

**GASBS 74 and 75: Other
Post-employment Benefits**

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GASBS 73 Summary



GASBS 73 – Unfunded Pension Plans

- Replaces GASBS 27 Effective FY Beg. > 6/15/16
- Similar to GASBS 68, but
- Reporting for unfunded pension plans
 - In the employer's financial statements
- Does not affect/require contributions



GASBS 73 – Unfunded Pension Plans

- Unfunded single employer plans
- CalPERS Replacement Benefit Fund
 - Benefits > IRS limit (\$210,000/yr in 2015)
 - Retirees and non-retirees with large projected benefits
 - Materiality?
- Other supplemental pension plans or bargained arrangements



GASBS 73 – Unfunded Pension Plans

- Pension Expense
- Net pension liability
- Deferred outflows & inflows
- Discount rate = Aa Municipal bond rate
- Additional note disclosures and RSI



GASBS 74 Summary



GASBS 74 – OPEB Plans

- Replaces GASBS 43 Effective FY Beg. > 6/15/16
- Similar to GASBS 67
- Reporting for funded OPEB plans
 - In the plan's financial statements
 - Stand-alone
 - Fiduciary fund in employer's financial statements
- Does not affect/require contributions



GASBS 74 Basics

- 3 Plan types:
 - Single employer
 - Agent (multiple employer, assets pooled for investment)
 - Cost sharing (multiple employer, assets available to all)



GASBS 74 – OPEB Plans

- New definition of OPEB Plan: arrangement through which:
 - OPEB is determined
 - Assets dedicated for OPEB (if any) are managed
 - Benefits are paid as they come due
- Must agencies funding with CERBT, PARS, etc., report GASBS 74?
 - CalPERS is reporting CERBT under GASBS 74
 - Check with your auditor!



GASBS 74 – OPEB Plans

- Additional note disclosures and RSI for single employer plans and cost-sharing plans
 - Net OPEB Liability
 - Funded status & contributions relative to payroll
 - Change in Net OPEB Liability (NOL)
 - Investment return
 - Sensitivity of NOL to 1 % increase/decrease in:
 - Discount rate and medical trend rate
 - Report benefit payments and IS paid outside Trust



GASBS 75 Summary



GASBS 75 – Employer Reporting

- Effective FY Beginning > 6/15/17
 - Replaces GASBS 45
 - Similar to GASBS 68
 - Everyone will recognize net OPEB liability
 - Biennial actuarial valuations
 - Additional note disclosures and RSI
- Does not affect contributions (or require funding)



What Are OPEB Benefits?

- Post retirement:
 - Healthcare
 - Dental, vision, hearing
 - Medicare premium reimbursement
 - Life insurance, if not part of a pension plan
 - Disability, long term care, if not part of a pension plan
- Not: termination payments
 - Vacation or sick leave cash outs



What is DB OPEB?

■ Defined Contribution:

- Individual account for each member
- Employer contributions to active employee accounts defined in document
- Retiree benefits solely from account balances including actual earnings on investments

■ Defined Benefit is everything else including:

- HSA with guaranteed interest rate
- Sick leave converted to benefits (not cash or account)



Net OPEB Liability

■ Net OPEB Liability (NOL) added to balance sheet

■ Total OPEB liability minus assets (FNP)

■ May be similar magnitude to NPL

- Many OPEB plans are not pre-funding yet
- Likely more variable than pension (NPL)

■ Almost certainly not news to bond analysts

- May be more of a surprise to Boards, Councils, ratepayers or taxpayers



OPEB Expense

- Change in net OPEB liability* = OPEB expense
 - Not equal to contributions or “pay-go”
 - Independent of employer contribution
- Some portions of the change are deferred and recognized in expense over time
 - Portions not yet recognized are deferred inflows or outflows of resources on balance sheet

* Minus employer contribution



OPEB Expense

- How actuaries calculate expense:
 - Service cost (value of benefits accruing in the year)
 - Interest on total OPEB liability
 - Minus: Expected return on assets
 - Administrative expenses
 - Change in plan benefits (not amortized)
 - Recognition of deferrals:
 - Investment (gain)/loss (5 years)
 - Assumption & Experience changes (EARSL)



OPEB Expense

■ How non-actuaries calculate expense:

	Fiscal Year Ending		Change
	6/30/17	6/30/18	For FY
	Measurement Date 6/30/16	6/30/17	
Net OPEB liability	500,000	625,000	125,000
Deferred inflows of resources	0	(15,000)	(15,000)
Deferred outflows of resources	0	45,000	45,000
Deferred outflow - contributions after measurement date	20,000	30,000	10,000
Contributions during the fiscal year	<u>N/A</u>	<u>30,000</u>	<u>30,000</u>
Total = NOL- Inflows - Outflows + Contribution	480,000	565,000	85,000
OPEB Expense			85,000



Statement 75

■ Funded through a trust meeting Paragraph 4?

- If Yes, then:
 - Single employer/agent multiple employer
 - Cost sharing multiple employer

- No

■ Special circumstances:

- Nonemployer contributing entity; special funding situation
- Insured plans & defined contribution



Notes and RSI

- Reconciliation of net OPEB liability during year
 - Eventually 10 year history
 - Employers with single and agent plans only
- Sensitivity of NOL to +/- 1% discount rate and +/- 1% medical trend
- OPEB expense and deferred inflows and outflows of resources
- Notes on plan, governance, investments, actuarial assumptions, asset return, etc, as for pensions

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Actuarially Determined Contribution

- GASBS 75 does not specify “Annual Required Contribution” (ARC)
 - Actuarially determined contribution (ADC)
 - Must conform to actuarial standards but no other requirements specified
- Disclosed in RSI
 - Not required to be disclosed unless calculated
 - No disclosure for unfunded plans



Implementation Date

Measurement Date

Valuation Date



Measurement Date

- Date to measure:
 - Value of plan assets
 - Municipal Bond rate used to set discount rate
 - Value of total OPEB liability
 - May be “rolled forward” from previous valuation
 - If no significant changes
 - Net OPEB liability
- Net OPEB liability @ measurement date is reported unadjusted at FYE



Measurement Date

- Generally recommend selecting 1 year before FYE
 - Example: 6/30/17 measurement date for 6/30/18 FYE
 - Same timing as CalPERS
 - Allows actuarial report to be completed and ready for audit before FYE
- If reporting for OPEB Plan (GASBS 74)
 - Recommend: measurement date = FYE



Actuarial Valuation Date

- Up to 2-1/2 years before FYE
 - Recommend: select a date before FYE
 - June 30th date not required
 - Work with your auditor and actuary
 - CERBT valuation requirements
 - No longer require 6/30 of odd-numbered years



GASBS 75

- Work with your actuary and auditor to:
 - Select measurement date
 - Choose valuation dates
 - Select implementation timing



Timing (No GASBS 74)

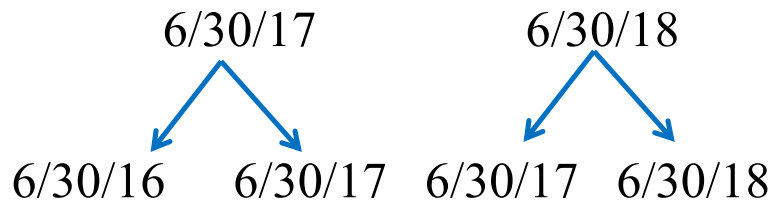
Implementation

Date (FYE)

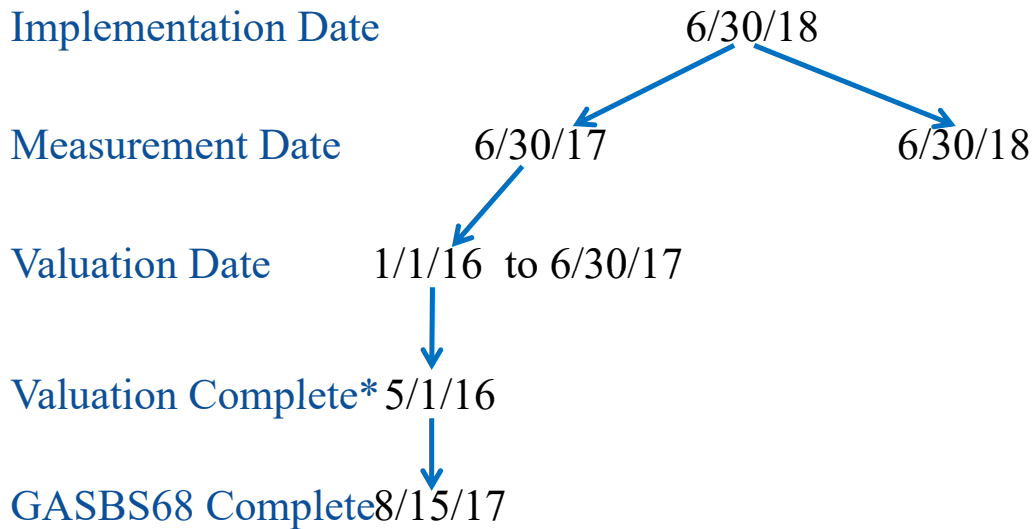
Measurement

Date

(Assets/Muni Bond
Rate)



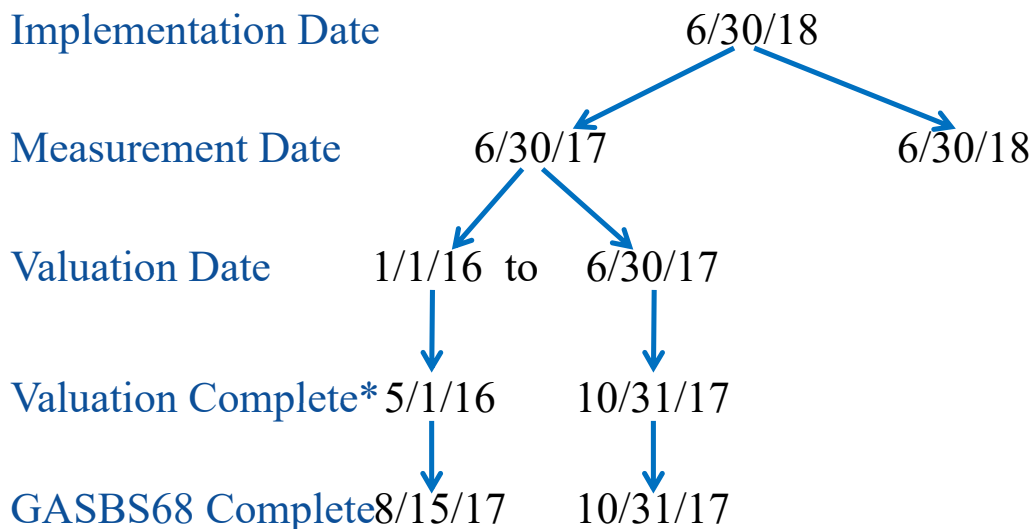
Timing (No GASBS 74)



* Initial actuarial valuation before roll-forward



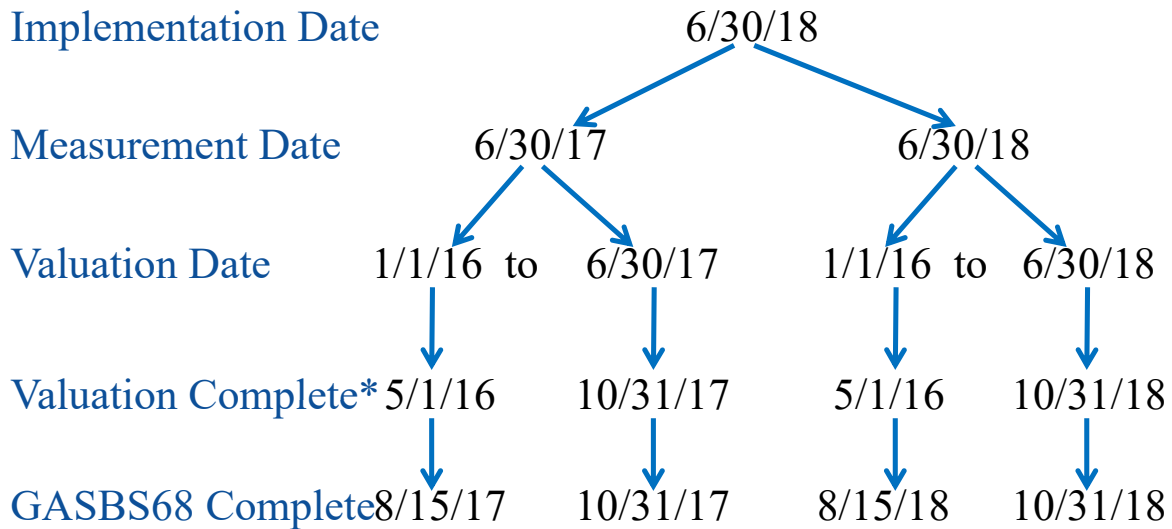
Timing (No GASBS 74)



* Initial actuarial valuation before roll-forward



Timing (No GASBS 74)



* Initial actuarial valuation before roll-forward



Data Issues



GASBS 75

- Audit issues may be fewer than with GASBS 68 since employers generally control data
- Audit issues may be greater than with GASBS 68 since employers generally control data



What is the Plan?

- “Substantive Plan”
 - Understood by employer and employees
 - Look to any documents/MOUs
 - Any communications with employees/retirees
 - Agreements in effect at the fiscal year end
- Different for each Agency



What is the Plan?

- Understand & document OPEB for all past, current and future retirees
 - Eligibility (hire date/retire date/employee group)
 - Benefits (employer/retiree paid amounts, and for how long)
 - Coverage (retiree/spouse/family/survivors)
 - Include benefits under special arrangements
 - Include benefits for new tiers with no current retirees



Who Benefits?

- Census Data: All current and future participants
 - Include anyone who might benefit in the future:
 - Active employees not yet vested
 - Active employees currently waiving health coverage
 - Active employees who will be able to stay in the employer's plan at retirement by paying the full premium
 - Retirees/terminateds who can elect coverage in the future
 - Data may come from several sources
 - CalPERS PEMHCA download often not complete



Actuarial Issues



Actuarial Issues

- Discount Rate
- Implied Subsidy
- Other
- AMM



Discount Rate

- “Crossover test” to determine discount rate
 - Not the same as GASBS 45
- If plan assets are projected to cover benefit payments, discount rate = expected rate of return on assets
 - Provided assets invested so as to generate that return
- Contribution policy of full ARC, with reasonable amortization period should be OK
 - Look to last 5 years of actual contributions



Discount Rate

- Unfunded and poorly funded plans use 20 year AA municipal bond discount rate
 - GASBS 75 does not specify which bond curve to use
 - <http://www.bartel-associates.com/resources/select-gasb-67-68-discount-rate-indices>

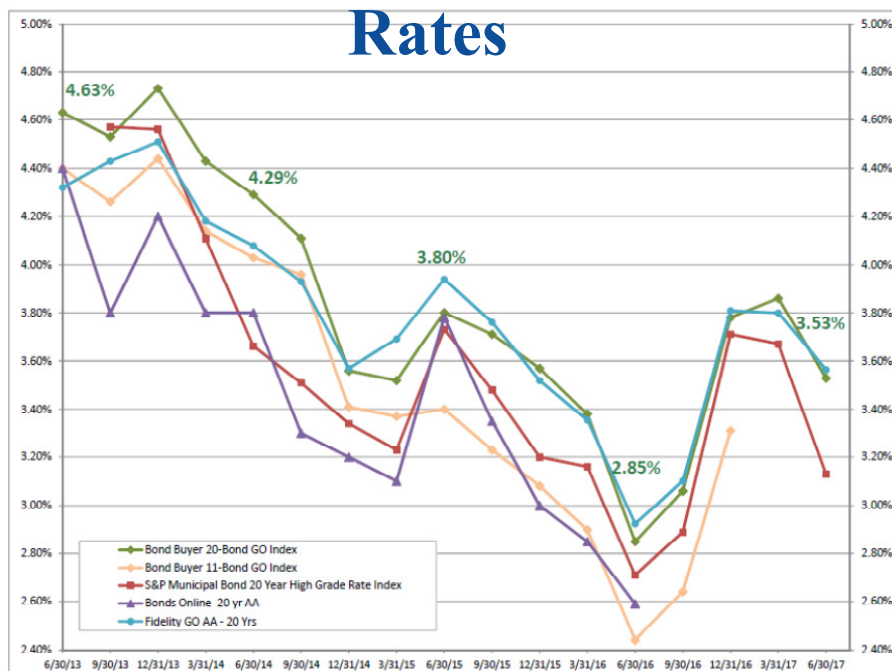


Discount Rate

- Expect many more OPEB plans with a crossover than for pension plans
- Municipal Bond Rate
 - Rate is volatile
 - Net OPEB liability will be volatile



Current 20 Year AA Municipal Bond Rates

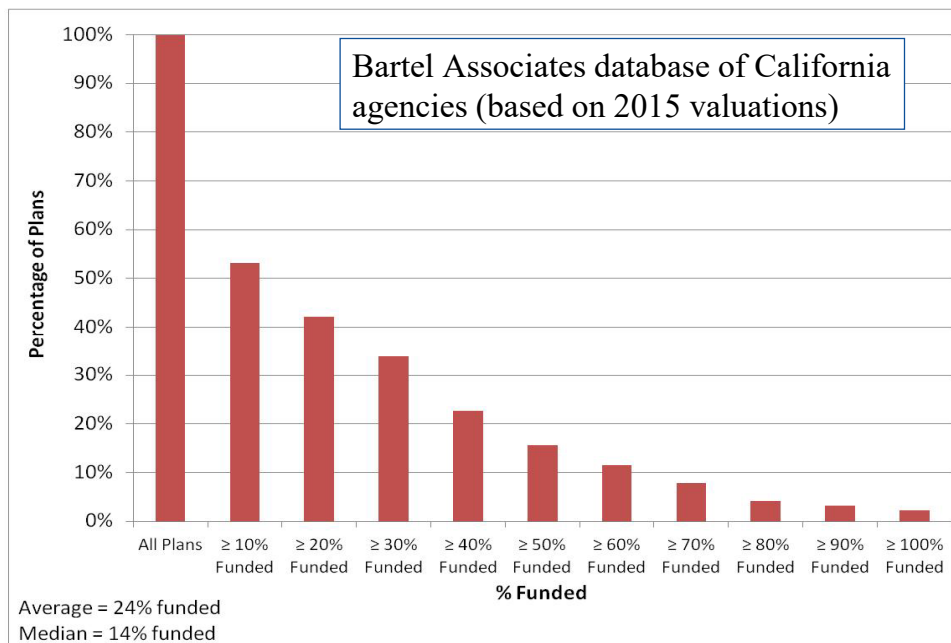


Why Pre-fund OPEB?

- Taxpayer equity
 - Benefits should be paid for over employee's service
- More manageable cost pattern
 - Pay-as-you-go typically increases rapidly over time
- For financial reporting: higher discount rate & lower net OPEB liability
 - Demonstrates to stakeholders you are addressing OPEB
- Allowable trust investments should produce higher investment returns over time



OPEB Funded Status

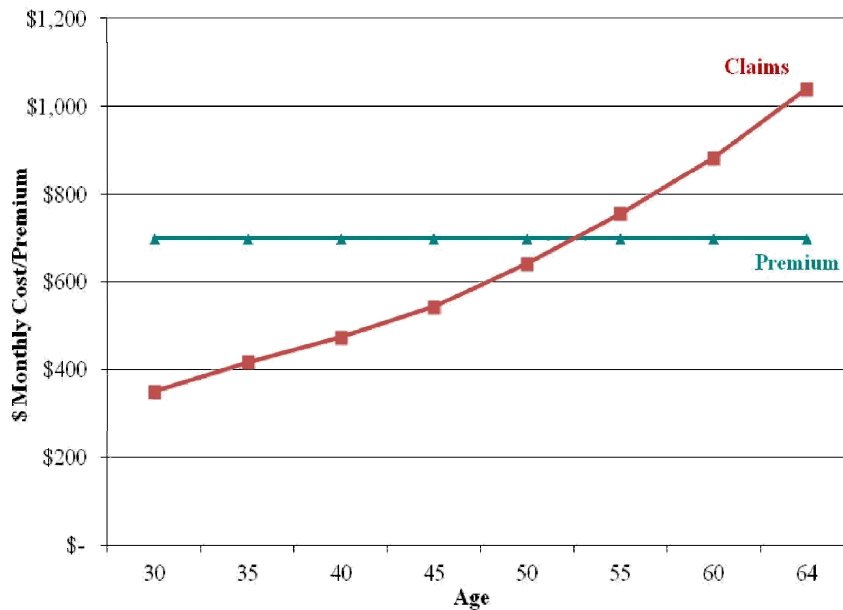


Implied Subsidy

- Benefit retirees (pre-Medicare) derive from having the same premium as active employees
 - Retiree premiums are too small
 - Active premiums are too high
 - On average it's just right
 - OPEB accounting only looks at retirees



Implied Subsidy



Implied Subsidy

- Change to actuarial standards requires this for large pooled plans (like CalPERS PEMHCA) for valuations after 3/31/15
- Previously included for all other plans
- GASBS 75 requires age-adjusted premiums or claims
 - Means implied subsidy is included
 - No “deviations” allowed from Actuarial Standards of Practice



Implied Subsidy Impact

- Increases total OPEB liability
- Include implied subsidy (IS) benefit payments:
 - Reconciliation of fiduciary net position (assets)
 - Reconciliation of Total OPEB liability
 - Include in “Crossover “ test
 - Trust can reimburse employer for IS payments
- Include as additional employer contribution
 - Unless employer contribution includes IS



Other Actuarial Issues

- Entry Age actuarial cost method required
- Actuaries must include future mortality improvement
- Cadillac Tax? (Affordable Care Act excise tax)
- OPEB actuaries use many assumptions not in pension valuations that have a large impact
 - Example: Participation, plan elections, Medical Trend
 - Experience study?



Alternative Measurement Method (AMM)

- Still permitted for small plans
 - < 100 active and inactive employees
- However:
 - More complicated
 - More assumptions
 - Builds in equivalent of implied subsidy
 - Check with your auditor



What to Expect From the Actuary's Report



Actuary's Report

- Net OPEB liability (NOL) and reconciliation
- OPEB expense
- Deferred outflows and inflows and schedule of recognition in future expense
 - Recognition schedule for each amount
- NOL Sensitivities: +/- 1% discount rate and trend
- Implied subsidy benefit payments, if needed



Actuary's Report

- Basis for discount rate
 - Date of crossover if any
 - Crossover test basis or detail?
- Long term expected return on plan assets?
 - May be set by employer and/or investment advisor
- Actuarial assumptions, rationale, experience study date
- Actuarially determined contribution, if applicable



Actuary's Report

- Expected average remaining service lifetime
 - At beginning of measurement period
- Summary of plan provisions as valued
 - Actuary may refer to a separate report for assumption/plan summary detail
- Valuation date, measurement date
- Actuarial certification



Actuary's Report

- Actuary likely will not have covered payroll for FY or measurement period
- Actuary will likely not provide journal entries



Questions?



