

GASB 75 - OPEB



South Carolina Association of CPAs – Fall Fest

November 16, 2018

Mauldin & Jenkins

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What is OPEB?

- OPEB (Other Post-Employment Benefits)
 - Unchanged from GASB 43/45 (previous OPEB standards)
 - All postemployment healthcare benefits
 - Medical, dental, vision, hearing, etc.
 - Regardless of whether provided by a pension plan
 - Postemployment benefits other than retirement income not administered by a pension plan
 - Death benefits, life insurance, disability, long-term care
 - Includes **implicit rate subsidy**
 - Excludes **termination benefits**
 - Accounted for under GASB 47 (not OPEB)
 - Includes early retirement



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New OPEB Accounting

- GASB has determined that OPEB plans are conceptually similar to pensions, and has largely replicated the guidance from GASB 67/68 in GASB 74/75



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Highlights of New Standards

- Statement 74 (plans – i.e. trust funds) – 2017
 - Few changes from Statement 43 for financial statement recognition
 - Notes/RSI changes primarily to reflect changes in measurement of liabilities of employers
 - Not many plans – trust funds (as compared to pensions)
- Statement 75 (employers) – 2018
 - Record full OPEB liability



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Highlights of New Standards

- GASB 75 - Revises recognition, measurement, disclosure requirements for all employers
 - Liability
 - Measured net of OPEB plan (trust fund)'s fiduciary net position
 - Fully recognized in accrual-basis financial statements
 - 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



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GASB Definition of a Qualifying Trust

- Paragraph 4 of GASB 75 creates three “substance over form criteria” for determining whether the plan qualifies as a trust
 - Contributions from employers and non-employer 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 the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.



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Highlights of New Standards

- Applies to all plans – funded or not funded, single employer, agent multi-employer, and cost-sharing multi-employer
- GASB 75 applies to “pay as you go”
 - Unfunded
 - No plan assets
 - Assets “set aside” but not in trust fund – remain employer assets
- Implicit Rate Subsidy
 - Allowing retirees to pay same premium for insurance as active employees
 - Even if the retiree pays 100% of this amount



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Defined Benefit OPEB

- **Liability to employees for OPEB (full accrual)**
 - “Net OPEB liability” (NOL) recorded by employer
 - Total OPEB liability (TOL), net of OPEB plan’s fiduciary net position
 - TOL = actuarial present value of projected benefit payments attributed to past periods
 - Fiduciary net position as measured by OPEB plan
 - “Collective NOL” = NOL for all benefits provided through cost-sharing OPEB plan

$$\begin{array}{ccc} \text{Total OPEB Liability} & - & \text{Fiduciary Net Position of the OPEB Trust Fund} & = & \text{Net OPEB Liability} \end{array}$$



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Defined Benefit OPEB

- **Liability to employees for OPEB (full accrual)**
 - Single/agent employers recognize 100 percent of NOL
 - **Cost-sharing employers recognize proportionate shares of collective NOL**
 - If there is no qualifying OPEB trust fund to have a fiduciary net position then employer **reports only the Total OPEB Liability (TOL)**



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Concepts and application for OPEB which are consistent with pension accounting in GASB 68



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- **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
 - PUC often used for OPEB
 - Discount rate determination



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- **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
 - Special funding situations
 - Accounting for defined contribution plans
 - **Cost-sharing plan allocations and accounting for the proportionate share**



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Cost-Sharing Multiple-Employer Plans – State of SC

- State OPEB Plans
 - Administered by PEBA.
 - One for retiree healthcare and one for long-term disability.
 - Audited information provided.



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Differences from GASB 68

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.



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- **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



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- **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



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- **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.
- Possible Municipal Bond Index Rates
 - Fidelity GO AA 20 year index
 - S&P Municipal Bond 20 year High Grade index
 - Bond Buyer 20 year GO index



- **Important Assumptions**

- Discount rate
- Healthcare cost trend rate
 - Ultimate year achieved
- Participation rate



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- **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.



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Accounting for OPEB



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Accounting for OPEB

- Recognize most changes as expense in full in reporting period of change
 - Examples: service cost, interest on TOL, effects of benefit changes, projected earnings on OPEB plan investments
- Exceptions:
 - Differences between expected and actual experience (TOL)
 - Changes of assumptions (TOL)
 - Difference between projected and actual earnings on OPEB plan investments
 - Employer contributions



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- **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



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Example Recording

Information Obtained from Actuary

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balances at 6/30/X8	\$ 2,853,455	\$ 2,052,589	\$ 800,866
Changes for the year:			
Service cost	73,034		73,034
Interest	219,345		219,345
Differences between expected and actual experience	(37,539)		(37,539)
Contributions—employer		111,164	(111,164)
Net investment income		196,154	(196,154)
Benefit payments	(119,434)	(119,434)	—
Administrative expense		(3,373)	3,373
Other changes		8	(8)
Net changes	135,406	184,519	(49,113)
Balances at 6/30/X9	\$ 2,988,861	\$ 2,237,108	\$ 751,753



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- **Note Disclosures and RSI**

- Predominately the same as GASB 68
- Assumptions include additional items:
 - Healthcare cost trend rate
 - Sharing of benefit-related costs
 - Participation Rate?
- Discount rate disclosure will require information on it's determination and the municipal bond rate used



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- **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	



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- **Effective date and transition**

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



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Questions ???



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