



## **GASB STATEMENT 45 ON OPEB ACCOUNTING BY GOVERNMENTS A FEW BASIC QUESTIONS AND ANSWERS**

### **1. Why was Statement 45 on OPEB accounting by governments necessary?**

Statement 45 was issued to provide more complete, reliable, and decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide postemployment benefits other than pensions (OPEB) as part of the compensation for services rendered by their employees. *Postemployment healthcare benefits*, the most common form of OPEB, are a very significant financial commitment for many governments.

### **2. How was OPEB accounting and financial reporting done prior to Statement 45?**

Prior to Statement 45, governments typically followed a “pay-as-you-go” accounting approach in which the cost of benefits is not reported until after employees retire. However, this approach is not comprehensive—only revealing a limited amount of data and failing to account for costs and obligations incurred as governments receive employee services each year for which they have promised future benefit payments in exchange.

### **3. What does Statement 45 accomplish?**

- When they implement Statement 45, many governments will report, for the first time, annual OPEB cost and their unfunded actuarial accrued liabilities for past service costs. This will foster improved accountability and a better foundation for informed policy decisions about, for example, the level and types of benefits provided and potential methods of financing those benefits.

The Standard also:

- Results in reporting the estimated cost of the benefits as expense each year *during the years that employees are providing services* to the government and its constituents in exchange for those benefits.
- Provides, to the diverse users of a government’s financial reports, more accurate information about the *total cost of the services* that a government provides to its constituents.
- Clarifies whether the amount a government has paid or contributed for OPEB during the report year has covered its annual OPEB cost. Generally, the more of its annual OPEB cost that a government chooses to defer, the higher will be (a) its unfunded actuarial accrued liability and (b) the cash flow demands on the government and its tax or rate payers in future years.
- Provides better information to report users about a government’s *unfunded actuarial accrued liabilities* (the difference between a government’s total obligation for OPEB and any assets it has set aside for financing the benefits) and changes in the *funded status of the benefits* over time.

#### 4. What are the most common misconceptions about Statement 45?

- a. **That it requires governments to fund OPEB.** Statement 45 establishes standards for *accounting and financial reporting*. How a government actually finances benefits is a policy decision made by government officials. The objective of Statement 45 is to more accurately reflect the financial effects of OPEB transactions, including the amounts paid or contributed by the government, whatever those amounts may be.
  
- b. **That it requires immediate reporting of a financial-statement liability for the entire unfunded actuarial accrued liability.** Statement 45 does not require immediate recognition of the unfunded actuarial accrued liability (UAAL) as a financial-statement liability. The requirements regarding the reporting of an OPEB liability on the face of the financial statements work as follows:
  - Governments may apply Statement 45 prospectively. At the beginning of the year of implementation, nearly all governments will start with zero financial-statement liability.
  - From that point forward, a government will accumulate a liability called the *net OPEB obligation*, if and to the extent its actual OPEB contributions are less than its annual OPEB cost, or expense.
  - The net OPEB obligation (not the same as the UAAL) will increase rapidly over time if, for example, a government's OPEB financing policy is pay-as-you-go, and the amounts paid for current premiums are much less than the annual OPEB cost.

Statement 45 does, however, also require the *disclosure* of information about the *funded status* of the plan, including the UAAL, in the notes to the financial statements—and the presentation of multi-year funding progress trend information as a required supplementary schedule.

- c. **That it requires governments to report “future costs” for OPEB.** It is misleading and incorrect to describe accrual accounting for OPEB as requiring the expensing of “future costs.” From an accrual accounting standpoint (the basis of accounting required for all transactions in the government-wide financial statements), the reported expenses relate entirely to transactions (exchanges of employee services for the promised future benefits) that *already have occurred*. Statement 45 requires governments to report costs and obligations incurred as a consequence of receiving employee services, for which benefits are owed in exchange. The *normal cost* component of annual expense is the portion of the present value of estimated total benefits that is attributed to services received in the current year. The annual expense also includes an amortization component representing a portion of the UAAL, which relates to past service costs. Estimated benefit costs associated with *projected future years of service* are not reported.

# Cascade Policy Institute

## Other Post-Employment Benefits – June 2012 Update Top 100 Oregon State Governments - UAAL as a % of Covered Payroll (in millions)

Government	Type of Plan	Actuarial Valuation Date	Payment	Annual Required Contribution (ARC)	Payment Shortfall/Deficit	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1 TriMet	Medical	01/01/10	14.26	75.40	61.15	-	816.54	816.54	0%	137.87	592.0%
2 Lebanon Community SD 9	Medical	06/30/10	0.75	0.78	0.03	-	2.99	2.99	0%	1.21	246.4%
3 Tillamook	Medical	08/01/08	0.53	1.29	0.76	-	10.62	10.62	0%	9.43	113.0%
4 Dallas SD 2	Stipend	06/30/10	0.77	0.77	0.00	-	8.22	8.22	0%	7.64	108.0%
5 Lane	Medical	06/30/10	3.09	3.91	0.82	-	73.37	73.37	0%	73.22	100.0%
6 Medford SD 549C	Medical	07/01/09	3.63	4.46	0.83	-	39.26	39.26	0%	40.72	96.4%
7 Corvallis	Medical/Life	08/01/08	1.32	3.03	1.71	-	28.08	28.08	0%	29.26	96.0%
8 Three Rivers/Josephine County SD	Medical/Life	01/01/09	2.29	2.50	0.21	-	19.55	19.55	0%	23.02	84.9%
9 Hermiston SD 8	Medical	10/01/09	0.89	2.02	1.13	-	15.38	15.38	0%	19.24	80.0%
10 Bend	Medical	07/01/09	0.67	3.38	2.70	-	22.83	22.83	0%	30.49	75.0%
11 Oregon City	Medical	08/01/08	0.38	0.93	0.56	-	6.60	6.60	0%	9.00	73.4%
12 Portland SD 1J	Medical	06/30/10	9.44	16.28	6.84	-	182.54	182.54	0%	256.90	71.1%
13 Central Point SD 6	Medical	07/01/08	1.43	1.50	0.07	-	12.99	12.99	0%	19.40	67.0%
14 Centennial SD 28J	Medical	06/30/10	0.41	0.66	0.26	1.13	6.54	5.41	17.4%	8.53	63.3%
15 Lincoln County SD	Medical	06/30/08	1.57	1.75	0.17	-	13.34	13.34	0%	21.69	61.5%
16 Gresham-Barlow SD 10J	Medical	07/01/09	0.23	0.29	0.05	-	2.28	2.28	0%	4.04	56.5%
17 Lebanon Community SD 9	Stipend	06/30/10	0.29	0.28	(0.01)	-	0.54	0.54	0%	0.96	56.4%
18 Lane Community College	Medical	07/01/09	1.06	1.11	0.06	-	7.53	7.53	0%	13.51	55.7%
19 Canby SD 86	Medical	10/01/09	0.97	1.72	0.74	-	12.37	12.37	0%	22.91	54.0%
20 Deschutes	Medical	07/01/11	0.57	3.05	2.48	-	28.29	28.29	0%	53.29	53.1%
21 Multnomah	Medical	01/01/09	2.44	11.66	9.23	-	122.61	122.61	0%	263.09	47.0%
22 McMinnville SD 40	Medical	07/01/08	1.30	1.87	0.58	-	13.53	13.53	0%	29.63	45.6%
23 Clackamas	Medical	07/01/10	1.69	6.39	4.70	-	50.08	50.08	0%	112.24	45.0%
24 Marion	Medical	07/01/09	0.79	3.41	2.62	-	28.39	28.39	0%	63.32	45.0%
25 Klamath County SD	Medical	07/01/08	0.96	1.23	0.27	-	13.41	13.41	0%	31.20	43.0%
26 Salem Area Mass Transit District	Medical	07/01/08	0.19	0.60	0.41	-	3.85	3.85	0%	9.39	41.0%
27 Eugene SD 4J	Medical	07/01/07	1.46	4.41	2.95	-	35.83	35.83	0%	88.77	40.0%
28 Lane Transit District	Medical	01/01/10	0.33	0.98	0.65	-	6.58	6.58	0%	16.78	39.2%
29 Klamath Falls City Schools	Medical	06/30/08	0.91	1.00	0.08	-	8.43	8.43	0%	21.96	38.4%
30 Grants Pass	Medical	06/30/10	0.23	0.71	0.47	-	4.57	4.57	0%	12.39	36.9%
31 Clatsop Community College	Medical	06/30/10	0.16	0.18	0.03	-	1.18	1.18	0%	3.27	36.1%
32 Oregon City SD 62	Medical	10/01/09	0.80	1.49	0.70	-	10.61	10.61	0%	30.50	34.8%
33 Bend-LaPine Administrative SD 1	Medical	06/30/10	1.14	2.75	1.61	-	24.31	24.31	0%	70.43	34.5%
34 Umpqua Community College	Medical	06/30/10	0.22	0.16	(0.05)	-	1.07	1.07	0%	5.15	34.0%
35 Roseburg	Medical	07/01/08	0.07	0.39	0.32	-	3.12	3.12	0%	9.58	32.5%
36 Coos Bay SD 9	Medical	07/01/09	0.33	0.49	0.15	-	4.36	4.36	0%	14.60	30.7%

# Cascade Policy Institute

## Other Post-Employment Benefits – June 2012 Update Top 100 Oregon State Governments - UAAL as a % of Covered Payroll (in millions)

Government	Type of Plan	Actuarial Valuation Date	Payment	Annual Required Contribution (ARC)	Payment Shortfall/Deficit	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
37 Greater Albany Public SD 8J	Medical	06/30/09	0.76	0.95	0.19	-	11.16	11.16	0%	37.59	29.7%
38 Klamath Falls City Schools	Medical	06/30/08	0.46	0.53	0.07	-	6.52	6.52	0%	21.96	29.7%
39 Springfield SD 19	Medical	07/01/09	1.04	1.47	0.42	-	16.01	16.01	0%	50.27	29.6%
40 Douglas County SD 4	Medical	07/01/08	0.79	1.13	0.34	-	7.99	7.99	0%	27.83	28.7%
41 Douglas County SD 4	Medical	07/01/08	0.53	0.69	0.16	-	7.18	7.18	0%	27.83	28.7%
42 Keizer	Medical	06/30/10	0.01	0.31	0.30	-	1.75	1.75	0%	6.10	28.7%
43 Silver Falls SD 4J	Medical	06/30/09	0.30	0.62	0.32	-	4.61	4.61	0%	16.10	28.6%
44 Eagle Point SD 9	Medical	07/01/08	0.29	0.56	0.27	-	5.71	5.71	0%	20.30	28.1%
45 Springfield	Medical/Disability	07/01/10	0.48	1.40	0.92	-	7.85	7.85	0%	\$28.39	28.0%
46 Salem-Keizer SD 24J	Medical	07/01/09	2.00	7.03	5.04	-	59.37	59.37	0%	219.85	27.0%
47 Mount Hood Community College	Medical	06/30/09	0.76	0.73	(0.03)	-	7.60	7.60	0%	31.10	24.4%
48 Redmond	Medical	08/01/08	0.14	0.55	0.42	-	3.01	3.01	0%	12.74	23.7%
49 Gresham	Medical	08/01/10	0.47	1.34	0.87	-	9.38	9.38	0%	40.10	23.0%
50 Benton	Medical	08/01/10	0.12	0.72	0.60	-	4.97	4.97	0%	21.65	23.0%
51 Grants Pass SD 7	Medical	07/01/08	0.30	0.79	0.49	-	6.62	6.62	0%	29.40	22.5%
52 North Clackamas SD 12	Medical	06/30/10	0.83	2.15	1.32	-	16.92	16.92	0%	75.35	22.5%
53 Clackamas Community College	Medical	07/01/09	0.78	1.45	0.66	-	4.86	4.86	0%	23.31	21.0%
54 Lake Oswego	Medical	08/01/08	0.17	0.70	0.53	-	4.63	4.63	0%	22.92	20.2%
55 McMinnville	Medical	08/01/10	0.17	0.37	0.20	-	2.08	2.08	0%	10.70	20.0%
56 Gresham-Barlow SD 10J	Medical	07/01/09	0.82	0.82	-	-	10.42	10.42	0%	52.09	20.0%
57 Hood River	Medical	08/01/08	0.06	0.24	0.18	-	1.51	1.51	0%	7.50	20.0%
58 Albany	Medical	08/01/08	0.23	0.82	0.59	-	5.18	5.18	0%	26.38	19.7%
59 Southwestern Oregon Community College	Medical	06/30/10	0.14	0.20	0.06	-	2.34	2.34	0%	12.06	19.4%
60 Portland Community College	Medical	07/01/09	0.77	1.78	1.01	-	16.50	16.50	0%	85.45	19.3%
61 Newberg	Medical	08/01/10	0.10	0.38	0.28	-	1.76	1.76	0%	9.15	19.0%
62 Salem	Medical	07/01/09	1.28	1.57	0.29	-	13.98	13.98	0%	75.47	18.5%
63 Grants Pass SD 7	Stipend	07/01/08	0.56	0.58	0.03	-	5.27	5.27	0%	29.40	17.9%
64 Eagle Point SD 9	Medical	07/01/08	0.36	0.50	0.13	-	3.61	3.61	0%	29.20	17.8%
65 Tualatin	Medical	08/01/08	0.05	0.23	0.18	-	1.49	1.49	0%	8.35	17.8%
66 Central Oregon Community College	Medical	07/01/08	0.22	0.35	0.13	-	2.98	2.98	0%	17.37	17.1%
67 Chemeketa Community College	Medical	07/01/09	0.64	1.29	0.65	-	7.27	7.27	0%	42.65	17.1%
68 Rogue Community College	Medical	01/01/09	0.26	0.25	(0.01)	-	2.22	2.22	0%	14.14	15.7%
69 Klamath Falls	Medical	07/01/09	0.02	0.14	0.12	-	0.93	0.93	0%	6.00	15.5%
70 North Clackamas SD 12	Stipend	06/30/10	0.95	1.03	0.07	-	8.26	8.26	0%	53.32	15.5%
71 Washington	Medical	06/30/10	0.66	1.75	1.09	-	16.45	16.45	0%	106.61	15.4%

# Cascade Policy Institute

## Other Post-Employment Benefits – June 2012 Update

### Top 100 Oregon State Governments - UAAL as a % of Covered Payroll

(in millions)

Government	Type of Plan	Actuarial Valuation Date	Payment	Annual Required Contribution (ARC)	Payment Shortfall/ Deficit	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
72 Beaverton	Medical	08/01/08	0.19	0.75	0.56	-	4.59	4.59	0%	30.40	15.1%
73 Coos Bay SD 9	Stipend	07/01/08	0.38	0.42	0.04	-	2.14	2.14	0%	14.20	15.1%
74 Eugene	Medical/Life	06/30/10	1.57	1.56	(0.00)	-	13.42	13.42	0%	90.67	15.0%
75 Beaverton SD 48J	Medical	07/01/08	1.44	3.26	1.82	-	27.06	27.06	0%	195.67	13.8%
76 Blue Mountain Community College	Medical	06/30/10	0.08	0.07	(0.01)	-	0.46	0.46	0%	3.85	11.9%
77 Wilsonville	Medical	08/01/08	0.03	0.15	0.12	-	0.80	0.80	0%	6.91	11.7%
78 Southwestern Oregon Community College	Stipend	06/30/10	0.03	0.12	0.09	-	1.38	1.38	0%	12.06	11.4%
79 Gresham-Barlow SD 10J	Stipend	07/01/09	0.53	0.49	(0.04)	0.80	3.90	3.10	20.4%	30.70	10.2%
80 Tigard	Medical	08/01/10	0.10	0.35	0.25	-	1.82	1.82	0%	\$17.89	10.2%
81 SAIF	Medical	01/01/09	0.73	0.30	(0.43)	-	5.70	5.70	0%	57.23	10.0%
82 Douglas County SD 4	Stipend	07/01/08	0.47	0.44	(0.03)	-	2.67	2.67	0%	27.83	9.6%
83 Three Rivers/Josephine County SD	Medical	07/01/09	0.01	0.25	0.23	-	2.20	2.20	0%	23.02	9.6%
84 Washington	Medical	06/30/10	0.66	0.19	(0.47)	-	1.89	1.89	0%	20.31	9.3%
85 Clackamas Community College	Stipend	07/01/09	0.26	0.33	0.07	-	1.80	1.80	0%	21.11	9.0%
86 Salem-Keizer SD 24J	Stipend	07/01/09	2.60	3.69	1.09	-	13.00	13.00	0%	219.85	8.0%
87 Centennial SD 28J	Stipend	06/30/10	-	0.13	0.13	0.37	1.07	0.71	34.2%	9.37	7.5%
88 Public Employees Benefit Board (PEBB)	Medical	07/01/09	8.40	16.70	8.30	-	161.70	161.70	0%	2,562.50	6.3%
89 Metro	Medical	07/01/09	0.12	0.44	0.32	-	3.01	3.01	0%	49.86	6.0%
90 Eagle Point SD 9	Stipend	07/01/08	0.13	0.17	0.04	-	1.06	1.06	0%	29.20	5.2%
91 Medford	Medical	08/01/10	0.06	0.25	0.19	-	1.30	1.30	0%	\$31.37	4.2%
92 Portland P&F	Medical	06/30/10	0.77	0.47	(0.30)	-	5.12	5.12	0%	121.08	4.2%
93 Retirement Health Insurance Account (RHIA)	Medical	12/31/09	22.40	22.40	-	214.10	511.20	297.10	41.9%	8,512.20	3.5%
94 OHSU	Medical	01/01/10	1.06	2.26	1.20	-	19.19	19.19	0%	669.00	2.9%
95 Forest Grove SD 15	Stipend	06/30/10	0.12	0.10	(0.01)	-	0.63	0.63	0%	22.24	2.8%
96 Retirement Health Insurance Premium Account (RHIPA)	Medical	12/31/09	1.50	1.50	-	6.40	24.50	18.20	25.9%	2,371.80	0.8%
97 Central Oregon Community College	Stipend	07/01/08	0.12	-	(0.12)	1.55	1.00	-	0%	17.37	0.0%
98 Ashland	Medical	08/01/10	0.14	0.22	0.08	-	2.80	2.80	0%	N/A	N/A
99 Ashland	Stipend	08/01/10	0.05	0.35	0.30	-	2.70	2.70	0%	N/A	N/A
100 Bethel SD 52	Medical/Stipend	07/01/09	1.29	1.63	0.34	-	8.09	8.09	0%	N/A	N/A
101 Clatsop Community College	Stipend	06/30/10	0.03	0.03	(0.00)	-	0.06	0.06	0%	-	N/A
102 Coos Bay	Medical	08/01/08	0.08	0.20	0.12	-	1.31	1.31	0%	N/A	N/A
103 Corvallis SD 509J	Medical	07/01/10	0.44	0.56	0.12	-	5.42	5.42	0%	N/A	N/A
104 David Douglas SD 40	Medical	06/30/09	0.50	2.05	1.55	-	18.89	18.89	0%	N/A	N/A

# Cascade Policy Institute

## Other Post-Employment Benefits – June 2012 Update

### Top 100 Oregon State Governments - UAAL as a % of Covered Payroll

(in millions)

Government	Type of Plan	Actuarial Valuation Date	Payment	Annual Required Contribution (ARC)	Payment Shortfall/Deficit	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
105 David Douglas SD 40	Medical	06/30/09	-	1.43	1.43	9.72	21.69	11.99	44.8%	N/A	N/A
106 Forest Grove	Medical	06/30/10	0.09	0.28	0.19	-	1.69	1.69	0%	N/A	N/A
107 Forest Grove SD 15	Medical	06/30/10	0.16	0.16	0.00	-	0.13	0.13	0%	N/A	N/A
108 Hillsboro	Medical	08/01/10	0.44	1.59	1.15	-	11.05	11.05	0%	N/A	N/A
109 Hillsboro SD 1J	Medical	06/30/10	1.02	2.04	1.02	-	18.50	18.50	0%	N/A	N/A
110 Hillsboro SD 1J	Stipend	06/30/09	0.03	0.03	0.00	-	0.10	0.10	0%	N/A	N/A
111 Lake Oswego SD 7J	Medical/Stipend	07/01/09	0.93	1.29	0.36	-	13.02	13.02	0%	N/A	N/A
112 Newberg SD 29J	Medical	10/01/08	0.43	0.84	0.42	-	5.82	5.82	0%	N/A	N/A
113 Oregon Trail SD 46	Stipend	06/30/10	0.58	0.74	0.16	0.01	6.61	6.60	0.1%	N/A	N/A
114 Parkrose SD 3	Medical	10/01/09	0.33	0.60	0.27	-	4.16	4.16	0%	N/A	N/A
115 Parkrose SD 3	Stipend	10/01/09	0.07	0.46	0.39	-	0.81	0.81	0%	N/A	N/A
116 Port of Portland	Medical	07/01/09	0.69	0.63	(0.06)	-	6.58	6.58	0%	N/A	N/A
117 Portland	Medical	07/01/09	6.46	10.33	3.87	-	104.20	104.20	0%	N/A	N/A
118 Redmond SD 2J	Medical	07/01/09	0.33	0.51	0.18	-	4.97	4.97	0%	N/A	N/A
119 Sherwood SD 88J	Stipend	06/30/10	0.08	0.04	(0.04)	-	0.19	0.19	0%	-	N/A
120 Tigard-Tualatin SD 23J	Medical	06/30/10	1.98	1.61	(0.37)	2.62	23.89	21.27	11.0%	N/A	N/A
121 Treasure Valley Community College	Medical	10/01/09	0.06	0.20	0.14	-	1.08	1.08	0%	N/A	N/A
122 West Linn	Medical	08/01/10	0.07	0.23	0.16	-	1.54	1.54	0%	N/A	N/A
123 West Linn-Wilsonville SD 3J	Medical	06/30/10	1.41	2.16	0.76	-	18.61	18.61	0%	N/A	N/A
124 West Linn-Wilsonville SD 3J	Stipend	06/30/10	0.37	0.29	(0.07)	-	2.04	2.04	0%	-	N/A
125 Woodburn SD 103	Medical	07/01/10	0.09	0.33	0.24	-	2.58	2.58	0%	N/A	N/A
			<b>136.96</b>	<b>285.84</b>	<b>148.88</b>	<b>236.69</b>	<b>3,031.34</b>	<b>2,795.32</b>	<b>7.8%</b>	<b>18,030.91</b>	<b>15.5%</b>