



# Other Postemployment Benefits OPEB

Presented by James Powers  
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# Applicable GASB Statements - Pension

- GASB 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans
- GASB 27 - Accounting for Pensions by State and Local Governmental Employers
- GASB 50 - Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)

# Applicable GASB Statements - OPEB

- GASB 12 - Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers
- GASB 26 - Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans
- GASB 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans
- GASB 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

# Implementation Dates

- GASB 43 – OPEB Trusts
- Phase 1 governments - FY2007.
- Phase 2 governments - FY2008.
- Phase 3 governments - FY2009.

# Implementation Dates

- GASB 45 – Employer Reporting of OPEB
  - Phase 1 governments FY2008
  - Phase 2 governments FY2009
  - Phase 3 governments FY2010

# Financial Statements of “Postemployment Benefit Plans”

- GASB 43 deals with the financial statement and disclosure requirements of a legally established OPEB Plan.
  - ◆ This only applies to legally created employee benefit trusts or to a separate entity, similar to a Retirement System
  - ◆ Requirements similar to GASB 25

# Most Confusing Issue

- The client does not have to change the pay-as-you-go funding.
- Only MGL changes will require this.
- Some communities are setting aside money aside for this.
- If they are not fully funded on the Pension side it you need to decide how to set money aside for OPEB until the Pension is Funded
- This is just accrual accounting issues

# Financial Statements of “Postemployment Benefit Plans”

- Trusts established by special legislation (Wellesley, Brookline, Arlington etc.)
  - ◆ You need to find out if these would be considered a separate plan because the accumulated assets have been irrevocably transferred.
  - ◆ If not it does not meet the definition.
  - ◆ Funds set aside in a governmental or proprietary fund are considered employer assets rather than plan assets.
  - ◆ If the assets are subject to third party creditors then the assets are considered employer assets.



# Financial Statements of “Postemployment Benefit Plans”

- Required Financial Statements of a OPEB Plan
  - ◆ Statement of Plan Net Assets
  - ◆ Statement of Changes in Plan Net Assets
  - ◆ Notes to the Financial Statements
  - ◆ RSI – Schedule of Funding Progress
  - ◆ RSI – Schedule of Employer Contributions

# GASB 45 – Employer Reporting

- The first thing an employer needs to do is hire an Actuary
- The actuary gathers information and then calculates the liability and required contributions
- The information used by the actuary is supplied by the Town

# Employer Accounting and Financial Reporting

- Recognition of Expenses/Expenditures
  - ◆ The Annual Required Contribution (ARC) will be actuarially calculated (in most cases) and include the normal cost and amortization of past service costs for a period not to exceed 30 years

# Employer Accounting and Financial Reporting

- Recognition of Expenses/Expenditures
  - ◆ Contribution deficiencies or excess contributions shall be measured each year
  - ◆ This deficiency or excess is calculated by taking the difference between the ARC and employer contributions defined below
    - ★ Employer contributions include direct payments made to or on behalf of a beneficiary
    - ★ Premium payment to an insurer
    - ★ Irrevocably transferred assets to a trust
  - ◆ The difference is included as part of the Net OPEB obligation

# Employer Accounting and Financial Reporting

- Recognition of Expenses/Expenditures
  - ◆ We will use the contribution amount listed on the Actuarial report
  - ◆ Premiums are adjusted as older employees are implicitly subsidized by younger employees.
  - ◆ This is known as a “Blended Premium”
  - ◆ We cannot just take the amount paid by the employer.

# Employer Accounting and Financial Reporting

- Recognition of Expenses/Expenditures
  - ◆ If the employer has a net OPEB obligation interest must be added at the assumed investment return of the actuarial valuation
  - ◆ This net OPEB obligation becomes an “accounting liability” and is now recorded in the financial statements
  - ◆ Since most governments pay their ARC for Pensions to the Retirement System each year there is no Net Pension Obligation and therefore no accounting liability accrual

# Employer Accounting and Financial Reporting

- Recognition in Governmental Fund Financial Statements
  - ◆ Expenditures are recognized on the modified accrual basis
  - ◆ For all practical purposes it is recorded on the pay-as-you-go basis.
  - ◆ The Net OPEB Obligation is not recorded

# Employer Accounting and Financial Reporting

- Recognition in Government-wide, Proprietary and Fiduciary Fund Financial Statements
  - ◆ Recorded on the accrual basis of accounting
  - ◆ Expense should equal ARC, plus adjustments
  - ◆ Net OPEB Obligation must be recorded as a liability/asset at year-end



# Employer Accounting and Financial Reporting

- Recognition in Government-wide, Proprietary and Fiduciary Fund Financial Statements
  - ◆ The basic premise is that the enterprise recovers 100% of cost of operations through rates
  - ◆ This new liability would require a reasonable estimate of the % of the Net OPEB Liability that relates to each enterprise fund
  - ◆ If no allocation is made the Net Assets of the proprietary and governmental activities would be misstated
  - ◆ Some actuaries have accounted for each liability
  - ◆ If not we allocate by payroll/employees to total

# Employer Accounting and Financial Reporting

- Notes to the Financial Statements
  - ◆ Plan Description
    - ★ Name and type of plan (single employer)
    - ★ Brief description of types of benefits and authority where benefits are established or amended
    - ★ Whether there is a separate plan financial statement and how to obtain the report

# Employer Accounting and Financial Reporting

- Notes to the Financial Statements
  - ◆ Funding Policy
    - ★ Authority under which employer and employee contributions are established or amended
    - ★ Required contribution rates of plan members (25% of premium)
    - ★ Required contribution rates of employer in accordance with the funding policy (pay-as-you-go)

# Employer Accounting and Financial Reporting

- Notes to the Financial Statements
  - ◆ Funding Policy (sole and agent multiple employers)
    - ★ Disclose annual OPEB cost, its components and actual contribution
      - ARC, interest on the net OPEB obligation and adjustment to ARC)
    - ★ For current and preceding two years, annual OPEB cost, % of contribution and net OPEB obligation at the end of the year

# Employer Accounting and Financial Reporting

- Notes to the Financial Statements
  - ◆ Funding Policy (sole and agent multiple employers)
    - ★ Latest actuarial valuation information on funding status (RSI for last three valuations)
      - Date
      - Value of assets
      - Actuarial accrued liability
      - Total unfunded actuarial liability or excess
      - Funded ratio
      - Annual covered payroll
      - Ratio of unfunded actuarial liability to annual covered payroll

# Employer Accounting and Financial Reporting

- Notes to the Financial Statements
  - ◆ Funding Policy (sole and agent multiple employers)
    - ★ Disclosure for Actuarial Assumptions
      - Disclose that this is an “Estimate”
      - Disclose RSI multi-year schedules are useful information and can be found after the notes
      - Disclose the valuation projections are made in accordance with current substantive plan and may change in the future
      - Disclose that this is a long-term projection and use techniques designed to reduce short-term volatility

# Employer Accounting and Financial Reporting

- Notes to the Financial Statements
  - ◆ Funding Policy (sole and agent multiple employers)
    - ★ Disclosure for Actuarial Assumptions
      - Actuarial Cost Method.
      - Method(s) used to determine asset values
      - Inflation rate, investment return, postemployment benefit increases, projected salary increases if applicable, healthcare cost trend rate.
      - Amortization method (level dollar or level percentage)

# OPEB Liabilities/Assets at Transition

- When first implementing these Statements the Net OPEB Obligation should be set at zero.
- If an employer has prior actuarial information they may elect to apply this retroactively



# GASB Q&A – Valuation Timing

- Q—To use an actuarial valuation in a financial report, how recent should the actuarial valuation date be in relation to the employer’s financial reporting period?
- A— A given valuation provides the ARC for one, two, or three reporting periods. The ARC reported for an employer’s current fiscal year should be derived from an actuarial valuation as of a date not more than 24 months before:
  - a. The beginning of the current fiscal year, if valuations are annual
  - b. The beginning of the first of two years for which the valuation provides the ARC, if valuations are biennial
  - c. The beginning of the first of three years for which the valuation provides the ARC, if valuations are triennial.

# GASB Q&A – Valuation Timing

- An actuarial valuation dated on or after July 1, 2009 which determines the ARC for the employer's financial reporting periods ending June 30, 2012 and 2013 can be used.
- This is true because the first day of the two year valuation, July 1, 2011 (FY2012), is within the 24 month allowable period.

# GASB Q&A – Valuation Timing

- The GASB established a “Linkage” between the 2 year gap between the valuation date and the 2 years that the valuation provides the ARC.
- Why such a big Lead Time?
  - ◆ If you are fully funding your ARC then the valuation has to be completed well before the budget season.
  - ◆ A valuation dated January 1, 2013 does not allow you to budget the ARC for FY13.

# GASB Q&A – Valuation Timing

- What is the practical problem that your community may be experiencing?
- The GASB assumed Towns would get their first valuation two years before the first year of implementation and get another one during that year to set the ARC for the next two years. Since most Towns were not funding this then they did not get the early valuation and now their timing is off.
- You may need to reset the Linkage with your actuary to get back on track.

# Discount Rate Bottom Line

- The discount rate is the expected rate of return on investments
- Pension plans have a discount rate about 8% because they can invest long-term which is different than Towns
- OPEB plans with no assets set aside must use a lower rate
- Rate used should be lower than 5%

# Discount Rate Bottom Line

- If the rate used is higher than 5% we will have an issue
- Town must be fully pre-funded to have a high rate
- If some assets are set aside in a trust they can use a blended rate only if the Actuary calculates that rate.
- Proposed GASB change will set rate that is even lower

# OPEB Trust Fund

- Chapter 32B Section 20 OPEB Liability Trust Fund or Special Legislation
  - ◆ Towns that accept the legislation can establish an irrevocable Trust fund
  - ◆ The funds are not subject to third party creditors
  - ◆ Investment earnings stay with the funds
  - ◆ Can assign prescription drug plan money to the fund

# OPEB Trust Fund

- Chapter 32B Section 20 OPEB Liability Trust Fund or Special Legislation
  - ◆ The custodian is the Town Treasurer
  - ◆ The Treasurer can employ an outside custodian
  - ◆ May invest the funds in accordance with the prudent investment rule established in Chapter 203C
  - ◆ May invest in the State Retiree Benefits Trust Fund



# OPEB Trust Fund

- Chapter 32B Section 20 OPEB Liability Trust Fund or Special Legislation
  - ◆ House Bill 3611 an amendment of Section 20 proposes several changes
  - ◆ Establishes a Board of Trustees with investing authority – does not mandate
  - ◆ Clarifies that the funds are held solely to meet the obligations of current and future liabilities of health insurance for retirees
  - ◆ Now subject to appropriation

# OPEB Trust Fund

- Chapter 32B Section 20 OPEB Liability Trust Fund or Special Legislation
  - ◆ Will require a “Declaration of Trust” to be adopted by the trustee or board.
  - ◆ The custodian can hire investment consultants and pay for their services from this fund.
  - ◆ Invested funds must follow Section 54 of Chapter 44; or the prudent investment rule Chapter 203C; or invested with the State Retiree Benefits Trust Fund.

# OPEB Trust Fund

- Chapter 32B Section 20 OPEB Liability Trust Fund or Special Legislation
  - ◆ Funds can be appropriated by a 2/3 vote.
    - ★ This will still be irrevocable but makes it easier to use the funds set aside before it is fully funded.
  - ◆ If the Town had previously accepted Section 20 or had special legislation they would need to accept the amended section for this to apply.

# What is new with GASB?

- GASB has proposed new standards that will change the accounting and measurement of OPEB.
- Changes from a funding method to a service method.
- What this means is that the liability recorded on the books is based on service and most of the unfunded liability will reduce the Town's Net Position.

# What is new with GASB?

- The discount rate used will be lower and therefore the liability should increase.
- The GASB has already approved this standard for Pensions starting in 2015.
- The Town will need a new valuation once the standard is approved.

# Funding Methods

- Best one is plan changes that changes the insurance programs offered and retiree contribution if the objective is to reduce the liability.
- Dedicated revenue sources or consistent annual appropriations.
- The more you contribute the higher the discount rate which will reduce the liability.



# Questions

■ THANK YOU