



For Immediate Release: March 23, 2018
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NHRS Frequently Asked Questions Concerning GASB 75

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, takes effect in 2018 for governmental employers with fiscal years ending June 30, 2018, or later.

In an effort to assist participating employers with the implementation of GASB 75, the New Hampshire Retirement System (NHRS, the retirement system) has created this list of frequently asked questions.

Q. What is GASB?

A. GASB is an independent, non-profit organization that sets financial accounting and reporting standards for state and local governments. It is the source of generally accepted accounting principles (GAAP) used by state and local governments in the United States.

EMPLOYER RESOURCES

In an effort to assist employers with the implementation of GASB 75, NHRS has created a web page that includes NHRS employer communications and links to additional resources. The page can be accessed at:

www.nhrs.org/employers/gasb

While GASB has no enforcement authority, public employers – including NHRS – typically follow GASB rules in order to obtain unmodified opinions from their auditors. Adhering to GASB standards is also an important consideration for the bond rating agencies. For more information, see: www.gasb.org

In recent years, GASB updated accounting standards for pensions in Statements No. 67 and 68. NHRS began providing employer-level GASB 68 data for participating employers beginning in 2015.

GASB 75 – and its companion pronouncement, GASB 74, which affects NHRS only – were issued to replace Statements No. 43 and 45. These statements make changes to the financial reporting framework for employers that provide Other Post-Employment Benefits (OPEB) to retirees and require more disclosures and required supplementary information.

Q. What are OPEB plans?

A. OPEB refers to any post-employment benefits (other than pensions) that a state or local government employee may receive as part of his or her package of retirement benefits. Typically retiree medical insurance is the most significant OPEB offering, though other benefits such as life insurance are also covered by this umbrella term. For GASB purposes, the NHRS Medical Subsidy is an OPEB benefit.

Q. What is the Medical Subsidy?

A. The Medical Subsidy is a payment made by NHRS directly to an eligible retiree's former employer or the employer's health insurance administrator that goes toward the cost of health insurance for a qualified retired member, spouse, or dependent child(ren). The Medical Subsidy is not a health insurance plan.

Medical Subsidy benefits are funded from a 401(h) trust for Political Subdivision Employees, State Employees, Teachers, and Police and Fire members. Because these benefits are not fully funded, employers are required by statute to pay the minimum rate necessary to maintain the benefits provided for each of the above groups. Because this benefit is a closed plan except with respect to certain Group II members, the Medical Subsidy rates assessed to employers are expected to decrease in future years.

For more information, see: <https://www.nhrs.org/retirees/plan-details/medical-subsidy>

Q. What do GASB 75 standards require?

A. GASB 75 is similar to GASB 68 in that it requires participating governmental employers to report their proportionate share of the net OPEB liability and expense on their financial statements. However, there is one significant difference that employers need to be cognizant of: While NHRS will provide employer-level GASB 75 liability and expense information regarding the Medical Subsidy, an employer may have additional OPEB liabilities that the retirement system is unaware of, such as employer-funded health care or life insurance for retirees.

In other words, the information NHRS provides regarding Medical Subsidy-related OPEB liabilities may not be the only OPEB liability an employer may have. NHRS advises employers to discuss the impact of these new GASB Statements with their auditors.

Q. Does the GASB 75 OPEB reporting requirement impact NHRS employer contribution rates?

A. No. Employer contribution rates are actuarially determined pursuant to RSA 100-A, the NH Constitution, and the NHRS Actuarial Funding Policy.

Q. Will reporting an OPEB liability increase local property taxes?

A. No. These reports are for accounting and financial reporting purposes only and do not impact local property tax rates or future NHRS employer contribution rates. This is because the OPEB liability will be presented in the "Government-Wide Financial Statement," not the "Fund Financial Statement" that is used by the state Department of Revenue Administration for tax rate-setting purposes.

Q. How will the proportionate share for individual employers be determined?

A. The proportionate share for each employer will be determined by comparing the Medical Subsidy contributions collected from each employer to the total Medical Subsidy contributions NHRS received in the fiscal year.

The first part of the calculation is to take the amount of employer Medical Subsidy contributions made by individual employers in the fiscal year and divide each individual amount by the total amount of all employer Medical Subsidy contributions.

The percentages derived in the above calculation are then multiplied by the GASB 74 Net OPEB Liability to determine each employer's proportionate share.

Q. It sounds like the proportionate share is an accounting approximation, not the employer's true liability for the Medical Subsidy benefit. Is that correct?

A. Yes. The GASB calculation of an employer's Net OPEB Liability is not done on an actuarial basis and does not represent an employer's true unfunded OPEB liability. Because NHRS is a cost-sharing, multiple-employer plan, pension and Medical Subsidy costs are assessed equally among all participating employers.

Q. Do employers need to report this data?

A. NHRS employers that report on a GAAP (generally accepted accounting principles) basis must comply with the requirements of GASB 75 in their audited financial statements for the fiscal years ending June 30, 2018, and later. GASB 75 requirements are not applicable to employers that report on a cash basis.

Although GASB has no enforcement authority, public employers generally follow GASB rules in order to obtain unmodified opinions from their auditors. Adhering to GASB standards is also an important consideration for bond rating agencies.

Q. Why is GASB changing the financial reporting rules?

A. GASB’s stated intent in updating pension and OPEB standards is to increase the transparency, consistency, and comparability of pension information across governments.

The new standards change the way plans report pension and OPEB information for accounting purposes, but do not force pension plans to change their funding policies, which are typically defined by statute. This has been referred to as “divorcing accounting from funding.”

Q. Is the GASB 75 data that NHRS will provide the only OPEB information an employer will need?

A. NOT NECESSARILY! As noted earlier, employers may have additional retiree OPEB liabilities funded directly by the employer that the retirement system is unaware of, such as employer-funded health care or life insurance for retirees and dependents. NHRS advises employers to discuss the impact of GASB 75 with their auditors.

Q. Will NHRS assist employers in complying with GASB 75 requirements?

A. Yes. NHRS expects to provide audited GASB 75 employer-level data in the summer of 2018 for employers with fiscal years ending June 30, 2018, and updated data in early 2019 for employers with fiscal years ending Dec. 31, 2018. Additionally, NHRS has posted GASB background material online at: <https://www.nhrs.org/employers/gasb>

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The New Hampshire Retirement System (NHRS) is governed by New Hampshire RSA 100-A, rules, regulations, and Federal laws including the Internal Revenue Code. NHRS also implements policies adopted by the Board of Trustees. These laws, rules, regulations, and policies are subject to change. Even though the goal of NHRS is to provide information that is current, correct, and complete, NHRS does not make any representation or warranty as to the current applicability, accuracy, or completeness of any information provided. The information herein is intended to provide general information only, and should not be construed as a legal opinion or as legal advice. Members are encouraged to address specific questions regarding NHRS with an NHRS representative. In the event of any conflict between the information herein and the laws, rules, and regulations which govern NHRS, the laws, rules, and regulations shall prevail.