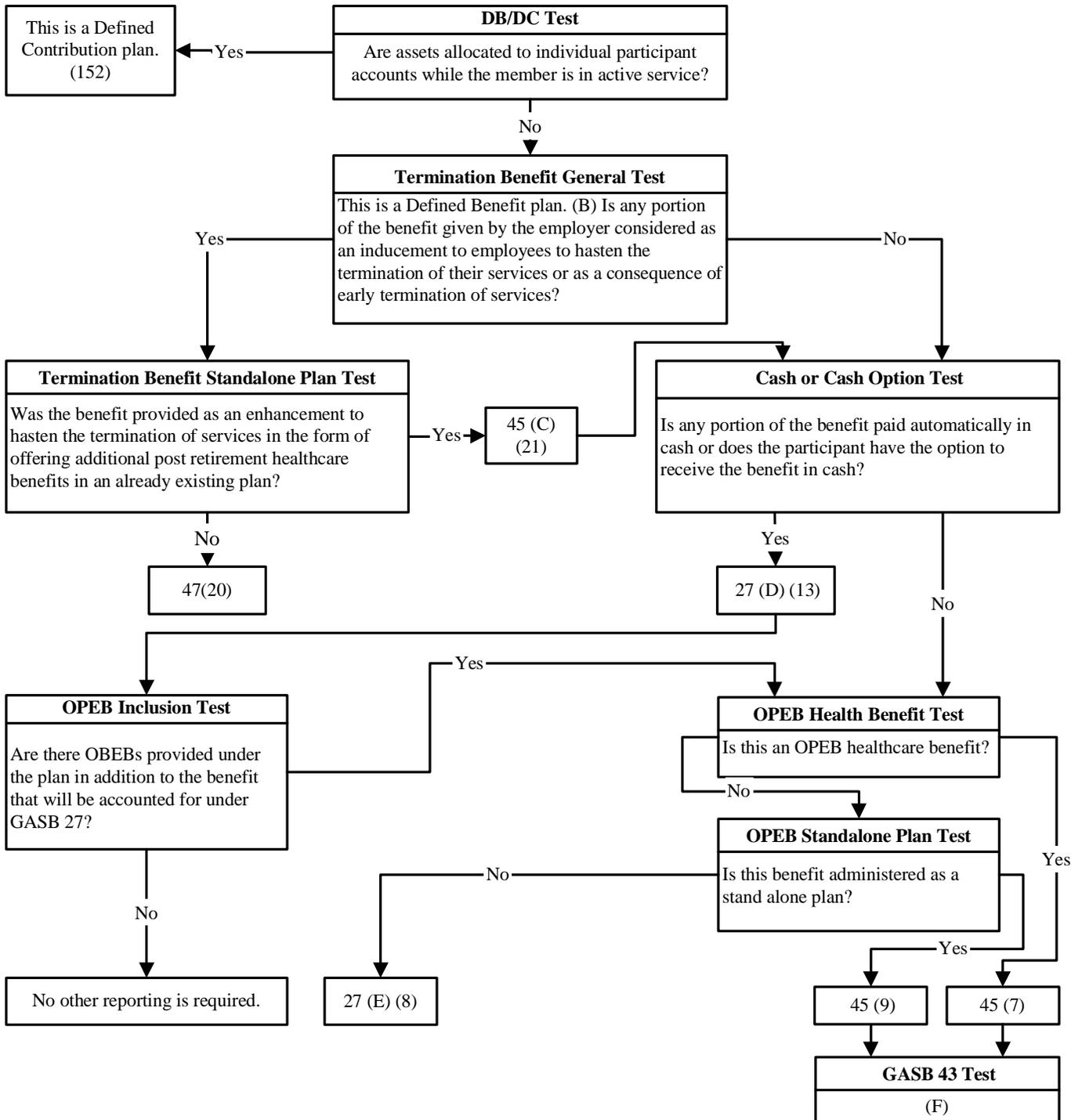


# Plan Types and Applicable GASB Standards Decision Tree

(Please see Note A following the decision tree.)



## Notes

- A. This decision tree can be used to determine the applicable GASB standard for a given pension or Other Postemployment Benefits (OPEB) plan. The letters in parenthesis refer to the notes following the decision tree. The numbers in the boxes (without any parenthesis) refer to the GASB standard which applies in the given situation. The numbers in parenthesis refer to the applicable question from the Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits published in June, 2005 by GASB.
- B. All defined benefit plans are one of three types whose definitions in GASB 27, 43 and 45 are shown below:
1. Single-employer plan - A plan that covers the current and former employees, including beneficiaries, of only one employer.
  2. Agent multiple-employer plan - An aggregation of single-employer plans, with pooled administrative and investment functions. Separate accounts are maintained for each employer so that the employer's contributions provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of the pooled assets. The results of the individual valuations are aggregated at the administrative level.
  3. Cost-sharing multiple-employer plan - A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members, and the same contribution rate(s) applies for each employer.
- C. Both the existing postretirement benefits and the effects of early termination benefits are to be accounted for under GASB 45 as a single plan unless GASB 27 accounting is called for on the basis of the Cash or Cash Option Test.
- D. The benefit that is paid in cash or which the participant has an option to take as cash is treated as retirement income.
- E. This benefit is accounted for along with the benefit(s) that it is combined with as a single plan under GASB 27.
- F. Unfortunately, there are too many ways in which government sponsored OPEB plans are funded to be able to develop a simple test for whether GASB 43 reporting is required. The following paragraph from Q&A 8.69.3 of the Comprehensive Implementation Guide --- Guides Issued through June 30, 2006 illustrates this point:
- “Statements 43 and 45 do not specify how an OPEB plan should be structured administratively. That is, those Statements do not prescribe the precise workings of the trust, or equivalent arrangement, or the responsibilities of the trustee(s) in relation to the responsibilities of the employer, employer officials, or other entities or persons that may be involved in administering the preceding financial activities associated with the functions of financing and paying benefits. A variety of plan structures may arise in practice to fit specific circumstances.”

The answer to Question 214 of Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits has five parts labeled a through e which illustrate the varied nature of government plan funding arrangements. The table at the top of the following page summarizes such answer:

Fact	Q&A 214				
	a	b	c	d	e
1. A governmental entity sponsors and administers a single-employer defined benefit plan.	x	x			
2. The plan is funded with a trust that meets the criteria of statement 43, paragraph 4 (see below).	x	x			
3. The administrator issues a plan financial report.	x			x	
4. The administrator includes the trust fund in its own financial report.		x			x
5. A governmental entity administers a multiple-employer defined benefit plan.			x		
6. The plan is funded in such a manner that does not meet the criteria of Statement 43, paragraph 4 (see below).			x		
7. A government entity sponsors and administers a defined contribution plan.				x	x

According to Statement 43, paragraph 4, if a trust or equivalent arrangement is used to fund a plan providing OPEBs, it must meet the following criteria in order for its assets to be eligible for consideration in the OPEB actuarial valuation.

1. Employer contributions to the trust (or equivalent arrangement) are irrevocable.
2. Plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan.
3. Plan assets are legally protected from creditors of the employer(s) or the plan administrator.

G. The following example is designed to illustrate two concepts that are frequently misunderstood with respect to GASB 43 and 45:

City A has negotiated a contribution of 2% of pay with its firefighters to fund future retiree healthcare benefits. The group of firefighters covered by the agreement are all employed by City A. Such contributions are paid into a trust on an unallocated basis. The firefighters, through their elected representatives, handle all the administration of the plan including setting the benefit level in conjunction with an actuary hired by the firefighters, investing the trust assets and, through a TPA hired by the firefighters, performing all the general administrative functions of the plan. A summary of the agreement with City A, which was written in layman's terms and distributed to all member firefighters, clearly explains that (1) City A's legal liability does not extend beyond the payment of the negotiated contributions and (2) City A does not bear responsibility for any part of the administration of the plan.

The two points of clarification in this example are as follows:

1. Plan considered as a defined benefit plan - Because City A's legal commitment is restricted to only paying the contributions, some interpret this plan as a defined contribution plan. However, because the plan does not allocate plan assets to individual accounts during the pre retirement phase, from an accounting perspective, it is a defined benefit plan sponsored by City A with such to be reported under GASB 45. Please note this example is very similar to the example in question 8.7.2 on page 8-11 of the Comprehensive Implementation Guide --- Guides Issued through June 30, 2006 which was published in October, 2006 by GASB.
2. Plan not subject to GASB 43 reporting - Because the association, which is not a governmental entity, performs all the administrative functions, GASB 43 does not apply. In this situation, SOP 92-6 (as amended by SOP 01-2) would apply.