



# GETTING SET FOR GASB 75

FEBRUARY 10, 2017

**VENTURE TO THE CAPITAL**

# Getting Set for GASB 75

- ❑ Mary Beth Redding, Actuary, Bartel Associates
- ❑ David Bullock, Auditor, MGO
- ❑ Jeff Muir, Chief Financial Officer, City of Culver City

# Get Ready

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**VENTURE TO THE CAPITAL**

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# GASBS 75

- ❑ Net OPEB liabilities may be quite large
  - Particularly for those not pre-funding
- ❑ Almost certainly not news to bond analysts
  - May be more of a surprise to Boards, Councils, ratepayers or taxpayers

# Get Ready

- ☐ What OPEB benefits?
- ☐ Who benefits?
- ☐ Where: OPEB funded through a trust or equivalent?
- ☐ When: measurement date and valuation timing, implementation date
- ☐ Why: should my Agency pre-fund OPEB?

# What OPEB Benefits?

- ❑ Post retirement:

- Healthcare
- Dental, vision, hearing
- Medicare premium reimbursement
- Life insurance, if not part of a pension plan
- Disability, long term care, if not part of a pension plan

- ❑ Not: termination payments

- Vacation or sick leave cash outs

# What is DB OPEB?

- ❑ Defined Contribution:
  - Individual account for each member
  - Employer contributions to active employee accounts defined in document
  - Retiree benefits solely from account balances including actual earnings on investments
- ❑ Defined Benefit is everything else including:
  - HSA with guaranteed interest rate
  - Sick leave converted to benefits

# What is the Plan?

- ❑ “Substantive Plan”
  - Understood by employer and employees
  - Look to any documents/MOUs
  - Any communications with employees/retirees
  - Agreements in effect at the fiscal year end
- ❑ Different for each Agency

# What is the Plan?

- ❑ Document OPEB for all past, current and future retirees
  - Eligibility (hire date/retire date/employee group)
  - Benefits (employer/retiree paid amounts, and for how long)
  - Coverage (retiree/spouse/family/survivors)
  - Include benefits under special arrangements
  - Include benefits for new tiers with no current retirees

# Who Benefits?

- ❑ All current and future participants
  - Include anyone who might benefit in the future:
    - Active employees not yet vested
    - Active employees who will be able to stay in the employer's plan at retirement by paying the full premium
    - Retirees or terminated employees who can elect coverage in the future
    - Active employees currently waiving health coverage
  - Data may come from several sources

# When: Measurement Date

- ❑ Date to measure:
  - Value of plan assets
  - Municipal Bond rate used to set discount rate
  - Value of total OPEB liability
  - OPEB liability may be “rolled forward” from previous valuation
  - Net OPEB liability
- ❑ Net OPEB liability @ measurement date is reported unadjusted at FYE

# Measurement Date

- ❑ Generally recommend selecting 1 year before FYE
  - Example: 6/30/17 measurement date for 6/30/18 FYE
  - Same timing as CalPERS
  - Allows actuarial report to be completed and ready for audit before FYE
- ❑ If reporting for OPEB Plan (GASBS 74)
  - Recommend: measurement date = FYE

# Actuarial Valuation Date

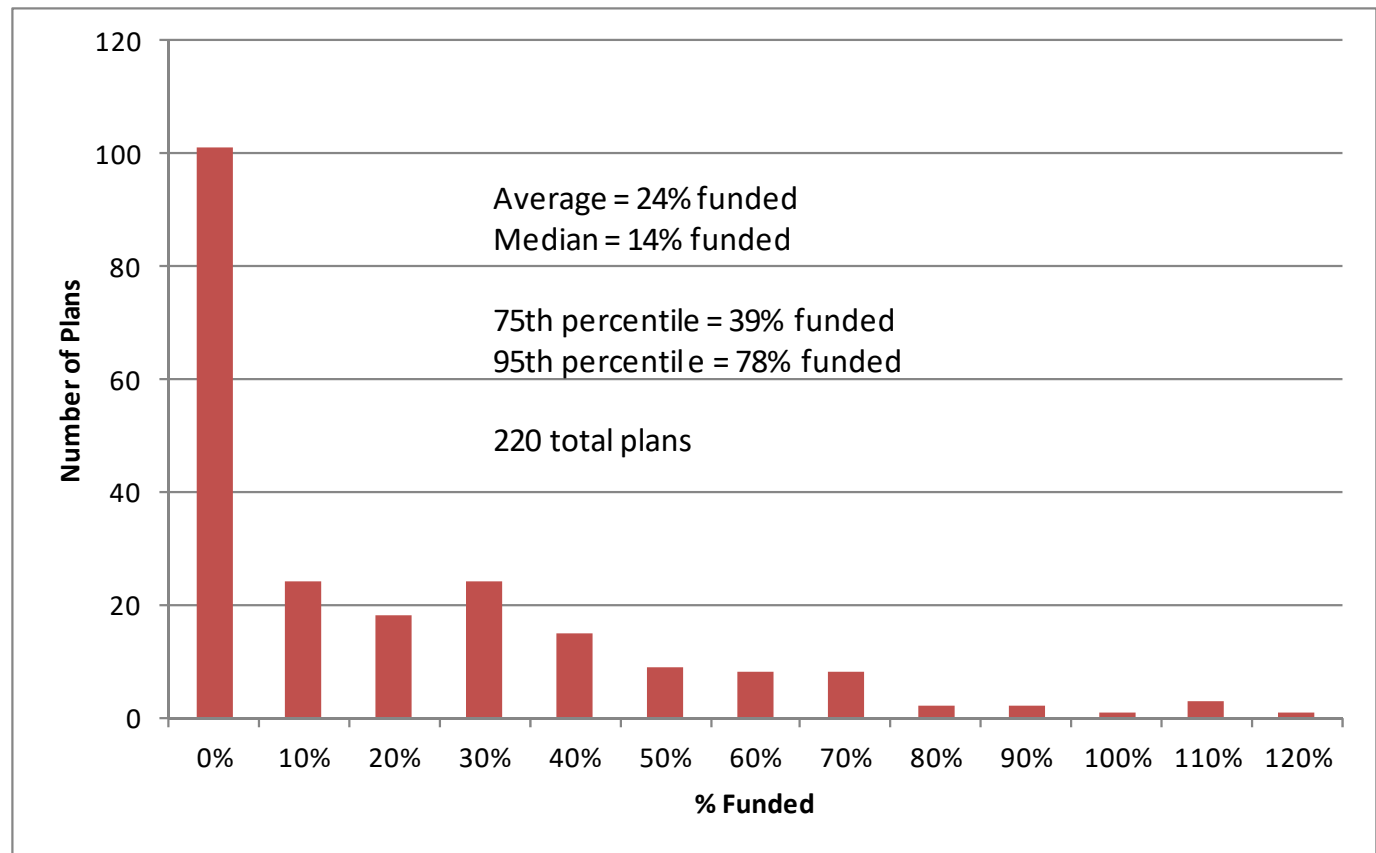
- ❑ Up to 2-1/2 years before FYE
  - Recommend: select a date before FYE
  - June 30<sup>th</sup> date not required
  - Work with your auditor and actuary
  - CERBT valuation requirements uncertain
    - May not require 6/30 of odd-numbered years

# Why Pre-fund OPEB?

- ❑ Taxpayer equity
  - Benefits should be paid for over employee's service
- ❑ More manageable cost pattern
  - Pay-as-you-go typically increases rapidly over time
- ❑ For financial reporting: higher discount rate & lower net OPEB liability
  - Demonstrates to stakeholders you are addressing OPEB
- ❑ Allowable trust investments should produce higher investment returns over time

# OPEB Plans Funding

Bartel Associates  
Database



# Actuarial Issues

# Actuarial Issues

- ☐ Discount Rate
- ☐ Actuarial Assumptions
- ☐ Implied Subsidy
- ☐ AMM
- ☐ Actuarially Determined Contribution

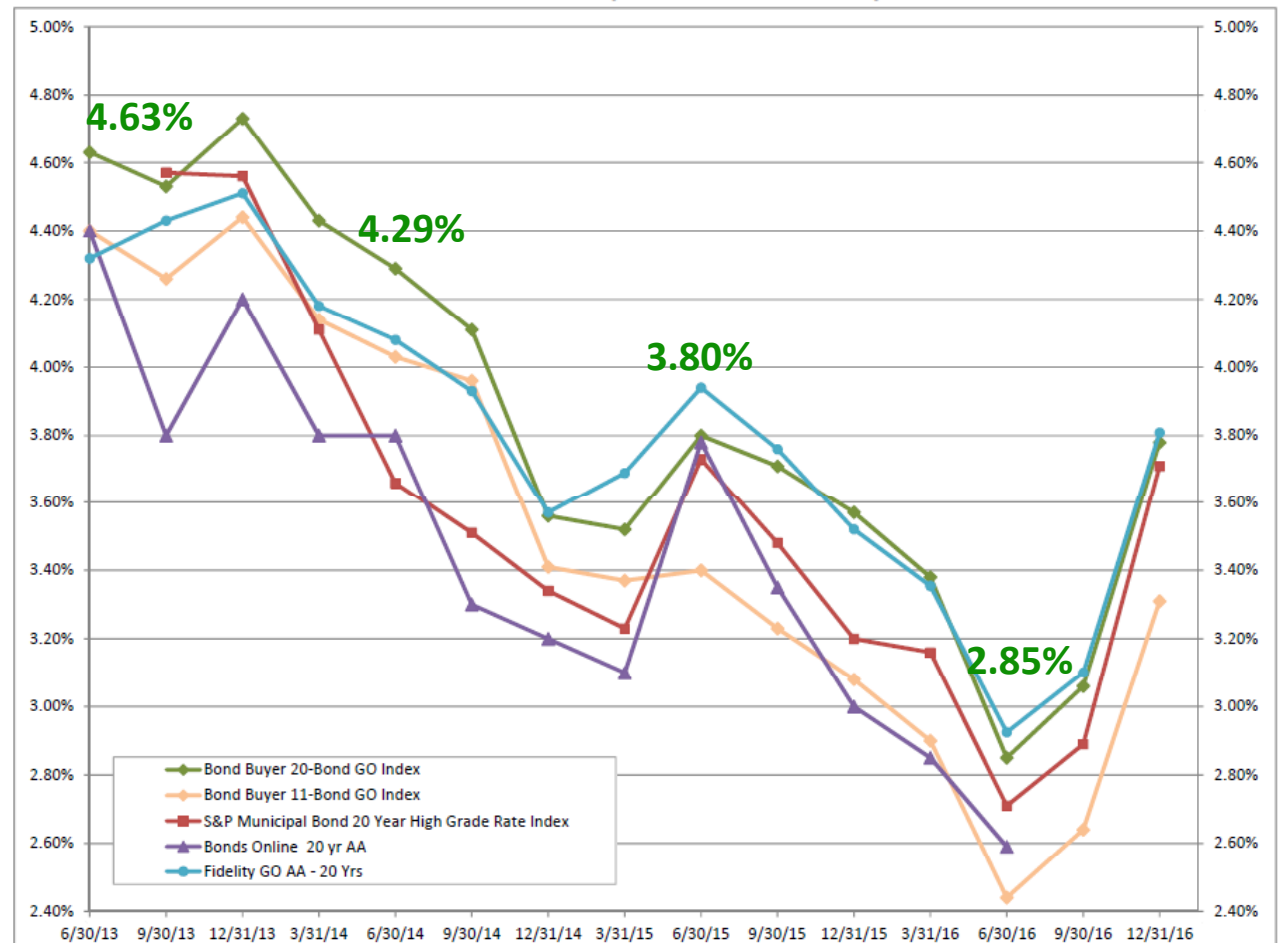
# Discount Rate

- ❑ “Crossover test” to determine discount rate
- ❑ If plan assets projected to cover benefit payments,  
discount rate = expected rate of return on assets
  - Provided assets invested so as to generate that return
  - Contribution policy of full ARC, with reasonable amortization period should be OK
  - Unfunded and poorly funded plans use 20 year AA municipal bond discount rate

# Discount Rate

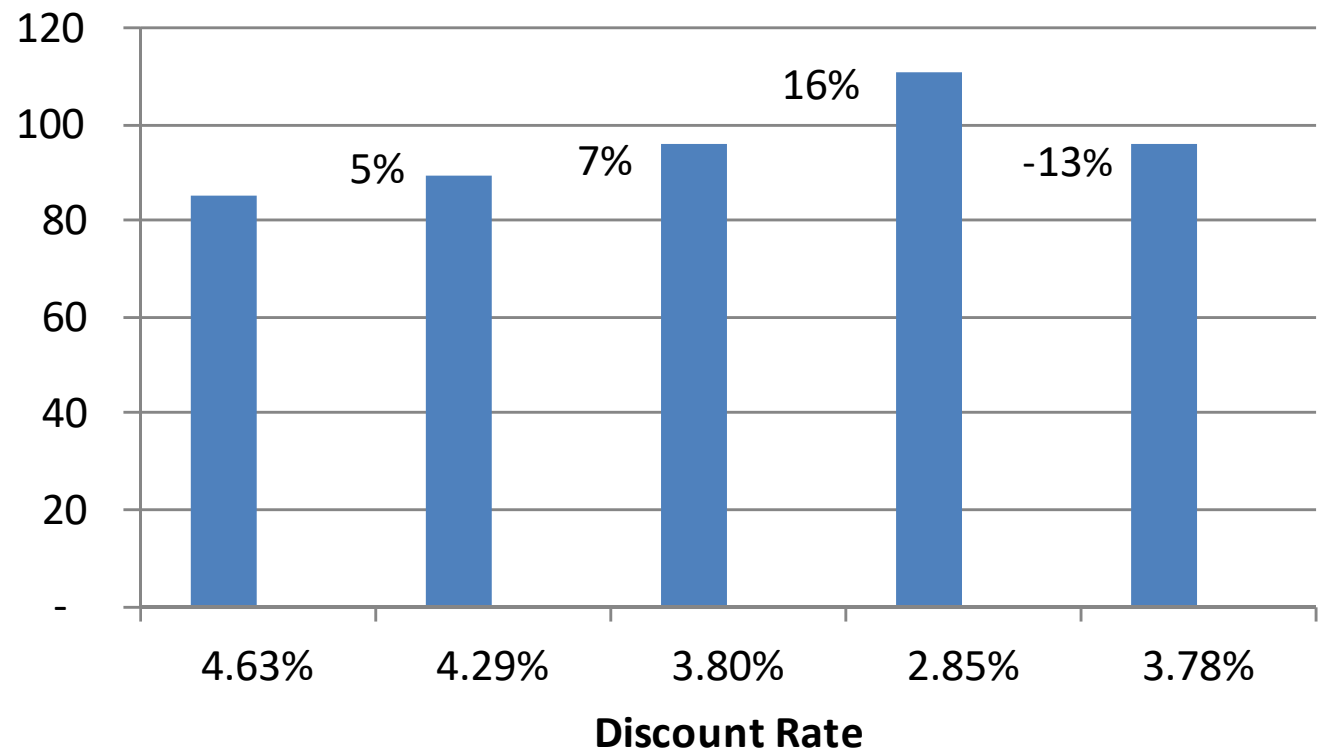
- ❑ Expect many more OPEB plans with a crossover than for pension plans
- ❑ Municipal Bond Rate
  - Rate is volatile
  - Net OPEB liability will be volatile
  - GASB 75 does not specify which bond curve to use
  - <http://www.bartel-associates.com/resources/select-gasb-67-68-discount-rate-indices>

# Current 20 year AA municipal bond rates



# Discount Rate

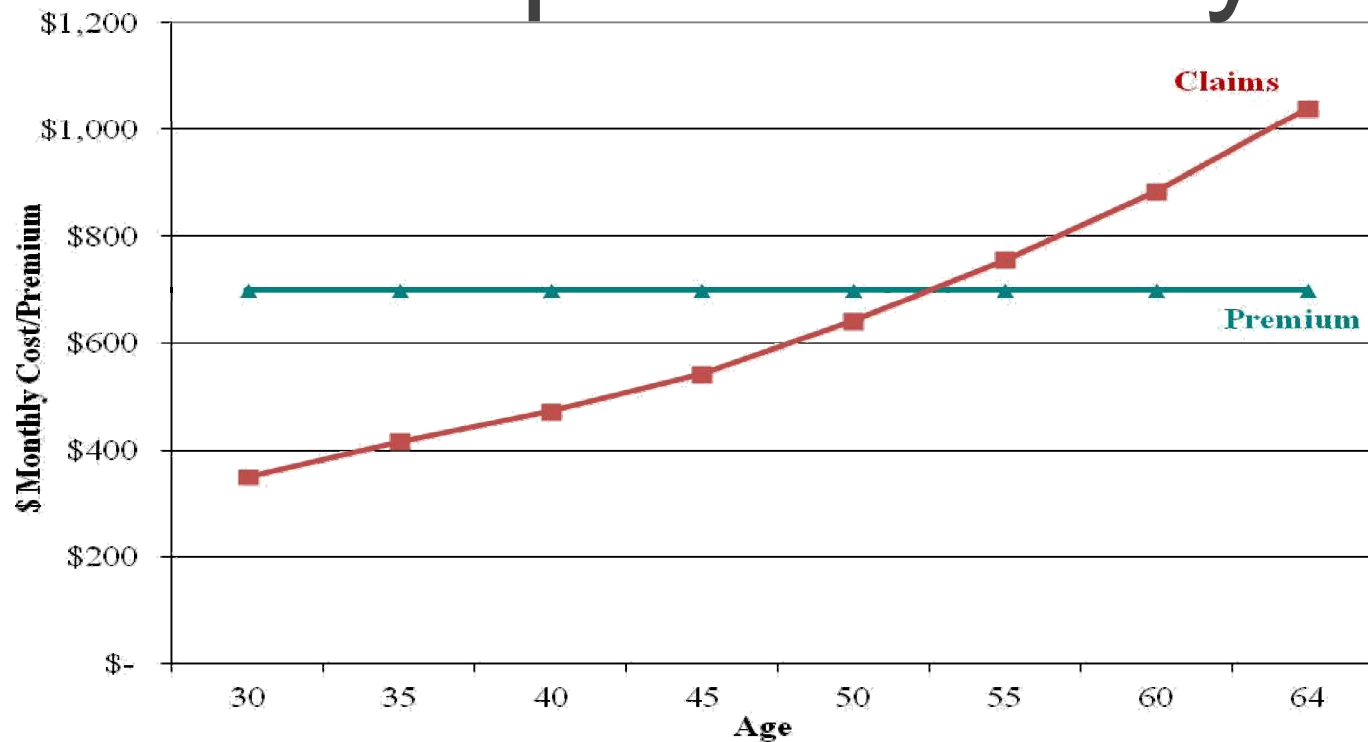
Effect of discount rate change on OPEB liability – sample plan



# Implied Subsidy

- ❑ Change to actuarial standards requires this for large pooled plans (like CalPERS PEMHCA) for valuations after 3/31/15
- ❑ GASB 75 requires age-adjusted premiums or claims
  - Means implied subsidy is included
  - No “deviations” allowed from Actuarial Standards of Practice

# Implied Subsidy



# Implied Subsidy

- ❑ Benefit retirees (pre-Medicare) derive from having the same premium as active employees
  - Retiree premiums are too small
  - Active premiums are too high
  - On average it's just right
  - OPEB accounting only looks at retirees

# Implied Subsidy Impact

- ❑ Increases total OPEB liability
- ❑ Implied Subsidy benefit payments:
  - Reconciliation of fiduciary net position (assets)
  - Reconciliation of OPEB liability
  - Include in “Crossover “ test
  - Trust can reimburse employer for IS payments
- ❑ Include as additional employer contribution
  - Unless trust reimburses IS payments

# Actuarial Assumptions

- ❑ Entry Age actuarial cost method required
- ❑ Actuaries must include future mortality improvement
- ❑ OPEB actuaries use many assumptions not in pension valuations that have a large impact
  - Example: Participation, plan elections, Medical Trend
  - Experience study?

# AMM

- ☐ Alternative Measurement Method
- ☐ “Do it yourself” calculation
- ☐ Still available if under 100 members
  - Active + inactive
- ☐ Includes implied subsidy
- ☐ Check with your auditor

# Actuarially Determined Contribution

- ❑ GASB 75 does not specify “Annual Required Contribution” (ARC)
- ❑ Actuarially determined contribution (ADC)
  - Must conform to actuarial standards but no other requirements specified
  - Not required to be disclosed unless calculated
  - Not required to be calculated
  - Unfunded plans likely will not ask actuary to calculate

# Supplemental Trust (Section 115 Trust)

# Supplemental (§115) Trust

- ☐ Employer creates a separate irrevocable legal Trust to fund benefits
- ☐ Can only be used to:
  - Reimburse employer for CalPERS (or other) contributions
  - Make payments directly to CalPERS (or other plan)
- ☐ Exposure drafts of Implementation Guides for GASBS 67, 68, and 74 say these are not Plan assets
- ☐ No GASB action yet

# Audit Considerations

# Employer's Financial Statements

- ❑ Statement of Net Position
- ❑ Net OPEB liability
  - Total OPEB liability minus fiduciary net position
- ❑ Deferred OPEB related items
  - Contributions after measurement date
  - Changes in actuarial assumptions or other inputs
  - Differences in expected and actual actuarial experience
  - Differences between projected and actual investment returns

# Employer's Financial Statements

- ☐ Statement of Activities/Revenues, Expenses and Changes in Net Position
- ☐ OPEB expense
  - Measured as change in Net OPEB liability, both for elements that are immediately recognized and current portion of those that are deferred
- ☐ Restatement of beginning balances (implementation year only)
  - Beginning net OPEB liability
  - Contributions from past period that relate to the current measurement period
  - Eliminating OPEB related balances under previous standards (e.g., GASB 45)

# Employer's Financial Statements

- ❑ Governmental fund financial statements
  - Current financial resources measurement focus and modified accrual basis of accounting
- ❑ Disclosures
  - Significant disclosures about plan, actuarial valuation, and the Net OPEB liability and deferral of OPEB related amounts
- ❑ Required supplementary information (RSI)
  - Schedule of OPEB related amounts
  - Schedule of OPEB contributions

# Audit Considerations

- ☐ OPEB plan's fiduciary net position at the Measurement Date
- ☐ Total OPEB liability by the actuary

# Audit Considerations

- ❑ OPEB plan's fiduciary net position at the Measurement Date
  - Sufficient evidence supporting the OPEB plan's fiduciary net position at the Measurement Date (also for beginning balances!)
  - GAAP financial statements of the plan and additional unaudited information from the plan may NOT provide sufficient appropriate audit evidence for the governmental employer auditor
  - Absent additional audit evidence from the agent plan, the employer auditor would not likely be able to accumulate sufficient appropriate audit evidence

# Audit Considerations

- ❑ Total OPEB liability by the actuary
  - Sufficient evidence supporting the calculation of the total OPEB liability by the actuary
  - Actuarial assumptions with appropriate, reliable, and verifiable information
  - Using the work of a specialist
  - Responsibility for testing of the underlying census data used by the actuary

# Implementation Issues

- ❑ Internal Service Funds
- ❑ Impact of GASB 84 and timing
  - GASB Statement No. 84, *Fiduciary Activities*
- ❑ Gathering information
  - Fiduciary net position from trust
  - Total OPEB liability from actuary
- ❑ Allocation within the reporting entity
- ❑ Explanation to governing bodies

# Implementation Experience

# Implementation Experience

- ❑ Culver City elected to implement GASBs 68, 74 and 75 for Fiscal Year ended June 30, 2015.
  - Wanted to reflect full effect of GASB 68 and 75 on financial statements in a single year instead of delaying.
  - City had already created an OPEB Trust some years back, so 74 was also required for us.
  - Implementation and entries were similar.
  - Just decided to 'take our medicine'...

# Actuary

- ❑ At the time of implementation, our most recent actuarial valuation date was as of June 30, 2013.
  - Contracted with actuary to do a GASB 74/75 report with a roll-forward date of June 30, 2015.
- ❑ Subsequently, another actuarial report was created with a valuation date of June 30, 2015.
  - For FY 15-16, once again contracted with actuary to do a GASB 74/75 report with a roll-forward date of June 30, 2016.
  - The actuary's analysis of our OPEB Trust investment policy resulted in a slightly higher discount rate than the previous report.

# Testing

- ❑ Testing was painful, in our experience. More so in the second year due to an auditor change and an assumption change.
  - The actuarial report and roll-forward report used for FY 15-16 included a change in the discount rate. This seemed to make our auditors overly diligent.
  - Auditors reviewed the measurement method, valuation, assumptions, discount rate, sensitivity, etc. from the actuary's report.
  - From there, they designed their accuracy testing to verify figures for reasonability.

# Census Data Testing

- ❑ Since the figures in the actuarial report are ultimately a result of the census data provided by the city (CalPERS and internal data for us), there was significant testing of the sample selected by the auditors.
  - The auditors reviewed personnel files to try and do their own validation.
  - Discrepancies between City records and PERS data required a lot of research effort and some corrections to get through this process.

# Trust Investment Testing

- ❑ For the trust, auditors reviewed investments against the investment policy.
  - Work papers were required to be modified to include relevant information such as dates, types, costs, earnings, ratings, fair market values and rate of return for all of the holdings.
  - Confirmations and follow-up emails were sent to trustee and investment manager to help auditors assess fair value and risks.
  - We also needed to create work papers illustrating the allocation of payments to CalPERS and the Trust, as well as the implied subsidy, between governmental and proprietary funds, as well as between departments.

# Accounting

- ❑ Using the appropriate actuarial reports, the accounting and journal entries are very similar to GASB 68. We used nearly the same template from 68 for the 75 entries. Our auditors did provide assistance.
  - Again, apportionment of the amounts between governmental, enterprise & internal service funds is something the auditors are very interested in understanding.
  - GASB implementation guides are scheduled to be published in April for GASB 74 and June for GASB 75. Use them!!!

# Accounting

- ❑ The following CAFR / OPEB Trust financial statement sections were affected:
  - Statement of Net Position (and balance sheets for proprietary funds)
    - Net OPEB liability (or asset, which I seriously doubt!!!)
  - Statement of Activities (and Statement of Revenues, Expenses & Changes in Net Position for proprietary funds)
    - OPEB expense
  - Notes to Financial Statements
  - Required Supplementary Information

# Culver City Statements

To view the Culver City CAFR:

- <https://www.culvercity.org/city-hall/information/government-transparency/-folder-96>

To view the Culver City OPEB Trust statements:

- <https://www.culvercity.org/city-hall/information/government-transparency/-folder-302>