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Employer Bulletin

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Accounting and Reporting for Other Postemployment Benefits (OPEB) for Employers Participating in the Wisconsin Public Employers Health Insurance Program

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Also known as *GASB Statement 45*, this statement requires the recognition of a periodic expense and accrued liability similar to that currently required for pension accounting.

The purpose of this *Bulletin* is to provide participating employers with information from the Group Insurance Board's consulting actuary relating to an exception GASB provides for employers whose plans are community rated. While many employers will need an actuarial valuation to determine the implicit subsidy and GASB liability, the majority of employers under the Wisconsin Public Employers (WPE) Group Health Insurance program may find the information below useful in determining the extent of the analysis needed to respond to GASB concerns.

INSIDE

ETF asked the consulting actuary to review all Wisconsin public employers that participate in the community rated Group Health Insurance program and provide an opinion on those employers that can use unadjusted premiums as the basis for expected retiree claims costs. The actuary has completed its review and we are providing the results of that assessment in this *Bulletin*.

It is important to note employers will each have to determine how *GASB Statement 45* rules apply to them and the extent to which they choose to rely on the information in this *Bulletin*. We are sharing this assessment for your information only.

Details from the Board's Consulting Actuary

Deloitte Consulting, LLP, reviewed the local employers that participate in the community-rated Wisconsin Public Employers (WPE) Group Health Insurance Program to determine those that can use unadjusted premiums as the basis for expected retiree claims costs. They determined that local employers with less than 20 non-Medicare eligible retirees can use this method of not adjusting claims costs based on age. The details of this determination are provided.

> "The primary benefit of determining that an employer can use an unadjusted premium rate as the expected claims costs for retirees is that an employer would not have an implicit rate subsidy for its retirees. Further, if the only benefit that an employer provides to retirees is continued access to insurance benefits at 100% of the premium rate, that employer would have no GASB 45 liability.

Paragraph 13.a.(2) of *GASB Statement No. 45* states that "When an employer provides benefits 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 standards issued by the Actuarial Standards Board. However, when an employer participates in 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 benefits, to the extent permitted by actuarial standards."

The Actuarial Standard of Practice (ASOP) that applies to this section of GASB 45 can be found in paragraph 3.4.5 of ASOP No 6. The relevant portion of the standard is summarized 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.

The WPE Group Health Insurance Program provides several options of insurance carriers dependent upon the location of the participating employer. Each of these carriers provides community-rated premiums to the participants of its plans. If the covered group of participating WPE employees is large enough, the community-rating for a particular carrier is based on the experience of just those WPE participants. In situations where the covered group is not large enough to provide reliable experience, the carrier provides community-rated premiums based either on a combination of WPE employees and State employees or the carrier's general experience in the region.

We were asked to make a general determination of whether or not a WPE employer's premium would change if they only covered non-Medicare eligible retirees as noted in ASOP No. 6. In order to make this determination accurately, an analysis would be needed of the carriers providing coverage to an employer and the number of contracts the employer had under each carrier relative to the total number of contracts held by that carrier in this Program.

Without going in to that level of detailed analysis, we can make a more general statement about the applicability of this statement to smaller employers. Specifically, we feel that WPE employers with less than 20 non-Medicare eligible retirees would pay the same premium if they covered all of their participants as they would if they covered only the non-Medicare eligible retirees. We feel that an employer having less than 20 participants in a plan would be too small of a group to affect the rates by the carrier because the plan would either have enough WPE employees to absorb this small group or the plan would be community-rated with the State plan or the carrier's general experience in the region."

Questions

For questions regarding *GASB 43 and GASB 45,* consult your financial or legal representative. Additional information is also available at **http://www.gasb.org**.

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