



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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DATE: January 15, 2008

TO: All Local Units of Government in Michigan and Certified Public Accountants

FROM: Michigan Committee on Governmental Accounting and Auditing (MCGAA)

SUBJECT: MCGAA Statement No. 14 - Funding of Retiree Health Care Obligations

Governmental Accounting Standards Board (GASB) Statement No. 45, paragraph 13(g) states that an employer has made a contribution in relation to its Annual Required Contributions (ARC) when it has: “(1) made payments of benefits directly to or on behalf of a retiree or beneficiary; (2) made premium payments to an insurer; or (3) irrevocably transferred assets to a trust, or equivalent arrangement, in which plan assets are dedicated to providing the plan and are legally protected from creditors of the employer or plan administrator.” The issue is whether contributions made to an account created under the authority of Public Act 149 of 1999 (PA 149) within the State of Michigan qualifies as “contributions in relation to the ARC.”

PA 149 encourages public employer pre-funding of retiree health care benefits by allowing separate investment funds to be created that may be invested in accordance with the pension act (i.e., longer term yields, such as common stock, etc). The Act states that the governing body may make withdrawals of these funds solely for payment of health care benefits on behalf of qualified persons and the payment of expenses of the administration of the fund. PA 149 requires creation of a fund, as well as a resolution of the governing body adopting requirements regarding the operation of the fund. The Michigan Department of Treasury interprets “fund,” as used in this act, to mean a physical separation of the assets from the government’s own assets.

We are of the understanding that PA 149 funds are equivalent to a trust arrangement, in that creditors are unlikely to be able to gain access to those assets. Therefore, contributions to a PA 149 fund qualifies as “contributions in relation to the ARC.”

Further, PA 149 funds should be reported in the financial statements as pension and other employee benefit trust funds (as should any other trusts or equivalent arrangements) using fund 736-Public Employee Health Care Fund. Monies that have been set aside in a fund that do not meet the definition of a trust or similar arrangement should continue to be reported as funds of the government, such as in an internal service or special revenue fund.