

# OPEB??

*What Does It Mean and Why Should We Care?*

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## So, what is it?

- Other postemployment benefits
  - Post-retirement health insurance
    - Completely provided by the employer
    - Partially subsidized by the employer
    - Here is a phone number....
- Does *not* include:
  - Pension benefits
  - Law enforcement separation allowance

## The Concept

- Employers are promising a benefit that has a future cost
- As employees are working, they are earning the right for the future benefit
- The employer is incurring a liability as the employee works
- GAAP requires that the growing liability be reported on the financial statements each year

## Some quick facts about OPEB

- OPEB is an *option* for employers provide
- OPEB benefits can be modified, but only *prospectively*
- The reporting requirements do *not* require certain funding levels or necessarily affect the budget....*for now*

## The evolution of telling the truth...

- Initial form of reporting became a requirement from 2008-2010
- New requirements are becoming effective in NC for FYE 6/30/18

## A few more terms....

- Actuary
- Actuarial study
- ARC
  - Annual Required Contribution
- Actual employer contribution
- Unfunded pension liability (former term)
- Net pension liability (new term)

## Reported Liability

- The “old” way....
  - **Unfunded pension liability** reported was the difference between the **ARC** and the **actual contribution**
- The “new” way....
  - **Net pension liability** is the difference between the present value of projected benefits for *past* service and the restricted resources held in a legal trust for benefit payments

## How does this affect the external financial statements? (cont.)

- The general fund only has expenditures for the *actual contributions* the employer makes to the OPEB trust fund (if any)

## Is there a requirement to fund an OPEB trust?

- The quick answer is NO
- What are the pros and cons of funding an OPEB trust?

## What are the challenges of the new requirements?

- Costs of implementing the new standards
  - Actuarial costs at least every two years
  - Alternative method available for plans that have less than 100 members
    - Active employees *plus* retirees
- Exploding liabilities on the financial statements
  - Owned 100% by the employers

## Challenges...(cont.)

- *Potential* impacts on bond ratings
- Budgetary impacts of moving toward more sustainable funding practices

## What is a Gap Year?

- Period of time between *measurement date* and *reporting date*
- Payments made to the plan during that time are reported as *deferred outflows of resources*

- Questions (or prayer requests)?