

Wednesday's News You Can Use

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**MAULDIN
& JENKINS**

GASB & OPEB:

What does this mean for your financial statements and actuarial liabilities



Today's Presenters



Joel Black, CPA, is a partner with Mauldin & Jenkins LLC specializing in serving local and state governmental and non-profit entities throughout the Southeast. Joel currently serves on the AICPA State and Local Government Expert Panel after serving on the Executive Committee of the AICPA's Government Audit Quality Center. He also previously served on an AICPA committee responsible for the Annual Government and Not for Profit Training Program and was recently the chairman of an AICPA sub-taskforce for improving the quality of internal control and compliance testing in Single Audits. He has 24 years of experience providing attestation, consulting and instructional services – serving many major governments in the Southeast. Joel has a B.B.A. in Accounting from Georgia State University.

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

– Overview of the Session

- ***Overview of the Standards***
- ***GASB 74 – Trust Fund Accounting***
- ***GASB 75 – Employer Accounting***
 - ***Similarities with new pension accounting***
 - ***Differences with new pension accounting***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Overview on the Standards***

- ***GASB 74/75 - Revises recognition, measurement, disclosure requirements for all employers related to Other Post-Employment Benefits (OPEB).***

- ***Liability***

- ***Measured net of OPEB plan's fiduciary net position***
- ***Fully recognized in accrual-basis financial statements of employer***

- ***Changes in the liability***

- ***Some recognized as expense in the period of the change***
- ***Others recognized as deferred outflows/inflows of resources with expense recognized over defined future periods***
- ***Applicable to all types of defined benefit plans - single employer, agent multiple employer, and cost-sharing multiple employer***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

GASB 74

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

***Effective for periods beginning
after June 15, 2016
(fiscal years 6/30/17 and
12/31/17)***

NO. 349 | JUNE 2015 **Governmental
Accounting Standards Series**

Statement No. 74 of the
Governmental Accounting
Standards Board

Financial Reporting for Postemployment
Benefit Plans Other Than Pension Plans

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

• Overview

– Standard applies to OPEB Trust Fund accounting

- Supersedes GASB 43.***

- Applies same definition of OPEB as GASB 43/45.***

 - All postemployment healthcare benefits***

 - Postemployment benefits not provided through a pension plan***

- Follows similar accounting requirements that GASB 67 uses for pension accounting – so no substantial change to OPEB Trust fund statements – however significant changes to the note disclosures and RSI.***

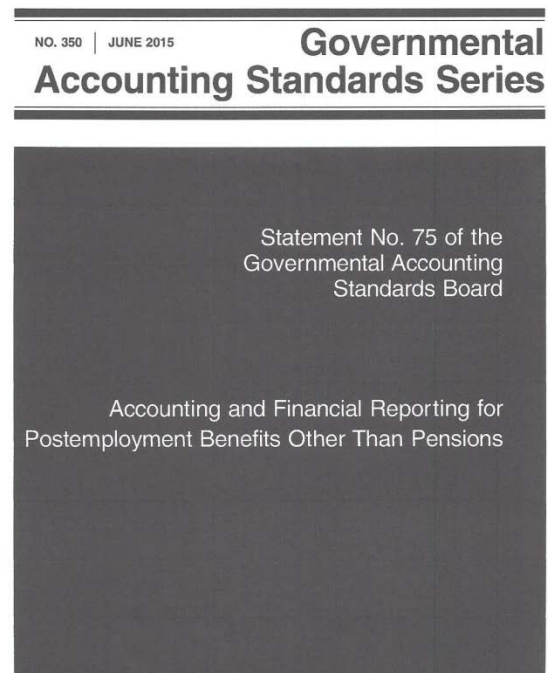
 - Will need all of the new actuarially determined liability information for the note disclosures and RSI.***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

GASB 75

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

***Effective for periods beginning after June 15, 2017
(fiscal years 6/30/18 and 12/31/18)***



GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Overview***

- ***Standard applies to accounting by employers for OPEB***

- ***Supersedes GASB 45***

- ***Fundamental approach for OPEB is the same as required for pensions in GASB 68***

- ***Viewed in the context of an on-going, career-long employment relationship***

- ***Focus on the cost to taxpayers over time of providing services***

- ***Accounting-based versus previous funding-based approach to measurement***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Scope and Applicability***

- ***Applies same definition of OPEB as GASB 45***

- ***All postemployment healthcare benefits***
- ***Postemployment benefits not provided through a pension plan***

- ***Differentiates requirements based on whether OPEB is provided through plans administered through trusts in which the following criteria are met:***

- ***Contributions irrevocable***
- ***Plan assets dedicated to providing OPEB***
- ***Plan assets legally protected from creditors***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Scope and Applicability***

- ***If any part of the OPEB plan is administered through a trust that meets the specified criteria, apply the requirements for OPEB provided for such a trust.***
- ***Includes plans which are not administered by trust***
 - ***Different from GASB 68 in this way.***
 - ***Applies the concepts which GASB 73 added for pensions.***
 - ***Any assets accumulated are assets of the employer.***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Defined Benefit OPEB Liabilities***
 - ***Liability to a defined benefit plan***
 - ***Liability to employees for OPEB***
 - ***Consistent approach applied to all employers regardless of whether OPEB is administered through a trust which meets the criteria.***
 - ***Recognize:***
 - ***OPEB Liability***
 - ***OPEB Expense***
 - ***Deferred outflows/inflows of resources related to OPEB***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Liability to Employees for OPEB***
 - ***Based on total OPEB liability—the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service***
 - ***Is OPEB administered through a trust that meets the specified criteria?***
 - ***Yes—recognize net OPEB liability (total OPEB liability, net of OPEB plan fiduciary net position)***
 - ***No—recognize total OPEB liability***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Definitions***

- ***Total OPEB Liability (TOL) - actuarial present value of projected benefit payments attributed to past periods.***
- ***Fiduciary Net Position – this the fund equity (or net position) of the OPEB plan (Trust Fund) itself.***
- ***Net OPEB Liability (NOL) – equal to the TOL less the fiduciary net position.***
- ***Measurement Date – date on which the value of the TOL, fiduciary net position, and NOL is determined and then reported in the employer financial statements. Can be, but doesn't have to be, the employer fiscal year end.***
 - ***Must be on or within one year in advance of employer fiscal year end.***



OPEB

Question #1

If we do not finance our OPEB using an OPEB trust fund, then we do not have to record a liability related to our OPEB plan.

a) TRUE

b) FALSE



OPEB Liability Reporting

Question #2

If we do finance our OPEB using an OPEB trust fund, in which of the following financial statements would a Net OPEB Liability be recorded?

- a) All full accrual funds that have employees under the plan
- b) All funds (including modified accrual) that have employees under the plan
- c) OPEB Trust Fund
- d) None of the above

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Components of OPEB accounting in GASB 75 which are the same as those for pensions in GASB 68***
 - ***Measurement date concept***
 - ***Valuation date timing and rollforward allowed***
 - ***Valuations at least every 2 years***
 - ***Measurement approach***
 - ***Entry Age Normal actuarial approach***
 - ***Discount rate determination***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Actuarial Cost Methods***

- ***There are several Actuarial Cost Methods often used by actuaries.***

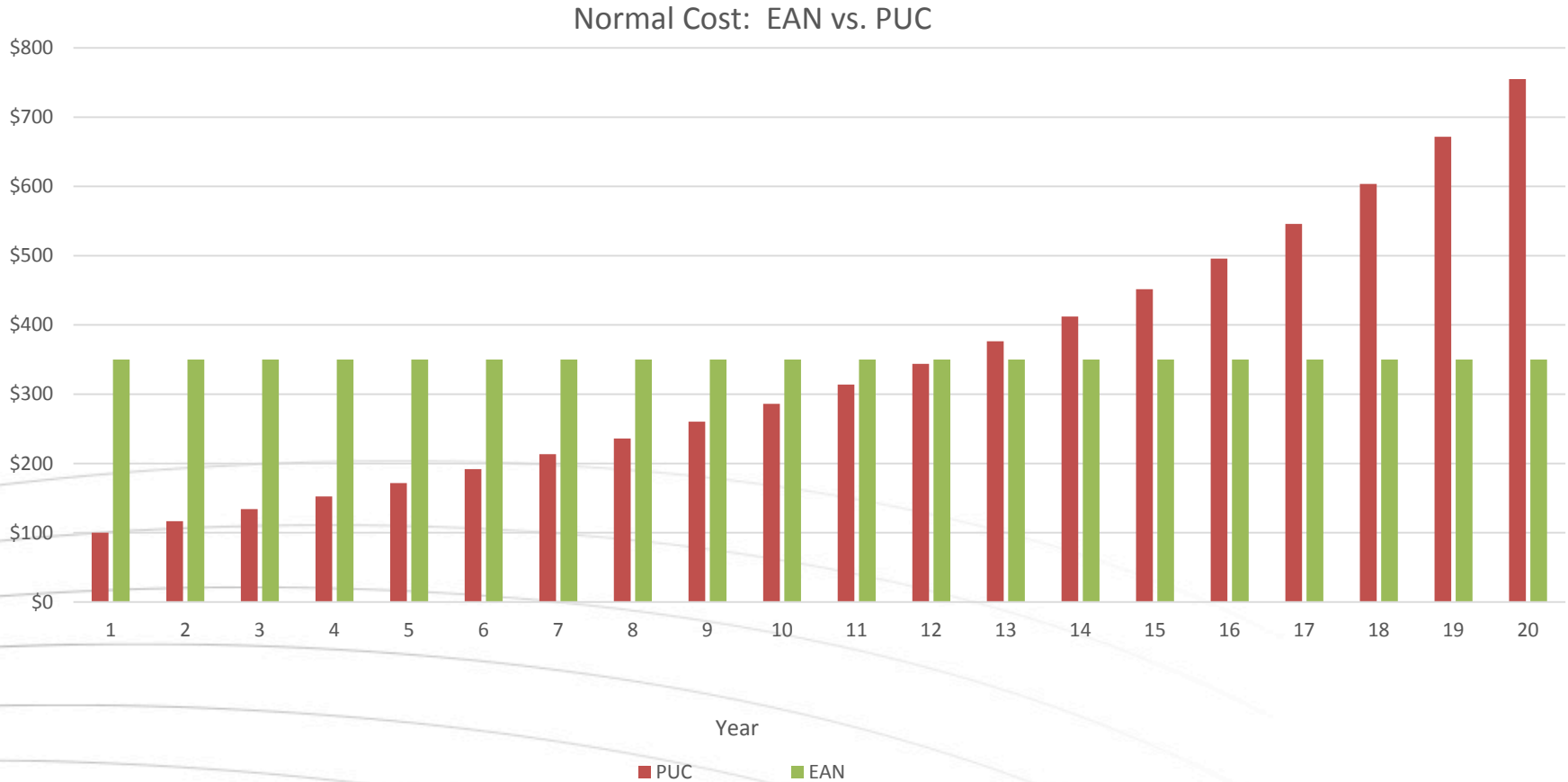
- ***Cost methods define the pattern over which benefits are accrued over active service.***
- ***Each cost method defines the Normal Cost in a different way.***

- ***Entry Age Normal (EAN) and Projected Unit Credit (PUC) are examples of Actuarial Cost Methods***

- ***EAN is required under GASB 74 and 75***
- ***EAN is a “front loaded” cost method whereas PUC is “back loaded”***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

Actuarial Cost Methods



GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Entry Age Normal Characteristics***

- ***EAN can be fixed dollar or a level percent of salary. The level percent of salary approach is required under GASB 75.***
- ***Actuarial Accrued Liability (AAL) Considerations***
 - ***The EAN Actuarial Accrued Liability (AAL) will always be larger than the AAL under PUC.***
 - ***For younger populations, PUC AAL will be less than EAN AAL.***
 - ***Under EAN, growth in AAL is linear assuming constant pay.***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Components of OPEB accounting in GASB 75 which are the same as those for pensions in GASB 68 (cont)***
 - ***Recognition of liability and related changes***
 - ***Expenses***
 - ***Deferred outflows and inflows of resources***
 - ***Accounting for fiduciary net position of the Plan***
 - ***Cost-sharing plan allocations and accounting for the proportionate share***
 - ***Special funding situations***
 - ***Accounting for defined contribution plans***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

Differences from Pension Accounting

These items are mostly not theoretically different from the accounting for pensions in GASB 68, however, due to the nature of OPEB transactions the application of these concepts will cause practice to be different.

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***When projecting the future payments in liability determination:***
 - ***Projections would incorporate, if relevant:***
 - ***Salary Changes***
 - ***Service Credits***
 - ***Automatic and ad hoc (if substantively automatic) postemployment benefit changes (including COLAs)***
 - ***Taxes or other assessments expected to be imposed on benefit payments***
 - ***Consider substantive plan in place***
 - ***Does not require a legal written plan document***
 - ***Consider established pattern of practice with regard to sharing of benefit-related costs with inactive employees***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***When projecting the future payments in liability determination:***
 - ***Based on claims costs or age-adjusted premiums approximating claims costs, in accordance with Actuarial Standards of Practice***
 - ***Not reduced by subsidies expected to be received for making benefit payments unless payments are providing Medicare benefits***
 - ***Consider legal or contractual caps if determined to be effective***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Alternate Method of Measurement***
 - ***As in GASB 45, an alternative measurement method may be applied if fewer than 100 employees (active and inactive) are provided benefits through plan as of the beginning of the measurement period***
 - ***Generally, same simplifications to assumptions in Statement 45 can be used***
 - ***Reference to U.S. Office of Personnel Management regarding age-based turnover experience rather than default tables***
 - ***Also, if age historic-based turnover is not available, option to use historic age-based turnover of another entity***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Discount Rate Determination***

- ***Method of rate determination is the same as GASB 68.***
- ***Expectation is with OPEB Plan's funded percentages being far lower than pension (and in many cases "pay as you go" funded):***
 - ***The Long-term rate of return on investments will likely not be the discount rate for liability determination.***
 - ***Use of blended rate (LTeROR with 20 year Muni bond rate) determination will be much more prevalent***
 - ***If "Pay As You Go" funded, then discount rate should equal the yield or index rate for 20-year, tax-exempt general obligation municipal bond rated AA/Aa or higher.***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***In General - larger liabilities than pensions***
 - ***Public Perception***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Pay As You Go Funding***

- ***If no trust fund is utilized for OPEB (typically funded on a pay as you go basis) – then the pay as you go claims represent the contributions – and thus the total OPEB liability would be allocated to the activities or funds (full accrual) making the claim payments.***
- ***Note that these claims should not be run through a self insurance internal service fund, as the retirees are not internal to the government.***

OPEB Accounting

Question #3

Which statement is false regarding the discount rate used for OPEB liability determination?

- a) If we utilize a trust fund, then we will use the Long-term expected rate of return (LTeRoR) as the discount rate
- b) If we utilize a trust fund, then we will be able to use a blended discount rate (using the LTeRoR and 20 yr Muni bond rate)
- c) If we do not utilize a trust fund, then our discount rate will be the 20 year muni bond rate
- d) All of the above are true statements

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Deferred Outflows/Inflows of Resources***
 - ***Basically the same as GASB 68***
 - ***If there is no trust which meets the criteria, then there can be no deferred outflow or inflow for the difference between projected and actual Plan investment earnings.***
 - ***Amounts paid by employer for OPEB as benefits come due***
 - ***During measurement period – directly reduces liability***
 - ***Subsequent to measurement date – deferred outflow of resources***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Deferred Outflows/Inflows of Resources (cont)***
 - ***Costs incurred by employer related to OPEB administration***
 - ***During measurement period – OPEB expense***
 - ***Subsequent to measurement date – deferred outflow of resources***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Note Disclosures and RSI***

- ***Predominately the same as GASB 68***

- ***Assumptions include additional items:***

- ***Healthcare cost trend rate***

- ***Sharing of benefit-related costs***

- ***Discount rate disclosure will require information on it's determination and the municipal bond rate used***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Note Disclosures and RSI (cont)***

- ***Sensitivity analysis of OPEB liability using all combinations of:***

- ***Discount rate, discount rate +1% and -1%***
- ***Healthcare cost trend rate, healthcare cost trend rate +1% and -1%***

Sensitivity Analysis of the Net OPEB Liability (Asset)

	1 % Decrease (6.0%)	Discount Rate (7.0%)	1 % Increase (8.0%)
1 % Decrease (8.5% - 4.5%)		\$ 8,716	
Healthcare Cost Trend Rates (9.5% - 5.5%)	\$ 124,687	\$ 76,366	\$ 18,380
1% Increase (10.5% - 6.5%)		\$ 158,512	

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Effective date and transition***

- ***Plans – June 30, 2017 / December 31, 2017***
- ***Employers – June 30, 2018 / December 31, 2018***
- ***RSI schedules prospective if information not initially available***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Timing***

- ***An actuarial valuation using the Entry Age cost method will be needed to calculate any liability or expense recorded under GASB 74 or 75.***
- ***For example, for an unfunded retiree medical plan with a 6/30 FYE, an Entry Age actuarial would be required to calculate the OPEB Expense for the FYE 6/30/2018 and the Total OPEB Liability at 6/30/2018. The actuarial valuation could be performed as of 6/30/2017.***
- ***If you have a Trust Fund – the disclosure for the Total OPEB Liability and Net OPEB Liability will be required beginning in the June 30, 2017 OPEB Trust Financial Statements.***

GASB and OPEB – What does this mean to your Financial Statements and Actuarial Liabilities?

- ***Transition***

- ***GASB 75 requires that the “Net OPEB Liability” (i.e., the unfunded AAL) appear on the balance sheet of the employer. This is in contrast to the “Net OPEB Obligation” under GASB 45.***
- ***Accordingly, a prior period adjustment will be required upon transition from GASB 45 to GASB 75.***
- ***In general, this adjustment will be equal to the difference between the GASB 45 Net OPEB Obligation and the GASB 75 Net OPEB Liability.***
 - ***Consistent with GASB 68, beginning deferred outflows/deferred inflows of resources balances - all or nothing at initial implementation***
 - ***Exception for deferred outflows of resources related to employer contributions made after the measurement date but before the employer fiscal year end – can have a beginning balance.***

GASB 63 & 65

Questions ?????



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