



OPERS BRIEFING: New Reporting Rules for Health Care

WHAT'S CHANGING?

The Governmental Accounting Standards Board (GASB), the authoritative body that develops the standards for financial reporting, has issued new rules for how public employers, including OPERS-reporting employers, must report health care obligations (called other post-employment benefits or OPEB) on financial statements.

The concept is the same as the GASB-required standard for pension obligations – that was implemented beginning in 2015. So, employers will have both a net pension obligation and a net OPEB obligation on their financial statements. This summary is intended to help you explain to stakeholders the key issues around this change.

WHAT PUBLIC EMPLOYERS MUST COMPLY?

- ***The new rules do not affect employers who report on a cash basis.***
- Employers who report using an accrual basis of accounting must implement the new rules beginning with the financial reports for the fiscal year ending June 30, 2018. Then, employers will need to include a liability on financial statements for the unfunded liability for health care (net OPEB liability).

STANDARDS IMPACT ACCOUNTING, NOT FUNDING

Unlike many other states, Ohio's employer contribution rates are set in statute. Employers are not required to pay more than the current statutory contribution. The new rules represent a change in reporting – not a change in funding.

The new OPEB accounting standards also require employers to include additional footnote disclosures. The requirement to report this new pension liability may be significant to your financial statements, but will not change the amount you are required to fund under Ohio law.

Affected employers will quickly notice the new accounting OPEB standards mirror the accounting standards for pension obligations where employers are required to report a portion of the pension unfunded liability (or net liability). This requirement was effective for pensions in 2015.

- Again, the new OPEB accounting standards do not affect contribution rates and funding requirements. The standards only affect financial reporting and not the amount employers are required to fund under Ohio law.

NEW RULES NOT ANTICIPATED TO NEGATIVELY IMPACT FINANCIAL RATING

OPERS has worked with the Ohio Auditor of State to determine the impact on public employer financial ratings. The Auditor's office does not use these liabilities when determining fiscal caution, watch or emergency.

Additionally, OPERS engaged financial ratings companies (such as Moody's, Fitch and Standard & Poor's). The ratings agencies indicated that financial ratings are not impacted solely on exposure to pension liabilities, but rather by a combination of evaluation factors. Because pension liabilities are only one element of consideration and have already regularly been included in rating determinations, the new rules are not expected to create a negative impact on an employer's financial rating. Moody's and Fitch recognize that health care liability differs from the pension liability, as health care is not statutorily guaranteed – therefore, neither will recalculate ratings based on the OPEB liabilities. Standard & Poor's will also analyze the OPEB liability separately.

OPERS PARTNERS WITH EMPLOYERS

We have traveled the state to work with employers so that each understands the GASB standards and reporting changes. Our educational and outreach efforts will continue with the new OPEB requirements. Employers will find:

- The OPERS website is regularly updated to include additional GASB resources.
- We will continue to offer multiple opportunities for outreach to employers on these new requirements, both in-person and online.
- We'll continue to work closely with the Auditor of State's Office and appropriate financial entities.

As always, we'll provide timely and accurate information to help impacted employers fulfill audit and reporting requirements.

OPERS IS WORKING TO STABILIZE AND STRENGTHEN

The ever-changing marketplace, combined with the increase in retirees and escalating health care costs, requires OPERS to be vigilant in managing current and anticipated liabilities. The OPERS goal in proactively managing liabilities is to ensure pensions are well funded and to safeguard access to health care.

QUESTIONS?

If you have questions or need additional information, you are encouraged to contact OPERS Finance staff directly at [gasboutreach@opers.org](mailto:gashoutreach@opers.org).

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