

FASB (Financial Accounting Standards Board)

This entity sets accounting and financial reporting rules to create financial reports for private sector employers.

GASB (Governmental Accounting Standards Board)

This entity sets accounting and financial reporting rules to create financial reports for public sector employers.

Why should I be concerned about FASB 106 & GASB 45?

Accounting rules for retiree healthcare programs have changed significantly over the past 25 years. FASB Statement No. 106 became effective in 1993 to address the concerns over the ability of private sector employers to finance promised retiree healthcare benefits. GASB Statement No. 45 became effective in 2007 to address similar concerns in the public sector however only requires the reporting of the cost of their retiree healthcare benefits until 2010 at which time they must establish funding for this benefit.

Why is FASB 106 & GASB 45 concerned about retiree healthcare benefits?

Medical technology and healthier living has increased overall life expectancy thus the number of years people are spending in retirement has also increased. Most employers, both private and public, did not anticipate the substantial increase in cost due to their retirees living longer. Private sector employers will tell you FASB 106 is the reason why most no longer offer retiree healthcare benefits. Public sector employers will tell you GASB 45 could mean the end to many public programs.

Why should this concern the employer?

Employers that promised retiree healthcare benefits must comply with the financial rules that FASB and GASB have established. This requires reserving money for future retiree claims on a monthly basis which can run into the millions of dollars per retiree depending on how long they live.

How can the Seniors Choice Program help entities affected by FASB 106 and GASB 45?

The Seniors Choice Program reduces the employers' liability by no longer requiring pre-funding for future retiree claims as Seniors Choice is a fully insured program. Under the Seniors Choice Program employers are only required to pre-fund the monthly premiums.

The Seniors Choice Program is also the perfect solution for employers who want to add a retiree benefit to their current employee benefit package but don't want the financial burden of pre-funding such a program.

The Technical Aspects of FASB 106 and GASB 45

We've put together a summary of FASB 106 and the newer GASB 45, the affect GASB 45 can have on public sector employers and how the Seniors Choice Program can be the perfect solution for both of these accounting rules.

What is FASB 106 & GASB 45?

In 1990 FASB approved Statement No. 106 which requires the financial accounting of all non-pension benefits provided after a person leaves employment. The non-pension benefit that Statement No. 106 principally focuses on is retiree health care. Private sector employers are not only required to report the financial liability of their retiree healthcare programs but they are also required to pre-fund them.

In 2004 GASB approved Statement No. 45 which requires the financial accounting and reporting of all "Other Post Employment Benefits (OPEB)" provided by public sector employers. OPEB's include all non-pension benefits provided after a person leaves employment. The OPEB causing the most concern for public entities is retiree health care.

Who is affected by FASB 106 & GASB 45?

Any employer, private or public, that provides any post-employment, non-pension benefit must comply with the appropriate accounting and reporting statement.

Why is FASB 106 & GASB 45 needed?

Until these accounting rule changes became effective, all employers reported costs of their retiree healthcare benefits based on what was paid out in a given year. This created concern by FASB and GASB regarding the financial ability of these employers to pay for these benefits as promised.

What are the Non-compliance issues?

Non-compliance issues are different for these two accounting rules.

FASB 106 requires private sector employers to not only report the cost of retiree healthcare benefits but they must also put in place advance funding mechanisms to ensure the benefits will be paid. Penalties for not reporting and/or funding retiree healthcare benefits by private sector employers can be substantial.

GASB 45 is an accounting standard and is not a law. However, failure to follow its' accounting and reporting rules could be harmful to the financial health of public sector employers. Although GASB 45 does not require advance funding, it encourages public sector employers to set aside money for their employees' retirement in order to fund future liabilities. For city and state governments that do not have a plan for funding their retiree benefits, their bond rating could be negatively affected in addition to negative credit ratings, investment returns and borrowing costs, all of which are factors that affect negotiations.

When does FASB 106 & GASB 45 become effective?

FASB 106 has been in effect since 1993 thus all phases have already been put into place.

GASB 45 is effective in three phases as follows:

Total Annual Revenue in the first fiscal year ending after June 15, 1999:	Must report costs in financial statements for periods beginning after:
\$100 million or more	December 15, 2006
\$10 million or more but less than \$100 million	December 15, 2007
Less than \$10 million	December 15, 2008

All component units are required to implement accounting and reporting procedures no later than the same year as the primary government.