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GASB 74/75

**The Accounting and Reporting of OPEBs Is
Undergoing a Major Change**

2016 Health Care Summit and Benefits Fair for Local Government

What is an OPEB?

Other Postemployment Benefits (or OPEB) are benefits (other than pensions) that U.S. state and local governments provide to their retired employees.

These benefits principally involve health care benefits, but also may include life insurance, disability, legal and other services.

Source: GASB

The Elephant in the Room

- In 2007, **\$1.5 trillion** was the estimate of unfunded OPEB liabilities throughout the United States
- Of that amount, Pennsylvania governments' estimate was greater than **\$10 billion**

Source: CreditSuisse

The Problem...


- Many OPEB plans are not funded through a trust, like pension plans
- “Pay-as-you-go”
- As compared to pensions, funded through an MMO or similar payment

Déjà vu?

- Governments were required to implement GASB Standards #43 and #45 beginning in 2006
 - These set up a liability (asset) for just the difference between the annual required contribution and the amount contributed
- Governments were required to implement GASB Standards #67 and #68 beginning in 2015
 - These set up a liability for the unfunded portion of **pension** plans

So Now GASB 74/75

Establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB provided to employees of state and local governmental employers



GASB 74 sets the requirements for financial statements of the plan (if it issues separate financial statements)



GASB 75 sets the requirements for financial statements of the government

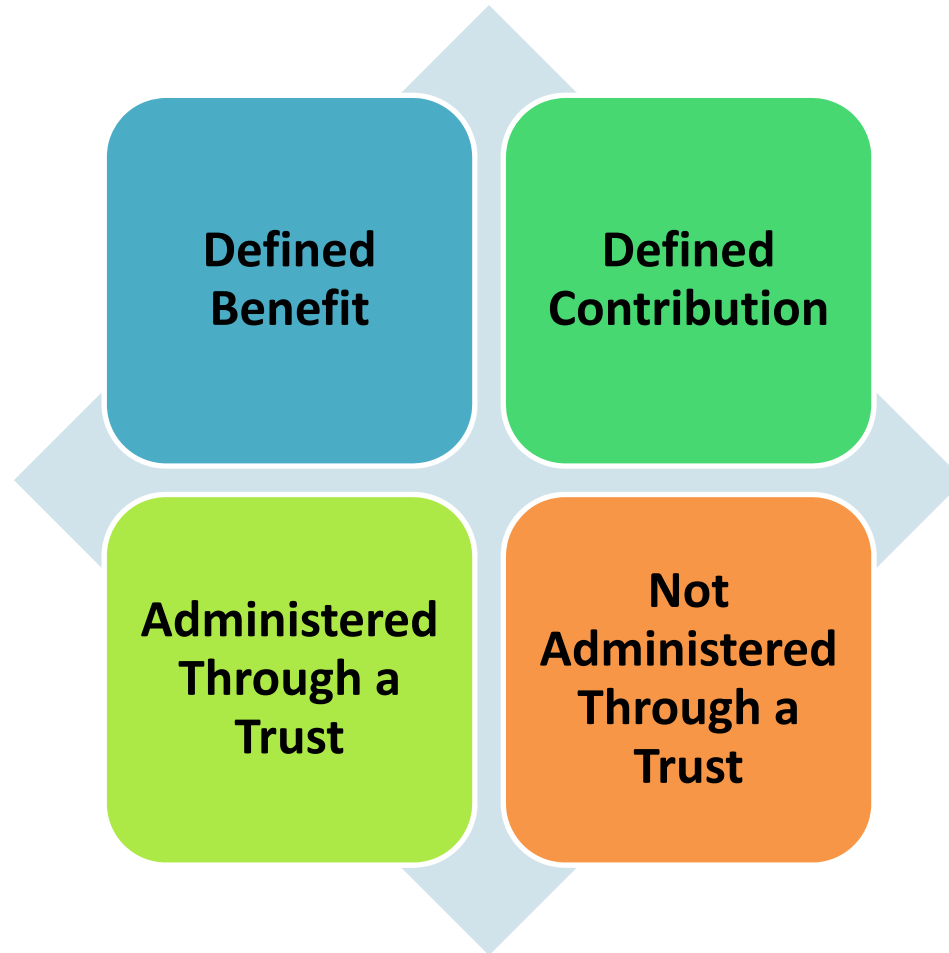
How the Changes in This Statement Will Improve Financial Reporting

- More robust disclosures of assumptions
- Improved transparency
- Better indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any
- Enhanced measures to evaluate decisions related to contributions
- More consistent and conservative discount rates

How the Changes in This Statement Will Improve Financial Reporting (continued)

- Streamlined calculation of actuarial present value
- Immediate recognition in OPEB expense for some items, rather than a choice of recognition periods
- Deferral of other items over a defined, closed period, rather than a choice of open or closed periods
- Shift of focus of the OPEB measures from the employer's OPEB cost to the employer's OPEB liability

Types of OPEBs



OPEB Plans Administered Through Trusts

To qualify as a trust:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms
- OPEB plan assets are legally protected from creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members

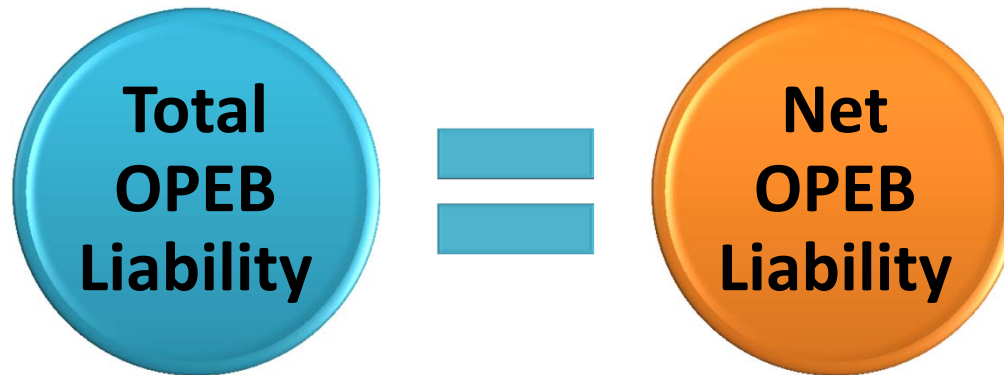
OPEB Plans Administered Through Trusts (continued)

The assets held in trust are subtracted from the total OPEB liability to determine the net OPEB liability



OPEB Plans Not Administered Through Trusts

Any assets earmarked to pay OPEB would be treated as assets of the employer and the OPEB liability would remain the total OPEB liability



Defined Benefit (DB) OPEB Plan Types

Single

OPEBS provided to employees of only ONE employer

Primary government and component units reported together are considered one employer

Standalone financials will have to account as if cost-sharing

Agent

Assets are pooled in a trust for investment purposes

Separate accounts are maintained for each employer

Each employer's assets are legally available to pay only for their own employees

Cost-Sharing

Assets are pooled in a trust for investment purposes

Assets can pay the benefits for any employers in the plan

Total OPEB Liability

Governments will measure total OPEB liability in three steps:

1. Projecting future benefit payments for current and former employees and their beneficiaries
2. Discounting those payments to their present value
3. Allocating the present value over past and future periods of employee service

Actuarial Valuation

- The total OPEB liability generally is required to be determined through an actuarial valuation
 - Valuation must occur no less frequent than every two years
- However, if fewer than 100 employees (active and inactive) are provided with OPEB through the plan, use of a specified alternative measurement method in place of an actuarial valuation is permitted

Actuarial Valuation (continued)

- The actuarial valuation is performed as of:
 - The measurement date
 - No earlier than the employer's prior fiscal year-end and not later than the current fiscal year-end
 - Must remain consistent from period to period
 - A date other than the measurement date
 - No earlier than 30 months and one day before the employer's most recent fiscal year-end
 - Rollforward procedures to the measurement date
 - Not required to have same relationship to the measurement date in each reporting period

Projections of Benefit Payments Incorporate the Effects of:

- Projected salary changes (if the OPEB formula incorporates future compensation levels)
- Service credits (if the OPEB formula incorporates periods of service)
- Automatic postemployment benefit changes, including automatic cost-of-living adjustments (COLAs)

Projections of Benefit Payments Incorporate the Effects of: (continued)

- (NEW) ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic
- Certain taxes or other assessments expected to be imposed on the benefit payments

Discount Rate

OPEB plan's long-term expected rate of return on OPEB plan investments in the trust

- To the extent the plan's projected fiduciary net position is sufficient to pay projected benefits to current plan members

Tax-exempt, general obligation municipal bond rate

- To the extent the plan's projected fiduciary net position is not sufficient
- Where no OPEB trust exists

Discount Rate (continued)

Accordingly, underfunded plans will result in an increased total OPEB liability compared to well-funded plans.

Allocation

- Entry age actuarial cost method is required
- Level percentage of pay

Items Immediately Recognized in Expense

- Increases

- Service cost
- Interest on the total OPEB liability as of the beginning of the year
- Administrative expenses
- Changes in the total OPEB liability due to changes in plan benefits

- Decreases

- Projected investment returns over the year
- Current employee contributions for OPEB
- Changes in the total OPEB liability due to changes in plan benefits

Items with Deferred Recognition

- Must use a closed 5-year period, starting with the current reporting period
 - Differences between projected investment earnings and actual investment earnings

Items with Deferred Recognition (continued)

- Must use a closed period equal to the average expected remaining service lives of employees, retirees, and vested deferred members, starting with the current reporting period
 - Changes in actuarial assumptions
 - Differences between expected actuarial experience and actual experience

Items with Deferred Recognition (continued)

- Reduction of liability in subsequent year
 - Employer contributions to the OPEB plan (if any) that are made subsequent to the measurement date of the net OPEB liability and before the end of the reporting period

Items with Deferred Recognition (continued)

- Reported as “deferred inflows of resources” or “deferred outflows of resources” related to OPEB

Cost-Sharing Employers

- A cost-sharing employer's net OPEB liability is its "proportionate share" of the cost-sharing plan's collective net OPEB liability
- The cost-sharing plan would calculate the collective net OPEB liability for all participating cost-sharing employers using the same methods as for single-employer and agent OPEB plans
- The plan would calculate the collective OPEB expense, and collective deferred inflows/outflows of resources

Implementation

- Effective for plan financial statements for fiscal years beginning after June 15, 2016
 - 6/30/17
 - 12/31/17
- Effective for employer financial statements for fiscal years beginning after June 15, 2017
 - 6/30/18
 - 12/31/18

Implementation (continued)

- Earlier application is encouraged
- Changes adopted should be applied retroactively by restating financial statements, if practical, for all prior periods presented

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Impact of the GASB Project on Reporting of Fiduciary Activities

2016 Health Care Summit and Benefits Fair for Local Government

Background

- GASB #14 was issued 25 years ago
- Addressed what entities are to be included in the financial statements
- Also referred to “fiduciary responsibility” in that statement
- 25 years later... they are ready to explain what “fiduciary responsibility” is!

Background

- 2002 – the GASB issues GASB Statement No. 34
- This significantly changed financial reporting for governments
- Established current day requirements for government financial reporting, including fiduciary activities

Business Type Activities

- Water/Sewer/Sanitation/Electric activities normally report as “Business Type Activities” under GASB 34
 - User charges fund the operations – i.e., “business-type”
 - Single strip presentation of the entity in the financial statements for operations
 - True whether the activities are included as part of a municipality’s financial statements, or a stand-alone Authority financial statements

General Governments

- Other types of governmental entities **include** Pension and OPEB Trust Funds activity as part of their financial statements
 - Counties
 - Cities
 - Townships and Boroughs
 - Etc.

Stand Alone Business Type Activities

- “Stand alone business-type activities” (i.e., most authorities in PA) **do not include** the Pension Trust Funds in their Financial Statements
- Why??
- GASB (as of today) says not to.

Stand Alone Business Type Activities

- But... it looks like this will change...
- “Preliminary Views” document issued by GASB states:

Finally, the Board’s preliminary view is that a stand-alone business-type activity (BTA) also engaged in fiduciary activities should present fiduciary fund financial statements within its basic financial statements.

- Details may change, but a “preliminary view” almost always becomes a GASB Statement

Comments

- The AICPA came out strongly against this view
- Think that including this information as a financial fund gives users the impression the net position in the Trust is available for use to the general government
- Had the same view on GASB 34 when it came out
- Prefer it to be just a note disclosure

How Does This Impact an Authority?

- Most common example?
- Pension and OPEB Trust Funds
 - Is your plan a defined benefit plan?
 - Or a defined contribution plan?
- We've heard about this already, right?
 - Pension (GASB 67 & 68)
 - OPEB Trusts (GABS 74 & 75)

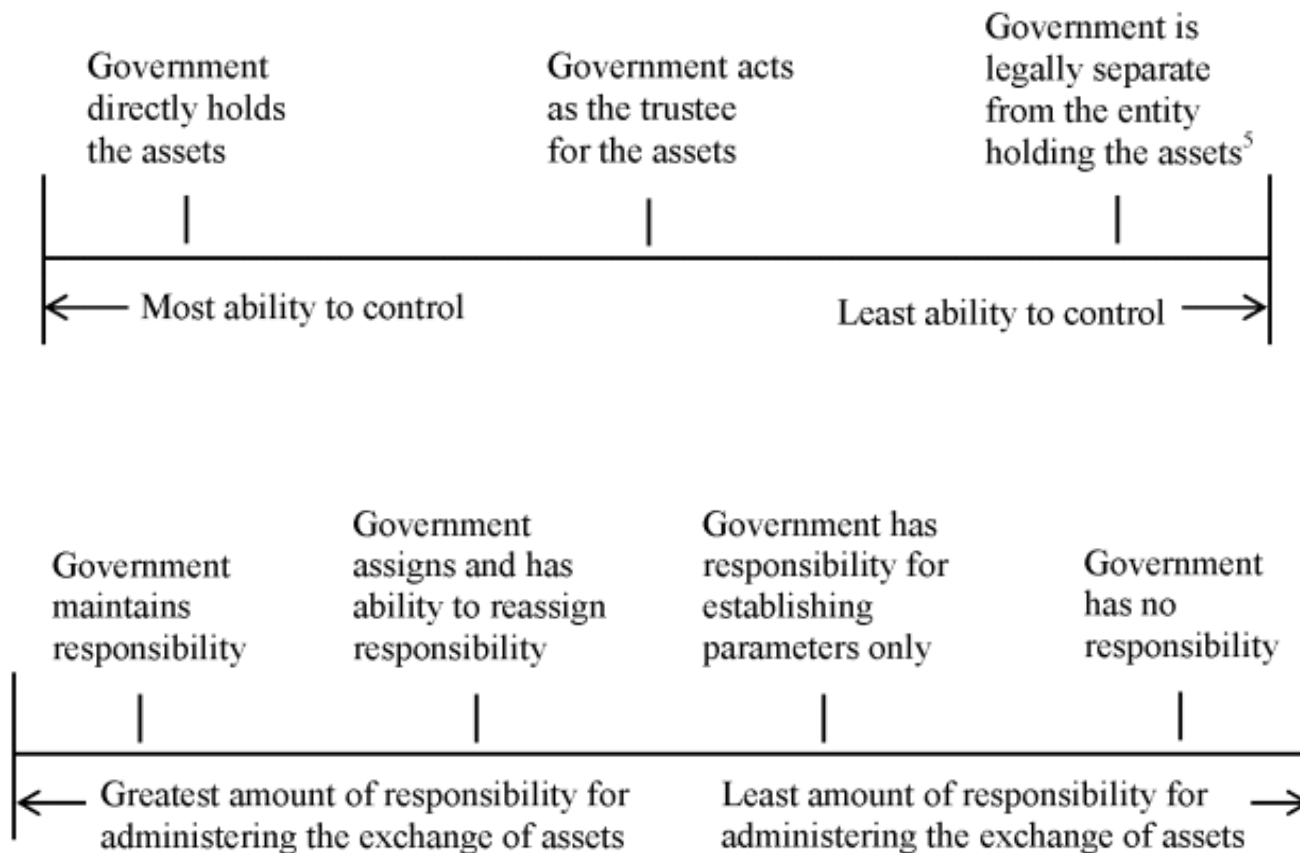
When are you a Fiduciary?

- Control assets from a pass through grant
 - Only when the local governmentt does not have administrative or direct financial involvement
- Control assets through a trust agreement in which the government is not the beneficiary
- Control assets for the benefit of individuals that are not citizens, and other organizations that are not part of your financial reporting entity

When do I “Control Assets”?

- Overarching concept of control:
 - When you as the government can make decisions about:
 - The types of assets held
 - Assign the responsibility for those decisions
 - Reassign the responsibility for those decisions

Control & Administrative Responsibility

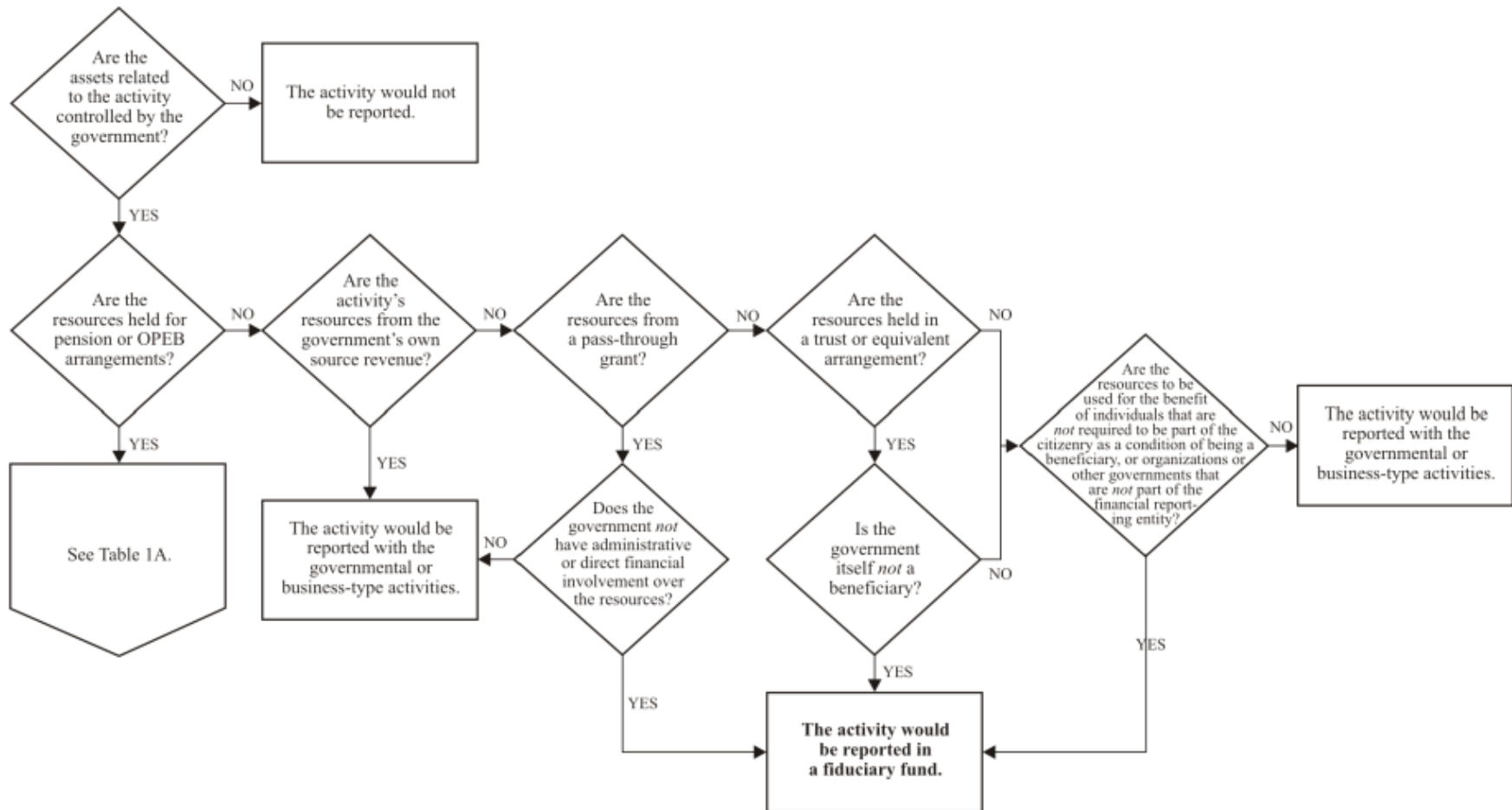


Control Over Assets

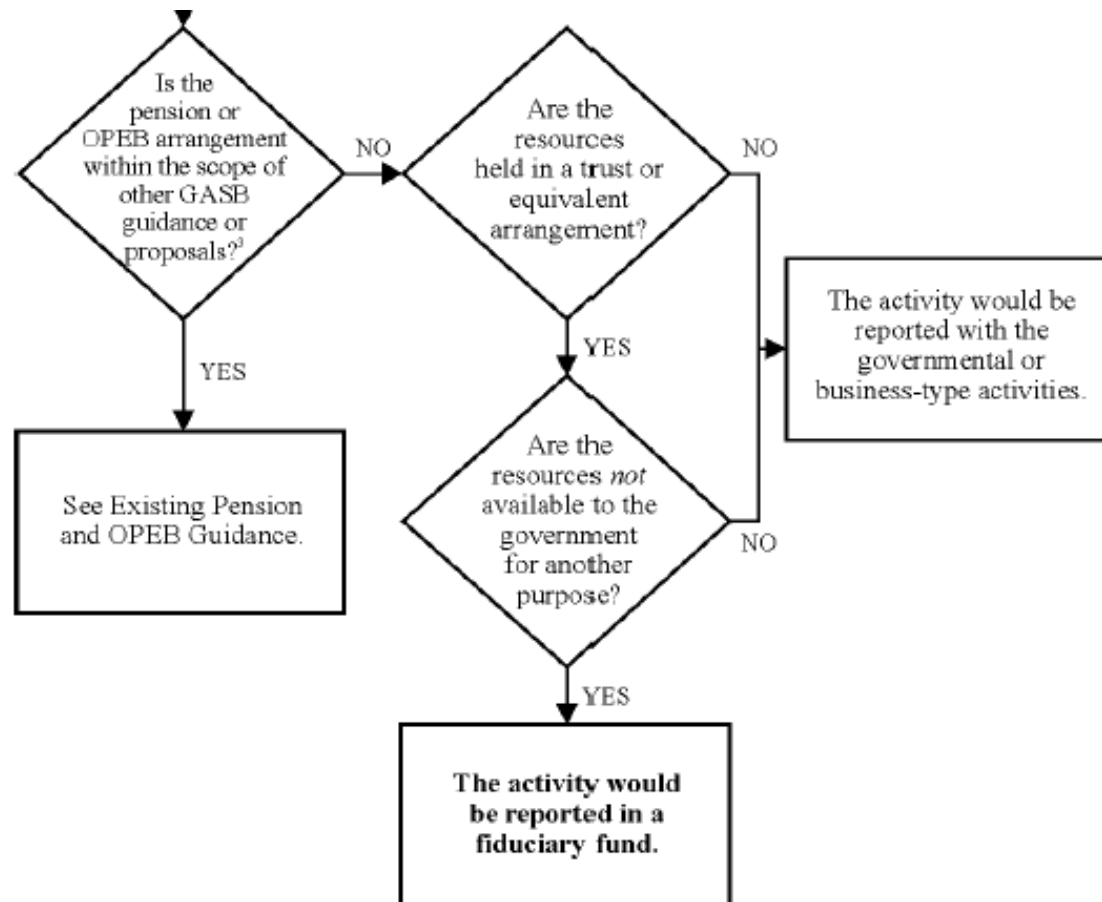
Table 2—Determination of Whether the Government Has Control over the Assets

		Responsibility for Administering the Exchange of Assets			
		(1) Responsible for administering the exchange of assets	(2) Assigned and can reassign the responsibility for administering the exchange of assets	(3) Responsibility for establishing parameters for those who are responsible for administering the exchange of assets	(4) No responsibility for administering the exchange of assets
Legal Structure	(a) Government directly holds the assets outside of a trust agreement or equivalent arrangement	Control	Control	Control	Control
	(b) Government is acting as trustee for a trust agreement or equivalent arrangement	Control	Control	No Control	No Control
	(c) Legally separate entity is responsible for holding or acting as trustee	Control	Control	No Control	No Control

Decision Tree



Decision Tree for Pension/OPEB



Pension Trust Funds

- Example - Pension Trust Funds
- Most of the information is now in your footnotes
 - Required last year under GASB 68
 - Would just add a financial statement for the Pension Trust (and OPEB Trust)
 - Balance sheet and income statement

Component Units

- The primary government would include the component unit, and its component units that are fiduciary in nature
- Example:
 - County with a nursing home component unit
 - The nursing home has OPEBs
 - The trust would now be reported on both the County and the Nursing Home financial statements

Trust Agreements

- Proposed method would classify fiduciary activities based in part on the existence of a trust agreement
- A new fund type is proposed to report any fiduciary activity NOT administered through a trust
 - Custodial Fund
 - Would include agency funds, and those for which there is no formal trust established

Custodial Fund

- Would include:
 - Funds previously classified as agency funds
 - Ex: taxes held for other governments
 - Funds held for pension and OPEB purposes, which there is no formal trust established
 - Certain investment and private-purpose trust funds with no trust agreement

Current status

- Comment period ended March 2016
- Redeliberations began in May 2016
- Plan to issue a final GASB Statement in December 2016
- Most likely would not be applied until June 30, 2018 Financial Statements, at the earliest

What Should I Take From This?

- Focus by regulatory agencies on ALL types of pensions
- Focus on fiduciary responsibility/management
 - Monitoring of pension investments
 - Investment policies
 - Oversight of pension benefit processor
- A lot more work for everyone involved!

Questions? Contact Us!



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