intervening years.

²²The actuarial determination of the ARC generally is based on a projection of covered payroll for the period to which the ARC will apply. Some employers make contributions based on projected covered payroll; others contribute based on budgeted or actual covered payroll for the year. Any of those measures of covered payroll, consistently applied, is acceptable for the schedule of employer contributions. That is, comparisons between the ARC and contributions made should be based on the same measure of covered payroll, consistently applied, whether that measure is projected, budgeted, or actual covered payroll.

[Completely Superseded]

Alternative Measurement Method for Plans with Fewer Than One Hundred Plan Members

38. The parameters of paragraphs 33 and 34 concerning the measurement of actuarially determined OPEB information, including the requirements of paragraph 33 regarding the minimum frequency of actuarial valuations and the requirement of paragraph 34b that the selection of actuarial assumptions should be guided by actuarial standards, generally are applicable to all defined benefit plans. However, defined benefit plans with fewer than one hundred plan members may elect to apply certain simplifying modifications for the selection of actuarial assumptions, as stated in paragraph 39.

39. Plans that meet the eligibility test in paragraph 38 may elect either to apply the parameters of paragraphs 33 and 34 in their entirety or to apply the parameters with one or more of the following specific modifications. Plans that apply these modifications should disclose that they have used the *alternative measurement method* permitted by this Statement and should disclose in the notes to the financial statements the source or basis of all significant assumptions or methods selected in accordance with this paragraph, in addition to all other disclosure requirements of this Statement.

a. General considerations—The projection of benefits should include assumptions regarding all significant factors affecting the amount and timing of projected future benefit payments, including, where applicable, the factors listed below. Additional assumptions may be needed depending upon the benefits being 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.

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- b. Expected point in time at which benefits will begin to be provided—The assumption should reflect past experience and future expectations for the covered group. The assumption may incorporate a single assumed retirement age for all active employees or an assumption that all active employees will retire upon attaining a certain number of years of service.
- c. Marital and dependency status—The plan may base these assumptions on the current status of active and retired plan members or historical demographic data for retirees in the covered group.
- d. Mortality—The plan should base this assumption on current published mortality tables.
- e. Turnover—The plan generally should base both the assumed probability that an active plan member will remain employed until the assumed retirement age and the expected future working lifetime of plan members, for purposes of allocating the present value of expected benefits to periods, on the historical age-based turnover experience of the covered group using the calculation method in paragraph 40a. However, if experience data are not available, the plan should assign the probability of remaining employed until the assumed retirement age using Table 1 in paragraph 40b, and should determine the expected future working lifetime of plan members using the calculation table in Table 2 of paragraph 40c.
- f. Healthcare cost trend rate—The plan should derive select and ultimate assumptions about healthcare cost trends in future years for which benefits are projected from an objective source.
- g. Use of health insurance premiums—A plan that provides benefits through premium payments to an insurer or other service provider may use the plan's current premium structure as the initial per capita healthcare rates for the purpose of projecting future healthcare benefit payments. However, if the *same premium rates* are given for both active employees and retirees, and the plan is *not a community rated plan*, as discussed in paragraph 34a(2), the employer should (1) obtain from the insurer age-adjusted premium rates for retirees or, if that information cannot be obtained from the insurer, (2) estimate age-adjusted premiums for retirees using the method provided in Tables 3 through 5 of paragraph 40d, as appropriate.

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- h. Plans with coverage options—When a postemployment benefit plan provides plan members more than one coverage option, the plan should base assumptions regarding members' coverage choices on the experience of the covered group, considering differences, if any, in the choices of pre- and post-Medicare-eligible members.
 - i. Use of grouping—Plans may use grouping techniques. One such technique is to group participants based on common demographic characteristics (for example, participants within a range of ages or years of service), where the obligation for each participant in the group is expected to be similar for commonly grouped individuals. Another technique is to group plans with similar expected costs and benefits.
40. This paragraph includes calculation methods and default values for use with the alternative measurement method in determining (a) the probability that active plan members will remain employed until retirement age, (b) the expected future working lifetime of plan members, and (c) age-adjusted premiums for retirees in certain situations.
- a. Plans that use historical age-based turnover experience *of the covered group* when applying the alternative measurement method, as discussed in

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paragraph 39e, should use the following methodology to calculate the probability of remaining employed until retirement age and the expected future working lifetime of plan members:

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 Retirement Age (d)	Expected Future Working Lifetime for Assumed Retirement Age (e)
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Column a: For each age (n) from the earliest entry age to assumed retirement age, list the age-based *probabilities 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 retirement age.

Column e: These values should be calculated as the sum of c from age (n) to the year prior to the assumed retirement age, divided by the value of c at age (n). At the assumed retirement age, this value should be set to 0.

b. Plans that are *not* using historical age-based turnover experience *of the covered group* when applying the alternative measurement method, as

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discussed in paragraph 39e, should use the following table to determine the probability of remaining employed until the assumed retirement age:

Table 1—Probability of Remaining Employed until Assumed Retirement Age, by Age²³—Default Values²⁴

Age	Assumed Retirement Age					
	50 and over	49	48	47	46	45
20	0.296	0.300	0.304	0.309	0.314	0.319
21	0.321	0.326	0.330	0.335	0.340	0.346
22	0.349	0.354	0.359	0.364	0.370	0.376
23	0.379	0.384	0.389	0.395	0.401	0.408
24	0.410	0.416	0.421	0.428	0.434	0.441
25	0.440	0.446	0.453	0.460	0.467	0.474
26	0.472	0.478	0.485	0.493	0.500	0.508
27	0.503	0.510	0.517	0.525	0.533	0.542
28	0.534	0.541	0.549	0.558	0.566	0.575
29	0.564	0.572	0.580	0.589	0.598	0.607
30	0.593	0.602	0.610	0.620	0.629	0.639
31	0.622	0.631	0.640	0.650	0.660	0.670
32	0.650	0.659	0.669	0.679	0.689	0.700
33	0.677	0.687	0.696	0.707	0.718	0.730
34	0.703	0.713	0.723	0.734	0.745	0.758
35	0.729	0.739	0.749	0.761	0.772	0.785
36	0.753	0.764	0.775	0.787	0.799	0.812
37	0.777	0.788	0.799	0.811	0.824	0.837
38	0.799	0.811	0.822	0.835	0.847	0.861
39	0.821	0.832	0.844	0.857	0.870	0.884
40	0.841	0.853	0.865	0.878	0.891	0.906
41	0.860	0.873	0.885	0.899	0.912	0.927
42	0.879	0.891	0.904	0.918	0.932	0.947
43	0.896	0.909	0.922	0.936	0.950	0.965
44	0.912	0.925	0.938	0.953	0.967	0.983
45	0.928	0.941	0.955	0.969	0.984	1.000
46	0.943	0.957	0.970	0.985	1.000	1.000
47	0.958	0.971	0.985	1.000	1.000	1.000
48	0.972	0.986	1.000	1.000	1.000	1.000
49	0.986	1.000	1.000	1.000	1.000	1.000

50+ For ages 50+, the probability of remaining employed until retirement age is 1.000.

²³Age could be the *entry age* or the *attained (current) age* of the plan member, depending upon the calculation being made.

²⁴These default probabilities were adapted from data maintained by the U.S. Office of Personnel Management regarding the experience of the employee group covered by the Federal Employees Retirement System.

[Completely Superseded]

c. Plans that are *not* using historical age-based turnover experience of the *covered group* when applying the alternative measurement method, as discussed in paragraph 39e, should use the following table to determine the expected future working lifetime of plan members:

Table 2—Expected Future Working Lifetimes of Employees, by Age²⁵
—Default Values²⁶

Age	Assumed Retirement Age														
	75	74	73	72	71	70	69	68	67	66	65	64	63	62	61
20	22	22	21	21	21	21	20	20	20	19	19	19	19	18	18
21	23	23	22	22	22	21	21	21	20	20	20	19	19	19	18
22	24	23	23	23	22	22	22	21	21	21	20	20	20	19	19
23	25	24	24	24	23	23	22	22	22	21	21	21	20	20	19
24	26	25	25	24	24	24	23	23	22	22	22	21	21	20	20
25	26	26	26	25	25	24	24	23	23	23	22	22	21	21	20
26	27	27	26	26	25	25	24	24	24	23	23	22	22	21	21
27	28	28	27	27	26	26	25	25	24	24	23	23	22	21	21
28	29	28	28	27	27	26	25	25	24	24	23	23	22	22	21
29	29	29	28	28	27	26	26	25	25	24	24	23	22	22	21
30	30	29	29	28	27	27	26	26	25	24	24	23	23	22	21
31	30	30	29	28	28	27	26	26	25	25	24	23	23	22	21
32	30	30	29	28	28	27	27	26	25	25	24	23	23	22	21
33	31	30	29	29	28	27	27	26	25	25	24	23	23	22	21
34	31	30	29	29	28	27	27	26	25	24	24	23	22	22	21
35	31	30	29	29	28	27	27	26	25	24	24	23	22	21	21
36	31	30	29	29	28	27	26	26	25	24	23	23	22	21	20
37	31	30	29	28	28	27	26	25	25	24	23	22	22	21	20
38	31	30	29	28	27	27	26	25	24	23	23	22	21	20	19
39	30	30	29	28	27	26	26	25	24	23	22	21	21	20	19
40	30	29	29	28	27	26	25	24	23	23	22	21	20	19	18
41	30	29	28	27	26	26	25	24	23	22	21	20	20	19	18
42	30	29	28	27	26	25	24	23	22	22	21	20	19	18	17
43	29	28	27	26	25	25	24	23	22	21	20	19	18	17	17
44	29	28	27	26	25	24	23	22	22	21	20	19	19	18	16
45	28	27	26	25	24	23	22	22	21	20	19	18	17	16	15
46	27	27	26	25	24	23	22	21	20	19	18	17	16	15	14
47	27	26	25	24	23	22	21	20	19	18	17	16	15	14	13
48	26	25	24	23	22	21	20	19	19	18	17	16	15	14	13
49	26	25	24	23	22	21	20	19	18	17	16	15	14	13	12

50+ For ages 50+, expected future working lifetime equals assumed retirement age minus age.

²⁵See footnote 23.

²⁶See footnote 24.

[Completely Superseded]

Assumed Retirement Age														
60	59	58	57	56	55	54	53	52	51	50	49	48	47	45
18	17	17	17	16	16	16	16	15	15	15	14	14	14	13
18	18	17	17	17	16	16	16	15	15	15	15	14	14	13
19	18	18	17	17	17	16	16	16	15	15	15	14	14	13
19	19	18	18	18	17	17	16	16	16	15	15	14	14	13
19	19	19	18	18	17	17	17	16	16	15	15	15	14	13
20	19	19	19	18	18	17	17	16	16	15	15	15	14	13
20	20	19	19	18	18	17	17	16	16	16	15	15	14	13
20	20	19	19	18	18	17	17	16	16	15	15	14	14	13
21	20	20	19	19	18	17	17	16	16	15	15	14	14	13
21	20	20	19	18	18	17	17	16	15	15	14	14	13	12
21	20	20	19	18	18	17	16	16	15	15	14	13	13	12
21	20	19	19	18	17	17	16	15	15	14	14	13	12	11
21	20	19	18	18	17	16	16	15	14	14	13	12	12	11
20	20	19	18	17	17	16	15	15	14	13	13	12	11	10
20	20	19	18	17	17	16	15	14	13	13	12	11	10	9
20	19	18	18	17	16	16	15	14	13	12	11	11	10	9
19	18	18	17	16	15	15	14	13	12	11	11	10	9	8
19	18	17	16	16	15	14	13	12	12	11	10	9	8	7
18	17	17	16	15	14	13	12	12	11	10	9	8	7	6
18	17	16	15	14	13	13	12	11	10	9	8	7	6	5
17	16	15	14	14	13	12	11	10	9	8	8	7	6	5
16	15	15	14	13	12	11	10	9	8	8	7	6	5	4
16	15	14	13	12	11	10	9	8	8	7	6	5	4	3
15	14	13	12	11	10	9	9	8	7	6	5	4	3	2
14	13	12	11	10	9	9	8	7	6	5	4	3	2	1
13	12	11	11	10	9	8	7	6	5	4	3	2	1	0
13	12	11	10	9	8	7	6	5	4	3	2	1	0	0
12	11	10	9	8	7	6	5	4	3	2	1	0	0	0
11	10	9	8	7	6	5	4	3	2	1	0	0	0	0

For ages 50+, expected future working lifetime equals assumed retirement age minus age.

[Completely Superseded]

- d. When the same premiums are charged to active employees and retirees, and the employer or plan sponsor is unable to obtain age-adjusted premium information for retirees from the insurer or service provider, the following approach should be used to age-adjust premiums for purposes of projecting future benefits for retirees:
- (1) To adjust premiums for ages under 65:
- (a) Identify the premium charged for active and retired plan members under age 65.
 - (b) Calculate the average age of plan members (actives and retirees or beneficiaries) to which the premium identified in step a applies.
 - (c) For each active plan member, and each retired member or beneficiary under age 65, identify the greater of expected retirement age 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: $\text{result of step d} + (0.5 \times [65 - \text{result of step d}])$.
 - (f) Using the results of steps b and e, locate the appropriate factor in Table 3. The factor also can be calculated directly as $1.04^{(\text{result of step e} - \text{result of step b})}$.
 - (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 future benefits for ages under age 65.

[Completely Superseded]

**Table 3—Default Factors for Calculating Age-Adjusted Premiums for
Ages under 65**

Average Age of Plan Members	Midpoint Age (from paragraph 40d(1)(e))												
	52	53	54	55	56	57	58	59	60	61	62	63	64
25	2.88	3.00	3.12	3.24	3.37	3.51	3.65	3.79	3.95	4.10	4.27	4.44	4.62
26	2.77	2.88	3.00	3.12	3.24	3.37	3.51	3.65	3.79	3.95	4.10	4.27	4.44
27	2.67	2.77	2.88	3.00	3.12	3.24	3.37	3.51	3.65	3.79	3.95	4.10	4.27
28	2.56	2.67	2.77	2.88	3.00	3.12	3.24	3.37	3.51	3.65	3.79	3.95	4.10
29	2.46	2.56	2.67	2.77	2.88	3.00	3.12	3.24	3.37	3.51	3.65	3.79	3.95
30	2.37	2.46	2.56	2.67	2.77	2.88	3.00	3.12	3.24	3.37	3.51	3.65	3.79
31	2.28	2.37	2.46	2.56	2.67	2.77	2.88	3.00	3.12	3.24	3.37	3.51	3.65
32	2.19	2.28	2.37	2.46	2.56	2.67	2.77	2.88	3.00	3.12	3.24	3.37	3.51
33	2.11	2.19	2.28	2.37	2.46	2.56	2.67	2.77	2.88	3.00	3.12	3.24	3.37
34	2.03	2.11	2.19	2.28	2.37	2.46	2.56	2.67	2.77	2.88	3.00	3.12	3.24
35	1.95	2.03	2.11	2.19	2.28	2.37	2.46	2.56	2.67	2.77	2.88	3.00	3.12
36	1.87	1.95	2.03	2.11	2.19	2.28	2.37	2.46	2.56	2.67	2.77	2.88	3.00
37	1.80	1.87	1.95	2.03	2.11	2.19	2.28	2.37	2.46	2.56	2.67	2.77	2.88
38	1.73	1.80	1.87	1.95	2.03	2.11	2.19	2.28	2.37	2.46	2.56	2.67	2.77
39	1.67	1.73	1.80	1.87	1.95	2.03	2.11	2.19	2.28	2.37	2.46	2.56	2.67
40	1.60	1.67	1.73	1.80	1.87	1.95	2.03	2.11	2.19	2.28	2.37	2.46	2.56
41	1.54	1.60	1.67	1.73	1.80	1.87	1.95	2.03	2.11	2.19	2.28	2.37	2.46
42	1.48	1.54	1.60	1.67	1.73	1.80	1.87	1.95	2.03	2.11	2.19	2.28	2.37
43	1.42	1.48	1.54	1.60	1.67	1.73	1.80	1.87	1.95	2.03	2.11	2.19	2.28
44	1.37	1.42	1.48	1.54	1.60	1.67	1.73	1.80	1.87	1.95	2.03	2.11	2.19
45	1.32	1.37	1.42	1.48	1.54	1.60	1.67	1.73	1.80	1.87	1.95	2.03	2.11
46	1.27	1.32	1.37	1.42	1.48	1.54	1.60	1.67	1.73	1.80	1.87	1.95	2.03
47	1.22	1.27	1.32	1.37	1.42	1.48	1.54	1.60	1.67	1.73	1.80	1.87	1.95
48	1.17	1.22	1.27	1.32	1.37	1.42	1.48	1.54	1.60	1.67	1.73	1.80	1.87
49	1.12	1.17	1.22	1.27	1.32	1.37	1.42	1.48	1.54	1.60	1.67	1.73	1.80
50	1.08	1.12	1.17	1.22	1.27	1.32	1.37	1.42	1.48	1.54	1.60	1.67	1.73
51	1.04	1.08	1.12	1.17	1.22	1.27	1.32	1.37	1.42	1.48	1.54	1.60	1.67
52	1.00	1.04	1.08	1.12	1.17	1.22	1.27	1.32	1.37	1.42	1.48	1.54	1.60
53	0.96	1.00	1.04	1.08	1.12	1.17	1.22	1.27	1.32	1.37	1.42	1.48	1.54
54	0.92	0.96	1.00	1.04	1.08	1.12	1.17	1.22	1.27	1.32	1.37	1.42	1.48
55	0.89	0.92	0.96	1.00	1.04	1.08	1.12	1.17	1.22	1.27	1.32	1.37	1.42
56	0.85	0.89	0.92	0.96	1.00	1.04	1.08	1.12	1.17	1.22	1.27	1.32	1.37
57	0.82	0.85	0.89	0.92	0.96	1.00	1.04	1.08	1.12	1.17	1.22	1.27	1.32
58	0.79	0.82	0.85	0.89	0.92	0.96	1.00	1.04	1.08	1.12	1.17	1.22	1.27
59	0.76	0.79	0.82	0.85	0.89	0.92	0.96	1.00	1.04	1.08	1.12	1.17	1.22
60	0.73	0.76	0.79	0.82	0.85	0.89	0.92	0.96	1.00	1.04	1.08	1.12	1.17

[Completely Superseded]

- (2) To adjust premiums for ages 65 or older:²⁷
- (a) Identify the premium charged for active and retired plan members age 65 or older.
 - (b) Calculate the average age of plan members (actives and retirees or beneficiaries) to which the premium identified in step a applies.
 - (c) For each active plan member, and each retired member or beneficiary (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 plan members (actives and retirees or beneficiaries).
 - (f) Calculate the midpoint age between the result of step d and the result of step e: $\text{result of step d} + (0.5 \times [\text{result of step e} - \text{result of step d}])$.
 - (g) Using the results of steps b and f, locate the appropriate factor in Table 4 (for plans with no Medicare coordination) or Table 5 (for plans with Medicare coordination). The factor in Table 4 also can be calculated directly as $1.04^{(64 - \text{result of step b})} \times 1.03^{(\text{result of step f} - 64)}$. The factor in Table 5 also can be calculated directly as $0.5 \times 1.04^{(64 - \text{result of step b})} \times 1.03^{(\text{result of step f} - 64)}$.
 - (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 future benefits for ages 65 or older.

²⁷The procedures described in paragraph 40d(2) would be applied only in cases in which retirees age 65 or older are included in a single, blended premium rate assessed by the insurer or service provider. If separate premium rates are assessed for retirees age 65 or older, preparers would follow the steps in paragraph 40d(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.

[Completely Superseded]

Table 4—Default Factors for Calculating Age-Adjusted Premiums for Ages 65 or Older (No Medicare Coordination)

Average Age of Plan Members	Midpoint Age (from paragraph 40d(2)(f))										
	65	66	67	68	69	70	71	72	73	74	75
25	4.75	4.90	5.04	5.20	5.35	5.51	5.68	5.85	6.02	6.20	6.39
26	4.57	4.71	4.85	5.00	5.15	5.30	5.46	5.62	5.79	5.97	6.14
27	4.40	4.53	4.66	4.80	4.95	5.10	5.25	5.41	5.57	5.74	5.91
28	4.23	4.35	4.48	4.62	4.76	4.90	5.05	5.20	5.35	5.52	5.68
29	4.06	4.19	4.31	4.44	4.57	4.71	4.85	5.00	5.15	5.30	5.46
30	3.91	4.03	4.15	4.27	4.40	4.53	4.67	4.81	4.95	5.10	5.25
31	3.76	3.87	3.99	4.11	4.23	4.36	4.49	4.62	4.76	4.90	5.05
32	3.61	3.72	3.83	3.95	4.07	4.19	4.31	4.44	4.58	4.71	4.86
33	3.47	3.58	3.69	3.80	3.91	4.03	4.15	4.27	4.40	4.53	4.67
34	3.34	3.44	3.54	3.65	3.76	3.87	3.99	4.11	4.23	4.36	4.49
35	3.21	3.31	3.41	3.51	3.62	3.72	3.84	3.95	4.07	4.19	4.32
36	3.09	3.18	3.28	3.38	3.48	3.58	3.69	3.80	3.91	4.03	4.15
37	2.97	3.06	3.15	3.25	3.34	3.44	3.55	3.65	3.76	3.88	3.99
38	2.86	2.94	3.03	3.12	3.21	3.31	3.41	3.51	3.62	3.73	3.84
39	2.75	2.83	2.91	3.00	3.09	3.18	3.28	3.38	3.48	3.58	3.69
40	2.64	2.72	2.80	2.89	2.97	3.06	3.15	3.25	3.34	3.44	3.55
41	2.54	2.61	2.69	2.77	2.86	2.94	3.03	3.12	3.22	3.31	3.41
42	2.44	2.51	2.59	2.67	2.75	2.83	2.91	3.00	3.09	3.18	3.28
43	2.35	2.42	2.49	2.56	2.64	2.72	2.80	2.89	2.97	3.06	3.15
44	2.26	2.32	2.39	2.47	2.54	2.62	2.69	2.78	2.86	2.94	3.03
45	2.17	2.24	2.30	2.37	2.44	2.52	2.59	2.67	2.75	2.83	2.92
46	2.09	2.15	2.21	2.28	2.35	2.42	2.49	2.57	2.64	2.72	2.80
47	2.01	2.07	2.13	2.19	2.26	2.33	2.40	2.47	2.54	2.62	2.70
48	1.93	1.99	2.05	2.11	2.17	2.24	2.30	2.37	2.44	2.52	2.59
49	1.85	1.91	1.97	2.03	2.09	2.15	2.21	2.28	2.35	2.42	2.49
50	1.78	1.84	1.89	1.95	2.01	2.07	2.13	2.19	2.26	2.33	2.40
51	1.72	1.77	1.82	1.87	1.93	1.99	2.05	2.11	2.17	2.24	2.30
52	1.65	1.70	1.75	1.80	1.86	1.91	1.97	2.03	2.09	2.15	2.22
53	1.59	1.63	1.68	1.73	1.78	1.84	1.89	1.95	2.01	2.07	2.13
54	1.52	1.57	1.62	1.67	1.72	1.77	1.82	1.88	1.93	1.99	2.05
55	1.47	1.51	1.56	1.60	1.65	1.70	1.75	1.80	1.86	1.91	1.97
56	1.41	1.45	1.50	1.54	1.59	1.63	1.68	1.73	1.79	1.84	1.89
57	1.36	1.40	1.44	1.48	1.53	1.57	1.62	1.67	1.72	1.77	1.82
58	1.30	1.34	1.38	1.42	1.47	1.51	1.56	1.60	1.65	1.70	1.75
59	1.25	1.29	1.33	1.37	1.41	1.45	1.50	1.54	1.59	1.64	1.68
60	1.20	1.24	1.28	1.32	1.36	1.40	1.44	1.48	1.53	1.57	1.62

[Completely Superseded]

Table 5—Default Factors for Calculating Age-Adjusted Premiums for Ages 65 or Older (with Medicare Coordination)

Average Age of Plan Members	Midpoint Age (from paragraph 40d(2)(f))										
	65	66	67	68	69	70	71	72	73	74	75
25	2.38	2.45	2.52	2.60	2.68	2.76	2.84	2.92	3.01	3.10	3.20
26	2.29	2.35	2.43	2.50	2.57	2.65	2.73	2.81	2.90	2.98	3.07
27	2.20	2.26	2.33	2.40	2.47	2.55	2.62	2.70	2.78	2.87	2.95
28	2.11	2.18	2.24	2.31	2.38	2.45	2.52	2.60	2.68	2.76	2.84
29	2.03	2.09	2.16	2.22	2.29	2.36	2.43	2.50	2.57	2.65	2.73
30	1.95	2.01	2.07	2.14	2.20	2.27	2.33	2.40	2.48	2.55	2.63
31	1.88	1.94	1.99	2.05	2.11	2.18	2.24	2.31	2.38	2.45	2.53
32	1.81	1.86	1.92	1.97	2.03	2.09	2.16	2.22	2.29	2.36	2.43
33	1.74	1.79	1.84	1.90	1.96	2.01	2.07	2.14	2.20	2.27	2.33
34	1.67	1.72	1.77	1.83	1.88	1.94	1.99	2.05	2.12	2.18	2.24
35	1.61	1.65	1.70	1.76	1.81	1.86	1.92	1.98	2.03	2.10	2.16
36	1.54	1.59	1.64	1.69	1.74	1.79	1.84	1.90	1.96	2.02	2.08
37	1.48	1.53	1.58	1.62	1.67	1.72	1.77	1.83	1.88	1.94	2.00
38	1.43	1.47	1.51	1.56	1.61	1.66	1.70	1.76	1.81	1.86	1.92
39	1.37	1.41	1.46	1.50	1.55	1.59	1.64	1.69	1.74	1.79	1.85
40	1.32	1.36	1.40	1.44	1.49	1.53	1.58	1.62	1.67	1.72	1.77
41	1.27	1.31	1.35	1.39	1.43	1.47	1.52	1.56	1.61	1.66	1.71
42	1.22	1.26	1.29	1.33	1.37	1.41	1.46	1.50	1.55	1.59	1.64
43	1.17	1.21	1.25	1.28	1.32	1.36	1.40	1.44	1.49	1.53	1.58
44	1.13	1.16	1.20	1.23	1.27	1.31	1.35	1.39	1.43	1.47	1.52
45	1.09	1.12	1.15	1.19	1.22	1.26	1.30	1.33	1.37	1.42	1.46
46	1.04	1.07	1.11	1.14	1.17	1.21	1.25	1.28	1.32	1.36	1.40
47	1.00	1.03	1.06	1.10	1.13	1.16	1.20	1.23	1.27	1.31	1.35
48	0.96	0.99	1.02	1.05	1.09	1.12	1.15	1.19	1.22	1.26	1.30
49	0.93	0.96	0.98	1.01	1.04	1.08	1.11	1.14	1.17	1.21	1.25
50	0.89	0.92	0.95	0.97	1.00	1.03	1.06	1.10	1.13	1.16	1.20
51	0.86	0.88	0.91	0.94	0.97	0.99	1.02	1.05	1.09	1.12	1.15
52	0.82	0.85	0.87	0.90	0.93	0.96	0.98	1.01	1.04	1.08	1.11
53	0.79	0.82	0.84	0.87	0.89	0.92	0.95	0.98	1.00	1.03	1.07
54	0.76	0.79	0.81	0.83	0.86	0.88	0.91	0.94	0.97	0.99	1.02
55	0.73	0.75	0.78	0.80	0.83	0.85	0.88	0.90	0.93	0.96	0.99
56	0.70	0.73	0.75	0.77	0.79	0.82	0.84	0.87	0.89	0.92	0.95
57	0.68	0.70	0.72	0.74	0.76	0.79	0.81	0.83	0.86	0.88	0.91
58	0.65	0.67	0.69	0.71	0.73	0.76	0.78	0.80	0.83	0.85	0.88
59	0.63	0.65	0.66	0.68	0.71	0.73	0.75	0.77	0.79	0.82	0.84
60	0.60	0.62	0.64	0.66	0.68	0.70	0.72	0.74	0.76	0.79	0.81

[Completely Superseded]

OPEB Plans That Are Not Administered as Trusts (or Equivalent Arrangements)

41. If the fund used to accumulate assets and pay benefits in a multiple-employer OPEB plan does not meet the criteria in paragraph 4, the plan administrator or sponsor should:

- a. Report the fund as an agency fund. Assets and liabilities should be accounted for in accordance with the requirements of paragraphs 18 through 24. Any assets accumulated in excess of liabilities to pay premiums or benefits, or for investment or administrative expenses, should be offset by liabilities to participating employers; no plan net assets should be reported.
- b. Apply the disclosure requirements of paragraphs 30a (plan description),²⁸ 30b (summary of significant accounting policies), and 30c(1) through (4) (contributions). However, when a plan's financial statements are presented in both an employer's report and a publicly available stand-alone plan financial report that complies with this Statement, the employer may limit its plan disclosures to those required by paragraphs 30a(1), 30b, and 30c(4), provided that the employer discloses information about how to obtain the stand-alone plan financial report.
- c. Disclose that each participating employer is required by the related Statement to disclose additional information with regard to funding policy, the employer's **annual OPEB cost** and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

Defined Contribution Plans

42. Defined contribution plans that provide OPEB should apply the reporting requirements for fiduciary funds generally, including other employee benefit trust funds, and for component units that are fiduciary in nature set forth in paragraphs 69 through 73 and 106 through 111 of Statement 34, as amended by this Statement,²⁹ and the note disclosure requirements set forth in paragraph 41 of Statement 25.

²⁸The plan should be identified as an *agent multiple-employer plan* for financial reporting purposes. Correspondingly, the related Statement requires employers in such a plan to apply the financial reporting requirements of that Statement applicable to agent employers.

²⁹Requirements for financial reporting by special-purpose governments engaged only in fiduciary activities (for example, a PERS) are discussed in paragraphs 139 through 141 of Statement 34, as amended.

[Completely Superseded]

EFFECTIVE DATE AND TRANSITION

43. The requirements of this Statement for OPEB plan reporting are effective *one year prior* to the effective date of the related Statement for the employer (single-employer plan) or for the largest participating employer in the plan (multiple-employer plan). The requirements of the related Statement are effective in three phases based on a government's implementation phase for the purpose of Statement 34. Plans in which the sole or largest participating employer was a *phase 1 government* for the purpose of implementation of Statement 34 should apply the requirements of this Statement in financial statements for periods beginning after December 15, 2005. Plans in which the sole or largest participating employer was a *phase 2 government* for the purpose of implementation of Statement 34 should apply the requirements of this Statement in financial statements for periods beginning after December 15, 2006. Plans in which the sole or largest participating employer was a *phase 3 government* for the purpose of implementation of Statement 34 should apply the requirements of this Statement in financial statements for periods beginning after December 15, 2007. If comparative financial statements are presented, restatement of the prior-year financial statements is required. Early implementation of this Statement is encouraged.

44. In the fiscal year in which this Statement is first implemented (**transition year**), all actuarially determined information reported for the current year in the schedule of funding progress should be based on the results of an actuarial valuation, performed in accordance with the parameters, as of a date not more than two years prior to the plan's reporting date (three years if the plan had fewer than 200 members at the time of the valuation).

45. In the transition year and until three actuarial valuations have been performed in accordance with the parameters, the required schedules of funding progress and employer contributions should include information for as many valuations as are available. The schedules should not include information that does not meet the parameters.³⁰

³⁰For some plans, it is anticipated that the actuarial methods and assumptions applied based on the funding policy before implementation of this Statement will not differ significantly from the parameters. Those plans should be able to provide information substantially in accordance with the parameters when this Statement is implemented. However, retroactive application of the parameters is not required.

[Completely Superseded]

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

*This Statement was issued by unanimous vote of the seven members of the
Governmental Accounting Standards Board:*

Tom L. Allen, *Chairman*
Cynthia B. Green
William W. Holder
Edward J. Mazur
Paul R. Reilly
Richard C. Tracy
James M. Williams

[Completely Superseded]

GLOSSARY

46. This paragraph contains definitions of certain terms *as they are used in this Statement*; the terms may have different meanings in other contexts. Terms defined in paragraph 47, “Actuarial Terminology,” are cross-referenced to that paragraph.

Actuarial accrued liability

See paragraph 47, A-4.

Actuarial assumptions

See paragraph 47, C-2.

Actuarial cost method

See paragraph 47, A-2.

Actuarial experience gain and loss

See paragraph 47, A-8.

Actuarial present value of total projected benefits

Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

Actuarial valuation

See paragraph 47, C-3.

Actuarial valuation date

The date as of which an actuarial valuation is performed.

Actuarial value of assets

See paragraph 47, A-5.

[Completely Superseded]

Ad hoc postretirement benefit increase

See Postretirement benefit increase.

Agent multiple-employer plan (agent plan)

An aggregation of single-employer plans, with pooled administrative and investment functions. Separate accounts are maintained for each employer so that the employer's contributions provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of the pooled assets. The results of the individual valuations are aggregated at the administrative level.

Aggregate actuarial cost method

See paragraph 47, B-4.

Allocated insurance contract

A contract with an insurance company under which related payments to the insurance company are currently used to purchase an immediate or deferred benefit for individual members.

Amortization (of unfunded actuarial accrued liability)

See paragraph 47, C-5.

Annual OPEB cost

An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

Annual required contributions of the employer(s) (ARC)

The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

Attained age actuarial cost method

See paragraph 47, B-3.

Automatic postretirement benefit increase

See Postretirement benefit increase.

[Completely Superseded]

Closed amortization period (closed basis)

A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable.

Contract value

The value of an unallocated contract that is determined by the insurance company in accordance with the terms of the contract.

Contribution deficiencies (excess contributions)

The difference between the annual required contributions of the employer(s) (ARC) and the employer's actual contributions in relation to the ARC.

Cost-sharing multiple-employer plan

A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members, and the same contribution rate(s) applies for each employer.

Covered group

Plan members included in an actuarial valuation.

Covered payroll

Annual compensation paid to active employees covered by an OPEB plan. If employees also are covered by a pension plan, the covered payroll should include all elements included in compensation on which contributions to the pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.

Defined benefit OPEB plan

An OPEB plan having terms that specify the amount of *benefits* to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based

[Completely Superseded]

on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

Defined benefit pension plan

A pension plan having terms that specify the amount of pension benefits to be provided at a future date or after a certain period of time. The amount specified usually is a function of one or more factors such as age, years of service, and compensation.

Defined contribution plan

A pension or OPEB plan having terms that (a) provide an individual account for each plan member and (b) specify *how contributions to an active plan member's account are to be determined*, rather than the income or other benefits the member or his or her beneficiaries are to receive at or after separation from employment. Those benefits will depend *only* on the amounts contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account. For example, an employer may contribute a specified amount to each active member's postemployment healthcare account each month. At or after separation from employment, the balance of the account may be used by the member or on the member's behalf for the purchase of health insurance or other healthcare benefits.

Employer's contributions

Contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator.

Entry age actuarial cost method

See paragraph 47, B-2.

[Completely Superseded]

Equivalent single amortization period

The weighted average of all amortization periods used when components of the total unfunded actuarial accrued liability are separately amortized and the average is calculated in accordance with the parameters.

Excess contributions (contribution deficiencies)

See Contribution deficiencies (excess contributions).

Fair value

The amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller—that is, other than in a forced or liquidation sale.

Frozen attained age actuarial cost method

See paragraph 47, B-6.

Frozen entry age actuarial cost method

See paragraph 47, B-5.

Funded ratio

The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

Funding excess

The excess of the actuarial value of assets over the actuarial accrued liability. See also paragraph 47, A-6.

Funding policy

The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities (for example, state government contributions to a local government plan) to provide the benefits specified by an OPEB plan.

Healthcare cost trend rate

The rate 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.

Insurance contract

See Allocated insurance contract and Unallocated insurance contract.

[Completely Superseded]

Investment return assumption (discount rate)

The rate used to adjust a series of future payments to reflect the time value of money.

Level dollar amortization method

The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll; in dollars adjusted for inflation, the payments can be expected to decrease over time.

Level percentage of projected payroll amortization method

Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

Market-related value of plan assets

A term used with reference to the actuarial value of assets. A market-related value may be fair value, market value (or estimated market value), or a calculated value that recognizes changes in fair value or market value over a period of, for example, three to five years.

Normal cost

See paragraph 47, A-3. In this Statement, the term refers to employer normal cost.

Open amortization period (open basis)

See Closed amortization period (closed basis).

Other postemployment benefits

Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

[Completely Superseded]

Parameters

The set of requirements for calculating actuarially determined OPEB information included in financial reports.

Pay-as-you-go

See paragraph 47, C-8.

Payroll growth rate

An actuarial assumption with respect to future increases in total covered payroll attributable to inflation; used in applying the level percentage of projected payroll amortization method.

Pension benefits

Retirement income and all other benefits, including disability benefits, death benefits, life insurance, and other ancillary benefits, *except health-care benefits*, that are provided through a *defined benefit* pension plan to plan members and beneficiaries after termination of employment or after retirement. Postemployment healthcare benefits are considered other postemployment benefits, whether they are provided through a defined benefit pension plan or another type of plan.

Plan assets

Resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or in an equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer(s) or plan administrator, for the payment of benefits in accordance with the terms of the plan.

Plan liabilities

Obligations payable by the plan at the reporting date, including, primarily, benefits and refunds due and payable to plan members and beneficiaries, and accrued investment and administrative expenses. Plan liabilities do not include actuarial accrued liabilities for benefits that are not due and payable at the reporting date.

[Completely Superseded]

Plan members

The individuals covered by the terms of an OPEB plan. The plan membership generally includes employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.

Plan net assets and Plan net assets held in trust for OPEB

The difference between total plan assets and total plan liabilities at the reporting date.

Postemployment

The period between termination of employment and retirement as well as the period after retirement.

Postemployment healthcare benefits

Medical, dental, vision, and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries.

Postretirement benefit increase

An increase in the benefits of retirees or beneficiaries granted to compensate for the effects of inflation (cost-of-living adjustment) or for other reasons. *Ad hoc* increases may be granted periodically by a decision of the board of trustees, legislature, or other authoritative body; both the decision to grant an increase and the amount of the increase are discretionary. *Automatic* increases are periodic increases specified in the terms of the plan; they are nondiscretionary except to the extent that the plan terms can be changed.

Projected salary increase assumption

An actuarial assumption with respect to future increases in the individual salaries and wages of active plan members; used in determining the actuarial present value of total projected benefits when the benefit amounts are related to salaries and wages. The expected increases commonly include amounts for inflation, enhanced productivity, and employee merit and seniority.

Projected unit credit actuarial cost method

See paragraph 47, B-1.

[Completely Superseded]

Public employee retirement system (PERS)

A state or local governmental entity entrusted with administering one or more pension plans. A PERS also may administer other types of employee benefit plans, including postemployment healthcare plans and deferred compensation plans. A PERS also may be an employer that provides or participates in a pension plan or other types of employee benefit plans for employees of the system.

Reporting date

The date of the financial statements; the last day of the fiscal year.

Required supplementary information (RSI)

Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.

Select and ultimate rates

Actuarial assumptions that contemplate different rates for successive years. Instead of a single assumed rate with respect to, for example, the investment return assumption, the actuary may apply different rates for the early years of a projection and a single rate for all subsequent years. For example, if an actuary applies an assumed investment return of 8 percent for year 20W0, 7.5 percent for 20W1, and 7 percent for 20W2 and thereafter, then 8 percent and 7.5 percent are select rates, and 7 percent is the ultimate rate.

Single-employer plan

A plan that covers the current and former employees, including beneficiaries, of only one employer.

Special termination benefits

Benefits offered by an employer for a short period of time as an inducement to employees to hasten the termination of services. For example, to reduce payroll and related costs, an employer might offer enhanced pension benefits or OPEB to employees as an inducement to take early termination, for employees who accept the offer within a sixty-day window of opportunity.

[Completely Superseded]

Sponsor

The entity that established the plan. The sponsor generally is the employer or one of the employers that participate in the plan to provide benefits for their employees. Sometimes, however, the sponsor establishes the plan for the employees of other entities but does not include its own employees and, therefore, is not a participating employer of that plan. An example is a state government that establishes a plan for the employees of local governments within the state, but the employees of the state government are covered by a different plan.

Stand-alone plan financial report

A report that contains the financial statements of a plan and is issued by the plan or by the public employee retirement system that administers the plan. The term *stand-alone* is used to distinguish such a financial report from plan financial statements that are included in the financial report of the plan sponsor or employer (pension or other employee benefit trust fund).

Substantive plan

The terms of an OPEB plan as understood by the employer(s) and plan members.

Termination offers and benefits

Inducements offered by employers to employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination offers and benefits include special termination benefits, early-retirement incentive programs, and other termination-related benefits.

Transition year

The fiscal year in which this Statement is first implemented.

Ultimate rate

See Select and ultimate rates.

Unallocated insurance contract

A contract with an insurance company under which payments to the insurance company are accumulated in an unallocated pool or pooled account (not allocated to specific members) to be used either directly or

[Completely Superseded]

through the purchase of annuities to meet benefit payments when employees retire. Moneys held by the insurance company under an unallocated contract may be withdrawn and otherwise invested.

Unfunded actuarial accrued liability (unfunded actuarial liability)

See paragraph 47, A-6.

Unprojected unit credit actuarial cost method

See paragraph 47, B-1.

Year-based assumptions

See Select and ultimate rates.

[Completely Superseded]

ACTUARIAL TERMINOLOGY

47. This paragraph contains terms and definitions adopted by the Interim Actuarial Standards Board (now the Actuarial Standards Board) of the American Academy of Actuaries in 1988. The terms and definitions are reproduced, with permission, including the original section headings and item numbers, as published in "Appendix II: Pension Actuarial Terminology" of Actuarial Standard of Practice No. 4, *Measuring Pension Obligations*, approved for publication by the Actuarial Standards Board in October 1993.³¹ Although specifically adopted in relation to pensions, these terms and definitions also are generally applicable to other postemployment benefits. Five items in the original (B-7, B-8, B-9, C-1, and C-6) are not included in this paragraph because they describe actuarial cost methods not included in the parameters or define terms not used in this Statement or in the related Statement. Terms with an asterisk are not used in this Statement or in the related Statement but have been included because they are used in the definitions of other terms.

Section A CORE TERMS

A-1* Actuarial Present Value

The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

- a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.),
- b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
- c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

³¹Actuarial Standard of Practice No. 4 may be obtained from the Actuarial Standards Board, 1100 Seventeenth Street, NW, 7th Floor, Washington, DC 20036.

[Completely Superseded]

A-2 Actuarial Cost Method or Funding Method

A procedure for determining the Actuarial Present Value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

Note: An Actuarial Cost Method is understood to be a Closed Group Actuarial Cost Method unless otherwise stated.

A-3 Normal Cost or Normal Actuarial Cost

That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Note 1: The presentation of Normal Cost should be accompanied by reference to the Actuarial Cost Method used.

Note 2: Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment).

Note 3: For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated.

A-4 Actuarial Accrued Liability, Actuarial Liability, Accrued Liability, or Actuarial Reserve

That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by future Normal Costs.

Note: The presentation of an Actuarial Accrued Liability should be accompanied by reference to the Actuarial Cost Method used; for example, by hyphenation ("Actuarial Accrued Liability—XYZ," where "XYZ" denotes the Actuarial Cost Method) or by a footnote.

[Completely Superseded]

A-5 Actuarial Value of Assets or Valuation Assets

The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

Note: The statement of Actuarial Assumptions should set forth the particular procedures used to determine this value.

A-6 Unfunded Actuarial Accrued Liability, Unfunded Actuarial Liability, Unfunded Accrued Liability, or Unfunded Actuarial Reserve

The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

Note: This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, the excess of the Actuarial Value of Assets over the Actuarial Accrued Liability, or the Funding Excess.

A-7* Unfunded Frozen Actuarial Accrued Liability or Unfunded Frozen Actuarial Liability

An Unfunded Actuarial Accrued Liability which is not adjusted ("frozen") from one Actuarial Valuation to the next to reflect Actuarial Gains (Losses) under certain Actuarial Cost Methods. Generally, this amount is adjusted by any increments or decrements in Actuarial Accrued Liability due to changes in pension plan benefits or Actuarial Assumptions subsequent to the date it is frozen. Adjustments are made from one Actuarial Valuation to the next to reflect the addition of interest and deduction of Amortization Payments.

A-8 Actuarial Gain (Loss) or Experience Gain (Loss)

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between

[Completely Superseded]

two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

Note 1: The effect on the Actuarial Accrued Liability and/or the Normal Cost resulting from changes in the Actuarial Assumptions, the Actuarial Cost Method or pension plan provisions should be described as such, not as an Actuarial Gain (Loss).

Note 2: The manner in which the Actuarial Gain (Loss) affects future Normal Cost and Actuarial Accrued Liability allocations depends upon the particular Actuarial Cost Method Used.

Section B **ACTUARIAL COST METHODS**

B-1 Unit Credit Actuarial Cost Method

A method under which the benefits (projected or unprojected) of each individual included in an Actuarial Valuation are allocated by a consistent formula to valuation years. The Actuarial Present Value of benefits allocated to a valuation year is called the Normal Cost. The Actuarial Present Value of benefits allocated to all periods prior to a valuation year is called the Actuarial Accrued Liability.

Note 1: The description of this method should state the procedures used, including:

- (a) how benefits are allocated to specific time periods;
- (b) the procedures used to project benefits, if applicable; and
- (c) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, generally reduce (increase) the Unfunded Actuarial Accrued Liability.

[Completely Superseded]

B-2 Entry Age Actuarial Cost Method or Entry Age Normal 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. 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.

Note 1: The description of this method should state the procedures used, including:

- (a) whether the allocation is based on earnings or service;
- (b) where aggregation is used in the calculation process;
- (c) how entry age is established;
- (d) what procedures are used when different benefit formulas apply to various periods of service; and
- (e) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

B-3 Attained Age Actuarial Cost Method

A method under which the excess of the Actuarial Present Value of Projected Benefits over the Actuarial Accrued Liability in respect of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings or service of the individual between the valuation date and assumed exit. The portion of this Actuarial Present Value which is

[Completely Superseded]

allocated to a valuation year is called the Normal Cost. The Actuarial Accrued Liability is determined using the Unit Credit Actuarial Cost Method.

Note 1: The description of this method should state the procedures used, including:

- (a) whether the allocation is based on earnings or service;
- (b) where aggregation is used in the calculation process; and
- (c) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Note 3: The differences which regularly arise between the Normal Cost under this method and the Normal Cost under the Unit Credit Actuarial Cost Method will affect the determination of future Actuarial Gains (Losses).

B-4 Aggregate Actuarial Cost Method

A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation over the Actuarial Value of Assets is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of the Actuarial Present Value allocated to a valuation year is called the Normal Cost. The Actuarial Accrued Liability is equal to the Actuarial Value of Assets.

Note 1: The description of this method should state the procedures used, including:

- (a) whether the allocation is based on earnings or service;
- (b) how aggregation is used in the calculation process; and
- (c) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, reduce (increase) future Normal Costs.

[Completely Superseded]

B-5 Frozen Entry Age Actuarial Cost Method

A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation, over the sum of the Actuarial Value of Assets plus the Unfunded Frozen Actuarial Accrued Liability, is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. The Frozen Actuarial Accrued Liability is determined using the Entry Age Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost.

Note 1: The description of this method should state the procedures used, including:

- (a) whether the allocation is based on earnings or service;
- (b) how aggregation is used in the calculation process; and
- (c) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, reduce (increase) future Normal Costs.

B-6 Frozen Attained Age Actuarial Cost Method

A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation, over the sum of the Actuarial Value of Assets plus the Unfunded Frozen Actuarial Accrued Liability, is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. The Unfunded Frozen Actuarial Accrued Liability is determined using the

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Unit Credit Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost.

Note 1: The description of this method should state the procedures used, including:

- (a) whether the allocation is based on earnings or service;
- (b) how aggregation is used in the calculation process; and
- (c) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, reduce (increase) future Normal Costs.

Section C SUPPLEMENTAL GLOSSARY

C-2 Actuarial Assumptions

Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided pension benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

C-3 Actuarial Valuation

The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

C-4* Actuarially Equivalent

Of equal Actuarial Present Value, determined as of a given date with each value based on the same set of Actuarial Assumptions.

C-5 Amortization Payment

That portion of the pension plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability.

[Completely Superseded]

C-7* Open Group/Closed Group

Terms used to distinguish between two classes of Actuarial Cost Methods. Under an Open Group Actuarial Cost Method, Actuarial Present Values associated with expected future entrants are considered; under a Closed Group Actuarial Cost Method, Actuarial Present Values associated with future entrants are not considered.

C-8 Pay-as-You-Go

A method of financing a pension plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

C-9* Projected Benefits

Those pension plan benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. That portion of an individual's Projected Benefit allocated to service to date, determined in accordance with the terms of a pension plan and based on future compensation as projected to retirement, is called the Credited Projected Benefit.

C-10 Terminal Funding

A method of funding a pension plan under which the entire Actuarial Present Value of benefits for each individual is contributed to the plan's fund at the time of withdrawal, retirement or benefit commencement.

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Appendix A

BACKGROUND

48. In 1988, the Board placed on its agenda a project to address accounting and financial reporting of postemployment benefits other than pension benefits (other postemployment benefits, or OPEB). The Board established the project because of growing concern about the magnitude of state and local governments' obligations to provide OPEB for their employees and the lack of information about those obligations in general purpose external financial reports. The Board concluded that the OPEB project should be separate from its then-current pension projects, because of the need for additional research into the types of OPEB offered, the nature of governments' commitments to provide OPEB, users' needs for OPEB information, and the pros and cons of different measurement and reporting alternatives for meeting those needs. Information about those issues was needed to help the Board determine appropriate measurement and reporting standards for OPEB.

49. From its inception, the OPEB project scope included financial statement and disclosure issues for OPEB plans as well as for employers participating in those plans. However, the Board initially focused on disclosure requirements for employers. In May 1990, the Board issued Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*, as an interim Statement, pending further research and deliberation of how OPEB information should be measured and displayed in the financial statements of employers.

50. Until the effective date of the related Statement, Statement 12 requires employers that finance all or part of the cost of OPEB for their retired or terminated employees to provide certain note disclosures about those benefits and the employer's OPEB expense/expenditures. The requirements of Statement 12 do not apply to the financial statements of OPEB plans or those of public employee retirement systems (PERS) or other entities that administer OPEB plans, except to the extent that those entities incur obligations and resulting OPEB expense/expenditures for benefits promised to their own employees.

51. The Board's research for its pension projects indicated that some defined benefit pension plans provide postemployment healthcare benefits in addition to pension benefits. Although the two types of benefits were being addressed in different projects that were expected to lead to separate Statements, the Board

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anticipated that its pension plan reporting standards would be issued and become effective before completion of the OPEB plan standards. The Board recognized that, upon issuance of the pension plan standards, defined benefit pension plans that administer postemployment healthcare benefits would need additional guidance. The Board was reluctant to require full application of the standards contemplated for pension plans to postemployment healthcare benefits, even if they were being provided through the same plan as pension benefits, before completion of its research in the OPEB project. Therefore, in July 1990, the Board decided to include in the scope of its pension plan reporting project *interim guidance for defined benefit pension plans only* on how postemployment healthcare information should be reported, pending issuance of financial reporting standards for all OPEB plans.

52. Pursuant to that decision, in November 1994, the Board issued Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, as an *interim* Statement, at the same time as Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. Statements 25 and 26 required pensions and postemployment healthcare administered by the same defined benefit pension plan to be treated as separate plans, consistent with the distinction between pension benefits and OPEB established in Statement 12. Statement 25 included financial reporting standards for the *pension* plan; Statement 26 addressed the *postemployment healthcare* plan.

53. Statement 26 required that the financial statements and disclosures of postemployment healthcare plans administered through defined benefit pension plans be prepared in accordance with the standards of Statement 25 for defined benefit pension plans, with additional disclosures related specifically to postemployment healthcare benefits. The same general approach is carried forward and extended to OPEB plans generally by this Statement.

54. Because the Board's deliberations of measurement methods for postretirement healthcare benefits and other forms of OPEB were continuing in the OPEB project, pending the effective date of this Statement, Statement 26 did not require the disclosure of actuarially determined information about the funded status of a postemployment healthcare plan (schedule of funding progress) or the employer's required contributions to the plan (schedule of employer contributions), as required by Statement 25 for pension plans. However, disclosure of that information accompanied by disclosure of the actuarial methods and assumptions used was not precluded.

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55. After the issuance of Statement 26, the Board continued its research and deliberations of measurement and financial reporting issues for postemployment healthcare benefits and other forms of OPEB by plans as well as employers. The Board concluded that the standards for all OPEB plans should be similar to those required for defined benefit pension plans by Statement 25, with some modifications and additional disclosure requirements intended to capture differences between OPEB and pension benefits, particularly in the area of postemployment healthcare.

56. The standards in this Statement incorporate the Board's conclusions concerning the measurement and reporting of information by all defined benefit OPEB plans, whether they provide postemployment healthcare or other kinds of OPEB and whether they are administered by a defined benefit pension plan or in some other manner. Therefore, this Statement supersedes Statement 26.

57. Exposure Drafts of this Statement and the related Statement, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, were issued for comment in February 2003. The Board received fifty responses to the plan Exposure Draft, held two public hearings, and sponsored a user forum in conjunction with a meeting of the National Federation of Municipal Analysts. Discussion of comments received resulted in a number of changes and improvements that are incorporated into this final Statement. Significant issues and changes are discussed in the Basis for Conclusions.

58. In developing this Statement, the staff and Board have been assisted in their research and deliberation of issues by a task force composed of actuaries, auditors, benefit consultants, financial report users of several types, state and local governmental employers, and state and local plan administrators. The staff and Board also received additional assistance during the course of the project from members of the actuarial community, as committee members of the American Academy of Actuaries or as individuals, in understanding and considering alternative treatments of technical aspects of OPEB measurement, including issues related to the Board's decision to develop an alternative measurement method for small plans.

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[Completely Superseded]

Appendix B

BASIS FOR CONCLUSIONS

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Appendix B

BASIS FOR CONCLUSIONS

Introduction

59. 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 gave greater weight to some factors than to others.

Related Statement

60. Information that users of the financial statements need about postemployment benefits other than pension benefits (other postemployment benefits, or OPEB) offered by a government to its employees can be divided into two broad categories:

- a. Information about the *OPEB plan*, including its assets, liabilities, and, if applicable, net assets and its funded status (plan assets less actuarial accrued liabilities)
- b. Information about the annual accrual-basis cost of an *employer's* commitment to provide OPEB and related liabilities (or assets) for contributions to the plan.

This Statement addresses financial reporting for OPEB plans, whether their financial statements are included in a fiduciary fund or fiduciary component unit of the plan sponsor or participating employer, or in the general purpose external financial report of a public employee retirement system (PERS) or other entity that administers the plan on behalf of the employer(s) and plan members. A related Statement, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions* (referred to as the related Statement), sets forth the OPEB accounting and financial reporting requirements for employers that participate in OPEB plans.

61. Many of the measurement and disclosure requirements of the two Statements are the same or are closely related, and some of the illustrations and other appendixes have been coordinated. Therefore, the two Statements origi-

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nally were exposed for comment at the same time in February 2003 so that preparers, attestors, and users could give joint consideration to plan and employer financial reporting of OPEB information.

Approach

62. The Board believes that OPEB is generally similar in nature to pension benefits and should be accounted for and reported in a similar manner. Therefore, in this Statement, the Board has adopted the same general approach to financial reporting for OPEB plans previously adopted for pension plans in Statement 25, as amended by Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. That is, for the financial reporting of OPEB plans that are administered as qualifying trusts,³² or equivalent arrangements, the objectives, financial reporting framework, financial statements, and required supplementary information (RSI) are generally similar to those adopted for pension plans in Statement 25. The Board has, however, made certain modifications for OPEB plans that it believes are necessary to appropriately address differences between OPEB and pension benefits and has provided guidance for OPEB plans that are not administered as qualifying trusts. The discussion in this appendix includes the reasons for those modifications.

63. The Board also has adopted the requirements of Statement 25, as amended by Statement 34, and the requirements of Statement 26 (superseded by this Statement) for separate reporting of information about pension plans and OPEB plans, whether OPEB is administered separately in an employee benefit trust fund or with pension benefits in a pension trust fund. Separate reporting also is required of the individual OPEB plans of entities that administer more than one plan and of the OPEB portion of plans that include both OPEB and benefits, such as healthcare benefits, that employees may take while in active service.

64. Similar to Statement 25, the objectives and provisions of this Statement focus on addressing the information needs of those individuals and entities that benefit most directly from an OPEB plan's activities, recommend or establish

³²As used in this Statement, "qualifying trust" refers to a trust that meets the conditions specified in paragraph 4 of this Statement. That is, employer contributions to the trust are irrevocable, the net assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan, and the net assets are protected from claims by creditors of the employer(s) or the plan administrator.

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benefit levels and contribution rates, provide resources to an OPEB plan, or are accountable for the oversight, administration, or financing of an OPEB plan and the stewardship of plan resources. Those groups are primarily (a) the plan members and their representatives, (b) legislative and executive officials of the plan sponsor, participating employer(s), and plan oversight bodies, and (c) the plan's board of trustees or other governing body. The Board believes that investors and creditors, grantors, taxpayers, citizens, and other providers of resources to employers need OPEB information primarily to assess the impact of an employer's benefit promises and contribution requirements on the employer's current and future financial resources. The reporting requirements of the related Statement concerning an employer's annual OPEB cost, actual contributions, and resulting liabilities or assets address those information needs more directly than does this Statement. Nevertheless, the more detailed information provided by this Statement about the financial position and funded status of the plan also may be important for certain decisions of those user groups.

65. To address the needs of the user groups discussed in the preceding paragraph, the financial report of a defined benefit OPEB plan should provide information that is useful in assessing the stewardship of plan resources,³³ the ongoing ability of the plan to pay benefits when due, and the effect of plan operations and benefit commitments on the need for contributions by employers, plan members, and other contributors. To accomplish these objectives, the financial report of a defined benefit OPEB plan should provide information about:

- a. Plan assets, plan liabilities, and, if applicable, plan net assets and the year-to-year changes in plan net assets, and how the fiduciary responsibilities of the trustees and administrators have been discharged
- b. The funded status of the plan from a long-term, ongoing plan perspective and whether and to what extent progress is being made in accumulating sufficient assets to pay benefits when due
- c. The contribution requirements of plan members, employers, and other contributors and the extent of compliance with those requirements.

³³Including compliance with finance-related statutory, regulatory, and contractual requirements.

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Scope and Applicability of This Statement

66. This Statement applies to the OPEB plans of all state and local governments, whether the plan is administered by the plan sponsor, a participating employer, or a PERS or other governmental administrative entity on behalf of the participating employer(s) and plan members. *Plans*, in this context, refers to funds through which a plan administrator accumulates assets and pays benefits as they come due in accordance with an agreement between the employer(s) and plan members and their beneficiaries to provide postemployment benefits. This Statement establishes financial reporting standards both for OPEB plans that are administered as qualifying trusts, or equivalent arrangements, in which the conditions set forth in paragraph 4 are met, and for plans that do *not* meet those conditions. This Statement *does not apply* to assets that an employer earmarks for OPEB purposes within its governmental or proprietary funds by designation of fund balance(s) or net assets or to assets that an employer transfers to and accumulates in a separate governmental or proprietary fund for that purpose.

67. The parameters for actuarial valuations provide that, for purposes of this Statement and the related Statement, an employer is deemed to have made a contribution to an OPEB plan (thus converting assets that are the employer's to assets that are the plan's) in relation to the ARC if, and only if

. . . the employer has (1) made payments of benefits directly to or on behalf of a retiree or beneficiary, (2) made premium payments to an insurer, or (3) irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator. . . . [paragraph 34g]

The parameters further provide that means of financing that do not meet the preceding conditions do not constitute contributions to the plan in relation to the ARC. Potential means of financing that should not be accounted for as contributions include:

- a. Earmarking or accumulating assets for future OPEB contributions in an employer's governmental or proprietary funds

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- b. Transferring assets to a third-party administrator in excess of the amounts currently required to provide benefits or pay premiums, and to pay plan administrative or investment expenses, *if the fund used to administer benefits was not established in such a way that those payments would qualify as contributions to the plan for accounting and financial reporting purposes.*

68. In the Exposure Draft, the Board contemplated that, similar to a pension trust fund, the fund established for use by a third-party administrator of an OPEB plan, particularly a multiple-employer plan, generally would be formally established as a trust, or equivalent arrangement, in which the conditions would be met for recognizing payments from employers in excess of pay-as-you-go requirements as contributions to the plan, and any assets accumulated for payments of future benefits or plan expenses would appropriately be reported as plan net assets. However, some respondents to the Exposure Draft provided examples of multiple-employer plans that currently are *not* administered as formal trusts and expressed concern about the application of the proposed standards to such plans. The Board concluded, therefore, that the scope of guidance should be expanded to include both plans that are administered as qualifying trusts, or equivalent arrangements, and those that are not.

69. For OPEB plans that are structured and administered as qualifying trusts, or equivalent arrangements, this Statement generally carries forward the standards proposed in the Exposure Draft for both:

- a. Financial reporting of the plan assets, liabilities, net assets, and changes in net assets held in trust for payment of benefits
- b. Disclosure of actuarial information about the funded status and funding progress of the plan (the extent to which resources have been accumulated in comparison to actuarially accrued liabilities for benefits) and the contributions made to the plan by participating employers in comparison to annual required contributions of the employer(s) (ARC).

For such plans, the requirements set forth in paragraphs 16 through 40 (discussed further in paragraphs 82–175) generally apply, without regard for the classification of the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer plan.

70. For multiple-employer OPEB plans that are *not* administered as qualifying trusts, or equivalent arrangements, this Statement requires that the plan be classified as an agent multiple-employer plan (each employer remains individually responsible for financing its own commitment to provide benefits) for

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financial reporting purposes, and that the plan administrator or sponsor report the plan using an agency fund (no plan net assets). The basis for the Board's decisions in regard to plans administered in that manner is discussed in paragraphs 176 through 180.

71. General purpose governments that report OPEB plans as trust or agency funds should include financial statements for those funds in their fund financial statements but should exclude them from their government-wide statements, as required by Statement 34. Paragraphs 78 through 81 discuss requirements for separate reporting or disclosure of different OPEB plans and of pension and OPEB plans when two or more plans are included in the same fund.

Focus on Defined Benefit OPEB Plans

72. This Statement primarily focuses on *defined benefit* OPEB plans. Although most of the requirements of this Statement are similar to those of Statement 25 for defined benefit pension plans, the Board concluded that certain measurement and other differences between pension benefits and OPEB are significant enough to warrant a separate Statement for defined benefit OPEB plans. However, the Board believes that the *defined contribution* plan disclosure requirements of Statement 25 are broad enough to apply for all defined contribution arrangements to provide postemployment benefits, regardless of how they may be titled, and need not be repeated in this Statement. Therefore, this Statement refers readers to paragraph 41 of Statement 25 for guidance on disclosures for defined contribution plans. Paragraph 7 of this Statement provides that plans that have features of defined contribution arrangements but that provide a defined benefit in some form should apply the provisions of this Statement for defined benefit plans.

OPEB versus Pension Benefits

73. In this Statement and the related Statement, the Board has continued the distinction between OPEB and pension benefits established in Statement 12 and reaffirmed in Statement 25 and Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. That is, pension benefits comprise retirement income and all other postemployment benefits provided through a defined benefit pension plan *except postemployment medical, dental, vision, and other health-related benefits*. OPEB comprises all types of postemployment healthcare benefits and all other benefits, *except pension benefits*, that are (a) promised by an employer in exchange for employee services and (b) to be taken by employees (or their dependents or beneficiaries)

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after termination of employment or after retirement. Thus, except for post-employment healthcare benefits (always OPEB), the determination of whether a particular kind of postemployment benefit is considered a pension benefit (to which Statements 25 and 27 apply) or an OPEB (to which this Statement and the related Statement apply) depends on how the benefit is provided. For example, disability benefits and life insurance are pension benefits when they are provided through a pension plan; they are OPEB when they are provided through a plan or other arrangement that does not also provide retirement income.

Types of OPEB

74. OPEB plans most commonly provide postemployment medical and other health-related benefits; however, some plans provide other kinds of OPEB, such as postemployment disability benefits, life insurance, and long-term care insurance. Termination offers, such as special termination benefits as defined in NCGA Interpretation 8, *Certain Pension Matters*, or other compensation for termination of employment or early retirement, are not considered OPEB. However, termination offers sometimes include a change in an existing defined benefit OPEB—for example, additional postemployment healthcare benefits or a modification of the service period for which OPEB is calculated. If so, the resulting change in the actuarial accrued liability for OPEB should be accounted for in accordance with this Statement.

Single-Employer and Multiple-Employer Plans

75. The Board's research indicates that most employers that provide OPEB do so through one or more single-employer plans. That is, their plan (or plans) covers only their own employees. However, some employers participate in multiple-employer plans that cover, for example, all local government employees within a state or all teachers employed by local school districts throughout a state. As is the case with pension plans, multiple-employer OPEB plans that are administered as qualifying trusts may be either agent plans or cost-sharing plans. The distinction between the two kinds of plans is the same as for equivalently structured pension plans and is defined in Statement 25 and in the glossary of this Statement. The Board concluded, however, that if the fund used to administer an OPEB plan is *not* a qualifying trust, the necessary conditions for cost sharing—particularly the accumulation of *plan net assets*—

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cannot be met. Therefore, both this Statement and the related Statement require that multiple-employer plans that are not administered as qualifying trusts be classified as agent multiple-employer plans for accounting and financial reporting purposes.

76. Some of the requirements of the related Statement for measuring and reporting an employer's OPEB expense/expenditures vary depending on whether the employer participates in a single-employer or agent plan, or in a cost-sharing plan. However, those differences do not affect financial reporting by OPEB plans that are administered as qualifying trusts, or equivalent arrangements, and the requirements of this Statement for the measurement, recognition, and display of information for such plans are the same whether the plan is a single-employer, agent, or cost-sharing plan. For agent plans that are administered as qualifying trusts, or equivalent arrangements, the requirements apply for the *total* (aggregated for all employers) plan.³⁴ The related Statement includes the disclosures that should be made concerning the *individual* plans of employers that participate in an agent plan.

77. The Board has also concluded that the same reporting requirements should apply:

- a. Whether an OPEB plan is administered by a PERS, another third-party governmental entity, or directly by the sponsor or participating employer
- b. Whether a PERS or other third-party governmental administrator issues a stand-alone financial report for the OPEB plan or the sponsor or employer includes the plan in its financial reporting entity as a fiduciary fund or component unit
- c. Regardless of how an OPEB plan is funded or financed.

To avoid unnecessary duplication, the Board has reduced the disclosure requirements for sponsors and employers when a stand-alone report that includes the OPEB plan is publicly available and provides all disclosures and schedules required by this Statement. The requirements for full versus reduced note disclosures and RSI are summarized in Illustration 2 of Appendix D to this Statement. (Also, Illustration 1 of Appendix D to the related Statement includes a summary of the note disclosures and RSI related to, respectively, an employer's OPEB expense/expenditures and the financial statements of an OPEB plan included in an employer's financial reporting entity as a fiduciary fund or

³⁴For agent plans that are *not* administered as qualifying trusts, plan reporting requirements are limited to those appropriate to agency funds—that is, to reporting net changes in assets and liabilities at the aggregate, or plan administrative, level.

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fiduciary component unit.) Except where indicated otherwise, in the remainder of this appendix the terms *OPEB plan* and *plan* include plans reported in fiduciary fund or fiduciary component unit financial statements of the employer, as well as plans included in stand-alone reports of the plan, PERS, or other third-party governmental administrator.

Separate Reporting for Individual Defined Benefit Plans

78. PERS and other third-party administrators may administer more than one defined benefit OPEB plan. For example, a statewide PERS may administer a plan for state government employees, a plan for general employees of local governments throughout the state, and a plan for judges. The Board has concluded that, when a third party administers more than one plan and issues a stand-alone report, the provisions of this Statement should be applied separately for each plan administered. This requirement can be met by presenting (a) a separate column for each plan or (b) combining financial statements for those plans as part of the basic financial statements.

79. Paragraph 106 of Statement 34, as clarified in Statement 25 and this Statement, requires that when an employer includes one or more defined benefit pension or postemployment healthcare plans in the pension and other employee benefit trust funds column of its fiduciary fund financial statements, the employer should present financial statements for each individual plan in the notes to the financial statements, unless the plan is included in a stand-alone report prepared in conformity with generally accepted accounting principles (GAAP) and the employer discloses information about how to obtain that report.

80. As is the case for pension plans, the key criteria that apply when determining whether an employer, PERS, or other entity includes more than one OPEB plan for financial reporting purposes are (a) the legal relationship between the assets and benefits being administered and (b) the information needs of users. If all assets administered can legally be used to pay all OPEB administered, the employer, PERS, or other entity is administering *one plan*, even if the plan covers more than one class of employees or more than one group (tier) within a class and different contribution rates apply to each class or group. However, if, for example, an entity is administering assets and benefits for both the general employees and the public safety employees of the employer, and the assets accumulated for one of those classes of employees cannot legally be used to pay the OPEB of the other class, the entity is administering two separate plans, even if the assets of both plans are pooled for investment purposes. To report only the *total* assets administered and the

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funded status and progress of both plans *in combination* would provide insufficient information and could be misleading to, for example, public safety personnel, their representatives, and officials with responsibilities related specifically to the public safety plan. Those users should be able to find information about the net assets held in trust for the OPEB of the public safety plan members as well as the funded status and progress and the employer's required and actual contributions to the public safety plan.

81. When the assets of different OPEB plans are pooled, this Statement does not require the allocation of specific assets to each plan. Rather, for financial reporting purposes, the total pooled assets should be proportionately allocated to each plan, as is required for the financial statements of the individual participants in any investment pool, including the pooled assets of pension plans under Statement 25.

Financial Reporting and Disclosure Requirements for OPEB Plans That Are Administered as Qualifying Trusts or Equivalent Arrangements

82. The requirements of this Statement related to financial reporting and disclosure for OPEB plans that are administered as trusts, or equivalent arrangements, that meet the criteria set forth in paragraph 4 are discussed in paragraphs 83 through 175. References to OPEB plans in those paragraphs refer to plans with those characteristics. Requirements of this Statement related to financial reporting and disclosure for plans that are *not* trusts, or equivalent arrangements, or that do not meet the criteria set forth in paragraph 4 are discussed in paragraphs 176 through 180.

Financial Reporting Framework

83. Given the similarities between OPEB and pension benefits, the Board has adopted a financial reporting framework for OPEB plans that are administered as qualifying trusts, or equivalent arrangements, that is similar to the Statement 25 framework for pension plans. That is, such OPEB plans should present two financial statements and two multi-year schedules of RSI. The financial statements should focus on providing information about the plan as a *trust*, including financial information about the composition, value, and recent changes in the net assets of the trust. The RSI schedules should report information about the *trend* in the *funded status of the plan*, determined in accordance with the parameters established in this Statement or, if applicable, the measurement methods that this Statement indicates are acceptable for certain small plans. (As discussed further in paragraphs 101 and 105, the plan's funded status as

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of the most current valuation date also should be disclosed in the notes to the financial statements.) The RSI schedules should provide information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the plan's actuarial accrued liability for benefits. Because a plan's funding progress is significantly affected by the ongoing willingness and ability of the employer(s) to contribute to the plan, information also should be provided about the *trend* in the *employer's contributions* relative to its annual required contributions (ARC), determined in accordance with this Statement.

Financial Statements

84. The Board has concluded that, similar to the requirements of Statement 25 for pension plans, OPEB plan financial statements should provide current information about the stewardship (custody and management) of the *assets* held in trust for plan members. The format of the financial statements should be the format required by Statement 25 for defined benefit pension plans and subsequently adopted for all fiduciary funds and fiduciary component units of the primary government under Statement 34. Similar to the pension plan standards, the *statement of plan net assets* should focus on the composition and current value of the OPEB plan assets, plan liabilities, and the difference between those two elements—the **plan net assets held in trust** for the future payment of OPEB. The *statement of changes in plan net assets* should provide information about the principal year-to-year changes in plan net assets to assist users in assessing the extent to which the changes are due to investment performance, contribution levels, or other factors.

85. This Statement specifies that the financial statements should be prepared as of the end of the plan's fiscal year (reporting date). The fiscal years of the plan and the employer or sponsor may not coincide. When they differ and the plan is included in the employer's or sponsor's financial report, the employer should follow the guidance in Statement No. 14, *The Financial Reporting Entity*, as amended, with respect to the reporting date for the fiduciary fund or component unit.

Accrual Basis of Accounting

86. The Board has applied to OPEB plans the general principles of accrual-basis accounting and existing standards with respect to the application of the accrual basis of accounting to defined benefit pension plans. That is, additions to and deductions from plan net assets should be recognized when the transaction or event occurs. For member benefits, including refunds, the transaction

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occurs and should be recognized in the financial statements when the benefits become due and payable by the plan in accordance with the plan terms. For purchases and sales of investments, the transaction occurs and should be recognized in the financial statements on the trade date.

Receivables

87. The requirements for the recognition of OPEB plan receivables are consistent with the accrual basis of accounting and with the requirements of Statement 25 for pension plans. Under the accrual basis, recognition of a receivable requires a reasonable expectation of collection, and amounts that qualify for recognition as plan receivables should be recognized as contributions, not deferred revenue, regardless of when collection is expected.

88. With respect to contributions from employers, recognition by an employer of a liability for contributions to an OPEB plan may not be a sufficient basis for the plan to recognize a receivable and a contribution. Some liabilities to OPEB plans that employers are required to recognize in accordance with the related Statement may not be collectible. The related Statement requires *employers* participating in single-employer and agent plans (sole and agent employers) to recognize a liability to the plan when the measure of annual OPEB cost required by that Statement exceeds the contributions made by the employer, however determined. Although the required measure of annual OPEB cost is based on the same parameters as those required by this Statement for reporting the ARC in the schedule of employer contributions,³⁵ the amounts that *plans* assess to employers may be calculated differently. Therefore, liabilities recognized by sole and agent employers may be greater than the amount of contributions assessed by the plan and not paid, and there may be no expectation of collection of some of those liabilities. If so, they should not be recognized as plan receivables. Similarly, assets that are designated by an employer for the payment of OPEB but have not been irrevocably transferred or formally committed to the OPEB plan (and, therefore, may be subject to claims by creditors of the employer other than plan members) are not plan assets and should not be recognized as plan receivables. Paragraph 20 includes some examples of evidence of a formal commitment to pay contributions that would support recognition of receivables from employers.

³⁵Or, for certain small plans, on the methods optionally available to those plans.

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89. Long-term receivables (those due more than one year after the reporting date) generally arise from installment contracts for the payment, with interest, of contractually deferred contributions of employers, assessments to employers upon joining a multiple-employer plan, and similar amounts that are in addition to the regular annual contributions assessed to employers. (Those types of employer contribution requirements are not included in the ARC and are referred to in the related Statement as *OPEB-related debt*.)

90. The requirement to recognize long-term receivables (and contributions) in full in the year the contract is made, and the guidance with respect to use of the effective interest method for discounted contracts, are consistent with accrual-basis accounting. The Board has not required separate display for long-term receivables (and contributions); however, disclosure is required of the terms of such contracts and their outstanding balances to assist users in assessing the liquidity of total receivables.

91. Paragraph 13 of Statement No. 38, *Certain Financial Statement Note Disclosures*, requires note disclosure of details of receivables when significant components have been obscured by aggregation on the face of the financial statements, as well as significant receivable balances not expected to be collected within one year of the date of the financial statements. However, in paragraph 54 of that Statement, the Board states its expectation that “for some governments, the most efficient and understandable method of disclosure will be additional disaggregation on the face of the fund financial statements.” For OPEB plans, paragraph 19 of this Statement *requires* displaying the principal components of receivables on the face of the financial statements. The Board concluded that professional judgment should be applied to determine which components are most significant in the circumstances. Financial statement preparers could consider displaying the principal components of receivables by, for example, transaction type, source, or relative liquidity.

Plan Investments and Assets Used in Plan Operations

92. The Board's conclusions with respect to the valuation of OPEB plan investments and capital assets used in plan operations are consistent with its previous conclusions for pension plans. That is, all OPEB plan investments (except insurance contracts, as indicated in paragraph 22) should be reported at their fair value at the reporting date, consistent with the requirements of Statement 25 for pension plans, as amended by Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment*

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Pools. Appraised value is acceptable for capital assets held as investments. Capital assets used in plan operations (for example, buildings, furniture, and equipment) generally should be included in plan assets at their depreciated historical cost.

93. This Statement requires display of the principal components of investments. The Board concluded that professional judgment should be applied in determining which components are most significant in the circumstances. However, generally, investments should be organized by investment type, and dissimilar individual investments should not be aggregated into single investment types.

Liabilities

94. Plan liabilities include liabilities for member benefits and refunds that are due and payable. Other liabilities may include, for example, accrued investment and administrative expenses, long-term liabilities for compensated absences of plan employees, and long-term debt on assets used in plan operations.

95. The discussion in paragraph 88 refers to the recognition by sole and agent *employers* of liabilities for differences between the measure of annual OPEB cost required by the related Statement and the employer's contributions to OPEB plans. The related Statement also requires sole and agent employers to recognize (or, for governmental funds, disclose) an asset (prepaid OPEB expense/expenditures) when the contributions made in accordance with the amounts assessed by the plan exceed annual OPEB cost. That requirement for employers does not affect plan financial reporting of employer contributions. Rather, the plan would recognize the amount contributed as an addition to plan net assets (contribution), or as a reduction of a receivable, without regard to the recognition requirements applicable to employers. As discussed in the previous paragraph, the plan would recognize a liability for benefits as the benefits become due and payable.

Net Assets Held in Trust for OPEB

96. In Statement 25, the Board requires a parenthetical reference from the line item *net assets held in trust for pension benefits* in the statement of plan net assets to the required schedule of funding progress. The parenthetical reference is not intended to represent or imply incorporation of the schedule of funding progress into the basic financial statements. Rather, the Board believes the reference provides a useful link between the two principal components of a

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plan's financial report—the financial statements and the schedules of RSI—and will help emphasize that each component includes important information for users to consider. In this Statement, however, the Board has further emphasized that link by requiring disclosure in the notes to the financial statements of the funded status of the plan for the most recent year reported in the schedule of funding progress, and by requiring an explanatory note that refers to the multi-year trend information presented as RSI immediately following the notes to the financial statements. The Board concluded that because this Statement establishes a more explicit link for OPEB reporting, the parenthetical reference from the *net assets* line item required by Statement 25 is not necessary for OPEB plans.

Reserves

97. Similar to defined benefit pension plans, OPEB plans may be legally required to maintain certain reserve accounts corresponding to subdivisions of the plans' total actuarial accrued liabilities for benefits—for example, a reserve for retired members' benefits, a reserve for employer contributions for active members, and a reserve for active employee contributions. Consistent with its previous conclusions for pension plans, the Board has decided that OPEB plans should disclose the recorded year-end balances of their legally required reserves in the notes to the financial statements. Plans also may (but are not required to) disclose designations of plan net assets. The Board has not specified the number of reserves that should be disclosed or how the balances should be measured; disclosure should be consistent with legal requirements, to provide information from a compliance or accountability perspective. Because the titles of reserve accounts may not be self-explanatory and one or more of the reserves may include unfunded actuarially determined amounts, this Statement requires that plans briefly describe the purpose of each reserve (or designation, if applicable) disclosed and whether it is fully funded.

Changes in Plan Net Assets

98. The Board has concluded that the display of information about the changes in plan net assets during the year should be in sufficient detail to assist users in assessing the principal reasons for the total change in net assets. The requirements for separate display are similar to those required for defined benefit pension plans by Statement 25. In this Statement, the Board has classified and illustrated the principal additions to and deductions from OPEB plan net assets that it anticipates will occur in most years for the majority of plans. This Statement does not preclude separate display of other items within the addi-

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tions and deductions sections of the statement of changes in plan net assets when, in the preparer's professional judgment, greater detail may be useful to users. For example, separate display of specific types of investment income or benefits paid may be useful in some circumstances. Similarly, combining components (1) and (2) of net investment income (paragraph 27d) may provide sufficient information to the users of the financial statements of many plans, and separate display of those components is not required.

Net investment income

99. The Board has reaffirmed its conclusions in Statements 25 and 31 that separate display in the financial statements of realized versus unrealized gains and losses on investments should not be presented, because it is inconsistent with reporting assets at fair value, mixes two different measurement bases, and can be misleading. The Board acknowledges, however, that information about realized gains and losses may be useful in some circumstances. For example, when ad hoc (discretionary) postretirement benefit increases are related by statute to realized gains, disclosure of those gains may be useful from a compliance perspective. Therefore, the Board has not precluded disclosure of realized gains and losses in the notes to the financial statements, provided that the additional information specified in footnote 6 to paragraph 27d also is disclosed. Those additional disclosures should assist users in understanding that the realized gains and losses disclosed were calculated on a different basis from the amount of net appreciation (depreciation) reported in the financial statements and are not additional income. Rather, a portion of the gains and losses disclosed as realized in the current year was recognized in the amount of net appreciation (depreciation) reported in prior years.

100. The Board has reaffirmed its conclusion in Statement 25 that information about a plan's net investment income is more useful when the total cost of generating the income is separately displayed as a reduction of income, rather than when investment income is reported net of that cost or when investment and general administrative expenses are reported together. Information about both gross and net investment income generally is needed, for example, for assessments of investment performance. (Separate display of the components of total investment expense is not required.) Therefore, this Statement requires separate display of total investment expense, including investment management and custodial fees and other significant investment-related costs, in the *additions* section of the statement of changes in plan net assets, rather than in the *deductions* section with general administrative expenses. The Board acknowledges that it may not be possible or cost-beneficial to separate certain

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investment expenses from either the related investment income or the general administrative expenses of the plan, and this Statement allows the exercise of professional judgment with respect to how those types of expenses should be reported. Examples include expenses related to income from rental property (the income generally is reported to a plan net of expenses) and the salaries of employees who perform both investment-related and general administrative functions.

Notes to the Financial Statements

101. The basic note disclosures required by this Statement are similar to those required by Statement 25 for defined benefit pension plans—that is, disclosure of a brief plan description, a summary of significant accounting policies, and information about contributions to the plan and plan reserves.³⁶ However, the Board has added in this Statement certain note disclosure requirements that it believes are appropriate for OPEB plans, even though they are not required for pension plans. Generally, the additional requirements address either (a) differences between OPEB and pension plans or (b) the fact that, whereas most pension plans were already providing actuarially determined benefit information when Statement 25 was adopted, a majority of OPEB plans have not previously reported that information. As a result, users may not be as familiar with actuarially determined information for OPEB plans as they are with equivalent information for pension plans. The additional note disclosure requirements include, for example:

- The healthcare cost trend rate for postemployment healthcare plans
- The funded status of the OPEB plan as of the most recent actuarial valuation date and the actuarial methods and assumptions used to determine it (disclosed after the RSI schedule of funding progress under Statement 25)
- Discussions of the substantive plan, the nature of actuarial valuations, and the purpose of the RSI schedules of funding progress and employer contributions.

102. Some of the additional disclosures not required for pension plans are of an explanatory nature—for example, the requirement to discuss the nature of actuarial valuations and the nature and limitations of OPEB measurements

³⁶A requirement to disclose concentrations of investments, like that in paragraph 32d of Statement 25, as amended, was unnecessary in this Statement, because paragraph 11 of Statement No. 40, *Deposit and Investment Risk Disclosures*, now requires all state and local governments to disclose concentrations of credit risk.

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using actuarial methods and assumptions. The Board believes that these disclosures will help a broader range of financial report users better understand the nature of OPEB calculations and the limitations of the information presented, as well as the differences between information reported in the financial statements and information reported as RSI.

103. Most pension plans have been applying actuarial measures and reporting styles similar to those required by Statement 25 for several decades. They became mandatory for all pension plans, and optional for certain postemployment healthcare plans, at the effective dates of Statements 25 and 26 (fiscal years beginning after June 15, 1996). However, the Board's research indicates that most OPEB plans have not adopted those measurement and reporting methods. Therefore, users generally are not familiar with their application to OPEB plans. Also, some present and potential users of OPEB information may not be familiar with pension plan reports and, therefore, cannot use prior experience with those reports to help them understand OPEB plan reports. The Board acknowledges that, because of the nature of the additional disclosures, the requirements of this Statement are more specific than usual about the information to be disclosed. Moreover, the required explanatory information will add to the overall length of OPEB disclosures. However, the Board has concluded that the benefit of making information about OPEB plans more broadly accessible to a variety of financial report users outweighs the additional cost of implementation.

104. Consistent with Statement 25 and as discussed in paragraph 77, this Statement allows a reduction in the disclosures for OPEB plans reported as fiduciary funds or component units of an employer when a stand-alone, GAAP-compliant OPEB plan financial report is publicly available and the employer discloses how to obtain that report. The Board also encourages entities that administer more than one OPEB plan to avoid unnecessary duplication by combining similar information—for example, by presenting information for each plan in multi-column tables or schedules. Moreover, given the similarity of the basic disclosure requirements of this Statement and Statement 25, the Board believes that entities that administer both OPEB and pension plans may be able to streamline their disclosures by including information for both types of plans in separate columns of the same tables or schedules.

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Required Supplementary Information

105. As discussed in paragraph 83, this Statement adopts the requirements of Statement 25 to report actuarially determined information in multi-year schedules (as RSI), from a long-term, ongoing plan perspective. However, as discussed in paragraph 101, plans also should disclose their current funded status, including the same information presented for the most current year of the schedule of funding progress, in the notes to the financial statements. Because of that requirement, the actuarial methods and assumptions that this Statement requires to be disclosed should be placed in the notes to the financial statements, rather than after the RSI schedules as required for pension plans by Statement 25. This Statement does not require the disclosure of actuarial methods and assumptions to be repeated in RSI, except for disclosure of the actuarial cost method in the heading of the actuarial accrued liability column of the schedule of funding progress. However, similar to the requirements for pension plans, OPEB plans should disclose, as notes to RSI schedules, information about factors that significantly affect the identification of trends in the amounts reported in the schedules. Examples include changes in the actuarial methods and assumptions used, benefit provisions, or the size or composition of the plan population.

106. The content and design of the RSI schedules required by this Statement are similar to those required for pension plans under Statement 25. The *schedule of funding progress* should provide information about the funded status of an OPEB plan and the progress being made in accumulating sufficient assets to pay benefits when due. The *schedule of employer contributions* should provide information about the annual required contributions of the employer(s) (ARC) and the extent to which the employer is complying with those requirements. (Paragraph 30 includes certain exemptions or reduced requirements for plans reported as fiduciary funds or component units of the employer or sponsor, as discussed in paragraph 77 and illustrated in Appendix D.)

107. The Board has concluded that all information included in the RSI schedules should comply with this Statement, whether the plan is a single-employer, agent, or cost-sharing plan.³⁷ Those requirements include compliance with the parameters and application of the funding methodology, when that methodology meets the parameters, or use of the alternative measurement method for

³⁷Requirements to present RSI do not apply to OPEB plans that are not administered as qualifying trusts, or equivalent arrangements. Financial reporting and disclosure requirements for such plans are discussed in paragraphs 176 through 180.

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small plans, if applicable. (Paragraphs 110–112 discuss an exception for the schedule of funding progress when plans use the aggregate actuarial cost method for determining the ARC.) If information calculated in accordance with this Statement is not available for years before the effective date, plans should present the required information for as many valuations as possible, beginning with the year this Statement is first implemented, until the required minimum of three valuations is achieved.

Schedule of Funding Progress

108. The required *content* of the schedule of funding progress is equivalent to that required for defined benefit pension plans and has the same purpose—to provide information about the plan's funded status and progress toward full funding, from a long-term, ongoing plan perspective. The schedule should include the plan assets, the actuarial accrued liability, the difference between the two (unfunded actuarial accrued liability or funding excess), the annual covered payroll, and two ratios or indexes: the funded ratio (assets expressed as a percentage of the actuarial accrued liability) and the unfunded actuarial accrued liability expressed as a percentage of covered payroll. The trend in those two ratios provides information about whether the financial strength of the plan is improving or deteriorating over time. An improvement is indicated when the funded ratio is increasing and the ratio of the unfunded actuarial accrued liability to covered payroll is decreasing.

109. Also, similar to the requirements for pension plans, the funded status of OPEB plans should be calculated and reported as the difference between the actuarial value of plan assets and the actuarial accrued liability as of the actuarial valuation date, for each year included in the schedule of funding progress. The actuarial cost method used to determine the plan's actuarial accrued liabilities, as reported in the schedule of funding progress, should be the same method that is used to determine actuarial accrued liabilities for funding requirement determinations, provided that method meets the parameters. Plans that use a method for funding that does not meet the parameters or plans that are not advance-funded on an actuarially determined basis should prepare a schedule of funding progress, using the same actuarial cost method that is used to determine the ARC. As discussed in paragraphs 110 through 112, plans that use the aggregate method to determine funding requirements and the ARC should prepare the schedule of funding progress using the entry age method.

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Aggregate actuarial cost method

110. The aggregate actuarial cost method cannot be used to prepare a schedule of funding progress because it does not separately determine actuarial accrued liabilities. (The total actuarial present value of projected benefits is amortized as normal cost over average remaining service life, rather than dividing the total into normal cost and actuarial accrued liabilities and separately amortizing the two amounts over, generally, different periods.) In Statement 25, the Board exempted pension plans that use the aggregate method from preparing the schedule of funding progress (but not from preparing the schedule of employer contributions), although preparation of the schedule of funding progress using another method, such as entry age, is acceptable. The Board concluded in that Statement that “a requirement to use a different method would be inconsistent with the general approach of [Statement 25] to require application of the method used to determine funding requirements, when that method meets the parameters.” Moreover, the Board noted that “relatively few [pension] plans use the aggregate method; for example, 6 percent of 451 [pension] plans included in a survey conducted in 1993 by the Public Pension Coordinating Council reported using that method, and most are small plans. The Board is reluctant to impose additional costs on those [pension] plans” (paragraph 124, footnote omitted).

111. The Board notes, however, that when the pension standards were adopted, a large majority of pension plans had been advance-funding on an actuarially determined basis for many years. Thus, the unfunded actuarial accrued liabilities of plans using the aggregate actuarial cost method effectively were being included in funding requirement determinations, even though they were not separately calculated. In contrast, very few OPEB plans currently are advance-funded on an actuarially determined basis. It is not possible at this time to reliably estimate what proportion of OPEB plans might select the aggregate actuarial cost method (a) for funding purposes or (b) solely for financial reporting purposes if they remain unfunded. The Board concluded that if an unfunded (for example, pay-as-you-go) OPEB plan selected the aggregate actuarial cost method solely for financial reporting purposes (that is, unfunded actuarial accrued liabilities effectively were *not* being included in funding requirement determinations), exempting the plan from preparing a schedule of funding progress would leave users without sufficient information to assess the financial effects of the plan's method of financing. Therefore, the Board concluded that plans that elect to use the aggregate method should be required to prepare a schedule of funding progress using an acceptable actuarial cost method that separately identifies actuarial accrued liabilities. The Board be-

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believes it is unnecessary to allow a choice of methods for that limited purpose. The Board selected the entry age method as the required method because it is conceptually similar to the aggregate method.

112. The Board acknowledges that a requirement to use entry age for the schedule of funding progress when the aggregate method is used for other accounting information is a departure from the general approach of this Statement and the related Statement. Nevertheless, for the reasons stated above, the Board believes that funded status information based on the entry age method is more useful to users of OPEB plan financial reports than providing no information about funded status. Moreover, the potential for confusion for users due to the use of two different methods can be mitigated by disclosure of the reason the entry age method is used for the schedule of funding progress only—that is, that it cannot be prepared using the aggregate method. Most respondents to the plan Exposure Draft who commented on this issue concurred with the Board's position to require disclosure of information about funded status and funding progress using the entry age method. The Board reiterates that *the aggregate method is required for determining the employer's ARC when that method is used for funding*; it is not acceptable under this Statement or the related Statement to use entry age or another method for determining the ARC when the aggregate method is used for funding. Similarly, when the aggregate method is used for determining the ARC, the schedule of employer contributions should be computed using that method.

Schedule of Employer Contributions

113. The purpose of the schedule of employer contributions is to provide information about the annual required contributions of the *employer(s)* (ARC), calculated in accordance with this Statement, and the extent to which those contributions are being made. (The schedule should *not* include amounts for required or actual contributions attributable to plan members under the substantive plan, even if the employer makes those contributions on behalf of plan members. Information about member contributions should be disclosed in the notes to the financial statements.) The information about the trend in an employer's required and actual contributions should assist users in understanding the changes and reasons for the changes in a plan's funded status over time and the progress being made in accumulating sufficient assets to pay benefits when due. Many factors contribute to changes in funded status and the progress made (or not made) in accumulating sufficient assets to pay benefits when due. Among the most important are the policies and administration of the plan and the extent to which employers are providing resources to the plan.

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A plan that is well administered may, nevertheless, make little or no progress in improving its funded status if the participating employer(s) consistently contributes less than the ARC. In contrast, if the employer(s) consistently pays all required contributions but the funded status is not improving, users may wish to seek additional information about the plan's funding policy, investment management, and other factors that may be contributing to the lack of improvement.

114. Similar to its conclusions for pension plans, the Board concluded that information about the *required* contributions of employers to OPEB plans should be measured in accordance with the same parameters established in the related Statement for measuring the ARC to a single-employer or agent plan (or using the alternative measurement method for small plans, if applicable). The Board believes that approach provides more useful information about the cost of employers' commitments to provide benefits than reporting, as required contributions, the amounts actually assessed to employers. The amounts assessed to employers may be determined in many ways and may not be consistent with accounting concepts for the measurement of cost. (Issues related to the measurement of the annual cost of employers' commitments to provide OPEB are discussed in Appendix B to the related Statement.) The ARC is either the only component or the major component of the OPEB expense/expenditures reported by a sole or agent *employer* for contributions to an OPEB plan. Consistent with other requirements of this Statement for agent plans, the ARC reported for an agent *plan* should be the total ARC for all participating employers.³⁸

115. The related Statement requires cost-sharing *employers* to measure OPEB expense/expenditures equal to their contractually required contributions to the plan, whether or not those contributions are determined in accordance with the parameters. The Board believes, however, that users need information about the cost of commitments to provide benefits and the extent to which the employers' contributions cover that cost, whether the cost is attributable to individual employers (single-employer and agent plans) or is pooled (cost-sharing plans), and regardless of how contributions assessed to the employers are determined. Therefore, this Statement requires cost-sharing *plans* to measure and report the total ARC (all employers) in the schedule of employer

³⁸For discussion of requirements for OPEB plans that are not administered as qualifying trusts, or equivalent arrangements, see paragraphs 176 through 180.

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contributions in the same manner required of single-employer and agent plans. All plans should include in that schedule the percentage of the ARC recognized by the plan, on the accrual basis, as contributions made, for each year included in the schedule.

116. When a plan's funding policy requires that some or all of the contributions that otherwise would be made by the employer(s) are made by other entities (for example, state contributions to a local government plan), those contributions should be included in this schedule. In such cases, the schedule should be captioned the *schedule of contributions from the employer(s) and other contributing entities*. Separate disclosure of information about the portions of the ARC attributable to the employer(s) and other contributing entities, and the respective percentages of those amounts recognized by the plan as additions from those sources, is permitted within the requirements for this schedule. The inclusion of other information outside the requirements for the schedule (for example, the percentage of statutorily or contractually required contributions recognized or information about contributions from plan members) is not permitted.

Measurement of Required Supplementary Information

Consistency objectives

117. As previously discussed, the Board has concluded that pension benefits and OPEB are conceptually similar and has adopted a similar approach in this Statement and the related Statement to that adopted in Statements 25 and 27 for pension information. Consistent with that approach, the Board has concluded that actuarially determined OPEB information should be calculated (a) consistent with the funding methodology, provided that methodology meets the parameters, and (b) in the same way by an OPEB plan and its participating employer(s). Therefore, this Statement and the related Statement include the same requirements for measuring similar or related information reported by a plan and its participating employer(s). (The alternative measurement method available for certain small plans and their participating employers is discussed in paragraphs 148–175.) Both Statements include the parameters³⁹ and the requirement to use the same actuarial methods and assumptions for financial

³⁹Application of the parameters is required for the schedules of RSI presented for cost-sharing plans, including those reported as trust funds of the employer, but is not required for measuring the OPEB expense/expenditures of cost-sharing employers. Those requirements are discussed in Appendix B to the related Statement.

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reporting that are applied in accordance with the funding methodology, when those methods and assumptions meet the parameters. The parameters established in this Statement and the related Statement are similar in most respects to those adopted for pensions in Statements 25 and 27. However, the Board has introduced some modifications for OPEB due to certain differences between OPEB and pensions.

118. The parameters apply for measuring both the ARC and the funded status of an OPEB plan. (However, as discussed in paragraphs 110–112, plans using the aggregate actuarial cost method to determine the ARC should prepare a schedule of funding progress using the entry age method.) Adherence to the parameters is required for financial reporting by both the plan and its participating employer(s), regardless of how the plan is funded or financed.⁴⁰ Because the parameters permit several alternatives, it would be possible for a plan and its participating employer(s) to select different alternatives for reporting similar or related information. Although that possibility is unlikely to occur in the majority of situations, the Board has specifically precluded it in both Statements because of the importance to users of consistency between plan and employer reporting of similar information.

The parameters⁴¹

Frequency and timing of actuarial valuations

119. This Statement requires actuarial valuations at least biennially (the minimum frequency for all pension plans under Statement 25) for OPEB plans with a total membership of 200 or more and at least triennially for plans with fewer than 200 members. (For this purpose, the total membership includes active employees, separated employees who are eligible to begin receiving benefits at a future date, and retirees or beneficiaries currently receiving benefits.) The Board notes that a maximum interval of three years between valuations is acceptable under Actuarial Standard of Practice No. 6, *Measuring Retiree Group Benefit Obligations* (ASOP 6).⁴² However, the Board has found nothing inherent to OPEB information that would justify, for financial reporting purposes, less frequent valuations for OPEB plans than for pension plans,

⁴⁰Adherence to the parameters does not apply to OPEB plans that are not administered as qualifying trusts, or equivalent arrangements. Financial reporting and disclosure requirements for such plans are discussed in paragraphs 176 through 180.

⁴¹Appendix B to the related Statement includes a more detailed discussion of the parameters.

⁴²See footnote 16.

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especially given the potentially greater volatility of OPEB. Nevertheless, the Board acknowledges that the cost of biennial valuations may be high for smaller plans, compared with the benefits to be derived from more current information, and has concluded that a maximum of three years between valuations should be acceptable for those plans.

120. Although comprehensive data regarding the number and sizes of OPEB plans are unavailable, anecdotal information suggests that a substantial portion of OPEB plans will qualify for triennial rather than biennial valuations. The Board does not wish to discourage more frequent valuations for either small or large plans. Moreover, the Board has extended to all OPEB plans, regardless of size, the provision of Statement 25 that requires a new valuation, regardless of the interval since the previous valuation, if significant changes have occurred in benefit provisions, plan population, or other factors.

121. After considering a variety of comments and suggestions from Exposure Draft respondents regarding the frequency of actuarial valuations, the Board decided to go forward with the required frequencies and cutoff points as proposed in the 2003 Exposure Draft, for the reasons previously stated. However, this Statement clarifies that the significant changes in “other factors” that would require a valuation to be performed sooner would be those that result in significant changes in *long-term assumptions*. The Board’s intent is that a short-term fluctuation (for example, a decrease in investment earnings from one year to the next) would not necessarily require a new valuation.

122. Similar to the requirements for pension plans, this Statement requires that all actuarially determined information included in the schedule of funding progress for the current year (and disclosed in the notes) be based on the results of a valuation performed as of a date not more than two years before the plan’s reporting date for plans with biennial valuations and not more than three years before the reporting date for plans with triennial valuations. The related Statement requires that the ARC included in the amount of annual OPEB cost reported by a sole or agent employer be calculated not more than twenty-four months before the beginning of the employer’s fiscal year, if valuations are annual, or before the beginning of the *first year* of the two-year or three-year period for which that valuation provides the ARC, if valuations are biennial or triennial, respectively. With respect to the plan’s schedule of employer contributions, the ARC and the percentage of that amount recognized as contributions for the year should be the amounts corresponding to the fiscal year ending

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on the plan's reporting date, whether or not that fiscal year coincides with the employer's fiscal year. Paragraph 85 discusses the reporting date for fiduciary funds or component units included in an employer's financial report.

123. After consideration of numerous comments, pro and con, from Exposure Draft respondents, the Board affirmed that the *smallest* plans—those with a total membership of fewer than one hundred (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) and that otherwise meet the eligibility requirements of this Statement—would be permitted to apply the alternative measurement method defined in paragraphs 38 through 40, at their option, in lieu of obtaining actuarial valuations in accordance with the parameters for financial reporting purposes. Requirements regarding the frequency and timing of calculations using the optional measurement method are the same as for actuarial valuations of plans with a total membership of fewer than 200, as proposed in the 2003 Exposure Draft. Issues regarding the alternative measurement method are discussed more fully in paragraphs 148 through 175.

Benefits to be included

124. This Statement requires that the measurement of the actuarial present value of total projected benefits include all benefits promised under the *substantive plan*—that is, the plan *as understood by the participating employer(s) and plan members*—at the actuarial valuation date. The substantive plan may in some cases differ from the official OPEB plan document. The parameter makes clear that determination of the substantive plan requires consideration of not only the plan document but also other communications between the plan's trustees and administrators, employer(s), and plan members, as well as application of professional judgment. The parameter also requires that the assumed allocation of projected benefit costs between the employer(s) and plan members, on an ongoing basis, should be based on the employer's pattern of practice to the valuation date. Again, the Board acknowledges the need for professional judgment.

125. This Statement requires that when an employer provides benefits to both active employees and retirees through the same plan, the retiree benefits should be segregated and measured independently. Further, future retiree benefits generally should be projected based on claims costs, or on age-adjusted premiums approximating claims costs, rather than on unadjusted

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premiums. This provision effectively amends paragraph 2 of Statement 10 by no longer permitting retiree healthcare benefits to be included with active employee healthcare benefits and accounted for under risk financing standards based on claims events that already have occurred.

126. The Board also decided to make explicit mention that the use of unadjusted premiums may be appropriate in certain situations (community-rated plans) in which the premiums are not based on the experience of an individual employer's group, and rates are the same for all plan participants without regard for age. That possibility, which is referred to in Actuarial Standards of Practice, is underscored by mention in this Statement. The intent is to permit the use of unadjusted premiums in circumstances in which the claims experience of a single employer would have little or no impact on the premiums charged. Within limits discussed in Actuarial Standards of Practice, the employer's contribution toward the cost of providing healthcare benefits in the current period in a community-rated plan is appropriately measured, for purposes of this Statement, as the difference between the unadjusted premium and the amount contributed by retirees. If the retirees in such a plan are required to pay the entire unadjusted premium for their coverage, the conclusion to be drawn, for purposes of this Statement, is that the employer makes no financial contribution and has no OPEB to measure.

127. The Board considered but rejected the use of methods that would adjust the projection of benefits for either or both of the following:

- a. Specific amendments of plan terms contemplated, but not yet adopted, by the employer (other than continuation of the historical pattern of sharing of costs)
- b. The general assumption that the plan terms probably will be amended in some way, not specifically predictable, in the future.

128. Proponents of those methods believe that projecting OPEB, particularly postemployment healthcare benefits, many years into the future based on the current plan terms could tend to overstate OPEB costs and the plan's actuarial accrued liabilities. They point out that employers often stipulate, for example, that OPEB is not vested or that employers have a legal right to amend or discontinue benefits unilaterally. Also, some believe that there is a practical limit to the escalation of OPEB costs, particularly the cost of postemployment healthcare, that makes it probable that *something* (although it may not be possible to predict precisely *what*) will change along the way to reduce costs.

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129. The Board acknowledges that there are inherent risks of overstating (or understating) actuarial accrued liabilities, whatever assumptions are made about future events. However, the Board has concluded that the current substantive plan, including any amendments made and communicated to plan members by the valuation date, and the employer's historical pattern of allocating benefit costs between the employer and plan members up to that date provide the most objective and reliable basis for the projection of benefits for financial reporting. The Board has not accepted techniques such as reducing projected benefits for specific contemplated (but not yet adopted) plan amendments or discounting projected benefits at a higher rate to approximate the effect of potential future benefit reductions, because these approaches lack objectivity and would give recognition to changes that have not occurred and may not occur.

130. The Board also considered comments and questions from Exposure Draft respondents regarding the treatment of employer benefit caps in relation to the projection of future benefits. The Board previously had agreed in principle that caps on an employer's share of postemployment benefits would appropriately be taken into consideration when projecting future benefits for accounting and financial reporting purposes. However, the omission of discussion of that point from the Exposure Draft resulted in questions from a number of respondents. The Board therefore decided to add as an explicit requirement that a legal or contractual cap on the employer's share of the benefits to be provided to retirees and beneficiaries each period should be taken into consideration in projecting benefits to be provided by the employer in future periods, if the cap is assumed to be effective.

131. However, proper application of the standard discussed in the preceding paragraph requires attention to two important considerations:

- a. First, the Board concluded that the types of caps that should be considered in projecting benefits should be explicit legal or contractual caps on the employer's share of *benefits* as distinguished from limitations on the source or amounts of employer *contributions* to finance payments of defined benefit OPEB as they come due in the future. An example of a cap on employer benefits is a legal or contractual provision that an employer will pay retirees' health insurance premiums up to a maximum of \$300 per retiree per month. In one sense, the benefits to be provided in the example are the types of services covered by the terms of the substantive plan. However, the employer's share of those benefits (the portion to be accounted for as OPEB)

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is capped at \$300 of such benefits per retiree per month. The Board concluded that such a benefit cap should be taken into consideration when projecting future benefits (that is, the employer's share of future benefits) for the purposes of this Statement.

- b. Second, the Board stipulated that the employer benefit cap should be judged to be *effective*. That is, a judgment is required to be made based on consideration of all relevant factors and circumstances, and particularly the employer's previous pattern of behavior in maintaining the cap, that the cap is likely to be enforced at the existing level on an ongoing basis in the future.

132. The Board also considered issues related to funding limitations in a number of postemployment healthcare plans that are administered as Internal Revenue Code Section 401h accounts within defined benefit pension plans. Such limitations include:

- a. Statutory limitations on the employer contribution rate (of which pension trustees may allocate a portion to fund healthcare benefits)
- b. The primary duty of pension trustees to ensure that pension benefits are adequately funded—hence, the potential limiting effect of pension funding on the flow of contributions to the 401h account
- c. Limitations imposed by the Internal Revenue Code in regard to amounts contributed to fund postemployment healthcare benefits relative to pension contributions.

The Board concluded that such funding limitations are not equivalent to caps on benefits and should not be treated as such for purposes of this Statement. Rather, the projection of benefits for 401h plans, as for defined benefit plans generally, should be based on the current substantive plan and the historical pattern of allocation of benefit costs between the employer and plan participants. However, the Board realizes that the funding limitations of such plans, if maintained on an ongoing basis, could result in a change in the pattern of cost sharing at some point in the future—that is, increased shifting of the burden of cost increases to plan participants. The Board therefore also concluded that additional disclosure requirements should be added applicable to such situations.

Selection of actuarial assumptions

133. Similar to the pension standards, the Board has concluded that selection of all actuarial assumptions for OPEB calculations should be guided by the standards promulgated by the Actuarial Standards Board of the American

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Academy of Actuaries. Standards issued by the Actuarial Standards Board may be revised from time to time. The rules of procedure of the Actuarial Standards Board include the required exposure for comment of proposed standards, including revisions, before adoption. The GASB intends to review proposed changes that affect accounting and financial reporting for OPEB and to issue additional accounting guidance, if needed.

Discount Rate

134. The pension standards require that the interest rate used to discount projected pension benefits to their present value should be the long-term expected-yield rate on current and expected future plan investments. Because most OPEB plans currently are not funded and therefore have few or no plan assets, the Board considered a number of potential approaches to the selection of a discount rate for OPEB. Approaches considered but rejected include use of the following:

- a. A current-yield rate on high-quality, low-risk bonds—rejected as inconsistent with the long-term focus adopted in the pension standards and this Statement
- b. A long-term expected-yield rate on a surrogate investment portfolio, such as that of the employer's pension plan or that of a similar employer's funded OPEB plan—rejected as hypothetical and potentially inconsistent with the financing method for the OPEB plan
- c. A settlement rate—rejected as not feasible because of the improbability that insurers would assume the risk of postemployment healthcare benefit commitments, given the highly uncertain dollar amounts.

135. The Board concluded that, for consistency, the same principle applied in the pension standards with regard to selection of a discount rate also should be applied to OPEB. However, the principle should be more broadly stated in order to fit an OPEB environment in which plans potentially could be unfunded (no assets), partially funded, or funded on a full actuarially determined basis. Accordingly, this Statement requires the use of the long-term expected yield on the investments that are expected to be used to pay benefits as they come due. These would be plan investments for a funded plan, the employer's investments for an unfunded plan, or a weighted average of expected plan and employer investments for a plan that is partially funded.

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136. The Board recognizes that permissible investment options and yield opportunities for an employer's general investments may be more limited than those for the investments of a pension or employee benefit trust fund, PERS, or other third-party administrator of an OPEB plan. As a result, discount rates for unfunded plans generally may be lower than for funded or partially funded plans. The Board concluded, however, that the potential difference in discount rates is appropriate because employers that intend to rely on their general investments for the future payment of OPEB should, in fact, expect to receive less help from investment earnings in financing the total cost of benefits.

137. Several Exposure Draft respondents commented that they believe the proposal to base the selection of a discount rate on the long-term expected rate of return on the assets expected to be available to pay or provide OPEB when due would be problematic in practice. Different respondents believe that this would be particularly true when an OPEB plan was partially funded, or when an employer had either no invested assets or two or more pools of invested assets. Others commented on the lack of relationship between employers' short-term investment objectives and OPEB funding considerations or on what they view as inconsistency in the discount rates for funded and unfunded plans. Suggestions from respondents included clarifying the definitions of *funded*, *partially funded*, and *unfunded* plans; basing the discount rate on external benchmark securities; and requiring a discount rate that is "consistent for all entities"—at least to the extent that the discount rate for unfunded plans would be based on something other than the short-term investment portfolios that many employers have. A number of other respondents recommended allowing employers that have OPEB plans that are initially unfunded, but that are in the process of establishing trust funds in anticipation of funding, to select a discount rate reflecting the expected long-term rate of earnings on the *anticipated* diversified investment mix of the trust.

138. After discussion, the Board reaffirmed its original decision that the selection of a discount rate should be based on the expected long-term rate of return on the assets expected to be available to pay or provide OPEB when due. Additional research indicated that actuaries would be able to develop an estimate of a blended discount rate based on the expected long-term rates of return on plan and employer investments, as required for partially funded

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plans. However, the Board concurred with a respondent suggestion to clarify the conditions under which the relevant rate of return would be based on:

- a. Plan assets—that is, *when the employer is contributing the ARC⁴³ on a regular basis* (previously referred to as funded plans)
- b. Employer assets—that is, *when no plan assets have been accumulated* (previously referred to as unfunded plans)
- c. A proportionate blend of plan and employer assets—that is, *when some plan assets have been accumulated, but the employer is contributing less than the ARC* (previously referred to as partially funded plans).

With regard to the *method* of developing a blended rate, the Board concluded that the rate should be proportional to the respective reliance expected to be placed on plan and employer assets to pay or provide OPEB when due. Research indicates that there are a number of reasonable approaches to determining a blended rate. These include what might be called a *funded ratio approach* (based on the extent to which a plan is funded) and an *ARC approach* (based on the percentage of the ARC actually being contributed). No single approach may be preferable in all circumstances. The Board concluded, therefore, that this Statement should not specify a particular approach for determining a blended rate; however, the approach used should be disclosed.

Actuarial cost methods

139. This Statement and the related Statement permit the use of any one of the same six actuarial cost methods—entry age, frozen entry age, attained age, frozen attained age, unprojected unit credit, and aggregate, as defined in the actuarial terminology section of this Statement—that are acceptable for pension plans and employers according to Statements 25 and 27. The Board believes that use of the same method for funding and financial reporting, referred to in paragraph 117, is appropriate and more useful for users than reporting information based on two different methods—one for funding and one for financial reporting—unless the method chosen for funding does not conform to accrual-basis accounting principles. The Board has concluded that, from the long-term perspective appropriate to accounting and financial reporting for OPEB, any of the six acceptable actuarial cost methods, coupled with the other parameters in

⁴³At a minimum.

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this Statement, would result in a systematic and rational allocation of a reasonable portion of the total cost of OPEB to periods of active employee service, consistent with the accrual basis of accounting.

140. As is the case for pensions, the same actuarial cost method used for funding OPEB plans also should be used for financial reporting, unless that method does not meet the parameters, in which case one of the acceptable methods should be used for financial reporting. Also, the same method should be used for determining the ARC and the funded status of an OPEB plan. (However, plans that use the aggregate method should use the entry age method to prepare a schedule of funding progress, as discussed in paragraphs 110–112.)

Actuarial value of assets

141. Consistent with its conclusions in the pension standards, the Board has concluded that the actuarial valuation of plan assets should be based on the standards promulgated by the Actuarial Standards Board. ASOP 6, which is applicable to OPEB plans, generally requires valuing dedicated plan assets using a method that takes into account market value, unless another asset valuation method is required by law or regulation.

142. Consistent with its view that the investment return assumption should be based on an estimated long-term rate of return on the assets expected to be used to pay benefits, the Board reaffirmed its conclusion in Statements 25 and 27 that the valuation of plan assets for the purpose of determining the ARC and assessing the funding progress of the plan should be market related. That is, the valuation of assets for those purposes should reflect some function of market value. The term *market related* includes techniques that moderate short-term volatility in market values by allocating the effects of appreciation (or depreciation) in market values over, for example, three to five years. The use of such techniques is designed to strike a balance between recognition of invested assets' market value at the time of valuation and the objective of stabilizing the recognition of short-term market value fluctuations, which have no significance from the long-term perspective of the valuations.⁴⁴ The term also includes current market values. However, current market values should not be used if those values would cause the ARCs for successive periods to fluctuate in a manner that would have little or no meaning from a long-term perspective.

⁴⁴Thomas P. Bleakney, F.S.A., *Retirement Systems for Public Employees* (Homewood, IL: Richard D. Irwin, Inc., 1972), p. 125.

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Nevertheless, the Board has not precluded the use of current market values if, in the judgment of those familiar with the circumstances, use of those values is warranted considering the types and holding periods of particular investments.

Amortization of unfunded actuarial accrued liabilities (or funding excesses)

143. The Board has adopted the same general approach for the amortization of unfunded actuarial accrued liabilities (or funding excesses) of OPEB plans that applies for pension plans under Statements 25 and 27. Plans may amortize the total unfunded actuarial accrued liability over a single period; alternatively, different components of the total (for example, the initial unfunded actuarial accrued liability, changes due to the retroactive effect of plan amendments, and **actuarial experience gains and losses**) may be amortized over different periods. The amortization method may be either level dollar or level percentage of projected payroll and may be applied on either a closed or an open basis. Similar types of gains and losses (for example, actuarial experience gains and losses) generally should be amortized using similar methods and over similar periods.

Maximum Amortization Period

144. The maximum acceptable amortization period for an OPEB plan's unfunded actuarial accrued liabilities (or funding excesses) is thirty years, consistent with the ultimate maximum period for pension plans. The Board has not adopted for OPEB the transitional provision of Statements 25 and 27 that permitted an amortization period of up to forty years for not more than ten years from the effective date of Statement 25 (periods beginning after June 15, 1996). That provision was included in the pension standards because an existing acceptable standard for governmental employers (Accounting Principles Board Opinion No. 8, *Accounting for the Cost of Pension Plans*) permitted amortization periods of up to forty years, and many governments were complying with that standard. The Board temporarily extended that provision of APB Opinion 8 (otherwise superseded by Statement 27) to allow entities using an amortization period between thirty and forty years time to gradually reduce the period to not more than thirty years and, thereby, avoid sudden large changes in contribution rates. That situation does not apply for OPEB, and the Board therefore has concluded that the temporary acceptance of amortization periods between thirty and forty years for pension plans is not necessary for OPEB plans.

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145. When different components of the total unfunded actuarial accrued liability are amortized over different periods, plans should calculate the equivalent single amortization period, using the calculation method specified and illustrated, respectively, in paragraphs 34f(1) and (2) and in Appendix C of this Statement. If the resulting equivalent single amortization period exceeds the maximum acceptable amortization period of thirty years, the amortization period for one or more of the separately amortized components of the total unfunded actuarial accrued liability should be adjusted so that the equivalent single amortization period is within the maximum.

Minimum Amortization Period for Certain Events

146. Similar to the pension standards, this Statement and the related Statement require OPEB plans to amortize changes in unfunded actuarial accrued liabilities that result from changing the actuarial cost method or the method of determining the actuarial value of assets over at least ten years, unless the plan is closed to new entrants and all or almost all of the plan members have retired. In those circumstances, a required minimum amortization period would be inconsistent with the objective of phasing out the plan.

Contribution deficiencies or excess contributions

147. The requirements of this Statement regarding amortization of contribution deficiencies or excess contributions generally are consistent with Statement 25. However, to clarify the application of those requirements to OPEB, this Statement specifically precludes counting as actual OPEB contributions (a) net assets of a governmental or proprietary fund that the employer has designated to be used for OPEB contributions or (b) internal transfers to a separate governmental or proprietary fund established to be used for OPEB contributions.⁴⁵

⁴⁵Similarly, amounts paid by participating employers to a third-party administrator of a multiple-employer plan should be counted as contributions *only to the extent* needed to provide benefits directly, pay premiums, or pay plan administrative expenses on a pay-as-you-go basis, *if* the fund used to administer the plan *is not a legal trust*, or an equivalent arrangement, in which contributions are irrevocable and assets are dedicated to providing benefits in accordance with the terms of the plan and are protected from creditors of the employers and the administrator.

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Alternative Measurement Method for OPEB Plans with Fewer Than One Hundred Plan Members

148. This Statement permits OPEB plans with fewer than one hundred members to apply the *alternative measurement method* set forth in paragraphs 38 through 40 instead of performing actuarial valuations in accordance with the parameters (the basic measurement standard). The requirements of paragraphs 38 through 40, which permit certain modifications of the parameters, originally were developed with assistance from members of the OPEB task force and additional input from committees and individuals from the actuarial and auditing professions. Significant considerations related to the Board's decision to include the alternative method in the Statements are discussed in paragraphs 149 through 165. Issues raised by Exposure Draft respondents and modifications to the Exposure Draft that are incorporated into this Statement for the purpose of improving certain aspects of the method are discussed in paragraphs 166 through 175.

Concerns regarding Application of the Basic Measurement Standard to Small Plans

149. As discussed previously, the Board adopted an approach consistent with that of Statement 25 as the basic measurement standard for purposes of financial reporting by OPEB plans. The Board believes that the approach adopted will result in more faithful representation of OPEB transactions in general purpose external financial reporting and a significant improvement in the reliability and usefulness of the reported information. However, as the Board acknowledged in paragraph 73 of Concepts Statement No. 1, *Objectives of Financial Reporting*, the *cost of preparing, auditing, and using information* constitutes a practical constraint on financial reporting standards from an accountability perspective, which otherwise might be virtually without limits. In that paragraph, the Board affirmed its intention to maintain a broad perspective as to the meaning and implications of accountability reporting but *also* affirmed:

. . . Cost-benefit relationships will be carefully considered by the Board, during its research and due process, when establishing individual standards. In assessing costs and benefits, the Board will consider such factors as . . . the intensity of the needs of all groups of users, the risks or costs to users of not having certain types of information, and the relative costs and benefits considering the size or type of governmental entities involved.

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150. Efforts culminating in the development of the method set forth in paragraphs 38 through 40 were stimulated by the Board's concern regarding the cost of applying the basic measurement standard to small OPEB plans. Although comprehensive data are not available regarding the number, types, and sizes of OPEB plans offered by state and local governments, an examination of limited data indicates that a substantial number and percentage are single-employer plans with a small total membership.

151. The Board believes that application of the basic measurement standard, including actuarial valuations in accordance with the parameters, to such plans would result in improved financial reporting by the plans and the employers, and that the resulting information would be useful to financial statement users. However, the Board recognizes that the potential cost of actuarial valuations for small plans could be quite high in relation to the number of covered lives or the current cash outflows for benefits. At some point (for example, below some plan size cutoff point), that cost arguably would exceed the benefits of providing the information. The Board's purpose in exploring the feasibility of an alternative method was to see whether a workable method could be developed that would produce substantially more useful information, compared to current practice, at less cost than the cost of applying the basic measurement standard. In deciding whether, and in what ways, the basic measurement standard could appropriately be modified, and in what circumstances such modifications could appropriately be applied, the Board considered not only the cost to preparers but also:

- a. The Board's *financial reporting objectives* in the OPEB project and the potential effects of a proposed modification on the achievement of those objectives
- b. The *qualitative characteristics* that reported financial information should have and the potential effects of a proposed modification on the qualitative characteristics of reported OPEB information, especially the reliability of the information.

152. The Board also considered but rejected a proposal to further extend the maximum interval between actuarial valuations for the smallest plans (for example, to require actuarial valuations, made in accordance with the parameters, for such plans at least every fifth year). Advantages cited by proponents of this proposal were that it would require actuarial valuations in accordance with the parameters for all OPEB plans; however, valuations for the smallest plans would be required only infrequently, as a means of reducing the cost of applying the proposed standards for those plans. However, the Board concluded that if this alternative was adopted, the information and assumptions

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used in calculations of the ARC and the actuarial accrued liability for the smallest plans would become stale before a more current valuation was required. The infrequency of valuations of such plans also would diminish the ability of users to assess trends in funding progress.

Reliability, the Parameters, and the Alternative Measurement Method

153. In paragraph 64 of Concepts Statement 1, the Board stated that, among other qualitative characteristics, reported financial information should be *reliable*. To be reliable, the information should be verifiable and free from bias and should *faithfully represent underlying events and conditions*, omitting nothing material for that purpose. The notion of reliability does not, however, imply precision or certainty. Rather:

. . . Reliability is affected by the *degree of estimation in the measurement process* and by *uncertainties inherent in what is being measured*; [therefore,] financial reporting may need to include narrative explanations about the underlying assumptions and uncertainties inherent in this process. Under certain circumstances some financial information is based on *reasonable estimates*. A properly explained estimate provides more meaningful information than no estimate at all. [Emphasis added.]

154. The nature of OPEB transactions and the inherent difficulty of measuring their financial implications, including the necessity of making demographic and economic assumptions about multiple relevant future events, preclude precision or certainty in the information reported. The Board recognizes that different individuals may arrive at different best-estimate assumptions about future events. Moreover, future events rarely if ever coincide precisely with the assumptions previously made about them. Nevertheless, the Board believes that actuarial valuations made in accordance with the parameters will provide reasonable estimates, consistent with the concept of reliability discussed in the previous paragraph.

155. In the circumstances, reliability rests not on the possibility of determining and reporting demonstrably precise or certain measures of OPEB costs and obligations, but principally on a *measurement process* that brings to bear logic, methodology, and disciplines developed by professionals who specialize in making estimates regarding such complex matters. Further, this Statement and the related Statement include parameters designed to ensure that the methods and assumptions used in actuarial valuations will be appropriate for financial

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reporting purposes, and that the information produced will meet relevant financial reporting objectives and will possess to a high degree the appropriate qualitative characteristics of accounting information.

156. The alternative measurement method set forth in paragraphs 38 through 40 requires estimates of the same elements of information, following the same broad measurement steps, as an actuarial valuation in accordance with the parameters. That is, the alternative method requires projecting future cash outflows for benefits, discounting projected benefits to present value, and allocating the present value of projected benefits to periods using an actuarial cost method. The principal difference is that the alternative method permits simplification of certain assumptions, for the purpose of making the method potentially feasible for application by nonspecialists. Paragraph 39 provides requirements for specific demographic and economic assumptions that may be simplified. (Assumptions also should be made for any other matters that are significant to the projection of OPEB costs and obligations for a particular plan.) For example, paragraph 39 permits using current insurance premium rates as the starting point for projection of postemployment healthcare benefits, rather than requiring analysis of underlying claims costs. However, paragraph 40 provides a simplified method that should be used to estimate age-adjusted premiums for retirees when a plan and employers know only *average, or blended, premium rates covering both active employees and retirees* in a plan.

157. In developing the simplified requirements for specific assumptions, the Board's goal was to make the selection and handling of the assumptions workable for nonspecialists. However, the Board also sought to make the selection of assumptions:

- a. Objective—by, for example, requiring that select and ultimate assumptions regarding the healthcare cost trend rate be based on a published source, rather than estimated by the preparer
- b. Neutral as to results—avoiding intentional systematic understatement or overstatement of estimates, in comparison to the results that would be obtained if an actuarial valuation was performed.

158. Although actuarial valuations in accordance with the parameters and calculations made using the alternative measurement method would be similar in objectives, general approach, and some specifics, presumably there also would be differences between the information produced by the respective methods. To place such differences in context, it is important to consider that statistical inferences from very small populations, including OPEB plans of a

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size that would qualify to use the alternative method, are inherently less reliable than are those from larger populations. This inherent condition provides reason not to overestimate the precision or ultimate predictive value of *either* actuarial valuations *or* calculations using the alternative measurement method. Nevertheless, the alternative measurement method introduces additional possibilities for error in addition to those present in an actuarial valuation, as a result of:

- a. The simplifying assumptions that it permits—which could be less precisely tuned to the plan for which estimates are being made
- b. Its potential application by nonspecialists—which could affect the level of skill or objectivity applied to selection of appropriate assumptions or the accuracy with which calculations are accomplished.

159. In the Exposure Drafts, the option to apply the alternative measurement method was limited to single-employer plans with a total membership of fewer than one hundred. The proposed eligibility criteria did not include multiple-employer plans because the Board believed that almost all plans of that size would be single-employer plans and because the Board wanted to avoid potential complications if some employers in a multiple-employer plan met the eligibility cutoff but the plan itself did not.⁴⁶ The Board believed that for OPEB plans that meet the proposed eligibility criterion, the potential costs of applying the basic measurement standard would be high enough, in relation to the size of the plan, to warrant this potentially lower-cost option. The Board concluded that any reduction in precision resulting from process differences introduced by the method was justified by the potential net reduction in the cost of preparing and auditing the information, for plans in that size range and their participating employers. For such plans, the Board believed that the method proposed would be reasonable in the circumstances and would result in a significant improvement in the usefulness of reported financial information, compared to current practice.

160. Although, as discussed previously, comprehensive information about existing governmental OPEB plans is not available, the Board believed that at the eligibility cutoff of fewer than one hundred plan members, the alternative measurement method afforded a potentially lower-cost alternative to a substantial number of plans and employers. However, that cutoff point also reflected the Board's conclusion that use of the alternative measurement method should be

⁴⁶Upon further review, the Board subsequently concluded that where the total plan membership is fewer than one hundred, eligibility could be extended to include multiple-employer plans without complications. That change has been included in the final Statement.

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limited to small plans for which implementation cost considerations were likely to be severe. The Board concluded that plans with a larger total membership should be required to apply the basic measurement standard, because it would provide a higher degree of process reliability.

Field Testing

161. Prior to the issuance of the Exposure Draft, the Board conducted a preliminary field test of the alternative measurement method, in which the GASB staff applied the method to a local government's postemployment healthcare plan, and a field test by local government volunteers. An actuary also provided the Board comparative results of an actuarial valuation and calculations using the alternative measurement method for a postemployment healthcare plan. Although the results of testing were limited by the number of volunteer governments and in no way were conclusive, the Board judged that the method potentially could achieve the objectives set for it.

162. Testing by GASB staff and government volunteers tentatively indicated that for governmental entities with the staff resources to apply the alternative method, the cost of preparing information in-house potentially would be lower, in comparison to the cost of an actuarial valuation in accordance with the parameters. A potential for preparation cost savings appeared to exist in the initial application of the method, based on the hours required for completion of calculations in the limited number of tests. Also, testers estimated that the time required for subsequent applications of the method could be significantly less, as a result of the experience gained in becoming familiar with the requirements and formatting data and calculations.

163. The Board recognized that many entities with OPEB plans small enough to qualify for use of the alternative measurement method might not have the staff resources to apply the method in-house. Such entities might, instead, retain the services of a professional (for example, an actuary or an accountant) to make the calculations. If professional services were used, potential cost savings presumably would be reduced. The extent to which cost savings, if any, would result would depend on the professional fees in the marketplace for applying the alternative measurement method compared with those for an actuarial valuation of the same plan.

164. The alternative measurement method was designed to be potentially applicable by nonspecialists. In that event, auditors presumably would not apply auditing literature pertaining to establishing a basis for reliance on the work of

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a specialist (Statement on Auditing Standards No. 73, *Using the Work of a Specialist*). Rather, auditors presumably would need to do additional, or different, audit work, in comparison to applying auditing procedures to the results of an actuarial valuation. Further, the extent of audit work could vary somewhat depending on the perceived skill and objectivity of the person who performed the calculations and the associated risk of errors or bias in the process. Members of the auditing community conveyed various impressions regarding the potential increased audit cost, ranging from negligible to more significant additional cost.

165. Comparative analysis of the results of an actuarial valuation and calculations using the alternative measurement method in a single case identified sources of difference in the allocation of costs between periods, based on the application of actuarial cost methods illustrated in the field test packet. The extent of resulting differences could vary depending on the demographics of the group. As discussed previously, additional differences could result from use of simplifying assumptions. Even so, the Board believed that estimates produced through the conscientious use of the alternative measurement method would represent a substantial improvement over current practice, and that the option to use the method was appropriate within the limited scope for which it was intended.

Comments from Exposure Draft Respondents

166. A number of comments were received from Exposure Draft respondents regarding the proposed alternative measurement method. Respondents' comments on the issue generally referred to, and in some cases elaborated on or provided additional information about, themes and factors considered by the Board in the process of developing the Exposure Draft and discussed in the Basis for Conclusions of the Exposure Draft. Individual respondents weighed the significance of specific factors differently.

General comments regarding the alternative measurement method

167. Many respondents shared the Board's concern about the cost of implementing OPEB standards for small plans and participating employers and supported the GASB's objective of making available an optional measurement method that can be applied by nonspecialists as a cost-saving alternative. Some believed that the method proposed in the Exposure Draft would achieve that objective, whereas others agreed with the underlying intention but questioned the efficacy of the proposed method or would have preferred a different

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method, specific or nonspecific (for example, a method that is simpler). Other respondents, however, expressed doubts and concerns about the proposed method and generally did not support the proposed inclusion of an alternative measurement method as part of the standards. Areas of concern expressed regarding *the method generally* included:

- a. Concerns about the perceived complexity of the method
- b. Concerns about whether the method would be feasible for application by small-government personnel without professional assistance in some form
- c. Concerns about the reliability of the information produced by nonspecialists using the method for financial reporting purposes, as well as for other purposes for which it would not specifically be intended—including concerns that the method might be misapplied to plan designs more complex than those illustrated by the Board or in support of financial decisions for which it might not be sufficiently reliable
- d. Concerns about potential increased costs of assurance and, consequently, about whether net cost savings would be achieved
- e. Concerns about the application of any method created or applied without the involvement of an actuary—that is, with the attempt by the GASB to create and prescribe, as an option, a particular alternative measurement method intended to be potentially usable by nonspecialists.

Although each of these issues had been considered by the Board prior to issuing the Exposure Drafts, they were redeliberated as a result of concerns raised by respondents, as discussed in paragraph 175.

Comments regarding specific requirements and illustrations

168. Before making an overall decision about whether to go forward with the proposed method, the Board also considered Exposure Draft respondents' comments on issues not discussed previously, related to specific proposed requirements and illustrations of the alternative measurement method. Several respondents raised significant technical issues that affected the illustrated method of allocation of OPEB costs to periods in connection with the entry age normal actuarial cost method. Two primary issues were identified—the entry age method *as illustrated* did not (a) discount the present value of benefits at entry age for the probability of termination between entry age and attained age or (b) reflect termination rates in the annuity factors applied at various stages of

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the allocation process. The Board concluded that it was important to find a practical solution to these issues to:

- a. Improve the method, including correcting an apparent unintended tendency to understate the ARC and the UAAL
- b. Support the Board's ability to provide illustrations, implementation guidance, and answers to technical inquiries regarding the method on an ongoing basis—including guidance regarding a *range of amortization methods*, including entry age, as proposed.

169. Accordingly, the Board retained the services of consulting actuaries to provide technical assistance in resolving these issues. To improve the cost method calculations, the actuaries recommended converting the proposed “qualification for benefits assumption” from a single “probability of qualifying,” as proposed, to age-based probabilities (for example, the probability that an individual at age 20 will remain employed until age 21, and so on). Given the systematic understatement expected to result from the method proposed and illustrated in the Exposure Draft, the Board concluded that it was necessary to find a way to incorporate age-based probabilities into a revised standard and illustration but was concerned about the additional complexity that such a modification might create. Therefore, at the Board's request, the consultants explored ways in which the approach could be simplified for incorporation into the revised Exposure Drafts. The consultants ultimately recommended:

- a. Modifying the default assumption as proposed in the Exposure Draft to utilize age-based turnover rates derived from public-sector experience, rather than basing the criteria on a plan-specific qualifying period. To provide default values, a table was developed from Federal Employees Retirement System experience data maintained by the U.S. Office of Personnel Management that presents the probabilities of remaining employed from any age to assumed retirement age.
- b. Using a derived measure of expected future working lifetime (which projects the future working lifetime of a member based upon age and considers the turnover probabilities developed in the Federal Employees Retirement System—based turnover table, discussed above) to calculate annuity factors.

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170. The approach developed avoids the need for a complex additional spreadsheet(s) to calculate present value factors and, instead, provides preparers with tables of values based on attained or entry age and assumed retirement age to use in required calculations. The Board concluded that the combined use of the two tables would benefit preparers using the default method in two ways:

- a. It would reduce complexity by framing the probability in terms of a single, defined element (age) rather than on qualification criteria. For plans with multiple qualifying criteria (for example, age and years of service), the need to calculate separate probabilities (and present value factors) for individual members would be eliminated.
- b. Unlike the default probability specified in the Exposure Draft, the recommended approach would require no additional calculations, thereby resulting in fewer opportunities for error or misinterpretation. For preparers *not* using the default assumption, additional calculations would be necessary; however, the approach chosen would reduce the amount of calculation necessary.

171. Adoption of the project consultants' suggestions resulted in the following modifications in the Standards section of this Statement:

- a. The parameter now is defined in terms of "turnover" rather than "probability of qualifying."
- b. Plans that use experience-based turnover information for the group(s) of their participating employer(s) should incorporate year-to-year, age-based turnover rates. For those plans, an explanation of how to calculate both the probability of remaining employed until the assumed retirement age and the expected future working lifetime is provided in paragraph 40a.
- c. If experience-based turnover information for an employer's group is not available, the plan may use the tables of default values for the probability of remaining employed until the assumed retirement age and for expected future working lifetimes provided in paragraphs 40b and 40c, respectively.

The nonauthoritative illustration of the application of the alternative measurement method using the entry age actuarial cost method also has been amended accordingly.

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172. The Board concluded that adoption of the approach developed with the assistance of the project's consulting actuaries would both:

- a. Mitigate known technical problems in the proposed standard and illustrations and improve the calculations of the actuarial accrued liability and the ARC, particularly when actuarial cost methods other than unit credit are used
- b. Be approximately equivalent in terms of ease of use to the method proposed in the Exposure Draft, for governments that use the default values.

173. Another suggestion from some respondents regarding a specific element of the calculations was that the alternative measurement method would be simpler for preparers and auditors if a *single amortization method* (unit credit and level dollar) was specified. The Board also considered the potential benefit of that suggested change in simplifying the Board's ongoing task of providing implementation guidance and technical support, by eliminating most combinations of actuarial cost method and amortization method. However, the Board concluded that going forward with the proposal to permit the use of six actuarial cost methods, in combination with either level dollar or level percentage amortization, remains supportable. The Board was encouraged, in regard to the feasibility of providing guidance regarding multiple methods, by the improvements discussed in the preceding paragraphs, including improvements to the entry age illustration. Also, the consulting actuaries indicated that they believed similar illustrations of other permitted cost and amortization methods could be developed.

174. The other significant issue considered by the Board in regard to a specific requirement related to the proposed use of health insurance premiums. The Exposure Draft proposed to permit plans and participating employers using the alternative measurement method to use the current premium structure as the initial per capita healthcare rates for the purpose of projecting future healthcare benefit payments. However, in response to the comments received during due process, the Board added a qualification regarding circumstances in which the same premium rates are given for both active employees and retirees in an experience-rated healthcare plan. In those circumstances, it is preferable to obtain from the insurer the age-adjusted premium rates for the retirees in the plan and to use those adjusted rates as the starting point for projection of benefits. However, if information cannot be obtained from the insurer, age-adjusted premiums for retirees may be estimated using a default method and table(s) added as paragraph 40d—which were developed with input from members of the actuarial community within the context of the Board's objective of providing an alternative method.

[Completely Superseded]

175. Having resolved issues related to specific aspects of the method, the Board reached the following conclusions regarding the proposed alternative measurement method as a whole, in light of concerns expressed by some respondents:

- a. *Complexity of the method and feasibility for use by nonspecialists.* The Board affirmed that the nature of the measurement problem is inherently complex and requires a method that takes relevant factors into account in a manner suitable to the problem. Despite the preference of some respondents for a simpler method, neither respondents' comments nor the Board's efforts have identified a method that would satisfy that preference without detriment to the financial reporting objectives the project is intended to achieve. The Board reaffirmed its belief that the method developed would be feasible for use by many small plans and employers. Factors that the Board believes will favor successful use of the method include anticipated support for individual users from preparer organizations and other service providers—including, for example, training and software—and users' anticipated increasing facility and efficiency with the method with repeated use.
- b. *Limitations of the method, in terms of technical precision.* The Board reaffirmed that the method is intended to provide useful information for general purpose financial reporting. The Board continues to believe that the method (with improvements discussed elsewhere) can be applied to produce a faithful representation of the financial implications of OPEB that would significantly improve upon present practice, at a reasonable cost, for that purpose. The Board's position is based, in part, on consideration of the degree of imprecision inherent in applying statistical methods to small populations, and on the sensitivity of the results to variations in key assumptions, even if the most precise techniques were applied.
- c. *Increased costs of assurance and reduced net cost savings.* As discussed in paragraph 164, the Board recognizes that costs associated with auditing may increase in some circumstances when the alternative measurement method is used by a nonspecialist. The extent to which that may occur, and whether increased costs of assurance would negate preparation cost savings, would depend on the circumstances of each engagement. For reasons discussed previously, the Board continues to believe that the alternative measurement method offers potential net cost savings—recognizing that savings may not occur in any particular case.

The Board believes it has developed a method that achieves an appropriate balance between the goals of reliable measurement and reasonable cost.

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Financial Reporting and Disclosure Requirements for OPEB Plans That Are Not Administered as Qualifying Trusts or Equivalent Arrangements

176. Paragraph 41 of this Statement and the discussion in this section relate to financial reporting and disclosure requirements for plans that are *not* administered as trusts, or equivalent arrangements, in which all the following conditions exist:

- a. Employer contributions to the plan are irrevocable.
- b. Plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the substantive plan, or understanding between the parties.
- c. Plan assets are legally protected from creditors of the employers or plan administrator.

The preceding, derived from paragraph 34g of this Statement,⁴⁷ are the conditions that would have to be met in order for amounts transferred by an employer to an OPEB plan *in excess of pay-as-you-go requirements* to be accounted for as *employer contributions to the plan* in relation to the ARC. As further stated in that subparagraph, amounts that an employer earmarks or sets aside for future OPEB benefit or premium payments in a manner that does *not* meet the preceding conditions do not constitute contributions to the plan, and the accumulated assets should be accounted for as *employer assets*, rather than plan assets.

177. In the Exposure Draft, the Board cited as examples of such financing arrangements (a) an employer's designation of fund balances and (b) an employer's accumulation of assets in a separate governmental or proprietary fund. Comments received from respondents regarding multiple-employer plans that currently are not administered as trusts prompted the Board also to consider the financial reporting implications of plans structured in that manner, for the plan administrator as well as for the participating employers.

178. After consideration of several fund types for reporting of such plans, the Board concluded that when an OPEB plan is not administered as a trust, or equivalent arrangement, the role of the plan administrator or sponsor of a multiple-employer plan with regard to assets collected, paid, or held incident to providing benefits would most closely approximate that of an agent for the participating employers. This Statement therefore requires that, in such

⁴⁷The same parameter is included in the related Statement.

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circumstances, the plan be reported as an agency fund. An important implication of that requirement is that any assets accumulated in excess of liabilities to pay premiums or benefits, or for investment or administrative expenses, should be offset by liabilities to the participating employers, rather than being reported as plan net assets.

179. The Board's conclusions in regard to the financial reporting of such arrangements by the plan administrator were made in conjunction with conclusions regarding financial reporting by the participating employers. In particular, the Board concluded that if the structure of a multiple-employer plan does not support the accumulation of *plan net assets* (that is, any assets transferred to or held by the plan administrator in excess of current needs are required to be accounted for as *employer assets* based on the conditions stated in paragraph 34g), the employers *effectively cannot* share assets or their obligations to finance benefit costs for their retirees and their beneficiaries. That is, the plan cannot be a cost-sharing plan for financial reporting purposes, regardless of the way in which it may be characterized otherwise. Thus, for financial reporting purposes, the related Statement requires that employers in such plans follow the requirements of the related Statement for agent employers, including:

- a. Measurement of annual OPEB cost based on the ARC, rather than on the contractually required contribution
- b. Measurement and disclosure of information about the funded status and funding progress of the employer's individual plan, and the employer's contributions in relation to annual OPEB cost.

180. In combination, the requirements of this and the related Statement treat the plan administrator in such cases as performing essentially the role of an agent (collecting moneys from the participating employers and paying premiums or benefits when due) and place the greater weight of financial reporting and disclosure on the participating employers. Consistent with the lesser reliance on plan reporting in such cases, this Statement limits plan disclosure requirements to providing a plan description, a summary of significant accounting policies, and information about contribution requirements. When a plan's financial statements are presented in both an employer's report and a publicly available stand-alone plan financial report that complies with this Statement, the employer may further limit its plan disclosures to the extent summarized in paragraph 41, provided that the employer discloses information about how to obtain the stand-alone plan financial report. The plan administrator also should disclose that the related Statement requires each participating

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employer to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

Effective Date

181. The Exposure Draft proposed that this Statement would become effective in three phases, based on the total revenues of the participating employer (or the largest employer, for multiple-employer plans) in the first fiscal year ending after June 15, 2003, calculated using the same criteria used previously for the phased implementation of Statement 34. Because many OPEB plans previously have not had actuarial valuations, the Board was concerned that this Statement and the related Statement potentially could increase the demand for actuarial services to the extent that supply would become a problem if all plans had effective dates within the same year. The Board concluded that phased implementation should ease adjustments of the supply and demand for actuarial services.

182. The Board's intent, expressed in the Exposure Draft, was to provide a relatively long implementation period, to assist plans in planning for and implementing its measurement and reporting requirements and to minimize overlap with the extended period for implementation of the infrastructure reporting provisions of Statement 34. After assessing the effect of extensions of the projected issuance date of this Statement as a result of (a) work on the alternative measurement method and (b) reexposure of the related Statement, the Board concluded that the effective dates of this Statement also should be extended, in order to maintain adequate lead time for implementation. Accordingly, the effective dates have been extended to plans' fiscal years beginning after December 15, 2005, 2006, or 2007, depending on whether the largest participating employer is a phase 1, phase 2, or phase 3 government for the purposes of implementing Statement 34 and the related Statement. For most plans, that change will extend the effective date by one year. Earlier implementation continues to be encouraged.

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183. The effective dates of this Statement and the related Statement are specifically set one year apart. In planning for implementation, preparers should consider the effective dates of both Statements and the maximum acceptable periods between the actuarial valuation date and application of the results to information reported, respectively, in the financial reports of plans and participating employers for the implementation year.

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Appendix C

ILLUSTRATIONS OF EQUIVALENT SINGLE AMORTIZATION PERIOD CALCULATIONS

184. This appendix illustrates calculations that, if applicable, are required by paragraphs 34f(1) and 34f(2). When components of the total unfunded actuarial liability are separately amortized over different periods, the individual periods are required to be selected so that the *equivalent single amortization period for all components combined* does not exceed the maximum acceptable amortization period. An equivalent single amortization period is a weighted average period calculated in accordance with paragraph 34f(2). For these illustrations, the maximum acceptable period is thirty years. The data included in the examples are hypothetical and are not intended to indicate the endorsement of the amortization periods and methods shown. The amortization factors are based on the actuarial assumptions and the amortization method and period. Use of a different formula for calculating the factors could produce slightly different factors.

Example 1 Equivalent Single Amortization Period *within* the Maximum Acceptable Amortization Period

Example 2 Equivalent Single Amortization Period *outside* the Maximum Acceptable Amortization Period

Example 3 Recalculation of Example 2 So That the Equivalent Single Amortization Period Is *within* the Maximum Acceptable Amortization Period

Example 1—Equivalent Single Amortization Period *within* the Maximum Acceptable Amortization Period

Lines 1, 2, and 3 of the example are given. The total unfunded actuarial liability (UAL) comprises three components or bases (line 2). Each base is to be amortized as a level percentage of projected payroll over a different time period (line 3). The assumptions are 8 percent investment return and 5 percent inflation; based on those assumptions, the level percent discount rate is approximately 2.86 percent. Each amortization factor (line 4) incorporates that rate and the period.

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The amortization calculations for each of the three bases result in a total (net) amortization payment of 4.82 percent of payroll (line 6, total column). If the employer continued to contribute at that rate and all else resulted as anticipated, the total unfunded actuarial liability would be fully amortized in twenty-six years (equivalent single amortization period, line 8). That period is within the maximum acceptable period of thirty years. Therefore, the amortization periods selected for each base are acceptable.

	<u>Base 1</u> <u>Initial</u> <u>UAL</u>	<u>Base 2</u> <u>Plan</u> <u>Amendment</u>	<u>Base 3</u> <u>Cumulative</u> <u>Loss (Gain)</u>	<u>Total</u>
1. Covered payroll				\$1,500,000
2. Amount of base	\$1,000,000	\$400,000	\$(100,000)	\$1,300,000
3. Remaining amortization years	30	15	10	
4. Amortization factor based on (3)	19.77	11.94	8.51	
5. Next year's payment (2)/(4)	\$50,582	\$33,501	\$(11,751)	\$72,332
6. Payment as a level percentage of payroll (5)/(1)	3.37%	2.23%	(0.78)%	4.82%
<i>Equivalent single period</i>				
7. Weighted average amortization factor (2)/(5)				17.97
8. Equivalent single amortization period (nearest whole year)*				26

*Number of years incorporated in the amortization factor (line 7) when the discount rate is 2.86 percent. An amortization factor incorporates a discount rate and a period. When one is known, the other can be calculated.

Example 2—Equivalent Single Amortization Period *outside* the Maximum Acceptable Amortization Period

Lines 1, 2, and 3 of the example are given. The total unfunded actuarial liability (UAL) comprises three components or bases (line 2). Each base is to be amortized as a level percentage of projected payroll over a different time period (line 3). The assumptions are 8 percent investment return and 5 percent inflation; based on those assumptions, the level percent discount rate is approximately 2.86 percent. Each amortization factor (line 4) incorporates that rate and the period.

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The amortization calculations for each of the three bases result in a total (net) amortization payment of 2.14 percent of payroll (line 6, total column). If the employer continued to contribute at that rate and all else resulted as anticipated, the total unfunded actuarial liability would be fully amortized in fifty-nine years (equivalent single amortization period, line 8).

	<u>Base 1</u> <u>Initial</u> <u>UAL</u>	<u>Base 2</u> <u>Plan</u> <u>Amendment</u>	<u>Base 3</u> <u>Cumulative</u> <u>Loss (Gain)</u>	<u>Total</u>
1. Covered payroll				\$1,500,000
2. Amount of base	\$1,000,000	\$200,000	\$(300,000)	\$900,000
3. Remaining amortization years	30	15	10	
4. Amortization factor based on (3)	19.77	11.94	8.51	
5. Next year's payment (2)/(4)	\$50,582	\$16,750	\$(35,253)	\$32,079
6. Payment as a level percentage of payroll (5)/(1)	3.37%	1.12%	(2.35)%	2.14%
<i>Equivalent single period</i>				
7. Weighted average amortization factor (2)/(5)				28.06
8. Equivalent single amortization period (nearest whole year)*				59

*Number of years incorporated in the amortization factor (line 7) when the discount rate is 2.86 percent. An amortization factor incorporates a discount rate and a period. When one is known, the other can be calculated.

Based on the assumptions made, 2.14 percent of payroll is insufficient to amortize the total unfunded actuarial liability in thirty years. One or more of the amortization periods selected for the individual bases should be changed. One solution is to spread the cumulative gain over a longer period, thereby *reducing* the credit taken (lines 5 and 6, base 3) and *increasing* the total (net) amortization payment. Example 3 presents that solution.

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Example 3—Recalculation of Example 2 So That the Equivalent Single Amortization Period Is *within* the Maximum Acceptable Amortization Period

Lines 1 through 8 are repeated from Example 2, and the same assumptions apply. Given those assumptions, the minimum payment needed to pay off the total unfunded actuarial liability in thirty years (line 9) is \$45,524, or 3.03 percent of payroll (lines 11 and 12).

One way to achieve the required minimum payment is to keep the amortization payments for the two loss bases the same (line 13) and recalculate the maximum credit that can be taken for the cumulative gain (line 14). To achieve that amount, the amortization factor for the cumulative gain should be 13.76 (line 15) instead of 8.51 (line 4). The number of years incorporated in that factor when the discount rate is 2.86 percent is eighteen years (line 16); base 3 should be amortized over eighteen years, not ten years. *Note that other solutions are possible, including various combinations of shortening the periods for base 1 or base 2 and lengthening the period for base 3.*

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	<u>Base 1</u> <u>Initial</u> <u>UAL</u>	<u>Base 2</u> <u>Plan</u> <u>Amendment</u>	<u>Base 3</u> <u>Cumulative</u> <u>Loss (Gain)</u>	<u>Total</u>
1. Covered payroll				\$1,500,000
2. Amount of base	\$1,000,000	\$200,000	\$(300,000)	\$900,000
3. Remaining amortization years	30	15	10	
4. Amortization factor based on (3)	19.77	11.94	8.51	
5. Next year's payment (2)/(4)	\$50,582	\$16,750	\$(35,253)	\$32,079
6. Payment as a level percentage of payroll (5)/(1)	3.37%	1.12%	(2.35)%	2.14%
<i>Equivalent single period</i>				
7. Weighted average amortization factor (2)/(5)				28.06
8. Equivalent single amortization period (nearest whole year)				59
<i>Minimum payment</i>				
9. Maximum acceptable average period				30
10. Amortization factor for (9)				19.77
11. Minimum next year's payment (2)/(10)				\$45,524
12. Minimum as a percentage of payroll (11)/(1)				3.03%
<i>Adjusted amortization period for base 3</i>				
13. Payment for base 1 plus base 2 (5)				\$67,332
14. Maximum credit against cumulative gain (11) – (13)				\$(21,808)
15. Base 3 amortization factor (2)/(14)				13.76
16. Base 3 amortization years				18

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Appendix D

ILLUSTRATIONS OF FINANCIAL STATEMENTS AND DISCLOSURES

185. This appendix illustrates the financial reporting and disclosure 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 in addition to those illustrated also are required, if applicable. For example, in the following illustrations, there are assumed to be no legally required reserve accounts. Additional disclosures would be required if that condition existed. Illustrations 1 and 2 are coordinated with Illustrations 2 and 4 of Appendix D of the related Statement, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Illustration 1 Defined Benefit Healthcare Plan Financial Reports

Illustration 2 Reduced Note Disclosures and Required Supplementary Information for a Plan Reported as an Other Employee Benefits Trust Fund or as an Agency Fund When a Stand-Alone Plan Report Is Publicly Available

Illustration 3 Notes to the Financial Statements and Required Supplementary Information for a Defined Benefit Healthcare Plan Using the Alternative Measurement Method

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Illustration 1—Defined Benefit Healthcare Plan Financial Reports

GRANDE RETIREMENT SYSTEM

**STATEMENTS OF PLAN NET ASSETS
as of June 30, 20X2**

(Dollar amounts in thousands)

	State Retired Employees Healthcare Plan	State University Retiree Health Plan	20X2 Total
Assets			
Cash and short-term investments	\$ 250	\$ 13,532	\$ 13,782
Receivables			
Employer	1,182	2,101	3,283
Employer—long-term	—	4,064	4,064
Employee	1,010	1,562	2,572
Interest and dividends	836	31,193	32,029
Total receivables	<u>3,028</u>	<u>38,920</u>	<u>41,948</u>
Investments, at fair value			
U.S. Treasuries	723,487	194,807	918,294
Federal government agencies	1,216,282	308,764	1,525,046
Corporate bonds	1,790,676	378,783	2,169,459
Corporate stocks	3,271,662	615,773	3,887,435
Total investments	<u>7,002,107</u>	<u>1,498,127</u>	<u>8,500,234</u>
Properties, at cost, net of accumulated depreciation of \$5,164 and \$323, respectively	<u>6,177</u>	<u>434</u>	<u>6,611</u>
Total assets	7,011,562	1,551,013	8,562,575
Liabilities			
Accounts payable and other	<u>7</u>	<u>51,828</u>	<u>51,835</u>
Net assets held in trust for other postemployment benefits	<u><u>\$7,011,555</u></u>	<u><u>\$1,499,185</u></u>	<u><u>\$8,510,740</u></u>

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GRANDE RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS for the Year Ended June 30, 20X2

(Dollar amounts in thousands)

	<u>State Retired Employees Healthcare Plan</u>	<u>State University Retiree Health Plan</u>	<u>20X2 Total</u>
Additions			
Contributions			
Employer	\$ 357,682	\$ 33,639	\$ 391,321
Plan member	35,409	4,479	39,888
Total contributions	<u>393,091</u>	<u>38,118</u>	<u>431,209</u>
Investment income			
Net appreciation			
in fair value of investments	475,914	65,845	541,759
Interest	261,540	55,939	317,479
Dividends	127,853	22,079	149,932
	<u>865,307</u>	<u>143,863</u>	<u>1,009,170</u>
Less investment expense	44,996	9,177	54,173
Net investment income	<u>820,311</u>	<u>134,686</u>	<u>954,997</u>
Employer interest on			
long-term contracts	—	365	365
Total additions	<u>1,213,402</u>	<u>173,169</u>	<u>1,386,571</u>
Deductions			
Benefits	226,108	25,568	251,676
Administrative expense	2,350	662	3,012
Total deductions	<u>228,458</u>	<u>26,230</u>	<u>254,688</u>
Net increase	984,944	146,939	1,131,883
Net assets held in trust for other postemployment benefits			
Beginning of year	6,026,611	1,352,246	7,378,857
End of year	<u>\$7,011,555</u>	<u>\$1,499,185</u>	<u>\$8,510,740</u>

[Completely Superseded]

Grande Retirement System

Notes to the Financial Statements for the Fiscal Year Ended June 30, 20X2

The Grande Retirement System (GRS) administers two defined benefit post-employment healthcare plans—State Retired Employees Healthcare Plan (SREHP) and State University Retiree Health Plan (SURHP). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan.

A. Summary of Significant Accounting Policies

Basis of Accounting. GRS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments. Investments are reported at fair value, which for SREHP and SURHP is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the GRS board of trustees, with the assistance of a valuation service.

B. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at December 31, 20X1, the date of the latest actuarial valuation:

	<u>SREHP</u>	<u>SURHP</u>
Retirees and beneficiaries receiving benefits	31,642	4,876
Terminated plan members entitled to but not yet receiving benefits	743	2,289
Active plan members	50,601	8,861
Total	<u>82,986</u>	<u>16,026</u>
Number of participating employers	1	15

[Completely Superseded]

State Retired Employees Healthcare Plan

Plan Description. SREHP is a single-employer defined benefit postemployment healthcare plan that covers retired employees of the state including all departments and agencies. SREHP provides health and dental insurance benefits to eligible retirees and their spouses. Article 37 of the Statutes of the State of Grande assigns the authority to establish and amend the benefit provisions of the plan to the state legislature.

Contributions. Article 37 also assigns to the state legislature the authority to establish and amend contribution requirements of the plan members and the state. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly toward the cost of health insurance premiums. For the year ended June 30, 20X2, plan members contributed \$35.4 million, or approximately 16 percent of total premiums, through their required contributions of \$50 per month for retiree-only coverage and \$105 per month for retiree and spouse coverage. The state is required to contribute the balance of the current premium cost (\$190.7 million, or about 84 percent of total premiums for 20X2) and may contribute an additional amount to prefund benefits as determined annually by the legislature (\$167.0 million for 20X2). Administrative costs of SREHP are financed through investment earnings.

State University Retiree Health Plan

Plan Description. SURHP is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that covers retired employees of participating universities. SURHP provides medical benefits to plan members. Article 38 of the Statutes of the State of Grande assigns the authority to establish and amend benefit provisions to the SURHP board of trustees.

Contributions. Article 38 also assigns to the SURHP board of trustees the authority to establish and amend contribution requirements of the plan members and the participating employers. For the year ended June 30, 20X2, plan members or beneficiaries receiving benefits contributed \$4.5 million, or approximately 18 percent of total premiums, through their required contributions of \$65 per month for retiree-only coverage and \$135 for retiree and spouse coverage to age 65, and \$35 and \$75 per month, respectively, thereafter. Participating universities were required to contribute at a rate equivalent to the annual required contribution of the employers (ARC) (8.75 percent of covered payroll, or \$33.6 million). Administrative costs of SURHP are financed through investment earnings.

Long-Term Receivables. In addition to actuarially determined contributions, certain employers also make semiannual installment payments, including interest at 7.5 percent per year, for the cost of service credit granted retroactively to

[Completely Superseded]

employees when the employers initially joined SURHP. As of June 30, 20X2, the outstanding balance was \$4.1 million. These payments are due over various time periods not exceeding five years at June 30, 20X2.

C. Funded Status and Funding Progress—OPEB Plans

The funded status of each plan as of the most recent actuarial valuation date is as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)— Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b – a] / c)
SREHP						
12/31/X1	\$5,131,017	\$8,833,219	\$3,702,202	58.1%	\$2,243,759	165.0%
SURHP						
12/31/X1	1,301,663	1,575,136	273,473	82.6	371,168	73.7

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the

[Completely Superseded]

historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

	<u>SREHP</u>	<u>SURHP</u>
Valuation date	12/31/X1	12/31/X1
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of pay, open	Level percentage of pay, open
Remaining amortization period	17 years	15 years
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	6.7% [†]	7.5%
Healthcare cost trend rate*	12% initial 5% ultimate	12% initial 5% ultimate

*Includes an inflation assumption of 4.5%.

[†]Determined as a blended rate of the expected long-term investment returns on plan assets and on the state's investments, based on the funded level of the plan at the valuation date.

[Completely Superseded]

REQUIRED SUPPLEMENTARY INFORMATION

(Dollar amounts in thousands)

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)— Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b – a] / c)
SREHP						
12/31/W7	\$3,696,201	\$7,189,703	\$3,493,502	51.4%	\$2,144,804	162.9%
12/31/W9	4,209,207	7,838,210	3,629,003	53.7	2,325,810	156.0
12/31/X1	5,131,017	8,833,219	3,702,202	58.1	2,243,759	165.0
SURHP						
12/31/W7	697,274	1,001,851	304,577	69.6	297,926	102.2
12/31/W9	935,184	1,168,147	232,963	80.1	329,473	70.7
12/31/X1	1,301,663	1,575,136	273,473	82.6	371,168	73.7

SCHEDULES OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Employer Contributions			
	SREHP		SURHP	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
19W9	\$535,307	54.3%	\$29,047	100%
20X0	501,102	66.9	31,056	100
20X1	542,812	64.3	32,123	100
20X2	577,180	62.0	33,639	100

[Completely Superseded]

Illustration 2—Reduced Note Disclosures and Required Supplementary Information for a Plan Reported as an Other Employee Benefits Trust Fund or as an Agency Fund When a Stand-Alone Plan Report Is Publicly Available

When a defined benefit OPEB plan is included in an employer's financial reporting entity as an other employee benefits trust fund or as an agency fund, the requirements of this Statement regarding notes to the financial statements and required supplementary information (RSI) are reduced, if a stand-alone plan report containing the information required by this Statement is publicly available. The following chart summarizes the requirements applicable to the trust or agency fund:

Plan Issues Stand-Alone Report	Other Employee Benefits Trust Fund			Agency Fund
	Single- Employer	Agent Employer	Cost-Sharing Employer	Agent Employer
YES	Notes ¶130 (Reduced) RSI ¶131–¶137 (Reduced)	Notes ¶130 (Reduced)	Notes ¶130 (Reduced)	Notes ¶141 (Reduced)
NO	Notes ¶130 (Full) RSI ¶131–¶137 (Full)	Notes ¶130 (Full) RSI ¶131–¶137 (Full)	Notes ¶130 (Full) RSI ¶131–¶137 (Full)	Notes ¶141 (Full)

Full RSI comprises a schedule of funding progress and a schedule of employer contributions for at least three valuations, and RSI notes. Reduced RSI comprises a schedule of funding progress for at least three valuations.

Reduced Disclosures

This illustration, which is related to Illustration 1, assumes that the state of Grande includes the State Retired Employees Healthcare Plan (a single-employer defined benefit healthcare plan) and the State University Retiree Health Plan (a cost-sharing multiple employer plan) as other employee benefits trust funds of the state in the state's report. The reduced disclosures presented

[Completely Superseded]

in this illustration are based on the information that a stand-alone plan report is publicly available, in the financial report issued by the Grande Retirement System (Illustration 1). In the circumstances, the state may present reduced note disclosures and RSI for the single-employer plan reported as a trust fund in its report. The state may also present similar reduced note disclosures for the cost-sharing multiple-employer plan presented as a trust fund but would not be required to present RSI for that type of plan. Similarly, if the plans were agent multiple-employer plans, the state could present reduced note disclosures for the trust funds but would not be required to present RSI for that type of plan.

State of Grande

Notes to the Financial Statements for the Year Ended June 30, 20X2

X. Retiree Healthcare Plans

Plan Description. The Grande Retirement System (GRS) administers the State Retired Employees Healthcare Plan (SREHP), a single-employer defined benefit healthcare plan, and the State University Retiree Health Plan (SURHP), a cost-sharing multiple-employer defined benefit healthcare plan with fifteen participating employers. GRS issues a publicly available financial report that includes financial statements and required supplementary information for SREHP and SURHP. The financial report may be obtained by writing to Grande Retirement System, State Government Lane, Latte, GR 01000, or by calling 1-800-555-PLAN.

Summary of Significant Accounting Policies

Basis of Accounting. The financial statements for SREHP and SURHP are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments. Investments are reported at fair value, which for SREHP and SURHP is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the GRS board of trustees, with the assistance of a valuation service.

[Completely Superseded]

Long-term Receivables

In addition to actuarially determined contributions, certain employers also make semiannual installment payments, including interest at 7.5 percent per year, for the cost of service credit granted retroactively to employees when the employers initially joined SURHP. As of June 30, 20X2, the outstanding balance was \$4.1 million. These payments are due over various time periods not exceeding five years at June 30, 20X2.

REQUIRED SUPPLEMENTARY INFORMATION

STATE RETIRED EMPLOYEES HEALTHCARE PLAN Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)— Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b – a] / c)
12/31/W7	\$3,696,201	\$7,189,703	\$3,493,502	51.4%	\$2,144,804	162.9%
12/31/W9	4,209,207	7,838,210	3,629,003	53.7	2,325,810	156.0
12/31/X1	5,131,017	8,833,219	3,702,202	58.1	2,243,759	165.0

[Completely Superseded]

Illustration 3—Notes to the Financial Statements and Required Supplementary Information for a Defined Benefit Healthcare Plan Using the Alternative Measurement Method

CITY OF JAVA

Notes to the Financial Statements for the Year Ended June 30, 20X2

A. Summary of Significant Accounting Policies

Basis of Accounting. The Public Safety Retiree Healthplan's (PSRH) financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable.

Method Used to Value Investments. Investments are reported at fair value, which is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the PSRH board of trustees, with the assistance of a valuation service.

Measurement of Actuarial Information. PSRH has elected to calculate information of an actuarial nature using the alternative measurement method permitted by GASB Statement 43 for plans with fewer than one hundred employees.

B. Plan Description and Contribution Information

Plan Description. PSRH is a single-employer, defined benefit healthcare plan established through the City of Java Municipal Code, Sections 3-145 through 3-155. The plan provides healthcare insurance for eligible public safety retirees up to the age of 65 through the city of Java's group health insurance plan, which covers both active and retired public safety members. At June 30, 20X1, the date of the last plan valuation, PSRH covered thirty-six members (twenty-one active plan members and fifteen retirees receiving benefits).

Contributions. Contribution requirements are established through Section 3-156 of the City of Java Municipal Code. Both the city and active plan members are required to contribute 1.5 percent of gross payroll to the plan. For fiscal year 20X2, these groups each contributed \$12,261 to the plan. In the event that plan assets are not sufficient to pay for benefits under the plan, the

[Completely Superseded]

city is required to contribute the additional amounts necessary to provide the benefits. In fiscal year 20X2, no additional contributions were required. Administrative costs of the plan are paid by the city.

C. Funded Status and Funding Progress

Funded Status. As of June 30, 20X1, the actuarial accrued liability (AAL) for benefits was \$1,161,595, and the actuarial value of assets was \$221,701, resulting in an unfunded actuarial accrued liability (UAAL) of \$939,894 and a funded ratio of 19.1 percent. The covered payroll (annual payroll of active employees covered by the plan) was \$815,712, and the ratio of the UAAL to the covered payroll was 115.2 percent.

Methods and Assumptions. The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees—Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 47, or at the first subsequent year in which the member would qualify for benefits.

Mortality—Life expectancies were based on mortality tables from the National Center for Health Statistics. The 19W9 United States Life Tables for Males and for Females were used.

[Completely Superseded]

Turnover—The city's historical data on turnover by age were used as the basis for assigning active plan members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate—The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 9.5 percent initially, reduced to an ultimate rate of 5.6 percent after six years, was used.

Health insurance premiums—20X1 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate—The expected long-term inflation assumption of 3.3 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 20X1 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate—The expected long-term payroll growth rate was assumed to equal the rate of inflation.

The discount rate used, 5.8 percent, is a blended rate reflecting the expected long-term investment returns on plan assets and the city's investments. The calculation of the blended rate was based on the historical and expected levels of employer contributions in relation to the ARC. In addition, the entry age actuarial cost method was used, and the actuarial value of plan assets is measured at fair value. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 20X1, was thirty years.

[Completely Superseded]

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the Public Safety Retiree Healthplan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)— Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b – a] / c)
6/30/W7	\$159,339	\$ 965,345	\$806,006	16.5%	\$764,423	105.4%
6/30/W9	185,806	1,052,564	866,758	17.7	789,653	110.0
6/30/X1	221,701	1,161,595	939,894	19.1	815,712	115.2

Schedule of Employer Contributions

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
6/30/W9	\$71,425	14.8%
6/30/X0	79,542	14.9
6/30/X1	79,542	14.6
6/30/X2	82,843	14.8

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[Completely Superseded]

Appendix E

ILLUSTRATION OF CALCULATIONS USING THE ALTERNATIVE MEASUREMENT METHOD [paragraphs 38–40]

186. This appendix illustrates calculations that are required by this Statement for plans that apply the requirements of paragraphs 38 through 40. The facts assumed in the 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.

Paragraphs 38 through 40 permit plans with fewer than one hundred members to apply an *alternative measurement method*, which allows for certain simplifying modifications to the selection of assumptions for purposes of measuring the ARC and the plan's actuarial accrued liabilities and funded status. The alternative measurement method includes the same three broad measurement steps as an actuarial valuation:

- a. *Project future cash outflows for benefits.* This step requires collecting and organizing in a spreadsheet format essential information about the *terms of the plan* and the *covered group*. It also involves making and applying *assumptions* about significant matters that will affect future cash flows. These include assumptions about future employment and retirement, life expectancy, and healthcare cost trends. The result of this step will be a spreadsheet of projected future cash outflows for benefits, by plan member (or by groups of plan members) and in total, for each of the future years in which benefit payments are expected.
- b. *Discount projected benefits to their present value.* This step involves discounting the projected future cash outflows to present value, using as the discount rate the expected long-term rate of return on the assets expected to be used to pay the benefits. For example, for a plan that is financed on a pay-as-you-go basis, for which no plan assets have been set aside in a trust, or equivalent arrangement, the discount rate would be the expected long-term rate of return on the employer government's general investments.
- c. *Allocate the present value of projected benefits to periods using an actuarial cost method.* This step involves the allocation of the present value of benefits to financial reporting periods using one of the six actuarial cost methods

[Completely Superseded]

identified in paragraph 34d. Through the allocation process, the following elements are calculated:

- (1) The *actuarial accrued liability*, representing the portions of the present value of benefits attributed by the actuarial cost method to prior periods
- (2) The *annual required contribution* of the employer (ARC), which is the basis for calculating the employer's *annual OPEB cost* (or expense) for the year.

This appendix includes an illustration of the projection of future benefit payments and the calculation of the present value of total future benefit payments (Illustration 1). Also illustrated are calculations of the ARC using two combinations of actuarial cost method and amortization method—entry age and level percentage of payroll (Illustration 2a) and projected unit credit and level dollar (Illustration 2b).

The formats and methods illustrated are intended as illustrations of how the alternative measurement method might be applied to particular facts and circumstances, including plan design, and might not be appropriate in other circumstances. Similarly, the assumptions illustrated below would not necessarily be appropriate in circumstances other than those assumed for purposes of illustration.

Facts and Assumptions

The following facts are assumed in the illustrations:

- a. *Plan terms*—The plan is a single-employer defined benefit plan that pays 85 percent of the cost of healthcare insurance premiums for qualified retirees and their spouses for the remainder of their lives. To qualify for healthcare benefits under the plan, an employee is required to work for the town at least ten years and be at least fifty-five years old when service with the town terminates. Insurance for retired individuals is provided through the employer's group plan, which covers both active and retired members. The health insurance coverage for retired individuals has the same terms as the coverage for active employees, with the exception that the health insurance coverage for retired individuals is secondary to Medicare.

[Completely Superseded]

- b. *Demographic information*—The plan has eighteen members. There are a total of twenty-six plan members and spouses, whose demographic information follows:

Member	Employment Status	Gender	Number of Years Employed	Age at Retirement	Current Age*	Spouse's Current Age
#1	Active	M	10		46	42
#2	Active	F	3		28	30
#3	Active	F	6		40	38
#4	Active	M	1		34	26
#5	Active	M	25		58	50
#6	Active	M	12		52	52
#7	Active	M	8		40	
#8	Active	M	2		33	
#9	Active	F	13		36	
#10	Active	F	4		30	
#11	Active	F	2		25	
#12	Active	M	1		22	
#13	Retired	F	20	56	60	
#14	Retired	M	35	66	68	62
#15	Retired	M	25	65	75	70
#16	Retired	F	30	62	71	
#17	Retired	M	18	60	64	
#18	Retired	M	32	63	deceased	81

*Current age is calculated as the difference between (1) the year as of the first day of the period for which the valuation is performed and (2) the individual's year of birth. For example, in this illustration the valuation is performed for the period beginning July 1, 2001, and Member #1 was born in 1955. Therefore, the age of Member #1 is calculated as $2001 - 1955 = 46$. In the calculations that follow, this age is assumed for the period July 1, 2001, to June 30, 2002.

- c. *Expected point in time at which benefits will begin to be provided* (paragraph 39b)—Active employees are assumed to retire at age 62, which is the historical average age of retirement for employees of this employer. If an employee would not yet qualify for benefits at age 62, the employee is assumed to work until the year in which he or she becomes eligible, at which time the employee is assumed to retire. Active employees age 62 or older who have qualified for postemployment benefits under the plan are assumed to retire in the first projected year.
- d. *Marital status* (paragraph 39c)—Members who currently have spouses are assumed to be married to those spouses at retirement; those without spouses at the calculation date are assumed to be single at and throughout retirement.

[Completely Superseded]

- e. *Mortality* (paragraph 39d)—Life expectancies are based on mortality tables at the National Center for Health Statistics website (www.cdc.gov). The 1999 United States Life Tables for Males and United States Life Tables for Females were used. Life expectancies that included partial years were rounded to the nearest whole year. For example, 54.4 years was rounded to 54 years. The calculation of postemployment health insurance coverage for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Remaining Life Expectancy at Current Age

	<u>Member</u>	<u>Spouse</u>		<u>Member</u>	<u>Spouse</u>
#1	31 years	39 years	#10	51 years	
#2	53	46	#11	55	
#3	41	38	#12	53	
#4	42	54	#13	23	
#5	21	32	#14	14	22 years
#6	26	30	#15	10	15
#7	37		#16	15	
#8	43		#17	17	
#9	45		#18	deceased	9

The average remaining life expectancy is calculated to be thirty-three years.

- f. *Turnover* (paragraph 39e)—The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 40b of this Statement.

<u>Member</u>	<u>Current Age</u>	<u>Probability of Remaining Employed until Retirement</u>
#1	46	0.943
#2	28	0.534
#3	40	0.841
#4	34	0.703
#5	58	1.000
#6	52	1.000
#7	40	0.841
#8	33	0.677
#9	36	0.753
#10	30	0.593
#11	25	0.440
#12	22	0.349
#13–#18	N/A	1.000

[Completely Superseded]

- g. *Healthcare cost trend rate* (paragraph 39f)—The expected rate of increase in healthcare insurance premiums is based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services, as published in *National Health Care Expenditures Projections: 2000–2010*, Table 3: National Health Expenditures, Aggregate & Per Capita Amounts, Percent Distribution, and Average Annual Percent Change by Source of Funds: Selected Calendar Years 1980–2010, published in March 2001 by the Health Care Financing Administration (www.cms.hhs.gov). Healthcare insurance premiums are expected to increase as follows:

<u>For the Year Ended 6/30</u>	<u>Increase from Previous Year</u>
2002	9.50%
2003	9.30
2004	8.30
2005	7.60
2006	6.70
2007	6.10
2008 & later	5.60

- h. *Health insurance premiums* (paragraph 39g)—Because the terms of the plan cover a portion of the cost of healthcare insurance premiums for retired participants and premiums are assessed separately for the retiree group, the amount of current healthcare insurance premiums has been used as a basis for calculating the present value of benefits to be paid. For the year ended June 30, 2001, annual retiree health insurance premiums were:

<u>Category</u>	<u>Total Premium</u>	<u>Employer Portion (85% of Total)</u>
Pre–Age 65 (not Medicare eligible)		
Single	\$ 5,266	\$4,476
Married (employee <i>and</i> spouse under 65)	10,913	9,276
Ages 65 and Older (Medicare eligible)		
Single	2,118	1,800
Married (employee <i>and</i> spouse 65 or older)	4,376	3,720
Married (employee <i>or</i> spouse 65 or older)	7,384	6,276

The employer pays premiums monthly.

[Completely Superseded]

- i. *Discount rate* (paragraph 34c)—Because the town finances OPEB using a pay-as-you-go approach, the discount rate is based on the historical (and expected future) returns of its short-term investment portfolio (the current and expected investments that are expected to be used in financing the payment of benefits). The town expects to earn an average of 5.5 percent on these investments in the future.
- j. *Other economic assumptions* (paragraph 34c)—The expected long-term inflation assumption of 3.3 percent is based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2001 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario. The payroll growth rate is assumed to equal the long-term inflation assumption.
- k. *Actuarial cost method* (paragraph 34d)—The ARC is determined using the entry age actuarial cost method.
- l. *Actuarial value of plan assets* (paragraph 34e)—The town does not accumulate assets in a dedicated trust, or equivalent arrangement, for purposes of funding its retiree healthcare obligation. Therefore, the actuarial value of plan assets is zero.
- m. *Annual required contributions of the employer (ARC)* (paragraph 34f)—The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis over the average remaining life expectancy of all participants or thirty years, whichever is shorter.

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Illustration 1
Projection of Future Benefit Payments and Calculation of Present Value of Total Future Benefits to Be Paid

Town of Espresso Retiree Healthcare Plan

Date of Calculation: 6/30/2001

Date of Calculation: 03/31/2004

See note 1.

See note 2.

Member	Projected Future Benefit Payments for the Year Ending June 30,								
	2002	2003	2004	2005	2006	2007	2008	2009	
#1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
#2	—	—	—	—	—	—	—	—	
#3	—	—	—	—	—	—	—	—	
#4	—	—	—	—	—	—	—	—	
#5	—	—	See note 4.	14,183	15,049	15,891	11,354	—	
#6	—	—	—	—	—	—	—	—	
#7	—	—	—	—	—	—	—	—	
#8	—	—	—	—	—	—	—	—	
#9	—	—	—	—	—	—	—	—	
#10	—	—	—	—	See note 6.	—	—	—	
#11	—	—	—	—	—	—	—	—	
#12	—	—	—	—	—	—	—	—	
#13	5,036	5,504	5,961	6,414	6,844	2,920	3,084	3,256	
#14	7,061	7,718	8,358	5,331	5,888	6,035	6,373	6,730	
#15	4,185	4,575	4,954	5,331	5,888	6,035	6,373	6,730	
#16	2,025	2,214	2,397	2,579	2,752	2,920	3,084	3,256	
#17	5,036	2,214	2,397	2,579	2,752	2,920	3,084	3,256	
#18	2,025	2,214	2,397	2,579	2,752	2,920	3,084	3,256	
CURRENT-AGE TOTAL BENEFITS TO BE PAID	See note 8. \$ 25,368	\$ 24,439	\$ 26,464	\$ 24,813	\$ 40,659	\$ 38,799	\$ 40,973	\$ 37,838	
CURRENT-AGE INTEREST-DISCOUNTED PRESENT VALUE OF TOTAL BENEFITS TO BE PAID	See note 9. \$ 24,045	\$ 21,957	\$ 22,537	\$ 20,029	\$ 31,110	\$ 28,139	\$ 28,166	\$ 24,655	

Notes:

- The calculation is made using data as of June 30, 2001, to estimate the employer's required contribution for the period from July 1, 2001, to June 30, 2002.
- The amounts under columns labeled years 2002–2057 are the expected annual postemployment health insurance premiums for plan members and their spouses, calculated by adjusting the current-year premium for (a) the effects of assumed healthcare cost inflation, (b) the effects of changes in age and marital status (due to death of a spouse) of participants, and (c) the implicit assumption that the premium payment is made at the end of the year instead of on a monthly basis. (See note 4 for an example of the calculation.)
- These values are calculated as the net present value at the calculation date of the series of projected benefit payments at the assumed discount rate of 5.5 percent.
- This amount is calculated as the premium for a member and spouse who are both pre-age 65, inflated to 2006 using the assumed healthcare inflation rates: $\$9,276 \times (1.095 \times 1.093 \times 1.083 \times 1.076 \times 1.067) = \$13,803$, plus 1/2 year of interest at the assumed discount rate: $\$13,803 \times (0.055 / 2) = \$380$. The total amount equals $\$13,803 + \$380 = \$14,183$.
- Insurance premiums for a married couple are calculated (using the appropriate "married" insurance premium rates) beginning with the year in which the plan member is assumed to retire.

[Completely Superseded]

See note 3.

2010	2011	2012	2013	...	2056	2057	Current-Age Total Benefits to Be Paid	Current-Age Interest-Discounted Present Value of Total Benefits to Be Paid
\$ —	\$ —	\$ —	\$ —	...	\$ —	\$ —	\$ 456,337	\$ 116,250
—	—	—	—	...	—	—	796,554	82,634
—	—	—	—	...	—	—	532,041	104,318
—	—	—	—	...	—	—	1,060,128	134,275
11,990	12,661	13,370	14,119	...	—	—	330,132	142,412
—	—	19,761	20,868	...	—	—	274,296	99,242
—	—	—	—	...	—	—	201,260	42,107
—	—	—	—	...	—	—	271,564	40,192
—	See note 5.	—	—	...	—	—	340,571	51,045
—	—	—	—	...	—	—	472,269	51,335
—	—	—	—	...	42,164	—	575,641	49,359
—	—	—	—	...	—	—	454,578	38,396
3,439	3,631	3,835	4,049	...	—	—	116,665	63,640
7,107	7,505	7,925	8,369	...	—	—	148,895	86,087
7,107	7,505	3,835	4,049	...	—	—	79,928	53,538
3,439	3,631	3,835	4,049	...	—	—	49,742	31,406
3,439	3,631	3,835	4,049	...	—	—	63,107	38,539
3,439	—	—	—	...	—	—	24,666	18,621
<u>\$ 39,960</u>	<u>\$ 38,564</u>	<u>\$ 56,396</u>	<u>\$ 59,552</u>	...	<u>\$ 42,164</u>	<u>\$ —</u>	<u>\$ 6,248,374</u>	
 <u>\$ 24,680</u>	 <u>\$ 22,577</u>	 <u>\$ 31,295</u>	 <u>\$ 31,323</u>	...	 <u>\$ 2,218</u>	 <u>\$ —</u>		 <u>\$ 1,243,396</u>

6. In this year, the projected payment for Member #13 changes because the member turns 65 and the plan's premium structure reflects different premiums for pre- and post-age 65.
7. Upon the assumed death of the married member, calculations continue to be made for the surviving spouse, using the premiums for a single individual and reflecting the age of the spouse.
8. The amount reported for each year in the *Current-age total benefits to be paid* row is the sum of projected payments for all plan members and spouses in that period.
9. The amount reported for each year in the *Current-age interest-discounted present value of total benefits to be paid* row is the amount of total projected future benefit payments by year for that year, discounted to the calculation date at the assumed discount rate of 5.5 percent per year. For example, in 2002, the present value is calculated as $\$25,368 / (1.055^n)$, where n equals the number of years over which the amount is to be discounted. (In 2002, $n = 1$.) In 2003, $n = 2$, and the present value is calculated as $\$24,439 / (1.055^2)$, or \$21,957.

Illustration 2a
Calculation of the ARC Using the Entry Age Cost Method
with the UAAL Amortized as a Level Percentage of Payroll

Town of Espresso Retiree Healthcare Plan
Date of Calculation 6/30/2001

		See note 1.	See note 2.	See note 3.	See note 4.
		Current-Age Interest-Discounted Present Value of Total Benefits to Be Paid	Probability of Remaining Employed from Current Age Until Retirement Age	Probability of Remaining Employed from Entry Age Until Retirement Age	Current-Age Probability-Adjusted Interest-Discounted Present Value of Total Benefits to Be Paid
Member	Years of Past Service (a)	(b)	(c)	(d)	(e) = (b) x (c)
#1	10	\$ 116,250	0.943	0.753	\$ 109,624
#2	3	82,634	0.534	0.440	44,127
#3	6	104,318	0.841	0.703	87,731
#4	1	134,275	0.703	0.677	94,395
#5	25	142,412	1.000	0.677	142,412
#6	12	99,242	1.000	0.841	99,242
#7	8	42,107	0.841	0.650	35,412
#8	2	40,192	0.677	0.622	27,210
#9	13	51,045	0.753	0.379	38,437
#10	4	51,335	0.593	0.472	30,442
#11	2	49,359	0.440	0.379	21,718
#12	1	38,396	0.349	0.321	13,400
#13		63,640	1.000	0.753	63,640
#14		86,087	1.000	0.622	86,087
#15		53,538	1.000	0.841	53,538
#16		31,406	1.000	0.650	31,406
#17		38,539	1.000	0.879	38,539
#18		18,621	1.000	0.622	18,621
		<u>\$ 1,243,396</u>			<u>\$ 1,035,981</u>

For explanation of notes, see page 150.

[Completely Superseded]

See note 5.	See notes 6 and 7.	See note 8.	See notes 6 and 9.		
Entry-Age Probability-Adjusted Interest-Discounted Present Value of Total Benefits to Be Paid (f) = [(b) / (1 + discount rate) ^(a)] x (d)	PV Factor of \$1 per Year from Entry Age to Retirement Age (g)	Normal Cost at Entry Age (h) = (f) / (g)	Normal Cost at Current Age (i)	PV Factor of \$1 per Year from Current Age to Retirement Age (j)	Present Value of Future Normal Cost (k) = (i) x (j)
					AAL (d) - (k)
\$ 51,246	17.1486	\$ 2,988	\$ 4,134	12.9965	\$ 55,896
30,964	17.1486	1,806	1,991	17.7910	35,422
53,186	17.7910	2,989	3,632	15.8224	57,467
86,165	17.7910	4,843	5,003	17.7910	89,008
25,283	17.7910	1,421	3,200	3.8766	12,405
43,900	15.8224	2,775	4,097	9.1119	37,331
17,834	17.7910	1,002	1,299	15.8224	20,553
22,461	17.7910	1,262	1,347	17.7910	23,964
9,645	16.4925	585	892	17.1486	15,297
19,559	17.1486	1,141	1,299	17.7910	23,111
16,807	16.4925	1,019	1,087	17.1486	18,641
11,683	15.8224	738	762	15.8224	12,057
Because at the calculation date these members have qualified to receive benefits, the entire present value of benefits is allocated to past periods (the AAL).					
					63,640
					86,087
					53,538
					31,406
					38,539
					18,621
					<u>\$ 636,997</u>
			<u>\$ 28,743</u>		
ARC Calculation					
<u>Normal Cost Component</u>					
Normal cost			\$ 28,743		
Interest			1,581	See note 10.	
Total normal cost			<u>30,324</u>		
<u>Amortization Component</u>					
AAL			636,997		
Less: Assets			—		
UAAL			<u>636,997</u>	See notes 6 and 11.	
Divided by PV factor			22,4707		
Amortization payment			<u>28,348</u>		
Interest			1,559	See note 10.	
Total amortization payment			<u>29,907</u>		
Annual required contribution			<u>\$ 60,231</u>		

Notes to Illustration 2a:

1. From Illustration 1.
2. Members who currently are receiving benefits are assigned a probability of 1.000. For other members, the probability is obtained from paragraph 40b of this Statement. For example, Member #2 currently is age 28, and plan members are assumed to retire at age 62. Therefore, using paragraph 40b, the member's probability of remaining employed from age 28 to age 62 is 0.534.
3. Each member's probability of remaining employed until retirement age, calculated at entry age, is obtained from paragraph 40b of this Statement. For example, Member #2 entered service at age 25 and is assumed to retire at age 62. Therefore, using paragraph 40b, the member's probability of remaining employed from age 25 to age 62 is 0.440.
4. This column is the current-age interest-discounted present value of total benefits to be paid from column b for each member, adjusted for the member's probability of remaining employed from current age until retirement age from column c. For example, the current-age probability-adjusted interest-discounted present value of total benefits to be paid for Member #2 (\$44,127) is calculated as the current-age interest-discounted present value of total benefits to be paid (\$82,634) multiplied by the member's probability of remaining employed until retirement age calculated at the member's current age (0.534), or $\$82,634 \times 0.534 = \$44,127$.
5. This column is the current-age interest-discounted present value of total benefits to be paid from column b for each member, discounted to the member's entry age and adjusted for the member's probability of remaining employed from entry age until retirement age from column d. For example, Member #2 began service at age 25 and currently is age 28. Therefore, the entry-age probability-adjusted interest-discounted present value of total benefits to be paid for Member #2 (\$30,964) is calculated as follows:
 - a. The current-age interest-discounted present value of total benefits to be paid from column a (\$82,634) is discounted three years (the period from age 25 to age 28) at the assumed investment rate of return (5.5 percent), or $\$82,634 / (1 + 0.055)^3 = \$70,372$.
 - b. The result of step a is multiplied by the member's probability of remaining employed until retirement age calculated at the member's entry age from column d (0.440), or $\$70,372 \times 0.440 = \$30,964$.
6. Present value factors can be obtained from a present value table for an annuity due (which assumes contributions at the beginning of each period). The present value factor also can be derived from a present value table for an ordinary annuity. Using an ordinary annuity table, the present value factor is determined as $1 + (\text{PV of an ordinary annuity over } (n - 1) \text{ periods at the assumed discount rate } (r))$. Alternatively, the present value factor can be calculated directly as $1 + [(1 - (1 + r)^{-(n-1)}) / r]$.

When using the level percent of payroll method, the discount rate (r) is calculated as $[(1 + \text{investment rate of return}) / (1 + \text{payroll growth rate})] - 1$. The payroll growth rate has been set to the inflation rate. Therefore, in this example, the discount rate is calculated to be $[(1 + 0.055) / (1 + 0.033)] - 1$, or 2.12971%.

7. In the calculation in column g, the number of periods (n) is the member's expected future working lifetime from paragraph 40c of this Statement at the member's entry age. For example, Member #2 entered service at age 25. Using paragraph 40c, at age 25, the member's expected future working lifetime is twenty-one years.

The assumed discount rate is calculated in note 6 as $[(1 + 0.055) / (1 + 0.033)] - 1$, or 2.12971%. Therefore, the PV factor is calculated using the formula in that note as $1 + [(1 - (1.0212971^{(-20)})) / 0.0212971] = 1 + (0.343918 / 0.0212971) = 17.1486$.

8. This column is each member's normal cost at entry age, inflated to current age using the payroll growth rate, which has been set to the inflation rate (i). Normal cost at current age is calculated as normal cost at entry age $\times (1 + i)^n$, where n is the number of years from entry age to current age. In this example, the assumed inflation rate is 3.3%, and Member #2 has three years of past service—she entered at age 25 and currently is age 28. Therefore, normal cost at the member's current age is calculated as $\$1,806 \times (1 + 0.033)^3$, or $\$1,991$.

9. In the calculation in column j, the number of periods (n) is the member's expected future working lifetime from paragraph 40c of this Statement at the member's current age. For example, Member #2 currently is age 28. Using paragraph 40c, at age 28, the member's expected future working lifetime is twenty-two years.

The assumed discount rate is calculated in note 6 as $[(1 + 0.055) / (1 + 0.033)] - 1$, or 2.12971%. Therefore, the PV is calculated as $1 + [(1 - (1.0212971^{(-21)})) / 0.0212971] = 1 + (0.357599 / 0.0212971) = 17.7910$.

10. The normal cost and amortization components are calculated as beginning-of-year amounts. This step adds interest to the end of the period at the assumed investment rate of return (5.5 percent). Interest on the normal cost component is calculated as $\$28,743 \times 0.055 = \$1,581$, and interest on the amortization component is calculated as $\$28,348 \times 0.055 = \$1,559$.
11. In accordance with paragraph 34f(1), the number of periods (n) over which the UAAL is amortized should not exceed thirty years. In this example, the employer has chosen to amortize the UAAL as a level percentage of payroll over the lesser of the average remaining life expectancy of the group or thirty years. Because the average remaining life expectancy of the group is thirty-three years, the UAAL is amortized over thirty years. Therefore, using the discount rate calculated in note 6 and the present value formula in that note, the present value factor used to amortize the UAAL is calculated as $1 + [(1 - (1.0212971^{(-29)})) / 0.0212971] = 1 + (0.4572634 / 0.0212971) = 22.4707$.

Illustration 2b
Calculation of the ARC Using the Unit Credit Cost Method
with the UAAL Amortized as a Level Dollar Amount

Town of Espresso Retiree Healthcare Plan
Date of Calculation 6/30/2001

Member	Years of Past Service (a)	Current Age (b)	Assumed Age at Retirement (c)	Current Age Interest-Discounted Present Value of Total Benefits to Be Paid (d)	Probability of Remaining Employed from Current Age Until Assumed Retirement Age (e)	Current Age Probability-Adjusted Interest-Discounted Present Value of Total Benefits to Be Paid (f) = (d) x (e)	Projected Service Years at Retirement (g) = (c) - (b) + (a)	Normal Cost at Current Age (h) = (f) / (g)	AAL (h) x (a)
#1	10	46	62	\$ 116,250	0.943	\$ 109,624	26	\$ 4,216	\$ 42,160
#2	3	28	62	82,634	0.534	44,127	37	1,193	3,579
#3	6	40	62	104,318	0.841	87,731	28	3,133	18,798
#4	1	34	62	134,275	0.703	94,395	29	3,255	3,255
#5	25	58	62	142,412	1.000	142,412	29	4,911	122,775
#6	12	52	62	99,242	1.000	99,242	22	4,511	54,132
#7	8	40	62	42,107	0.841	35,412	30	1,180	9,440
#8	2	33	62	40,192	0.677	27,210	31	878	1,756
#9	13	36	62	51,045	0.753	38,437	39	986	12,818
#10	4	30	62	51,335	0.593	30,442	36	846	3,384
#11	2	25	62	49,359	0.440	21,718	39	557	1,114
#12	1	22	62	38,396	0.349	13,400	41	327	327
#13				63,640	1.000	63,640			63,640
#14				86,087	1.000	86,087			86,087
#15				53,538	1.000	53,538			53,538
#16				31,406	1.000	31,406			31,406
#17				38,539	1.000	38,539			38,539
#18				18,621	1.000	18,621			18,621
				<u>\$1,243,396</u>		<u>\$ 1,035,981</u>		<u>\$ 25,993</u>	<u>\$ 565,369</u>

Because at the calculation date these members have qualified to receive benefits, the entire present value of benefits is allocated to past periods (the AAL).

ARC Calculation

Normal Cost Component

Normal cost	\$ 25,993
Interest	1,430
Total normal cost	27,423

See note 3.

Amortization Component

AAL	565,369
Less: Assets	—
UAAAL	565,369
Divided by PV factor	15,333.1
Amortization payment	36,872
Interest	2,028
Total amortization payment	38,900

See note 4.

See note 3.

Annual required contribution	\$ 66,323
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Notes:

1. From Illustration 1.
2. Members who currently are receiving benefits are assigned a probability of 1,000. For other members, the probability is obtained from paragraph 41b of this Statement. For example, Member #2 currently is age 28, and plan members are assumed to retire at age 62. Therefore, using paragraph 41b, the member's probability of remaining employed from age 28 to age 62 is 0.534.
3. The normal cost and amortization components are calculated as beginning-of-year amounts. This step adds interest to the end of the period at the assumed investment rate of return (5.5 percent). Interest on the normal cost component is calculated as $\$25,993 \times 0.055 = \$1,430$, and interest on the amortization component is calculated as $\$36,872 \times 0.055 = \$2,028$.
4. Present value factors can be obtained from a present value table for an annuity due (which assumes contributions at the beginning of each period). The present value factor also can be derived from a present value table for an ordinary annuity. Using an ordinary annuity table, the present value factor is determined as $1 + (\text{PV of an ordinary annuity over } (n - 1) \text{ periods at the assumed discount rate } (r))$. Alternatively, the present value factor can be calculated directly as $1 + [(1 - (1 + r)^{-(n-1)}) / r]$.

When using the level dollar method, the discount rate (r) used to determine the PV factor is the assumed investment rate of return. In this example, the assumed investment rate of return is 5.5 percent.

In accordance with paragraph 34f(1), the number of periods (n) over which the UAAAL is amortized should not exceed thirty years. In this example, the employer has chosen to amortize the UAAAL as a level dollar amount over the lesser of the average remaining life expectancy of the group or thirty years. Because the average remaining life expectancy of the group is thirty-three years, the UAAAL is amortized over thirty years. Therefore, the present value factor is calculated as $1 + [(1 - (1.055^{-30})) / 0.055] = 1 + (0.7883206 / 0.055) = 15.3331$.

[Completely Superseded]

[Completely Superseded]

Appendix F

CODIFICATION INSTRUCTIONS

187. The sections that follow update the June 30, 2003, *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*.

* * *

GENERAL PRINCIPLES

SECTION 1100

.110c. [Revise subparagraph as follows:] Financial statements of fiduciary funds should be reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The recognition of certain liabilities of defined benefit pension and other postemployment benefit plans is discussed in Sections Pe5, "Pension Plans—Defined Benefit," and Po50, "Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit."

[NCGAS 1, pp. 2–4, as amended by GASBS 6, ¶15 and ¶25, and GASBS 34, ¶15, ¶80, and ¶82; GASBS 14, ¶11, ¶12, ¶19, ¶43, ¶65, and ¶66; GASBS 34, ¶6, ¶13–¶16, ¶18, ¶21, ¶22, ¶30, ¶53, ¶63, ¶75, ¶79, ¶80, ¶82, ¶88, ¶89, ¶92, ¶100, ¶101, ¶106, ¶108, ¶112, ¶125, ¶130, and fn53; GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24; GASBS 37, ¶6 and ¶10]

* * *

FUND ACCOUNTING

SECTION 1300

.102c. [Revise second paragraph as follows:] Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting. The recognition of certain liabilities of defined benefit pension and other postemployment benefit plans is discussed in Sections Pe5, "Pension Plans—Defined Benefit," and Po50, "Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit."

[Completely Superseded]

[NCGAS 1, ¶18; GASBS 34, ¶63, ¶64, ¶66, ¶69, ¶78, ¶79, ¶91, ¶92, and ¶106; GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24]

.102 [In footnote 1, replace *defined benefit pension plans* with *defined benefit pension and OPEB plans* and revise sources as follows:] [GASBS 34, fn43, as amended by GASBS 43, ¶11]

* * *

BASIS OF ACCOUNTING

SECTION 1600

Statements of Principle Measurement Focus and Basis of Accounting

Fund Financial Statements

[Revise subparagraph c as follows:]

- c. Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting. The recognition of certain liabilities of defined benefit pension and other postemployment benefit plans is discussed in Sections Pe5, “Pension Plans—Defined Benefit,” and Po50, “Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit.”

[NCGAS 1, ¶57, as amended by GASBS 6, ¶15; GASBS 34, ¶6, ¶79, ¶92; GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24]

.134 [Revise as follows:] Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting. Paragraph .118 of Section Pe5, “Pension Plans—Defined Benefit,” and paragraph.117 of Section Po50, “Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit,” provide guidance on recognition of certain liabilities of defined benefit pension and other postemployment benefit plans. [GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24]

* * *

[Completely Superseded]

COMPREHENSIVE ANNUAL FINANCIAL REPORT

SECTION 2200

Sources: [Remove GASB Statement 26; add GASB Statement 43]

.172 [Revise fourth sentence as follows:] Financial statements for individual pension and other postemployment benefit plans³³ should be presented in the notes to the financial statements of the primary government if separate, GAAP financial reports have not been issued. [GASBS 34, ¶106, as amended by GASBS 43, ¶15]

[Revise footnotes 32 and 33 as follows:]

³²For defined benefit pension and other postemployment benefit plans, the statement of fiduciary net assets and statement of changes in fiduciary net assets required by this section are equivalent to the statement of plan net assets and statement of changes in plan net assets, respectively, required by Sections Pe5, "Pension Plans—Defined Benefit," and Po50, "Post-employment Benefit Plans Other Than Pension Plans—Defined Benefit." [GASBS 34, fn43, as amended by GASBS 43, ¶11]

³³See paragraph .111 of Section Pe5 and paragraph .110 of Section Po50, respectively. [GASBS 34, fn44, as amended by GASBS 43, ¶11]

.173 [Revise sources as follows:] [GASBS 34, ¶108, as amended by GASBS 43, ¶11]

.174 [Revise sources as follows:] [GASBS 34, ¶109, as amended by GASBS 43, ¶11]

.178 [Revise last sentence as follows:] Other RSI may include budgetary comparison schedules (discussed below), information about the modified approach for reporting infrastructure assets (see Section 1400, paragraphs .105–.107), and employee benefit related information (see Sections P20, "Pension Activities—Employer Reporting," Pe5, "Pension Plans—Defined Benefit," and Po50, "Post-employment Benefit Plans Other Than Pension Plans—Defined Benefit"). [GASBS 25, ¶44; GASBS 27, ¶39; GASBS 34, ¶6 and ¶129; GASBS 43, ¶46]

.181 [Revise footnote 39 as follows:] In certain circumstances, combining statements are required for pension and other employee benefit trust funds. (See Section Pe5, paragraphs .107–.109, and Section Po50, paragraphs .109–.111.) [GASBS 25, ¶15; GASBS 43, ¶13]

* * *

[Completely Superseded]

NOTES TO FINANCIAL STATEMENTS

SECTION 2300

Sources: [Add the following:] GASB Statement 43

.107n. [In parenthetical reference, update cross-references as follows: Change title of Section Pe6 to “Pension and Other Postemployment Benefit Plans—Defined Contribution” and title of Section Po50 to “Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit.”]

[Insert new subparagraph .107o; renumber subsequent subparagraphs.]

.107o. Postemployment benefit plans other than pension plans—in both separately issued plan financial statements and employer statements. (See Sections P50, “Postemployment Benefits Other Than Pension Benefits—Employer Reporting,” Pe6, and Po50.)

[NCGAI 6, ¶5, as amended; GASBS 34, ¶46, ¶56, ¶77, ¶89, and fn41; GASBS 38, ¶13; GASBS 43, ¶30]

* * *

INVESTMENTS

SECTION I50

.103 [Revise first sentence as follows:] Sections Pe5, “Pension Plans—Defined Benefit,” and Po50, “Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit,” contain standards for the valuation and reporting of the investments of defined benefit pension plans and defined benefit OPEB plans, respectively. [GASBS 31, ¶4, as amended by GASBS 43, ¶22]

* * *

[Completely Superseded]

ACCOUNTING FOR PARTICIPATION IN JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS

SECTION J50

.115 [Revise last two sentences as follows:] In addition, multiple-employer pension and OPEB plans are not considered joint ventures for purposes of this section. Reporting and disclosure requirements for multiple-employer pension and other postemployment benefit plans are included in Sections Pe5, “Pension Plans—Defined Benefit,” Pe6, “Pension and Other Postemployment Benefit Plans—Defined Contribution,” and Po50, “Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit.” [GASBS 14, ¶81, as amended by GASBS 43, ¶11]

* * *

PENSION ACTIVITIES—EMPLOYER REPORTING

SECTION P20

See also: [Revise as follows: Change title of Section Pe6 to “Pension and Other Postemployment Benefit Plans—Defined Contribution” and title of Section Po50 to “Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit.”]

* * *

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS—EMPLOYER REPORTING

SECTION P50

See also: [Revise as follows: Change title of Section Po50 to “Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit.”]

.106 [Delete current footnote 6 and renumber subsequent footnotes.]

* * *

[Completely Superseded]

PENSION PLANS—DEFINED BENEFIT

SECTION Pe5

Sources: [Remove GASB Statement 26; add GASB Statement 43]

See also: [Revise as follows:]

Section P20, “Pension Activities—Employer Reporting”

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

Section Pe6, “Pension and Other Postemployment Benefit Plans—Defined Contribution”

Section Po50, “Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit”

Section Sp20, “Special-Purpose Governments”

Section T25, “Termination Benefits (Special)”

.101 [Update cross-references in footnote 1; add GASBS 43, fn1, to sources of footnote 1.]

.104 [Delete footnote 3; renumber subsequent footnotes.]

Financial Statements⁶

⁶[Revise sources as follows:] [GASBS 25, fn5, as amended by GASBS 43, ¶11]

.118 [Revise as follows:] **Plan liabilities** generally consist of benefits and refunds due to plan members and beneficiaries and accrued investment and administrative expenses. All plan liabilities should be recognized on the accrual basis. Plan liabilities for benefits and refunds should be recognized when due and payable in accordance with the terms of the plan. Benefits payable from contracts excluded from plan assets for which payments to the insurance company have been made should be excluded from plan liabilities. [GASBS 25, ¶26, as amended by GASBS 43, ¶25]

Required Supplementary Information¹⁶

¹⁶[Revise sources as follows:] [GASBS 25, fn16, as amended by GASBS 43, ¶11]

[Completely Superseded]

DEFINITIONS

.501 [Revise as follows:] The following paragraphs contain definitions of certain terms *as they are used in this section, in Section Pe6, or in Section Po50*; the terms may have different meanings in other contexts. Terms defined in paragraph .577, “Actuarial Terminology,” are cross-referenced to that paragraph. [Add GASBS 43, ¶46, to sources.]

.502–.510 [Add GASBS 43, ¶46, to sources of each paragraph.]

.511 [Delete GASBS 26, ¶11, from sources; add GASBS 43, ¶46, to sources.]

.512 [Add GASBS 43, ¶46, to sources.]

.513 [Revise paragraph as follows:] **Allocated insurance contract.** A contract with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities (for pensions) or an immediate or deferred benefit (for OPEB) for individual members. [GASBS 25, ¶44; GASBS 43, ¶46]

.514 [Add GASBS 43, ¶46, to sources.]

.515 **Annual OPEB cost.** An accrual-basis measure of the periodic cost of an employer’s participation in a defined benefit OPEB plan. [GASBS 43, ¶46]

.516 [Revise current paragraph .515 as follows:] **Annual required contributions of the employer(s) (ARC).** The employer’s periodic required contributions to a defined benefit pension or OPEB plan, calculated in accordance with the parameters. [GASBS 25, ¶44; GASBS 43, ¶46]

.517–.521 [Insert current paragraphs .516–.520; add GASBS 43, ¶46, to sources.]

.522 [Insert current paragraph .521; delete GASBS 26, ¶11, from sources; add GASBS 43, ¶46, to sources.]

.523 [Insert current paragraph .522; add GASBS 43, ¶46, to sources.]

[Completely Superseded]

.524 [Revise current paragraph .523 as follows:] **Covered payroll.** *For pensions*, all elements included in compensation paid to active employees on which contributions to a pension plan are based. *For OPEB*, annual compensation paid to active employees covered by an OPEB plan. If employees also are covered by a pension plan, the covered payroll should include all elements included in compensation on which contributions to the pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation. [GASBS 25, ¶44; GASBS 43, ¶46]

.525 **Defined benefit OPEB plan.** An OPEB plan having terms that specify the amount of *benefits* to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation) or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums). [GASBS 43, ¶46]

.526 [Insert current paragraph .524; delete GASBS 26, ¶11, from sources; add GASBS 43, ¶46, to sources.]

.527 [Revise current paragraph .525 as follows:] **Defined contribution plan.** A pension or OPEB plan having terms that (a) provide an individual account for each plan member and (b) specify *how contributions to an active plan member's account are to be determined*, rather than the income or other benefits the member or his or her beneficiaries are to receive at or after separation from employment. Those benefits will depend *only* on the amounts contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account. For example, an employer may contribute a specified amount to each active member's postemployment healthcare account each month. At or after separation from employment, the balance of the account may be used by the member or on the member's behalf for the purchase of health insurance or other healthcare benefits. [GASBS 25, ¶44; GASBS 43, ¶46]

.528 **Employer's contributions.** Contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or an

[Completely Superseded]

equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator. [GASBS 43, ¶46]

.529–.536 [Insert current paragraphs .526–.533; add GASBS 43, ¶46, to sources.]

.537 [Revise current paragraph .534 as follows:] **Funding policy.** The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities (for example, state government contributions to a local government plan) to provide the benefits specified by a pension or OPEB plan. [GASBS 25, ¶44; GASBS 43, ¶46]

.538 **Healthcare cost trend rate.** The rate 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. [GASBS 43, ¶46]

.539–.542 [Insert current paragraphs .535–.538; add GASBS 43, ¶46, to sources.]

.543 [Revise current paragraph .539 as follows:] **Market-related value of plan assets.** A term used with reference to the actuarial value of assets. A market-related value may be fair value, market value (or estimated market value), or a calculated value that recognizes changes in fair value or market value over a period of, for example, three to five years. [GASBS 25, ¶44; GASBS 43, ¶46]

.544–.545 [Insert current paragraphs .540–.541; add GASBS 43, ¶46, to sources.]

.546 [Revise current paragraph .542 as follows:] **Other postemployment benefits.** Postemployment benefits other than pension benefits. Other post-employment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits. [GASBS 25, ¶44, as amended by GASBS 43, ¶9; GASBS 43, ¶46]

.547 [Revise current paragraph .543 as follows:] **Parameters.** The set of requirements for calculating actuarially determined pension or OPEB information included in financial reports. [GASBS 25, ¶44; GASBS 43, ¶46]

[Completely Superseded]

.548–.549 [Insert current paragraphs .544–.545; add GASBS 43, ¶46, to sources.]

.550 [Insert current paragraph .546; delete GASBS 26, ¶11, from sources; add GASBS 43, ¶46, to sources.]

.551 [Insert current paragraph .548; delete GASBS 26, ¶11, from sources.]

.552 [Revise current paragraph .549 as follows:] **Plan assets.** *For pensions*, resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust for the payment of benefits in accordance with the terms of the plan. *For OPEB*, resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or in an equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer(s) or plan administrator, for the payment of benefits in accordance with the terms of the plan. [GASBS 25, ¶44; GASBS 43, ¶46]

.553 [Insert current paragraph .550, changing *due for payment* to *due and payable*; add GASBS 43, ¶46, to sources.]

.554 [Insert current paragraph .551 and revise first sentence of the definition as follows:] The individuals covered by the terms of a pension or OPEB plan. [GASBS 25, ¶44; GASBS 43, ¶46]

.555 [Insert current paragraph .552 and revise glossary entry as follows:] **Plan net assets** and **Plan net assets held in trust for pension benefits (or OPEB).** [GASBS 25, ¶44; GASBS 43, ¶46]

.556–.557 [Insert current paragraphs .553 and .554; delete GASBS 26, ¶11, from sources; add GASBS 43, ¶46, to sources of both paragraphs.]

.558 [Insert current paragraph .555 and revise first sentence of definition as follows:] An increase in the benefits of retirees or beneficiaries granted to compensate for the effects of inflation (cost-of-living adjustment) or for other reasons. [GASBS 25, ¶44; GASBS 43, ¶46]

[Completely Superseded]

.559 [Insert current paragraph .556 and revise first sentence of definition as follows:] An actuarial assumption with respect to future increases in the individual salaries and wages of active plan members; used in determining the actuarial present value of total projected benefits when the benefit amounts are related to salaries and wages. [GASBS 25, ¶44; GASBS 43, ¶46]

.560 [Insert current paragraph .557; add GASBS 43, ¶46, to sources.]

.561 [Insert current paragraph .558; delete GASBS 26, ¶11, from sources; add GASBS 43, ¶46, to sources.]

.562 [Insert current paragraph .559; add GASBS 43, ¶46, to sources.]

.563 [Insert current paragraph .560; delete GASBS 26, ¶11, from sources; add GASBS 43, ¶46, to sources.]

.564 [Insert current paragraph .561; add GASBS 43, ¶46, to sources.]

.565 [Insert current paragraph .562; delete GASBS 26, ¶11, from sources; add GASBS 43, ¶46, to sources.]

.566 **Special termination benefits.** Benefits offered by an employer for a short period of time as an inducement to employees to hasten the termination of services. For example, to reduce payroll and related costs, an employer might offer enhanced pension benefits or OPEB to employees as an inducement to take early termination, for employees that accept the offer within a sixty-day window of opportunity. [GASBS 43, ¶46]

.567 [Insert current paragraph .563; delete GASBS 26, ¶11, from sources; add GASBS 43, ¶46, to sources.]

.568 [Insert current paragraph .564 and revise last sentence as follows:] The term *stand-alone* is used to distinguish such a financial report from plan financial statements that are included in the financial report of the plan sponsor or employer (pension or other employee benefit trust fund). [GASBS 25, ¶44, as amended by GASBS 34, ¶70; GASBS 43, ¶46]

.569 [Insert current paragraph .565.]

.570 **Substantive plan.** The terms of an OPEB plan as understood by the employer(s) and plan members. [GASBS 43, ¶46]

[Completely Superseded]

.571 **Termination offers and benefits.** Inducements offered by employers to employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination offers and benefits include special termination benefits, early retirement incentive programs, and other termination-related benefits. [GASBS 43, ¶46]

.572–.577 [Insert current paragraphs .566–.571; add GASBS 43, ¶46, to sources of each paragraph.]

ACTUARIAL TERMINOLOGY

.578 [Insert current paragraph .572 in its entirety, changing *this section* to *this section, Section P20, Section P50, or Section Po50*] [Insert the following new sentence after the reference to footnote 30:] Although specifically adopted in relation to pensions, these terms and definitions also are generally applicable to other postemployment benefits. [Add GASBS 43, ¶47, to sources of each subparagraph.]

[Revise footnote 30 as follows:]

³⁰[Add GASBS 43, fn31, to sources.]

* * *

[Completely Superseded]

[Rename section as follows:]

PENSION AND OTHER POSTEMPLOYMENT BENEFIT PLANS—DEFINED CONTRIBUTION

SECTION Pe6

Sources: [Add the following:] GASB Statement 43

See also: [Revise as follows:]

Section I50, “Investments”

Section P20, “Pension Activities—Employer Reporting”

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

Section Pe5, “Pension Plans—Defined Benefit”

Section Po50, “Postemployment Benefit Plans Other Than Pension
Plans—Defined Benefit”

Section Sp20, “Special-Purpose Governments”

Scope and Applicability of This Section

.101 [Revise first sentence as follows:] This section establishes reporting standards for the notes to the financial statements of **defined contribution plans**,¹ including those used to provide other postemployment benefits. [Add GASBS 43, ¶42, to sources.]

¹[Insert current Pe6, fn1.]

.102 [In footnote 2, change both instances of *pension trust funds* to read *pension and other employee benefit trust funds*.] [Add GASBS 43, ¶42, to sources.]

.103 [Revise as follows:] A plan that has characteristics of both a defined benefit plan and a defined contribution plan requires analysis. If the substance of the plan is to provide a defined benefit in some form—that is, if the benefit to be provided is a function of factors other than the amounts contributed and amounts earned on contributed assets—the provisions of Section Pe5 or Po50, for pensions or for other postemployment benefits (OPEB), respectively, apply. [Add GASBS 43, ¶6, to sources.]

[Completely Superseded]

Notes to the Financial Statements

.104 [Revise footnote 3 as follows:] Sections P20 and P50 include the requirements for notes to the employer's financial statements concerning, respectively, the employer's pension and OPEB expense/expenditures. [Add GASBS 43, fn9, to sources.]

* * *

[Revise entire section, including section heading, as follows:]

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—DEFINED BENEFIT

SECTION Po50

Sources: GASB Statement 31, GASB Statement 43

See also: Section P50, "Postemployment Benefits Other Than Pension Benefits—Employer Reporting"

Section Pe5, "Pension Plans—Defined Benefit"

Section Pe6, "Pension and Other Postemployment Benefit Plans—Defined Contribution"

Section Sp20, "Special-Purpose Governments"

Section T25, "Termination Benefits (Special)"

.101 [GASBS 43, ¶4, including heading] [Insert new footnote 1 following *plan members* in second sentence, and renumber subsequent footnotes. Change "Statement" to "section" and update cross-references.]

¹Terms defined in Section Pe5, paragraphs .502 through .578, are printed in **boldface type** when they first appear. [GASBS 43, fn1]

.102–.107 [GASBS 43, ¶5–¶10] [Change "Statement" to "section" and update cross-references.]

.108–.117 [GASBS 43, ¶12–¶21, including headings and footnotes] [Change "Statement" to "section" and update cross-references.]

[Completely Superseded]

Investments

.118 Plan investments, whether equity or debt securities, real estate, or other investments (excluding **insurance contracts**), should be reported at their fair value at the reporting date. The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller—that is, other than in a forced or liquidation sale.⁵ Fair value should be measured by the market price if there is an active market for the investment. If there is not an active market for an investment but there is an active market for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows may aid in estimating fair value, provided that the expected cash flows are discounted at a rate commensurate with the risk involved. The fair value of (a) securities subject to purchased put **option contracts** and written call option contracts, (b) **open-end mutual funds**, (c) **external investment pools**, and (d) **interest-earning investment contracts** should be determined as provided in Section I50, “Investments,” paragraphs .105 through .112. [Note: **Boldfaced** terms in the preceding sentence are defined in Section I50, paragraphs .501–.551.] **Unallocated insurance contracts** may be reported at **contract value**. **Allocated insurance contracts** should be excluded from plan assets.⁶ [GASBS 31, ¶4; GASBS 43, ¶22]

⁵[GASBS 43, fn4]

⁶[GASBS 43, fn5] [Change “Statement” to “section” and update cross-references.]

.119–.137 [GASBS 43, ¶23–¶42, including headings and footnotes] [Change “Statement” to “section” and update cross-references.]

* * *

SPECIAL-PURPOSE GOVERNMENTS

SECTION Sp20

.109 [Change title of Section Po50 to “Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit” and revise sources as follows:] [GASBS 34, ¶140, as amended by GASBS 43, ¶11]

.110 [Revise as follows:] For all plans other than defined benefit pension or other postemployment benefit plans, a PERS should apply the requirements of Section 1600, paragraph .134, for measurement focus and basis of accounting,

[Completely Superseded]

and Section 2200, paragraphs .173 and .174, for financial statement display. Combining financial statements are encouraged, but not required, for those plans. [GASBS 34, ¶141, as amended by GASBS 43, ¶11]