



What you should know about the new Other Postemployment Benefits (OPEB) standard (GASB 75)

WGFOA Spring Conference

April 19, 2018

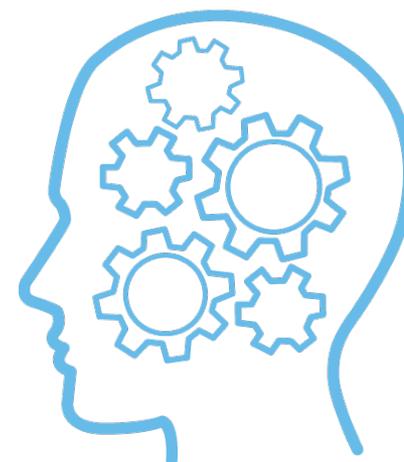


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- > **GASB 75 overview**
- > GASB 75 key changes
- > Implementation of OPEB standard
- > Potential impact to financial audit and statements
- > Action steps
- > Questions and answers



- > **GASB 74** – Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans
 - *Fiscal years beginning after June 15, 2016 (plan statements)*
- > **GASB 75** – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
 - *Fiscal years beginning after June 15, 2017 (employer statements)*
- > **Applicability** – All types of OPEB benefits
 - *Healthcare benefits – Medical, dental, vision, hearing and other health-related benefits even when provided through a pension plan*
 - *Other forms of benefits – Death benefits, life insurance, disability and long-term care when provided separately from a pension*

- > Defined benefit – OPEB that specifies benefits to be received
- > Defined contribution – OPEB that specifies contribution requirements, provides individual accounts and participant benefits are dependent upon the contributions plus investment income
- > Single employer – OPEB established for employees of one government (primary government and its component units are considered one employer)
- > Agent multi-employer – Resources accumulated for employees of more than one employer, pooled for investment purposes only and tracked by employer
- > Cost sharing multi-employer – Resources accumulated and available to pay benefits to employees of more than one employer

- > **Trusted plan** – Plan administered through a trust that meets these three criteria:
 - Contributions from employer government and earnings on those contributions are irrevocable
 - Assets in the trust are dedicated to providing benefits to members
 - Assets are legally protected from creditors of employer, any other contributing entities, administrator and members
- > **Untrusted plan** – Plan that does not have resources accumulated in a trust meeting the above criteria
- > **Explicit benefit** – Employer finances all or portion of retiree benefit
- > **Implicit benefit** – Retirees are allowed to continue to participate in employers plan at their own cost; however cost is the same as for active employees

GASB 75 replaces GASB 45

Terminology changes

Old OPEB standard GASB 45	New OPEB standard GASB 75	Pension standard for comparison – GASB 68
Normal cost	Service cost	Service cost
Annual required contribution (ARC)	Actuarially determined contribution (ADC)	Actuarially determined contribution (ADC)
Annual OPEB cost	OPEB expense	Pension expense
Actuarially accrued liability	Total OPEB liability (TOL)	Total pension liability (NPL)
Actuarial value or market value of assets	Plan fiduciary net position	Plan fiduciary net position
Unfunded accrued liability	Net OPEB liability (NOL)	Net pension liability (NPL)

- > Net OPEB liability
 - Recorded by employer (not plan)
 - Recorded on statement of net position (full accrual statements)
 - Equal to actuarially determined total OPEB liability (TOL) less net position of OPEB trust fund
 - » Non-trusted plans only report TOL
 - TOL is calculated by actuary

- > Actuarial valuation date
 - No more than 30 months and one day earlier than employer's year end
 - Proper roll forward to measurement date
 - Required every two years

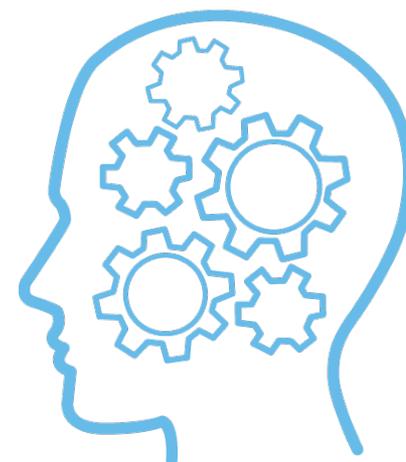
- > Measurement date
 - No earlier than prior year end

Today's discussion



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GASB 75 vs. GASB 45

Disclosures



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OPEB plan description	GASB 45	GASB 75
Name, administrator and type of plan	Yes	Yes
Brief description of benefits	Yes	Yes
Number of employees covered by benefit terms	No	Yes
Issues a stand alone report	Yes	Yes
Authority contributions are established	Yes	Yes
Required contribution rates of plan members	Yes	Yes
Contribution rates (\$ or %)	Yes	Yes
Employer contributions	No	Yes

GASB 75 vs. GASB 45

Disclosures (cont.)



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Actuarial information	GASB 45	GASB 75
Funded status of the plan (AAL, UAAL, ARC, etc.)	Yes	n/a
Discount rate	One rate	Based on plan investments or index if no investments or blended
Actuarial cost method	Had options	Entry age
Sensitivity measurement	None	Discount rate and healthcare trend rate
Amortization periods		
Investment gain/loss	Up to 30 years	5 years
Liability gain/loss	Up to 30 years	Average working lifetime
Assumption changes	Up to 30 years	Average working lifetime
Plan changes	Up to 30 years	Immediate

GASB 75 vs. GASB 45

Disclosures (cont.)



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Assumptions	GASB 45	GASB 75
Inflation rate	Yes	Yes
Healthcare cost trend rates	Yes	Yes
Salary changes	Yes, if applicable	Yes
Postemployment benefit changes	Yes, if applicable	Yes
Mortality assumption and source	No	Yes
Dates of experience studies on which significant assumptions are based	No	Yes

- > Additional footnote disclosure – single employer and agent
 - Detail of liability change
 - » Schedule of changes in NOL/TOL
 - Deferred outflows/inflows (O/I)
 - » Summary by type and amortization table

Sample detail of liability change



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<i>(in thousands)</i>	Total OPEB liability	Trust net position	Net OPEB liability
Beginning of year	\$ 194,588	\$ 166,300	\$ 28,288
Service cost	3,130	-	3,130
Interest	14,226	-	14,226
Changes in benefit terms	-	-	-
Differences between expected & actual experience	5,281	-	5,281
Changes in assumptions	(2,027)	-	(2,027)
Benefit payments, including refunds	(9,574)	(9,574)	-
Contributions – employer	-	9,574	(9,574)
Contributions – member	-	-	-
Net investment income	-	18,040	(18,040)
Administrative expenses	-	(705)	705
Net change	11,036	17,335	(6,299)
End of year	\$ 205,624	\$ 183,635	\$ 21,989

- > Additional footnote disclosure – single employer and agent (cont.)
 - Discount rates
 - » Discount rate used
 - » Municipal bond rate used
 - » Long-term expected rate of return and how determined
 - » Assumptions about projected cash flow and periods where each rate is applied
 - Sensitivity analysis
 - » Changes in the discount rate
 - » Changes in the healthcare cost trend rate

Have a trust? GASB 74 and GASB 75 disclosures can be combined.

Sample sensitivity analysis



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Sensitivity of net OPEB liability to changes in discount rate

Depicts net OPEB liability of employer *and* employer's net OPEB liability if calculated using discount rate 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than current discount rate (7.5%):

	1% decrease	Current discount rate	1% increase
Net OPEB liability	\$37,428,880	\$21,989,336	\$7,788,919

Sensitivity of net OPEB liability to changes in healthcare cost trend rates

Depicts net OPEB liability of employer *and* employer's net OPEB liability if calculated using healthcare cost trend rates 1-percentage-point lower (8.0% decreasing to 4.0%) or 1-percentage-point higher (10.0% decreasing to 6.0%) than current healthcare cost trend rates (9.0% decreasing to 5.0%):

	1% decrease	Healthcare cost trend rates	1% increase
Net OPEB liability	\$6,860,495	\$21,989,336	\$38,978,628

GASB 75 differences from GASB 45

Required supplementary information



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Required supplementary information (RSI)	GASB 45	GASB 75
Schedule of funding progress	Yes	n/a
Schedule of changes in net OPEB or total liability	No	Yes
Schedule of contributions	No	Yes
Timeframe	3 year	10 years
RSI notes	n/a	Yes

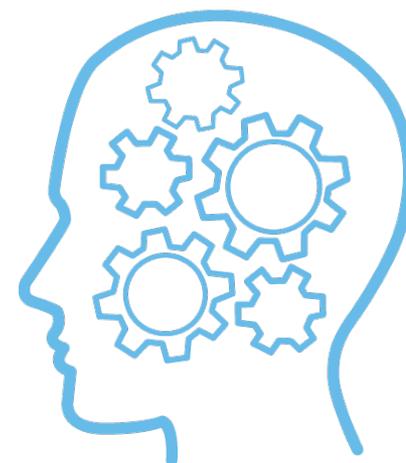
- > Footnote disclosures and RSI – Cost sharing differences
 - Do not disclose number covered employees
 - Employers proportionate share of NOL
 - RSI – Proportionate share of NOL

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> Transition

- Beginning deferred outflow of resources for contributions/OPEB payments if any, subsequent to measurement date of beginning OPEB liability
- All other deferred O/I balances — all or nothing at initial implementation
- RSI schedules are prospective if information not initially available

> Accounting considerations

- Similar to pensions, initial journal entries will require:
 - » A prior period adjustment to reverse previously recorded OPEB obligation and record beginning measurement date total OPEB liability with resulting restatement of beginning Net Position
- Unlike pensions that always have contributions as the starting point, OPEB will not be so uniform. Consider:
 - » Trust activity that collects, invests and pays benefits
 - » Employer contributions to the trust
 - » Benefits paid outside of trust (directly by employer)
 - » Implicit rate subsidy
 - » Untrusted plans

- > Accounting consideration (cont.)
 - Reimbursement trusts
 - » Self-insured: Actual OPEB payments including retiree claims, stop loss and administrative expense less retiree premium contributions and employer contributions to trust
 - » Insured: Premiums paid for retirees less retiree premium contributions plus implicit subsidy portion of active premiums and employer contributions to the trust
 - Non-trusted
 - » Same as reimbursement trust but no employer contributions

GASB 75 – OPEB

Example



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Example - sample information

	January 1, 2018	December 31, 2018
Existing GASB 45 OPEB liability	\$50,000	n/a
GASB 75 total OPEB liability	\$250,000	\$265,000
GASB 75 deferred outflows	\$10,000	\$12,000
GASB 75 deferred inflows	\$2,000	\$3,000

GASB 75 – OPEB

Example (cont.)



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Sample entries – full accrual statements

	<u>Debit</u>	<u>Credit</u>
January 1, 2018		
Existing GASB 45 OPEB liability	\$50,000	
Deferred outflows – OPEB	10,000	
GASB 75 OPEB liability		\$250,000
Deferred inflows – OPEB		2,000
Equity	192,000	
December 31, 2018		
Deferred outflows – OPEB	\$2,000	
GASB 75 OPEB liability		\$15,000
Deferred inflows – OPEB		1,000
Pension and benefit expense	14,000	

- > Why implement early?
 - 12/31/17 financial statement to be included in 6/30/18 financial statement of primary government
 - Fiduciary fund is reported in government-wide statements and same year-end (GASB 74)
 - Need new actuarial report for 2017
 - Could be others

> Allocations

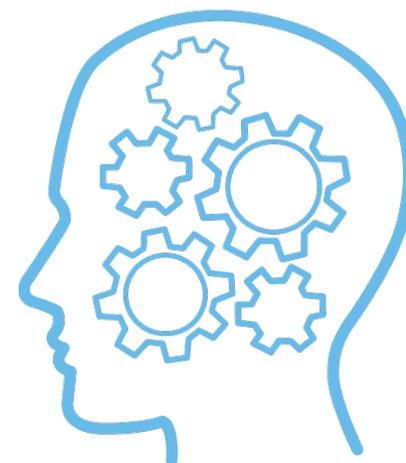
- Required allocations of OPEB amounts between funds and activities should be similar to that of pensions
 - » Allocate if material and if liability is expected to be liquidated through resources of fund or activity
 - » Utilize cost-sharing methodology
- However actuarially determined contributions may not be calculated by fund or department:
 - » Consider basis for allocation and potentially consult actuary

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- > Provide auditor with understanding of plan(s)
 - Type of plan and benefits provided
 - Funds set aside – trusted or not?
 - How benefits are paid; how activity is tracked or recorded
- > Document management's responsibility
 - Selecting actuary
 - Key assumptions
 - » Discount rate
 - » Healthcare cost rate
 - » Participation rate

- > Potential questions/testing
 - Actuary qualifications and firm experience with healthcare-specific assumptions, GASB 74 and GASB 75
 - Condition/robustness of population data
 - Testing of a sample of census data
 - Are there any new plan changes that require specific assumptions (i.e., you had to develop an assumption without benefit of plan-specific historic experience)

- > Potential questions/testing (cont.)
 - Are any particularly complex plan provisions difficult to develop assumptions? If yes, what was your approach?
 - Is there consistency in approach used to develop various assumptions?
 - How do these assumptions compare to similar (benchmark) plans?
 - Did actuary comply with Actuarial Standards of Practice (ASOP) No. 35 regarding disclosure of significant assumptions and underlying rationale?
 - Does frequency of cost of living adjustments (COLAs) result in being considered substantively automatic?

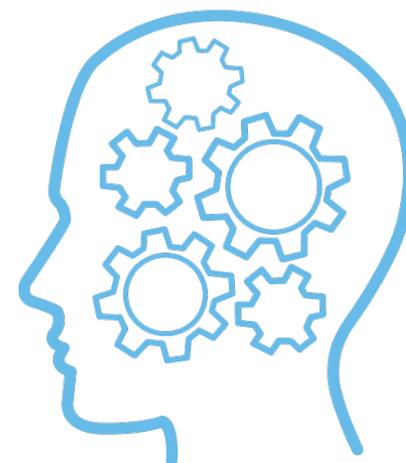
- > Roll forward
 - Restate asset values to measurement date (not applicable for non-trusted plans)
 - Record investment return for the year (not applicable for non-trusted plans)
 - Roll forward liability for current year service cost
 - Roll forward liability for current year interest
 - Roll forward liability for payments and refunds
- > Census data and controls
 - Test active, inactive and new employees
 - Reconcile to actuary report

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- > Timing of actuarial report, valuation date, measurement date, etc.
- > Selection of an actuary
- > Controls over census data
- > Involvement in establishing assumptions
- > Process for allocation between departments or funds
- > Clear tracking of benefit payments for active employees vs. retirees (retiree payments are “pay as you go” benefit payments; actuary needs this info)
- > Coordination between actuary, management and auditor

- > GASB Statement No. 75 (complete standard, background and illustrative sample disclosures and RSI)

http://www.gasb.org/cs/ContentServer?c=Document_C&cid=1176166144750&d=&pagename=GASB%2FDocument_C%2FGASBDocumentPage

- > GASB Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (addresses certain implementation questions)

http://www.gasb.org/cs/ContentServer?c=Document_C&cid=1176169688973&d=&pagename=GASB%2FDocument_C%2FDocumentPage

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