

# Proposed GASB Technical Bulletin

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**Title:** Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Provisions of Medicare Part D

**References:** GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*  
GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*  
GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*  
GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

**This proposed GASB Technical Bulletin is issued for public comment. Written comments should be addressed to:**

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**Comment Deadline: April 17, 2006**



**GOVERNMENTAL ACCOUNTING STANDARDS BOARD**  
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## Contents

	Paragraph Numbers
Introduction.....	1
<b>Question 1:</b> How should an employer account for and report a Medicare Part D payment from the federal government to the employer? .....	2–3
<b>Question 2:</b> How does a Medicare Part D payment from the federal government to an employer affect the accounting and financial reporting by a defined benefit OPEB plan?.....	4–5
<b>Question 3:</b> How should an employer account for and report a Medicare Part D payment from the federal government to the plan?.....	6–7
<b>Question 4:</b> How should a defined benefit OPEB plan account for and report a Medicare Part D payment from the federal government to the plan? .....	8–9
Effective Date .....	10
Appendix 1: Background .....	11–18
Appendix 2: Codification Instructions.....	19–21

## Introduction

1. This Technical Bulletin clarifies the application of existing standards of accounting and financial reporting to payments that an employer or a defined benefit other postemployment benefit (OPEB) plan receives from the federal government under Medicare Part D in relation to prescription drug benefits, pursuant to the provisions of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

### Question 1

2. How should an employer account for and report a Medicare Part D payment from the federal government to the employer?

### Response

3. A Medicare Part D payment from the federal government to the employer is a *voluntary nonexchange transaction*, as discussed in paragraph 7 of Statement 33. Accordingly, the employer should recognize an asset and revenue for the payment received following the applicable recognition requirements of that Statement. The payment is a separate transaction from the exchange of services for salaries and benefits (including postemployment prescription drug benefits) between employer and employees, for which the accounting is addressed in Statement 45. Therefore, a sole or agent employer should apply the measurement requirements of Statement 45 to determine the actuarial accrued liabilities, the annual required contribution of the employer (ARC), and the annual OPEB cost *without reduction* for Medicare Part D payments.

## Question 2

4. How does a Medicare Part D payment from the federal government to an employer affect the accounting and financial reporting by a defined benefit OPEB plan?

### Response

5. As noted in the answer to question 1, a Medicare Part D payment to an employer is a voluntary nonexchange transaction between the federal government and the employer. The transaction does not affect accounting for employer contributions or the financial reporting presentation by a defined benefit OPEB plan in which an employer participates. An OPEB plan should apply the measurement requirements of Statement 43 to determine the actuarial accrued liabilities, the ARC, and the annual OPEB cost *without reduction* for Medicare Part D payments.

## Question 3

6. How should an employer account for and report a Medicare Part D payment from the federal government to the plan?

### Response

7. A Medicare Part D payment from the federal government to the plan is an *on-behalf payment for fringe benefits*, as discussed in paragraph 7 of Statement 24. The employer should recognize revenue and expense or expenditures for the payment in accordance with the recognition and measurement requirements of paragraph 8b, pertaining to an employer that is legally responsible for contributions to the OPEB plan. That is, the employer “should follow accounting standards for that type of transaction to recognize expenditures or expenses and related liabilities or assets.” The employer also should disclose the amounts recognized for the on-behalf payment as required by paragraph 12 of that Statement. An employer should apply the requirements of paragraph 8b of Statement 24 by following the measurement requirements of Statement 45 to determine OPEB expense or expenditures (that is, no reduction should be made for the Medicare Part D payments).

## Question 4

8. How should a defined benefit OPEB plan account for and report a Medicare Part D payment from the federal government to the plan?

### Response

9. A defined benefit OPEB plan should apply the measurement requirements of Statement 43 consistent with related measurements by the employer(s), discussed in the answer to question 3. Statement 43, paragraph 34, provides that “a plan and its participating employer(s) should apply the same actuarial methods and assumptions in determining similar or related information included in their respective financial reports.” That is, the plan should measure the actuarial accrued liabilities, the ARC, and the annual OPEB cost without reduction for the Medicare Part D payments. In the statement of

changes in plan net assets, the plan should display separately contributions from the employer(s) and the on-behalf payment from the federal government, as required by Statement 43, paragraph 27, in a way that makes clear that both amounts are contributions in relation to the ARC (agent plan) or to contractually required contributions (cost-sharing plan). In the schedule of employer contributions, the plan should apply the requirements of paragraph 36 of Statement 43 by including the Medicare Part D payment as on-behalf contributions from the federal government and titling the schedule as the *schedule of contributions from the employer(s) and other contributing entities*. The plan should present the ARC without reduction for the Medicare Part D payment. The plan may present separately the percentages of the ARC recognized as additions to plan net assets from employer contributions and the on-behalf payment, respectively. That is, the plan's schedule should present the ARC in dollars and may present in separate columns the contributions recognized by the plan *in relation to the ARC* from the employer(s) and from the federal government on behalf of the employer(s), each expressed as a percentage of the ARC. In addition, the plan may present in another column the combined percentage of the ARC contributed by the employer(s) and by the federal government on behalf of the employers. Alternatively, the plan may present only the combined percentage.

### **Effective Date**

10. This Technical Bulletin is effective for financial statements issued after June 30, 2006, except for portions of answers pertaining specifically to measurement, recognition, or required supplementary information requirements of Statements 43 and 45. Those provisions should be applied simultaneously with the implementation of Statements 43 and 45.

The Governmental Accounting Standards Board has authorized its staff to prepare GASB Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the procedures described in Technical Bulletin No. 84-1, *Purpose and Scope of GASB Technical Bulletins and Procedures for Issuance*. The provisions of Technical Bulletins need not be applied to immaterial items.

The GASB has reviewed this proposed Technical Bulletin and a majority of its members do not object to its issuance.

## Appendix 1

### BACKGROUND

#### Introduction

11. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries under Medicare Part D. One of the provisions of Medicare Part D provides sponsors of postemployment healthcare plans the opportunity to receive a payment equal to 28 percent of the amount of eligible prescription drug benefit costs of retirees who are eligible for, but not enrolled in, Medicare Part D, if the sponsor's plan provides a prescription drug benefit that is actuarially equivalent to the Medicare Part D benefit. Payments are made directly to the sponsor as determined by the federal Department of Health and Human Services—generally, to the *employer* in the case of a single-employer plan or to the *plan* in the case of a multi-employer arrangement. The provisions of Medicare Part D became effective on January 1, 2006. Since that time, questions have arisen regarding the proper accounting and financial reporting for these transactions.

12. The Board authorized GASB staff to issue this Technical Bulletin to provide uniform guidance on accounting and financial reporting by state and local governmental employers and defined benefit OPEB plans for payments from the federal government to an employer or to a plan.

#### Authoritative Basis

13. As discussed in paragraph 7 of Statement 45, OPEB arises from an exchange transaction between an employer and employees, in which the employer offers OPEB—frequently including postemployment healthcare benefits—as part of the total compensation for employees' services. Statement 45 establishes the measurement and recognition requirements for an employer's costs and obligations arising from the OPEB exchange. Statement 43 provides related standards for financial reporting by OPEB plan trustees or administrators, or by employers or sponsors that include one or more OPEB plans as trust or agency funds in their own annual financial reports. Both Statements include a requirement that a plan and the participating employer or employers should use the same actuarial methods and assumptions in determining similar or related information presented in plan and employer reports.

14. The guidance provided in this Technical Bulletin reflects a substantive difference between the payments from the federal government to the sponsors of Medicare-equivalent prescription drug benefits under Part D of Medicare and the postemployment healthcare benefit coverage provided by the federal government under Parts A and B of Medicare. *Under Medicare Parts A and B, the federal government is the primary provider of hospitalization and medical benefit coverage.* The coverage provided through those parts of the Medicare program is separate from that provided by employers, which for Medicare-eligible retirees generally is supplementary to the Medicare benefits. Thus, benefits provided under Medicare Parts A and B are not a part of the OPEB exchange between the employer and employees (although those benefits may be referred to for purposes of defining coordination between them and employer-provided benefits) and,

accordingly, should not be included in measurements to determine the ARC, the employer's OPEB cost and obligations, and the funded status of an OPEB plan for financial reporting purposes.

15. Under Medicare Part D, if *an employer provides to its Medicare-eligible retirees prescription drug benefits* that are at least actuarially equivalent to those that otherwise would be provided by Medicare, the federal government will make payments to the plan sponsor as defined by the Department of Health and Human Services. Generally, payments are made to the employer if a sole employer or to the plan if a multiple-employer plan. The payments are calculated as a percentage of eligible benefit costs incurred by the employer-supported plan but do not represent the assumption of responsibility by the federal government for coverage of benefits. Rather, *coverage of benefits by the employer(s) is a prerequisite, or eligibility requirement, for the receipt of the payments*. The payments, then, do not reduce the employer's OPEB commitment but constitute a separate transaction between the federal government and the plan sponsor, the apparent substance of which is to provide a financial incentive or assistance to employers to continue providing the benefits, thereby relieving the Medicare program of coverage responsibility for the plan members.

16. In the circumstance in which the federal government makes Medicare Part D payments to an employer, the transaction has the characteristics of a *voluntary nonexchange transaction*, as discussed in paragraph 7 of Statement 33. An employer that provides prescription drug benefits to Medicare-eligible retirees does not do so in exchange for Medicare Part D payments but is previously committed to provide the benefits as a part of the OPEB exchange with its employees. The fact that the employer does so is an eligibility requirement for the receipt of the payments rather than an exchange transaction related to benefit coverage. The payments, thus, are nonexchange transactions and, within that category, they are voluntary nonexchange transactions that result from federal legislation and reflect policy considerations of the federal government.

17. In the circumstance in which the federal government makes Medicare Part D payments to the plan, the transaction fits the definition of *on-behalf payments for fringe benefits and salaries* established in paragraph 7 of Statement 24—that is, “direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another, legally separate entity (the employer entity or employer government).” The example of on-behalf payments given in that paragraph is a state-sponsored teacher pension plan in which the state (paying government) makes pension contributions to a public employee retirement system (third-party recipient) for the employees of local public school districts (employer governments). Medicare Part D payments made to an OPEB plan have parallel characteristics. The federal government is in substance the paying government. The OPEB plan is the third-party recipient; therefore, payments to the plan are made on behalf of its participating employers, and the Medicare Part D payments should be reported as on-behalf payments.

18. Requirements for the recognition and measurement of revenue and expense or expenditures related to on-behalf payments by an employer government are stated in paragraphs 8–11 of Statement 24. Paragraphs 8a and 8b provide the requirements for the measurement of expense or expenditures for employers that *are not* and *are* legally responsible for the payments, respectively. Because an employer on behalf of which

Medicare Part D payments are made to the plan remains responsible for OPEB provided as a function of the OPEB exchange with its employees, it should apply the measurement requirements of paragraph 8b—that is, the requirements applicable to an employer that is legally responsible for the payments. Therefore, the employer should measure its OPEB expense or expenditures in accordance with the requirements of Statement 45.

## Appendix 2

### **CODIFICATION INSTRUCTIONS**

19. These Codification instructions are produced in two parts. The instructions contained in paragraph 20 are applicable prior to the effective date of Statement 45. Paragraph 21 contains additional Codification instructions that should be applied when Statement 45 has been implemented.

20. The section that follows updates the Codification instructions contained in paragraph 187 of Statement 43, for the effects of this Technical Bulletin. Only the paragraph number is listed if the paragraph will be cited in full in the Codification.

\* \* \*

### **NONEXCHANGE TRANSACTIONS**

### **SECTION N50**

Sources: [Add the following:] GASB Technical Bulletin XX

[Insert paragraph .601 as follows; renumber subsequent paragraphs:]

### **TECHNICAL BULLETINS EFFECTIVE AFTER MARCH 15, 1992**

#### **Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Provisions of Medicare Part D**

.601 See Sections P50, “Postemployment Benefits Other Than Pension Benefits—Employer Reporting,” Po50, “Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit,” for discussion of the accounting and financial reporting by employers and OPEB plans, respectively, for payments received pursuant to the provisions of Medicare Part D.

\* \* \*

### **POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS—EMPLOYER REPORTING**

### **SECTION P50**

Sources: [Add the following:] GASB Technical Bulletin XX

See also: [Add the following:] Section N50, “Nonexchange Transactions”

[Insert paragraph .601 as follows; renumber subsequent paragraphs:]

## **TECHNICAL BULLETINS EFFECTIVE AFTER MARCH 15, 1992**

### **Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Provisions of Medicare Part D**

.601 This paragraph clarifies the application of existing standards of accounting and financial reporting to payments that an employer receives from the federal government under Medicare Part D in relation to prescription drug benefits, pursuant to the provisions of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA). [GASBTB XX, ¶1]

#### **Question 1**

[GASBTB XX, ¶2]

#### **Response**

[Insert the first two sentences of GASBTB XX, ¶3; update cross-references.] [GASBTB XX, ¶3]

#### **Question 2**

[GASBTB XX, ¶6]

#### **Response**

[Insert the first four sentences of GASBTB XX, ¶7; update cross-references.] [GASBTB XX, ¶7]

\* \* \*

## **POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—DEFINED BENEFIT**

## **SECTION P050**

Sources: [Add the following:] GASB Technical Bulletin XX

See also: [Add the following:] Section N50, “Nonexchange Transactions”

[Insert paragraph .601 as follows:]

## **TECHNICAL BULLETINS EFFECTIVE AFTER MARCH 15, 1992**

### **Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Provisions of Medicare Part D**

.601 This paragraph clarifies the application of existing standards of accounting and financial reporting to payments that a defined benefit OPEB plan receives from the federal government under Medicare Part D in relation to prescription drug benefits,

pursuant to the provisions of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA). [GASBTB XX, ¶1]

**Question 1**

[GASBTB XX, ¶4]

**Response**

[GASBTB XX, ¶5] [Update cross-references.]

**Question 2**

[GASBTB XX, ¶8]

**Response**

[GASBTB XX, ¶9] [Update cross-references.]

\* \* \*

21. The instructions contained in this paragraph become applicable in the period when Statement 45 is effective and are in addition to the changes indicated in paragraph 20, which contains Codification instructions that should be applied prior to the implementation of Statement 45.

\* \* \*

**POSTEMPLOYMENT BENEFITS OTHER THAN  
PENSION BENEFITS—EMPLOYER REPORTING**

**SECTION P50**

[Amend paragraph .601 as follows:]

[Response to Question 1:]

[Insert the last two sentences of GASBTB XX, ¶3, at the end of the paragraph; update cross-references.]

[Response to Question 2:]

[Insert the last sentence of GASBTB XX, ¶7, at the end of the paragraph; update cross-references.]

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