Gulf Coast FGFOA Chapter
Fall Conference
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More of the same
Are you ready for GASB 74 & 75?

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- GASB Statement 74
  Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. (*That Are Administered through Trusts That Meet the Specified Criteria*)
  - Effective for fiscal years beginning after June 15, 2016
- GASB Statement 75
  Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.
  - Effective for fiscal years beginning after June 15, 2017

2 GRS

What is OPEB? – a refresher

- GASB Statements 74 and 75 establish standards of accounting and financial reporting for Other Postemployment Benefits (OPEB).
- Benefits that are provided after employment ends
  - Can be subsidized directly
  - Can be subsidized implicitly

3 GRS

What is OPEB? – a refresher

- Examples of benefits
  - Medical/Prescription coverage (even if not directly subsidized)
  - Directly subsidized Dental, Vision or hearing coverage
  - Subsidized Life Insurance coverage
  - Directly Subsidized LTC or Disability benefits
  - Any other benefits provided after employment ends (legal plan, utility discount, transportation discount, etc)

4 GRS

What is OPEB? – a refresher

- Postemployment health care benefits (medical, dental, vision, hearing) need to be always accounted for separately
  - Other forms of OPEB such as death benefits, life insurance and disability benefits – don't have to account for these separately if provided through a pension plan
- OPEB does not include termination benefits or termination payments for sick leave.
  - Effects of a termination benefit on OPEB liabilities should be accounted for according to GASB 74/75

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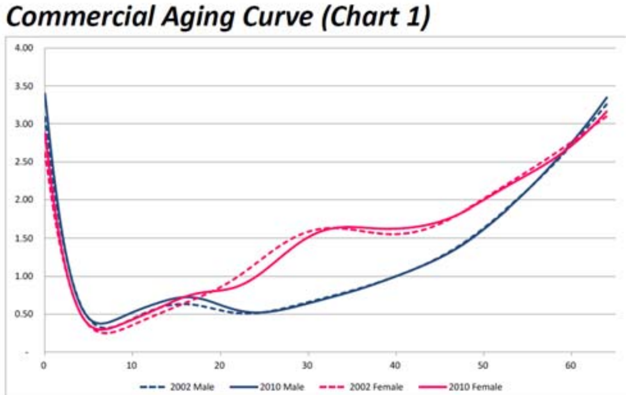
What is OPEB? – a refresher

- Implicit Rate Subsidy

Commercial Aging Curve (Chart 1)



- **Source: Health Care Costs—From Birth to Death**, June 2013
- Prepared by Dale H. Yamamoto, Sponsored by **Society of Actuaries**

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Data from Health Care Cost Institute

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What is OPEB? – a refresher

- Implicit Rate Subsidy

	Active Enrollment		Average Member Cost		Retired Enrollment		Average Member Cost	
Age	Male	Female	Male	Female	Male	Female	Male	Female
< 20	50	20	2,347	2,755				
20-24	80	75	1,850	2,935				
25-29	100	125	1,925	4,330				
30-34	200	200	2,416	5,472				
35-39	225	250	3,034	5,636				
40-44	225	250	3,780	5,769				
45-49	250	300	4,773	6,336				
50-54	200	200	6,286	7,454	10	20	6,286	7,454
55-59	150	200	8,172	8,617	50	50	8,172	8,617
60-64	100	50	10,487	10,254	100	100	10,487	10,254
65-69	50	50	13,081	12,292				
70+	10	0	15,675	14,495				
Total	3,360		5,659		330		9,471	

- **Total Enrollment: 3,690**
- **Average Cost for all members: 6,000**

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What is OPEB? – a refresher

- Implicit Rate Subsidy
  - Average Blended Cost: $6,000
  - Average Retiree Cost: $9,471 or 158% of the blended average
  - Active Employee Cost: $5,659 or 94% of the blended average
  - Retiree pays the "full" premium
  - What is the Employer's Subsidy:
    - $3,471 per covered retiree (retiree's benefit)

      or
    - $341 per active employee (employer's cost)

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What is OPEB? – a refresher

- Implicit Rate Subsidy
  - Need to be considered whenever retirees are covered through the same plan as actives and regardless of whether they pay the "blended" rate or pay a "directly subsidized" rate
  - Strong effect for Medical/Prescription insurance
  - No material effect for Dental or Vision insurance
  - Strong effect for life insurance

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The 30,000 ft. view of GASB 74/75

- The Good
  - Greater transparency; additional disclosures
  - Greater uniformity of measurement
- The Bad
  - Balance sheet recognition of the entire unfunded actuarial liability
  - Overemphasis on a point-in-time liability
  - Divorce from funding; no longer an ARC
- The Ugly
  - Additional complexity to an already complex subject
  - Most 10-year trend information will start from scratch
  - Volatile balance sheet liability and OPEB expense could make trending difficult

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The 30,000 ft. view of GASB 74/75

- GASB 45 – Expense Drives the Balance Sheet
  - Accountability is focused on whether the employer is making the Annual Required Contribution
- GASB 75 – Balance Sheet Drives Expense
  - Accountability is focused on the Net OPEB Liability
- Goals of GASB 74/75
  - Make OPEB promises more understandable and transparent
  - Require detailed reconciliation of the Total OPEB Liability. Changes due to assumption changes, benefit changes and experience gains/losses are shown separately
  - Expanded disclosures regarding assumptions
  - Sensitivity analysis based on +/- 1% change to trend and +/- 1% change to discount rate

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Effective Dates

- GASB 74 – Plan Reporting
  - Effective for fiscal years beginning after June 15, 2016 (i.e. effective for September 30, 2017 year ends)
  - GASB 74 disclosures do not apply to employers who do not have trust-funded assets dedicated to OPEB (with a possible exception of par. 58 and 59).
- GASB 75 – Employer Reporting
  - Effective for fiscal years beginning after June 15, 2017 (i.e. effective for September 30, 2018 year ends)

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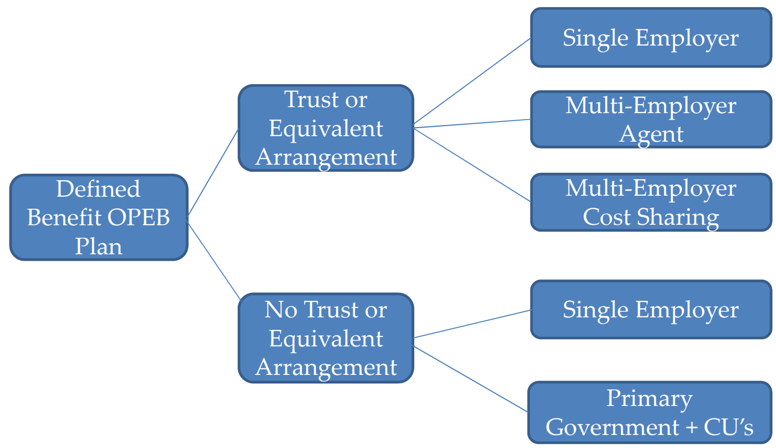
Types of Plans



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Terminology

GASB 43/45	GASB 74/75
Actuarial Accrued Liability (AAL)	Total OPEB Liability (TOL)
Actuarial Value of Assets	Fiduciary Net Position
Unfunded Actuarial Accrued Liability (UAAL)	Net OPEB Liability (NOL)
Normal Cost	Service Cost
ARC & UAAL Amortization	Accounting expense is not tied to a funding contribution
Net OPEB Obligation – cumulative difference between expense and contributions	Net OPEB Liability & Deferred Inflows/Outflows of Resources

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Preparing for the Impact to the Balance Sheet

- Differences between GASB 75's Total OPEB Liability and GASB 45's Unfunded Actuarial Accrued Liability:
  - New discount rate methodology
  - Required use of the Entry Age Normal Cost Method
  - Assets measured on market value of assets; no asset smoothing for accounting

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New Discount Rate Methodology

- For pay-as-you-go plans, the discount rate will be based on the average yield for an index of 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.
- Funded Plans will be required to perform a test to determine when assets will be depleted. The discount rate will be a blend of the long-term expected rate of return on plan assets and the municipal bond index rate.

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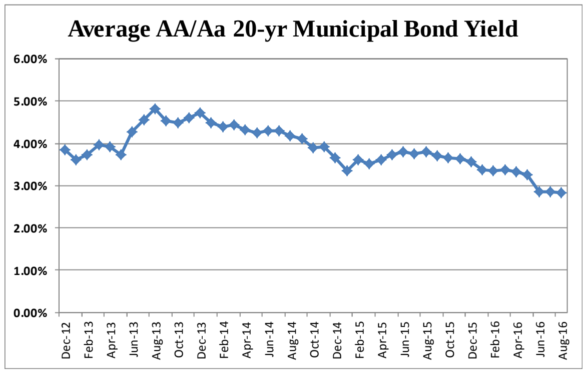
Discount Rate



Current Muni Bond Yield is well below rates commonly used in unfunded OPEB valuations

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Discount Rate

- Example 1: No post-65 coverage

	Change in Entry Age AAL after implementing GASB 75					
	Relative change in AAL			GASB 75 TOL if Old AAL = $40,000,000		
Current	Muni Bond Yield			Muni Bond Yield		
Rate	3.5%	3.0%	2.5%	3.5%	3.0%	2.5%
4.5%	6.6%	9.9%	13.3%	42,621,809	43,963,958	45,323,362
4.0%	3.2%	6.5%	9.7%	41,281,445	42,581,386	43,898,039
3.5%	0.0%	3.1%	6.3%	40,000,000	41,259,589	42,535,371
3.0%		0.0%	3.1%		40,000,000	41,236,835
2.5%			0.0%			40,000,000

Individual results will depend on plan provisions and demographic composition of the covered group

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Discount Rate

- Example 2: Generous lifetime subsidy

	Change in Entry Age AAL after implementing GASB 75					
	Relative change in AAL			GASB 75 TOL if Old AAL = $40,000,000		
Current	Muni Bond Yield			Muni Bond Yield		
Rate	3.5%	3.0%	2.5%	3.5%	3.0%	2.5%
4.5%	19.9%	31.8%	45.1%	47,967,301	52,709,934	58,051,867
4.0%	9.7%	20.6%	32.8%	43,886,634	48,225,803	53,113,288
3.5%	0.0%	9.9%	21.0%	40,000,000	43,954,889	48,409,534
3.0%		0.0%	10.1%		40,000,000	44,053,834
2.5%			0.0%			40,000,000

Individual results will depend on plan provisions and demographic composition of the covered group

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Entry Age Normal Cost Method

- GASB 43/45 allowed several actuarial cost methods; many employers currently use the Projected Unit Credit method
- GASB 74/75 requires the Entry Age Normal method
- Impact of changing the cost method to Entry Age will vary based on plan structure and participant demographics.

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Impact to the Balance Sheet - Example

- Unfunded plan using 4.50% discount rate has an Actuarial Accrued Liability of $40 million and a Net OPEB Obligation (current balance sheet liability) of $25 million
- For this plan, there is no impact of changing to the Entry Age Method (no method change)
- For this example, let's assume the discount rate for FYE18 calculations will be 3.50%
- Under GASB 75 methodology, the Total OPEB Liability is $50 million
- Balance sheet difference of $25 million
  - Note, accrued liabilities tend to grow over time

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Implementation Guides

- GASB 74 Implementation Guide is scheduled to be released in February of 2017
- GASB 75 Implementation Guide is scheduled to be released in November of 2017
- Employers may be hesitant to implement before the implementation guides are released

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Implementation Guides

- Hopefully, more guidance will be provided regarding the discount rate methodology for plans with unconventional funding policies
- Can plans with assets use the unfunded discount rate as a minimum?
- Using estimated benefits vs. actual benefits; need to capture implicit subsidy payments

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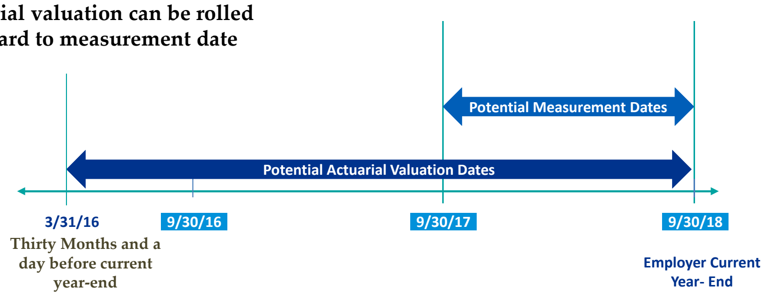
Measurement Date – GASB 75

Actuarial valuation can be rolled forward to measurement date



Measurement of the total OPEB Liability in employer's financial statements must be as of a date no earlier than the end of the employer's prior fiscal year.

Measurement must be based on an actuarial valuation performed within 30 months plus 1 day of the employer's year-end.

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Measurement Date – GASB 75

- Many employers will use a measurement date that is as of the end of the prior fiscal year. Similar to pension accounting.
- Deferred outflows of resources related to OPEB should be reported for employer contributions made after the measurement date and prior to the end of the fiscal year.
  - Employer contributions include pay-go benefits (net of retiree contributions) not reimbursed by the trust; trust contributions; administrative expenses for non-trusted plans. Refer to the appropriate section of GASB 75.

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Measurement Date – GASB 74

- For plan reporting, liabilities and assets are reported as of the end of the fiscal year
  - Measurement date = end of fiscal year
- Valuation date look back is 24 months instead of the 30 months allowed by GASB 75
- Plan's with assets will likely use the end of the plan year for the employer's reporting to avoid additional actuarial reports
- Employer's in a cost-sharing plan must use plan year end that falls inside the employer's fiscal year

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Employer note disclosures - Descriptions

Plan Description	A	B	C	D
Name of plan, administrator of plan, and type of plan	✓	✓	✓	✓
Benefit terms, including (1) classes of employees covered, (2) types of benefits, (3) key elements of OPEB formula, (4) terms or policies with respect to automatic benefit changes, including ad hoc colas, (5) legal authority	✓	✓	✓	✓
Number of employees covered	✓		✓	
Fact that no assets accumulated in a trust			✓	✓
Contribution requirements, including (1) authority under which contributions made, (2) legal or maximum contributions rates, (3) contribution rates, and (4) contributions made	✓	✓		
Authority under which to pay OPEB benefits as they come due and amount			✓	✓
Availability of audited plan financial statements	✓	✓		

A = Trusted: Single/Agent

B = Trusted: Cost-sharing

C = Non-trusted: Single

D = Non-trusted: PG + CU

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Employer note disclosures - Assumptions

Assumptions and Other Inputs	A	B	C	D
Significant assumptions, including inflation, healthcare cost trend rates, salary changes, postemployment benefit changes	✓	✓	✓	✓
Source of mortality assumptions	✓	✓	✓	✓
Dates of experience studies	✓	✓	✓	✓
Fact that projections of sharing of benefit costs based on established pattern of practice	✓	✓	✓	✓
Net OPEB liability sensitivity to healthcare trend rate (+/- 1%)	✓	✓		
Total OPEB liability sensitivity to healthcare trend rate (+/- 1%)			✓	✓

A = Trusted: Single/Agent

B = Trusted: Cost-sharing

C = Non-trusted: Single

D = Non-trusted: PG + CU

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Employer Note Disclosures - Discount Rates

Discount Rate	A	B	C	D
Discount rate used and change in discount rate	✓	✓	✓	✓
Assumptions about projected cash flows	✓	✓		
Long-term expected rate of return on plan investments and how determined	✓	✓		
Municipal bond rate used	✓	✓	✓	✓
Periods of projected benefit payments applied to long-term rate of return and municipal bond rate, if applicable	✓	✓		
Assumed asset allocation and long-term expected real rate of return for each major asset class	✓	✓		
Net OPEB liability sensitivity to discount rate (+/- 1%)	✓	✓		
Total OPEB liability sensitivity to municipal bond rate (+/- 1%)			✓	✓

A = Trusted: Single/Agent

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Employer Note Disclosures – Additional Disclosures

Additional Disclosures	A	B	C	D
Information about plan's fiduciary net position if report not publicly available	✓	✓		
Schedule of changes in ***net*** OPEB liability	✓			
Schedule of changes in ***total*** OPEB liability			✓	
Measurement date	✓	✓	✓	✓
Actuarial valuation date	✓	✓	✓	✓
Employers proportionate share of net (total) OPEB liability and basis for allocation		✓		✓
Changes in assumptions and benefit terms	✓	✓	✓	✓
Changes subsequent to measurement date	✓	✓	✓	✓
OPEB expense in current period	✓	✓	✓	✓
Balance of deferred outflows/inflows by source and aggregate impact on OPEB expense in each of next 5 years and thereafter	✓	✓	✓	✓

A = Trusted: Single/Agent

B = Trusted: Cost-sharing

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D = Non-trusted: PG + CU

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Employer Required Supplementary Information - RSI

10-Year Schedules	A	B	C	D
Changes in net OPEB liability by source	✓			
Components of net OPEB liability and related ratios	✓			
Proportionate share of net OPEB liability		✓		
Employer contributions	✓	✓		
Changes in total OPEB liability by source			✓	
Total OPEB liability as a percentage of covered employee payroll			✓	
Proportionate share of total OPEB liability				✓

A = Trusted: Single/Agent

B = Trusted: Cost-sharing

C = Non-trusted: Single

D = Non-trusted: PG + CU

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Other Employer Required Supplementary Information - RSI

- 10-year schedule of contributions relative to actuarially determined contribution and contributions as a percentage of payroll. Only applicable for cases where an actuarially determined contribution is calculated or there is a statutory or contractually established rate

Period Ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2018	$ 213,424	$ 192,082	$ 21,342	$ 2,849,197	6.7%
2019	224,159	$ 201,743	22,416	2,590,679	7.8%
2020	244,159	$ 219,743	24,416	3,352,500	6.6%

- Comment on events that **significantly** affect trends in historical schedules
- RSI schedules prospective if information not initially available.

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Changes to Total OPEB Liability

	Total OPEB Liability
Balance 9/30/2017	$851,095
Changes for the year:	
Service Cost	16,712
Interest Cost	33,898
Changes in Benefit Terms	(90,550)
Difference between expected and actual experience	58,936
Changes in assumptions or other inputs	45,945
Benefit Payments	(23,983)
Net Changes	40,958
Balance 9/30/2018	$892,503

10-year schedule, showing previous discount rates
Similar 10-year schedule for changes in Plan Fiduciary Net Position
Doesn't apply to cost-sharing employers

33 GRS

Sample OPEB Expense – GASB 75

Calculation of the OPEB Expense:

1. Service Cost	$16,712
2. Interest Cost (on Total OPEB Liability)	33,898
3. Benefit Changes (assuming reduction)	(90,550)
4. Member Contributions (non-retirees)	0
5. Projected Investment Earnings	(0)
6. Administrative Expenses	5,678
7. Other	0
8. Recognition of Outflow/(Inflow) due to Liabilities	14,983
9. Recognition of Outflow/(Inflow) due to Investments	0
10. Total Pension Expense/(Income)	**$(19,279)**

Contributions from the employer are not recognized in OPEB expense.

34 GRS

OPEB Expense – Smoothing Gains/Losses

- Changes to the Total OPEB Liability (TOL) due to benefit changes are immediately recognized. Results in no deferred outflows or inflows of resources.
- Changes to the TOL due to assumption changes or differences between expected and actual experience are amortized over the average remaining service life of the plan participants.
- The difference between actual and expected investment returns for trust-funded plans are amortized over a period of 5 years.

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Deferred Outflows and Inflows

- The amounts not recognized in OPEB expense are reported as deferred outflows or deferred inflows of resources related to OPEB.
- Deferred Outflow – quasi asset
- Deferred Inflow – quasi liability
- Notes will include schedule of future deferred outflows and inflows that will be recognized in the employer's expense

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Deferred Outflows/Inflows of Resources Balances Related to OPEB

	Deferred Outflows of Resources (Losses)	Deferred Inflows of Resources (Gains)
Differences between expected and actual experience	$25,970	$14,134
Changes of assumptions	-	855
Net differences between projected and actual earnings on OPEB plan investments	17,782	-
Total	$43,752	$14,989

The Notes also need to include the Deferred Outflow of Resources related to contributions made after the measurement date; which may not be in the actuary's report.

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Prior Period Adjustment

- Assuming guidance is similar to GASB 68:
  1. Remove the Net OPEB Obligation at the beginning of the fiscal year of implementation;
  2. Add Net OPEB Liability as of the beginning of the initial period of implementation
  3. Add a deferred outflow of resources balance for contributions made subsequent to the measurement date of the beginning Net OPEB Liability but before the start of the fiscal year
  4. Add balances associated with all other deferred outflows/inflows of resources determined as of the same date as the beginning net OPEB liability

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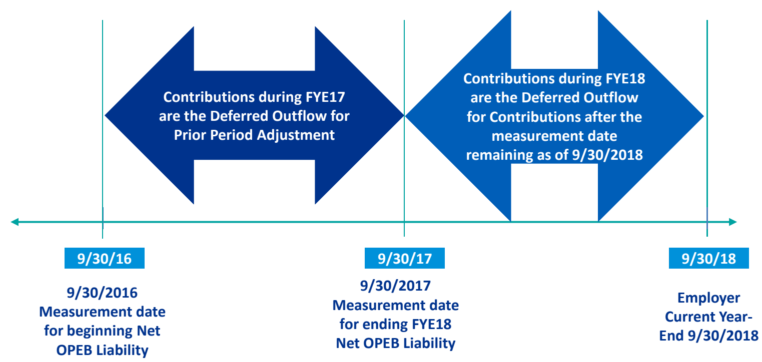
Deferred Outflows for Contributions Made after the Measurement Date

- Example for employer whose measurement date is 1 year prior to the beginning of the fiscal year



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Target Asset Allocation and Assumed Real Returns

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Allocation-Weighted Long-Term Expected Real Rate of Return
Fixed Income	40%	2.25%	0.900%
Domestic Equity	40	5.95	2.380
International Equity	0	6.20	0.00
Private Equity	5	7.65	0.383
Real Estate	10	4.35	0.435
Commodities	0	2.10	0.000
Cash	5	0.05	0.003
Total	100%		4.10%
Expected Inflation			2.25%
Total Return			6.35%

Real rate is the rate above inflation. Can start preparing the table now.

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Target Asset Allocation and Assumed Real Returns - *Past vs. Forward-looking*

- Past vs. Forward-looking perspectives
- Seek experts in forecasting
- Turn to more than just one expert source
- Rely more on mid-term forecasts than long-term
- There is safety in consensus
- Don't be influenced by the answer you want
- Be objective and detached when you adopt a forecast assumption for future investment returns.

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Target Asset Allocation and Assumed Real Returns - *Past vs. Forward-looking*

- Don't rely on past history for investment return forecasting
  - Selective memory
  - "Past performance is not a reliable indicator of future results."
  - The present environment is very different from the past
  - The future environments will be very different from the past
  - The past is not to be ignored; but is not valid for justifying an investment return assumption for pension valuations
  - Imagine what we would have used in the late 1990s if we relied on past returns (even if it were a 20-year average; 15.2%)

- Major national investment forecasters utilize *forward-looking* inflation models and *forward-looking* investment models to forecast the future

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Target Asset Allocation and Assumed Real Returns - *Seek Expert Advice*

- Looking for comfort in what other plans assume?
  - Not based on your own portfolio
  - Not based on your own level of investment-related expenses
  - We do not know how they set their assumption
  - Could be filled with agency risk and politics
  - Good to know where your plan's assumption lands in the universe; but not a basis for setting your own assumption
- Obtain relevant opinions from reputable subject matter experts
  - These are not *experts* in the fields of inflation forecasting or investment return forecasting:
  - Not finance directors, city managers, elected officials, pension board members, nor actuaries

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Target Asset Allocation and Assumed Real Returns - *Seek Expert Advice*

- Either your actuary or your investment consultant should *research* –
  - What economists are saying about future inflation and
  - What investment forecasters are saying about future investment returns
- You deserve more from your actuaries and investment consultants than just their "opinion"
  - *Make them demonstrate* how they arrived at their recommendations of inflation and return assumptions
  - They should show inputs from outside recognized experts and show you a *robust process* (not based on past performance or instinct)

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Target Asset Allocation and Assumed Real Returns - *More Than One Expert*

- Turn to more than just one expert source
- Capital market assumptions for investment return forecasting are accessible from major national investment consultants and forecasters
  - GRS (8): Aon Hewitt*, BNY/Mellon, J.P. Morgan, Mercer*, NEPC, Pension Consulting Alliance, R.V. Kuhns & Associates, Willis Towers Watson*
  - Horizon Actuarial Services (29)
  - Expect more from your actuaries and investment consultants
- No "cherry-picking" allowed

* Among the largest five investment consulting firms (ranging from $2.2 trillion to $9.1 trillion in assets under advisement), per *Pensions and Investments*

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Target Asset Allocation and Assumed Real Returns - *Safety in Consensus*

- Sample OPEB Plan

Investment Consultant	Investment Consultant Expected Nominal Return	Investment Consultant Inflation Assumption	Expected Real Return (2)–(3)	Actuary Inflation Assumption	Expected Nominal Return (4)+(5)	Passive Investment Expenses	Expected Nominal Return Net of Expenses (6)-(7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	4.93%	2.12%	2.81%	2.25%	5.06%	0.25%	4.81%
2	5.61%	2.50%	3.11%	2.25%	5.36%	0.25%	5.11%
3	5.71%	2.50%	3.21%	2.25%	5.46%	0.25%	5.21%
4	5.52%	2.25%	3.27%	2.25%	5.52%	0.25%	5.27%
5	5.70%	2.11%	3.60%	2.25%	5.85%	0.25%	5.60%
6	6.03%	2.20%	3.83%	2.25%	6.08%	0.25%	5.83%
7	6.34%	2.26%	4.08%	2.25%	6.33%	0.25%	6.08%
8	6.55%	2.20%	4.35%	2.25%	6.60%	0.25%	6.35%
Average of 8	**5.80%**	**2.27%**	**3.53%**	**2.25%**	**5.78%**	**0.25%**	**5.53%**

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Target Asset Allocation and Assumed Real Returns - *Safety in Consensus*

- Sample OPEB Plan

Investment Consultant	Distribution of 15-Year Average Geometric Net Nominal Return 40th	50th	60th	Probability of exceeding 7.00%
(1)	(2)	(3)	(4)	(5)
1	3.84%	4.42%	5.00%	13.4%
2	4.08%	4.69%	5.30%	17.1%
3	4.21%	4.81%	5.41%	17.9%
4	4.08%	4.76%	5.43%	20.2%
5	4.56%	5.17%	5.78%	22.6%
6	4.86%	5.44%	6.03%	25.1%
7	5.06%	5.67%	6.27%	28.9%
8	5.15%	5.83%	6.51%	33.2%
Average of 8	**4.48%**	**5.10%**	**5.72%**	**22.3%**

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Target Asset Allocation and Assumed Real Returns - *Safety in Consensus*

- Make a composite of the multiple sources of forecasts
- Simple average works
- Option: Throw out the highest and lowest, then take a simple average

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Target Asset Allocation and Assumed Real Returns - *No End Justifies the Means*

- Don't be influenced by the answer you want
- We cannot just wish or hope our way toward a given return
- Return assumption:
  - Is not a simple lever to tweak so as to obtain an affordable contribution
  - Is our defensible and mainstream expected future net compound-average return <u>of the portfolio</u> over time useable in an actuarial valuation.

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OPEB Pre-Funding

- GASB 75 does not require prefunding an irrevocable trust
- Is the current benefit sustainable? Will "funding" delay inevitable decisions?
- Resulting discount rate will depend on asset allocation and funding policy
- Develop a funding policy
- Amortization decisions
  - Level $ or Level % of pay amortization
  - Open of closed amortization period

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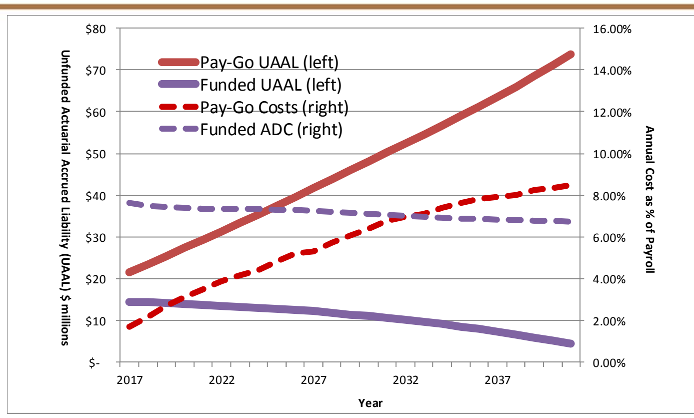
Funding Policy

- Plans with strong funding policies will be able to use a discount rate equal to the trust's long-term assumed rate of return
- Plans with weak funding policies will likely be required to use a blended rate
  - Plans with long, open amortization periods
  - Plans that don't fund the ARC consistently
- For plans with assets, we suggest working with your actuary to develop a written funding policy

51 GRS

Pay-Go Versus Funding Example



30-year closed, level dollar amortization (7.50% vs. 4.50% discount rate)
Over the first 25 years, the cumulative pay-go costs equal $58 million and the cumulative ARC payments equal $67 million. The trust has $50 million in assets after 25 years.

52 GRS

Planning – Health Plan

- Identify and document controls over internal tracking of healthcare costs including splitting of costs between plans and between retirees and actives.
- Review key service providers or systems such as TPA, health insurer, healthcare software so that you will not be making key changes in the year of implementation.

53 GRS

Planning – Retiree Provisions

- Obtain documentation regarding key retiree health provisions and ensure that documentation reflects actual practice for:
  - Retiree eligibility including premiums paid and ability to leave and return to the plan
  - Dependent eligibility including premiums paid and ability to leave and return to the plan and ability to stay on plan after retiree has turned 65 and dependent has not
  - Specific plans retirees are eligible to participate in.
  - Ancillary benefits such as health care clinic
  - Post 65 provisions including:
    - Alternative to the core group plan
    - Plan becoming secondary to Medicare
    - Premium adjustments

54 GRS

Planning – Actuarial Considerations

- If biennial valuations are used, will the year of implementation be an off year or new valuation. If off year, will actuary be willing to rerun the valuation for GASB 75 and update to the measurement year?
- What measurement date will work best for reporting purposes?
- Are overlapping assumptions consistent between the OPEB and the pension plans for the same employee groups?
- What are the key assumptions that drive the valuation?
- Will timing of the valuation work within the constraints of the financial reporting deadlines?

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Other items

- Annual measurement dates will be required
  - Biennial valuations will be permitted but updates may need to be required in each off-year
- Triennial valuations no longer allowed
- Expense volatility due to claims volatility, discount rate volatility, and plan changes
- GASB 74 also addresses assets accumulated for OPEB through defined benefit OPEB plans that are not administered through trusts that meet the criteria

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Other items

- GASB 75 is divided into several sections:
  - OPEB provided through plans administered as trusts or equivalent arrangements (meeting paragraph 4 requirements)
  - OPEB provided through plans that are **NOT** administered as trusts or equivalent arrangements (does not meet paragraph 4)
  - Special Funding Situation with a Non-Employer Contributing Entity

Be careful not to follow the wrong section!

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Take-aways

- Balance sheet will soon reflect the entire unfunded liability
- Discount rate volatility
- Expense will be driven by changes to the balance sheet liability
- Many more disclosures
- OPEB liability will likely get more attention
- … More work for you and your actuaries

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