GASB 75 Life Insurance

(An unofficial guide/conversation written for non-accountants)

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Okay, let's start with -- What do GASB and OPEB stand for?

The Governmental Accounting Standards Board sets accounting standards for governments. GASB's Statement No. 75 deals with Other Post Employment Benefits.

How is life insurance a post employment benefit? Our local government does not pay premiums once somebody leaves and we don't have to pay for any life insurance claims.

As long as the employee pays their premiums until they are age 65, their life insurance is a vested benefit. No premiums are required once they reach age 65 (unless they are still an active employee).

I thought that the employee paid 100% of the premiums. So what exactly is my local government paying?

In addition to the premium paid by the employees, each local employer pays either 20% or 40% of that premium. (The percentage depends upon whether your local government chose to give your employees a benefit for 25% or 50% of basic life insurance coverage.) The entire amount paid by employers is used to fund the vested benefit for employees.

Okay, I think I got all that. My Finance Director indicated that on our 2018 financial statements, we had about $16,000 in life insurance expense, but our OPEB liability was $2.4 million. Why the huge discrepancy?

Well, to answer that question, we have to go into more detail as to how the various numbers are developed….

We participate in the local government life insurance plan administered by the State of Wisconsin Department of Employee Trust Funds (ETF).

Our premiums are sent to the life insurance company, Securian Financial. (They used to be known as Minnesota Life.) These premiums are pooled together with all other local governments and are invested in both short and long term investments.

From this pool of cash and investments, claims are paid out. Administrative expenses for both Securian and ETF are also paid from this pool of cash.

For plan year 2018, which we will post to our general ledger in 2019, cash and investments were $244.9 million.

… Okay, I understand so far.

Now the actuaries for ETF get involved. They get the detailed census population for all covered employees including wages, age, and sex. They then use their professional knowledge of mathematics, statistics, and financial theory to predict retirements, deaths, wages increases, when employees will quit, interest rates, life expectancy, etc.

(Just remember, we try to predict the future one year at a time when we develop a budget. Imagine trying to do this for 75+ years…)

After the actuaries get done crunching all the numbers, the pool of cash and investments is anticipated to be depleted in 2037 (plan year 2018) yet claims will still have to be paid out after that for another 50+ years.

The claims and administrative expenses expected to be paid out after the cash runs out is the Net OPEB Liability.

For plan year 2018, this liability is $258 million.

Okay, that makes sense.

Wait, I am not done explaining what the actuaries do!

Ugh. Okay, keep going.

Thanks! Now, we have already discussed that actuaries are trying to project future numbers. Each year, they have to evaluate what changed from last year's actuarial study, or how well they predicted the future.

The actuaries categorize what has changed from last year's analysis into four categories:
--Differences between expected and actual experience
--Changes in actuarial assumptions
--Net differences between projected and actual earnings

The GASB standard indicates that these differences are amortized over the next ___ years (depending upon the category). These values are classified as either Deferred Inflows of Resources (i.e. future year revenue) or Deferred Outflows of Resources(i.e. future year expenses).

Did I lose anyone yet?

Not yet. In fact, I really want to delve into those numbers more. Where can I obtain the full actuarial study?

The actuarial study for plan year 2018, which we will post in our 2019 financial statements, is located at the following URL:

https://etfonline.wi.gov/etf/internet/employer/Local2018GASB74-75FINAL.pdf

So, everything that you have talked about so far relates to the plan in total, or all local governments combined together, correct?

That is correct!

How does all this relate to our local government by itself?

I am glad you asked that!

As part of the State of Wisconsin's annual audit (which includes ETF), the Legislative Audit Bureau (LAB) releases their audit opinion which includes the allocation percentages for all local governments in the local life insurance plan for the current year.

For plan year 2018, which we will post to the 2019 general ledger, this audit opinion is located at:

https://etfonline.wi.gov/etf/internet/employer/2018GASB75Local.pdf

Now, here is where you owe a debt of gratitude to ETF. ETF pays their actuary to allocate the Net OPEB Liability, Deferred Inflows, Deferred Outflows, and OPEB expense to each participating employer.*

These values, and other necessary detail needed for the footnotes in the financial statement, are located at: https://etfonline.wi.gov/ETFGASBPublicWeb/gasb75Local.do

* Your Finance Department and outside auditors should still check these values for reasonableness.

But wait, there is more! As you can imagine, nothing is static. Local employers are added/removed from the plan, wage increases vary by employers, employers add/delete staff in different ways, employers have a different mix of ages, etc.

These allocation calculations by the ETF actuary include another Deferred Inflow or Outflow for Changes in Allocations.

Now we have (almost) all the data we need to post the activity for our local government in the general ledger.

Almost all the data?

Yes. We still need to break these numbers down by category for the financial statements.

In other words, by department?

Close. First we need to separate into Governmental Funds versus Business Type Funds. The Business Type Funds use full accrual accounting, and are thus required to record these GASB 75 OPEB life insurance entries in their general ledger.

What departments would typically be classified as a Business Type Fund?

Some examples, not just for our local government, would include:
--Utilities
--Nursing homes
--Highway or Public Works
--Insurance funds

What about departments like Surveyor, Fire, Police, County Board, Finance, Courts, etc.? Don't they have to record this activity?

Those departments are examples of Governmental Funds. The OPEB life insurance activity is not directly reported for these funds, but rather is accounted for on the government wide financial statements.

That does not seem fair! Why doesn't my Sheriff Department have to worry about this expense when my Highway Department does?

We could get into the differences in full accrual versus modified accrual accounting and segway into GASB 34 right now if you want…

No, let's save that for some other time. My brain is starting to hurt…

Whether the Finance Department or outside auditors calculate the allocation of the OPEB values to each department, the methodology should be the same.

The first step is to determine the method of allocation. Typically, this would be life insurance expense for each department. Then the departments are categorized together as to whether they are:

Governmental Funds:
--General Government (GG)
--Public Safety (PS)
--Public Works (PW)
--Health and Human Services (HS)
--Culture, Recreation, and Education (CR)
--Conservation and Development (CD)

Business Type Funds would be any fund in your local government that uses full accrual accounting.

These allocation expenses by category (GG, CR, Nursing Home, etc.) are applied to each area (Net OPEB Liability, Deferred Inflows/Outflows).

Next, we look at what last year's values for Net OPEB Liability and Deferred Inflows/Outflows were in the general ledger versus what they should be this year. The values in the general ledger are adjusted to what they need to be (debit or credit) and the offset is some expense account (debit or credit).

I personally like using the account title of Actuarial OPEB Life Expense as well as a separate account number to differentiate from the "normal" life insurance expense.

Oh, there is one more accounting entry needed. This one requires a little more explanation.

[great ☹]

Because there is time difference between the ETF report date (12/31/18) and when we are posting the activity in our general ledger (12/31/19), the actual life insurance expense paid during 2019 has to be reclassified from an expense to a deferred outflow of resources.

The prior year's life insurance expense that was reclassified as a deferred outflow of resources last year has to be recognized as an expense in the current year.

Okay, I think I am following all of this, even though the devil is in the details for the actual calculations. Those calculations seem complicated. Could we just have our outside auditors make these calculations and create the required journal entries for us as an audit adjustment?

Sure, that is an option if you chose to do so. You have to keep this activity in mind, though, if you are wanting to know your Net Position (i.e. equity) at year-end. You don't want to be surprised when the audited financial statements are produced!

Some accounting firms provide a template to help their clients to help prepare these entries. Be sure to check with them if you want to go this route.

Does ETF get lots of questions on this topic?

Quite a few, especially during 2018 which was the year of implementation of this accounting standard.

The next slides are a sample email that was sent to some local governments and accounting firms.

ETF's third party administrator, Securian Financial Group, does not maintain records linking retirees with their prior employer(s).

The Local Retiree Life Insurance program is a Defined Benefit OPEB that is administered through a trust through a cost-sharing multiple-employer OPEB plan. As such, the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides the OPEB.

Under s. 40.70, Wis. Stats, the Local Retiree Life Insurance program provides life insurance benefits to all eligible retired employees of the 738 (calendar year 2017) local governments that participate in the program. Under this program, employers pay stated contribution amounts that are based upon the active employee premium amounts. A portion of the employer contributions funds the postemployment life insurance benefit (see page 5 of the actuarial report.) After retirement, basic coverage is continued for eligible employees for life, with the benefit being reduced by a stated amount based upon the age of the retiree.

If a member retires prior to age 65, the retiree must continue paying the employee premiums until age 65 in order to be eligible for the benefit after age 65.

The actuarially determined value for the Local Retiree Life Insurance plan's Net OPEB Liability is $300.86 million. The plan is only 44.81% funded, as opposed to the WRS pension plan which is fully funded. (calendar year 2017 values)

By participating in the Local Retiree Life Insurance program, employers have made a commitment to provide postemployment life insurance benefits to retired employees and are obligated to make contributions into the future to ensure that sufficient resources are available to make the benefit payments. Therefore, because the employers participating in the local retiree life insurance program have responsibility for the resulting OPEB obligations, each participating employer is required to report its proportionate share of the net OPEB liability, as well as other collective amounts, including OPEB expense, on its financial statements if prepared in accordance with generally accepted accounting principles. This cost sharing is per GASB 74 & 75 standards.

Is there anything else that you wanted to share with us regarding GASB 75 OPEB Life Insurance?

Yes, and it relates to Wisconsin Statutes.

[Oh, joy of joys!]

Wisconsin Statutes Chapter 65 indicates that departments can spend only the amount authorized by the authorized elected officials (i.e. County Board, City/Village Board). Nowhere in the statutes does it discuss an accrued expense versus a cash-payment expense.

As such, your Finance Department and/or outside audit firm will probably indicate that a budget amendment may need to be done for the GASB 75 OPEB Life Insurance expense if these accrual accounting entries cause your budgeted expenses to be exceeded.

But, if I am understanding correctly, these accounting entries are for actuarially determined values only and no cash will be paid out in relation to them. Why should we budget for these expenses? Wouldn't that affect the tax levy?

That is where I will point you back to Chapter 65 of the Wisconsin Statutes. I suggest that this be a discussion with your Finance Department, outside auditors, and/or legal counsel.

I don’t know if you can answer this next question, but somehow I think you might be able to.

I have been having problems sleeping at night. Do you have any reading material that you can suggest for me?

Sure! Here is where you can find additional information from GASB related to OPEB life insurance:

https://gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176166144750&acceptedDisclaimer=true

https://gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176169688973&acceptedDisclaimer=true

If you have any additional questions, please feel free to contact me.

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