

**THE PUBLIC RETIREMENT**  
JOURNAL  
**Options to Pay Down the Unfunded Liability,  
GASB 68, OPEB,  
CalPERS Issues, and Other Fun Stuff**

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## **Agenda**

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# GASB 45 Implicit Rate Subsidy

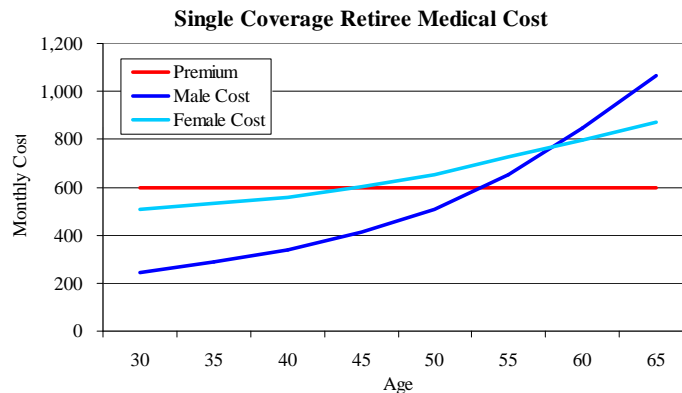
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## GASB 45 – Implicit Rate Subsidy

- Employer cost for allowing retirees to participate at active premium rates



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## **GASB 45 – Implicit Rate Subsidy**

- GASB 45 defers to Actuarial Standards of Practice (ASOP) for implicit rate subsidy
- Old ASOP says community-rated medical plans not required to value implicit rate subsidy
  - PEMHCA is, for most participating agencies, considered a community-rated plan



## **GASB 45 – Implicit Rate Subsidy**

- New ASOP requires
  - Implicit rate subsidy be valued for all plans
  - Based on medical plan's (not agency's) demographics
    - Cross-employer subsidy would be ignored
    - A few agencies will have liability that will not be defeased
    - A few others will have liability that will be over defeased
- Actuaries must comply with valuation measurement after March 31, 2015



# **GASB 45 – Implicit Rate Subsidy Estimated Liability Impact**

- Varies based on agency demographics
- PEMHCA Minimum: +30-50%
- 100% Single Premium: +15-35%
- 100% Family Premium +10-25%



# **GASB 68 New Pension Standard Summary**



## GASB 68

- Pension accounting changes issued 6/25/12:
  - Effective for 2014/15 fiscal year
- Fundamental changes
  - Delinks contributions and accounting
  - Unfunded liability drives expense



## GASB 68

- Major issues:
  - Unfunded liability on balance sheet
    - For some may exceed fund balance
  - Lower discount rate if projected assets do not cover projected benefit payments
  - Significant additional disclosure



## GASB 68

- Immediate recognition of:
  - Service & interest cost
  - Benefit changes
- Deferred recognition of:
  - Gains/losses & assumption changes, over future working lifetime (average of active and inactive employees) closed period
  - Asset gains/losses over 5 years
- Entry age normal cost method required



## GASB 68

- CalPERS will provide for a fee:
  - Stand alone \$2,400
  - Each Risk Pool plan/benefit tier \$850
  - Bulk of fees related to accounting not actuarial work
- Agencies will need to combine reports



# New GASB OPEB Accounting Standard

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## New OPEB Accounting Standard

- Similar to GASB 68
- Likely timing:
  - Final June 2015
  - Effective FYB > 12/31/16
- Fundamental changes
  - Delinks contributions and accounting
  - Unfunded liability recognition drives expense

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# New OPEB Accounting Standard

- Major issues:
  - Unfunded liability on balance sheet
  - Lower discount rate if projected assets do not cover projected benefit payments
  - Significant additional disclosure



# Issues GASB May Revisit

- Discount rate development
- Cost method
- How Implied Subsidy allocated to employers in pooled medical plan
- Other (primarily disclosure) issues





# CalPERS Upcoming Issues

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## CalPERS Upcoming Issues

- Contribution Policy Changes
- Risk Pool Changes
- Assumption Changes

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## Contribution Policy Changes Old Method

- Designed to smooth contribution rates
- Used AVA to determine contribution so two different funded status/ratios (AVA & MVA)
- If assumptions met then:
  - Contributions never come down and
  - UAL never paid off



## Contribution Policy Changes New Method

- Designed to:
  - First pay off UAL and
  - Second smooth rates
- Uses MVA only so only one funded status/ratio
- If assumptions met then:
  - Contributions go up in the short run but then come down
  - UAL will be paid off



## Contribution Policy Changes

- No asset smoothing
- 5-year ramp up
- Future Gains/losses 25 year amortization period
  - With 5 year ramp up means paid over 30 years
- Method & Assumption changes 15 year amortization period
  - With 5 year ramp up means paid over 20 years
- No cap on rate increases each year



## Risk Pool Changes

- All Risk Pools combined into 2 Risk Pools
  - Miscellaneous
  - Safety
- Collect payment on UAL as dollar amount
- Risk Pools UAL payment allocated based on **liability** & assets rather than payroll
  - Some agencies will see significant cost increases
- **Side Fund payoff no longer guaranteed savings!**



# Assumption Changes

- No changes to economic assumptions
- Anticipate future mortality improvement and
- Earlier retirements for Miscellaneous enhanced formulas
- Greater salary increases (late in career)



# Timing

	<b>Valuation</b>	<b>First Impact</b>	<b>Full Impact</b>
■ Contribution Policy	6/30/13	2015/16	2019/20
■ Risk Pool Changes	6/30/13	2015/16	2015/16
■ Assumption Changes	6/30/14	2016/17	2020/21



# Paying Down Unfunded Liability & Rate Stabilization

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## Options

- Pension Obligation Bonds (POBs)
- Borrow from General Fund
- Amortization Period
- One time payments
- Internal Service Fund
- Irrevocable Supplemental (§115) Trust

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## POBs

- Interest arbitrage between **expected** CalPERS earnings and rate paid on POB
- No guaranteed savings
  - Including paying off CalPERS Side Fund



## Borrow from General Fund

- Pay GF back like a loan
- Payments should come from all funds



## Request Shorter Amortization Period

- Higher short term payments
- Less interest and lower long term payments



## One Time Payments

- Council/Board resolution to use a portion (e.g. 50%) of one time money to reduce unfunded liability



## Establish Internal Service Fund

- Could be used for rate stabilization
- Restricted investments:
  - Likely low (0.5%-1.0%) investment returns
  - Short term/high quality
  - Designed for preservation of principal
- Assets could be used by Council for other purposes
- Does not reduce GASB 68 Net Pension Liability



## Establish Irrevocable Supplemental (§115) Trust

- Could be used for rate stabilization
- Reduces GASB 68 Net Pension Liability
- Investments significantly less restricted:
  - Designed for long term returns
  - Likely much higher (5%-7%) investment returns





## Establish Irrevocable Supplemental (§115) Trust

- Can only be used to :
  - Reimburse for CalPERS contributions
  - Make payments directly to CalPERS
- Assets could **not** be used by Council for other purposes
- PARS & PFM



## Establish Irrevocable Supplemental (§115) Trust

- Can mitigate:
  - CalPERS investment volatility
  - Impact of plan becoming over funded



# Appendices

- Public Retirement Journal & PERS PAC Alert
- Bartel Associates [www.Bartel-Associates.com](http://www.Bartel-Associates.com):
  - GASB 68 Summary
  - PEPRRA Summary
  - Other exciting stuff
- Anthony T. Oliveira, *The Local Challenges of Pension Reform*
  - <http://www.tonytoliveira.com/Research.html>

