

# Here We Go Again!

## Big Changes in Measuring OPEB Costs and Liabilities

CSMFO Annual Meeting February 19, 2015

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# Introduction

- Purpose: Discuss upcoming changes in the way “Other Postemployment Benefits” (OPEB) are measured and reported
  - Measurement is based on actuarial valuations
  - Reporting is, of course, an accounting function
  - These changes will affect the way public agency finance officers communicate with Boards/Councils and the way agencies manage these liabilities
- My name is Shari Strain
  - Our CSD behaves as a city in that we provide Water, Sewer, Solid Waste and Fire Prevention & Protection services for the unincorporated area of the Big Bear Valley in San Bernardino County.
  - We have both Miscellaneous and Safety Employees within our organization.
  - The District has worked closely with our OPEB actuary and auditor to annually fund out OPEB obligation.



# Where We Are Now

- GASB 45 was required to be implemented by the 6/30/10 fiscal year-end by all public agencies
  - Some agencies had to comply by 6/30/08 or 6/30/09
  - Big Bear City CSD implemented December 15, 2010, for phase 3 governments (those with total annual revenues of less than \$10 million)
  - Some agencies chose to implement early
  - There are still many agencies that have not yet complied (e.g. all non-school PEMHCA groups should be complying but many are not)
- Under current GASB standards, agencies must have a valuation every two or three years (depending on size)
- At this point, all agencies should have had at least two to four valuations; implemented in from five to seven fiscal year-ends





# Where We Are Now

- GASB cannot require prefunding of liabilities
- Many agencies have chosen to prefund
  - CalPERS CERBT program has about 450 participating agencies
  - There are many other multiple employer pre-funding programs (e.g. ICMA, PARS, SISC, Futuris, CSBA)
  - Several large agencies have established their own custom trust
- Overall, it appears that more than 20% of all public agencies are prefunding



# Where We Are Now

- Of agencies prefunding, many fund on a regular, actuarial basis; but many fund at a lower level; and others on an “ad hoc” basis
- Funding through a trust almost certainly triggers a biennial valuation requirement
- Big Bear CSD is funding on regular basis using biennial valuations
- The process is becoming more routine over time
  - Obtain and review valuation
  - Use valuation to budget trust contributions for two years
  - Repeat every two years





# Where We Are Now

- Just as agencies are getting used to the rhythm of compliance, several things are changing in a big way
- First, GASB 45 and 43 invoke Actuarial Standards of Practice (ASOP). One of these, ASOP 6, has been changed in a way that may significantly change valuations done after of March 1, 2015
- Second, GASB has issued an Exposure Draft of a GASB Accounting Standard for Other Postemployment Benefits (OPEB) that will substantially change accounting for these benefits
- Especially after GASB 67 and 68 issued, Pension and OPEB assumptions should be consistent. What CalPERS does on pension side affects OPEB valuations



# Where We Are Now

- This session will address these issues
  - When they will be implemented
  - How they will change GASB 43/45 compliance
- We have an actuary, Geoffrey Kischuk from Total Compensation Systems, Inc., to address the new ASOP, actuarial aspects of upcoming accounting standards, and CalPERS related issues
- We also have an accountant, Tina Henton a partner with Vicenti Lloyd and Stutzman, LLP to address accounting issues
- I will comment on the impact from my viewpoint as a finance officer for a public agency





# Actuarial Measurement

- Geoffrey Kischuk, FSA, FCA, MAAA is President and Consulting Actuary for Total Compensation Systems, Inc.
  - Participated in development of GASB 43/45
  - Has performed GASB compliant valuations for almost 600 California public agencies
  - Consulted with various state agencies regarding GASB 43/45 compliance
  - Frequent speaker at association meetings





# Actuarial Measurement

- Several recent developments affect cost measurement
  - Recent CalPERS pension changes (already in effect)
  - Recent changes to Actuarial Standard of Practice 6 (ASOP 6) effective for valuations done after 3/1/15
  - Proposed changes to GASB 43/45 expected to be effective for fiscal year ending June 30, 2018 (June 30, 2017 for “plans”) for July 1 to June 30 fiscal years



# Recent CalPERS Changes

- Recent CalPERS pension changes
  - Inflation assumption reduction from 3% to 2.75% (2012). This caused reduction in interest assumption by 0.25%
  - New “demographic assumptions” (e.g. retirement, turnover, mortality) (2014)
  - New pension formulas due to PEPRA (2013)
  - Revised expected rates of return for CERBT (2014)
- New GASB standards require agencies to reflect their share of pension obligations
- Because both pension and OPEB obligations are reflected as liabilities, should be based on consistent assumptions where appropriate





# Actuarial Standard of Practice 6

- GASB 45 directs how retiree costs are to be determined
  - Actual retiree costs (where known) for self-funded and for insured plans where rates depend on claim experience
  - Age-adjusted premiums where same rates used for active employees and non-Medicare retirees
  - Actual premiums where experience isn't available and rates are based on retiree demographics and/or claims
  - Actual premiums under “community rating” exception per ASOP 6
- The issue of age-adjusted costs affects most agencies – especially but not limited to, those obtaining coverage through large “blind” pools (e.g. CalPERS with about 1,150 agencies)





# Actuarial Standard of Practice 6

- April, 2012: Actuarial Standards Board (ASB) issues Exposure Draft (ED) of ASOP 6. Revision eliminates “community rating exception”
- July, 2012: More than 95% of actuaries commenting addressed the elimination of the community rating exception. More than 90% of those commenting opposed complete elimination of community rating exception
- March, 2013: ASOP issues 2<sup>nd</sup> ED of ASOP 6. No change regarding community rating exception – still MIA
- August, 2013: Commenting actuaries continue to assail complete elimination of community rating exception (though some actuaries gave up). ASB’s process of establishing ASOP’s questioned. ASB promises action
- May, 2014: Final ASOP 6 issued. Substantial changes made but no new ED issued to elicit actuaries’ opinion of changes. Final ASOP **includes** an exception like the community rating exception



# Actuarial Standard of Practice 6

- Based on refusal of ASB to preserve an exception in second ED, many actuaries assumed community rating exception would no longer be allowed. Many communications issued by consultants state this.
- However, ASB added to final ASOP 6 new exceptions not in prior ED's, including 3.7.7.c.4 that provides: *“In some very limited cases, the use of the pooled health plan’s premium may be appropriate without regard to adjustments for age. The factors that an actuary should evaluate in determining whether the premium may be appropriate without regard to adjustments for age include: .....whether the pooled health plan and its premium structure are sustainable over the measurement period, even if other groups or active participants cease to participate. The use of a premium without regard to adjustment for age is generally inappropriate if the pooled health plan and its premium structure are not sustainable over the measurement period if other groups or active participants cease to participate.”*





# Actuarial Standard of Practice 6

- Exception includes several tests that must be met to invoke the exception:
  - Pooled Program must be sustainable over measurement period (usually four or more decades)
  - Premium Structure must be sustainable over measurement period, even if other groups leave the program
- Given its longevity; consistent premium structure despite loss of many groups over time; stable enrollment; we believe CalPERS qualifies for the 3.7.7.c.4 exception for all but perhaps the largest participating employers
- We believe other programs may meet these requirements
- Some actuaries may be unwilling to consider the 3.7.7.c.4 exception





# Actuarial Standard of Practice 6

- For actuaries reluctant to use 3.7.7.c.4., agencies may point out the following:
  - Comments indicate practicing actuaries were overwhelmingly opposed to elimination of “community rating exception”
  - In Final ASOP 6, Sections 3.7.7 and 3.7.8. in ED’s 1 and 2 were combined and dramatically expanded to address objections
  - Appendix 2 in Final ASOP 6, response to the first comment says “The reviewers agree that it would be appropriate to provide more guidance regarding the limited circumstances for using unadjusted premium rates.”
  - Exception 3.7.7.c.4 articulates exception like the community rating exception with specific criteria that can be evaluated



# Actuarial Standard of Practice 6

- The GASB ED provides that: “Projected benefit payments should be based on claims costs, or age-adjusted premiums approximating claims costs, in accordance with Actuarial Standards of Practice issued by the Actuarial Standards Board.”
- This is a bit ambiguous.
  - Situations exist where use of unadjusted premiums is appropriate even without 3.7.7.c.4 exception (e.g. non-Medicare retiree premium rates are based on retiree claims and/or demographics)
  - Using 3.7.7.c.4 exception complies with ASOP 6 but doesn't use claim costs or age-adjusted premiums
  - Based on the first point alone, it is clear that GASB intends the actuary to follow ASOP rather than that GASB establish its own actuarial standards





# Actuarial Standard of Practice 6

- Effects of using 3.7.7.c.4
  - Advantages:
    - OPEB costs and liabilities follow actual accounting costs and liabilities
    - Simplifies accounting
    - Easier to explain to Boards/Councils and others
  - Disadvantages:
    - May lead to significant or substantial increase in costs and liabilities if agency changes to program not eligible for 3.7.7.c.4





# Actuarial Standard of Practice 6

- Effects of NOT using 3.7.7.c.4
  - Advantages
    - More accurate liabilities if agency moves to a program NOT eligible for 3.7.7.c.4 exception in short run
  - Disadvantages
    - Liabilities overstated if agency stays with program(s) eligible for 3.7.7.c.4 exception
    - More complicated accounting
    - More difficult to communicate to Boards/Councils and others



# Actuarial Standard of Practice 6

- Current GASB 45 allows “community rating exception” to the extent allowed by ASOP. Although new ASOP 6 eliminates term “community rating exception,” new ASOP 6 preserves the exception. Conclusion: Even under new ASOP 6, using unadjusted premiums is OK if it complies with 3.7.7.c.4.
- New GASB OPEB ED (slated to go into effect in 2017-18, or 2016-17 for plans) is a bit ambiguous, but we believe will continue to defer to ASOP.
- Our policy will be to continue to offer to use unadjusted premiums under certain circumstances, at least until new GASB standard in effect.





## ASOP 6: Criteria for 3.7.7.c.4 Exception

- We feel it is important to develop more specific criteria that expand on 3.7.7.c.4.:
  - Plan qualifies as a “pooled health plan.”
  - Rates not based to any extent on the agency’s claim experience
  - Rates not based to any extent on the agency’s demographics
  - If above is true, rates should be identical for all participating agencies
  - There should be no refunds or charges – even after leaving the program or after program termination – based on the agency’s claim experience or demographics
  - Plan in existence 20 or more years
  - No recent large increases or decreases in the number of participating plans or enrollment (if so, requires further investigation)
  - Agency is not expecting to leave plan in foreseeable future
  - No indication the plan will be discontinued
  - The agency does not represent a large part of the pool (less than 5%). (This can be difficult or impossible to determine.)





## ASOP 6: Criteria for 3.7.7.c.4 Exception

- The vast majority of agencies in CalPERS qualify under these criteria. Move to regional rating has not materially affected participation and is not related to age rating (essentially creates 6 pools; no significant change in agency participation was associated with change)
  - Contracting agencies participating for almost 50 years
  - Some agencies leave CalPERS every year, others join
  - Participating agencies and enrollment gradually increasing
  - Premium structure has remained (other than regional rating)
- Other JPA's, Associations and programs may qualify



## ASOP 6: Criteria for 3.7.7.c.4 Exception

- The potential liability difference is large enough that agencies may want to address in advance of next valuation (liability impact depends on whether Medicare Supp benefits provided)
- Many agencies with “retiree-pay-all” plans will need to have valuation. Where 3.7.7.c.4. exception NOT appropriate, age-adjusted premiums likely to be higher than retiree payments resulting in liability





# New GASB OPEB Standards

- Much will be discussed by Tina in her accounting presentation
- Implementation projected to be required no later than FY ending 6/30/2018 for employers; 6/30/2017 for plans
- Many agencies will want to implement early
  - To avoid doing an extra valuation
  - To avoid actuarial resource crunch in 2017 and, especially 2018



# New GASB OPEB Standards

- Several changes in the way actuaries will determine costs and liabilities
  - Full liability will be immediately recognized (dramatically accelerated from current amortization up to 30 years)
  - Annual expense: change in liability subject to certain deferred items (deferral of actuarial gains and losses serves similar function as amortization, but will cut time by half or more while other items now eligible for amortization won't be eligible for deferral)
  - Interest assumption reflects 20 year GO municipal bond index to the extent unfunded (liability more volatile)
  - Reduction from 6 to 1 actuarial cost method (entry age normal)





# New OPEB Standards: Liability

- Currently, liability for most agencies being accumulated over period of up to 30 years
- New standard will dramatically increase liability for those amortizing actuarial accrued liability (AAL)
- Liability will be much more volatile due to immediate recognition of certain items (e.g. plan changes)
- Liability will be much more volatile due to changes in interest assumption for unfunded or partially funded plans
- Liability will be much more volatile due to shorter spread of certain liability changes



# New OPEB Standards: Expenses

- Because expense largely determined by change in liability, expenses will also be volatile
- Will no longer be viable to pre-fund amount equal to accounting expense
- Agencies funding on regular, actuarial basis will most likely obtain second valuation for funding purposes using assumptions consistent with accounting valuation
- Ironically, because “funding valuation” not constrained by accounting standards, will lead to more flexibility in funding than currently





# Summary of Actuarial Issues

- Be aware of and prepared for changes due to CalPERS activity
- If applicable and if desired, be prepared to have conversation about ASOP 6 exception 3.7.7.c.4 with actuary
- Follow development of new GASB OPEB standard – final expected to be issued in 2<sup>nd</sup> quarter 2015
  - Prepare for managing or funding obligation in new environment
  - Think about managing transition to avoid unnecessary cost
- Think about when and how these may affect you versus when you can retire!



# Accounting Issues

- Tina Henton, CPA is a partner with Vicenti, Lloyd and Stutzman, LLP
  - Specializes in California public agencies
  - Assists many agencies with meeting requirements of GASB 43/45 compliance and reporting
  - Performed audits of several OPEB plans under GASB 43
  - Frequent speaker at association meetings





# Background

- Project addressing postemployment benefits has been on GASB agenda since 2008
- Two-phased project
  - Pensions administered through trusts
    - GASB 67 and 68 issued in June 2012
  - OPEB and pensions not within the scope of Statements 67 and 68



# New GASB OPEB Standards

- In June, 2014 GASB issued Exposure Draft (ED) of new accounting standards related to Other Postemployment Benefits (OPEB)
- The final standard scheduled to be issued 2<sup>nd</sup> Q 2015
- We expect the final to look very much like ED
  - OPEB standards will be structurally like Statements 67/68 for pensions which have been issued in final form
  - GASB has had experience with current OPEB standards
- Bottom line: from accounting standpoint, not likely to be significant change in final from ED, so most of what follows is likely to be implemented





# New GASB OPEB Standards: Changes

- Timing
  - All agencies will need to have actuarial valuations at least every two years (currently, agencies with fewer than 200 participants not in Trust are every 3 years)
  - Alternative method still available for plans with less than 100 participants, but still required every two years
  - Valuation must be closer to reporting date
  - Adjustments to actuarial valuation required for non-valuation years (or if valuation older than one year on reporting date)



# Changes to Accounting

- Generally requires recognition of a liability equal to the net OPEB obligation on the full-accrual financial statements
  - Current standards allow recognition over a period not-to-exceed 30 years
- Requires that most changes in net OPEB liability be included in OPEB expense in the period of change.
  - Current period service cost
  - Interest on liability
  - Changes in benefit terms
  - Projected investment earnings





# Changes to Accounting

- Other changes in net OPEB liability would be amortized over time
  - Changes of economic and demographic assumptions
  - Actuarial gains/losses
- Amortization period will be shorter than current standards
  - Expected remaining service lives of plan participants
  - Five years for differences resulting from investment earnings
  - Closed period
- Will be reported as a deferred inflow or outflow of resources on the GASB 34 full-accrual financial statements



# Changes to Accounting

- Deferred inflows of resources and deferred outflows of resources related to OPEB
  - Each year, separate “layers” of deferred balances will be created for each source of change
  - Deferred outflows balance should be reported separately from deferred inflows balance
  - Cannot net with the exception of differences arising from investment earnings
  - Logistically, this will be a challenge to track as new layers are added and others are fully amortized





# New GASB OPEB Standards: Changes

- Dramatically Expanded Note Disclosures
  - Expanded disclosures about assumptions
  - Liability impact of 1% change (up AND down) in interest rate AND 1% change (up AND down) in trend rate. Requires actuary to do up to 8 alternative valuations (Comments recommend this be reduced)
  - Detail of adjustments of valuation to measurement date
  - Calculation of deferrals and schedule of future deferrals
  - Schedule of changes in OPEB Liability by source
- Expanded Required Supplementary Information (RSI) Schedule
  - Expanded number of years
  - Expansion of reported values



# GASB 45: Sample Note Disclosure

## State of Grande

### Notes to the Financial Statements for the Year Ended June 30, 20X2

#### Note X. Postemployment Healthcare Plan

*Plan Description.* State Retired Employees Healthcare Plan (SREHP) is a single-employer defined benefit healthcare plan administered by the Grande Retirement System. SREHP provides medical and dental insurance benefits to eligible retirees and their spouses. Article 37 of the Statutes of the State of Grande assigns the authority to establish and amend benefit provisions to the state legislature. The Grande Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for SREHP. That report may be obtained by writing to Grande Retirement System, State Government Lane, Latte, GR 01000, or by calling 1-800-555-PLAN.

*Funding Policy.* The contribution requirements of plan members and the state are established and may be amended by the state legislature. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the legislature. For fiscal year 20X2, the state contributed \$357.7 million to the plan, including \$190.7 million for current premiums (approximately 84 percent of total premiums) and an additional \$167.0 million to prefund benefits. Plan members receiving benefits contributed \$35.4 million, or approximately 16 percent of the total premiums, through their required contribution of \$50 per month for retireeonly coverage and \$105 for retiree and spouse coverage.



# GASB 45: Sample Note Disclosure

*Annual OPEB Cost and Net OPEB Obligation.* The state's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the state's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the state's net OPEB obligation to SREHP (dollar amounts in thousands):

Annual required contribution	\$ 577,180
Interest on net OPEB obligation	90,437
Adjustment to annual required contribution	<u>(95,258)</u>
Annual OPEB cost (expense)	572,359
Contributions made	<u>(357,682)</u>
Increase in net OPEB obligation	214,677
Net OPEB obligation—beginning of year	<u>1,349,811</u>
Net OPEB obligation—end of year	\$1,564,488

# GASB 45: Sample Note Disclosure

The state's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 20X2 and the two preceding years were as follows (dollar amounts in thousands):

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual % of</u> <u>OPEB Cost</u>	<u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/X0	\$497,538	67.4%	\$1,160,171
6/30/X1	538,668	64.8	1,349,811
6/30/X2	572,359	62.5	1,564,488

*Funded Status and Funding Progress. As of December 31, 20X1, the most recent actuarial valuation date, the plan was 58.1 percent funded. The actuarial accrued liability for benefits was \$8.8 billion, and the actuarial value of assets was \$5.1 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.7 billion. The covered payroll was \$2.2 billion, and the ratio of the UAAL to the covered payroll was 165 percent.*

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.





## GASB 45: Sample Note Disclosure

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 20X1, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 6.7 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 12 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 20X1, was seventeen years.

# New OPEB Standard: Sample Note Disclosure

## Sample County

### Notes to the Financial Statements for the Year Ended June 30, 20X9

#### Note X—Postemployment Benefits Other Than Pensions (OPEB)

##### *General Information about the OPEB Plan*

*Plan description.* The County's defined benefit OPEB plan, Sample County Retiree Benefits Plan (SCRBP), provides OPEB for all permanent full-time general and public safety employees of the County. SCRBP is a single-employer defined benefit OPEB plan administered by the County. Article 11 of the State Compiled Statutes grants the authority to establish and amend the benefit terms and financing requirements to the County Board. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement XX.

*Benefits provided.* SCRBP provides healthcare and life insurance benefits for retirees and their dependents. The benefit terms provide for payment of 55 percent of health insurance premiums for non-Medicare-eligible retirees and 55 percent of supplemental health insurance premiums for Medicare-eligible retirees. The plan also provides all retirees with \$5,000 of life insurance benefits.

*Employees covered by benefit terms.* At June 30, 20X9, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	5,477
Inactive employees entitled to but not yet receiving benefit payments	746
Active employees	<u>10,109</u>
	16,332



# New OPEB Standard: Sample Note Disclosure

## ***Total OPEB Liability***

The County's total OPEB liability of \$778,984 was measured as of June 30, 20X9, and was determined by an actuarial valuation as of that date.

*Actuarial assumptions and other inputs.* The total OPEB liability in the June 30, 20X9 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Inflation: 3.0 percent

Salary increases : 3.25 percent, average, including inflation

Discount rate : 4.0 percent

Healthcare cost trend rates: 9.5 percent for 20Y0, decreasing 0.5 percent per year to an ultimate rate of 5.5 percent for 20Y8 and later years

Retirees' share of benefit-related costs : 45 percent of projected health insurance premiums for retirees

The discount rate was based on [Name of the Index].

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 20X9 valuation were based on the results of an actuarial experience study for the period July 1, 20X5–April 30, 20X7.

# New OPEB Standard: Sample Note Disclosure

## Changes in the Total OPEB Liability

	Total OPEB Liability (a)
Balance at 6/30/X8	<u>\$851,095</u>
Changes for the year:	
Service cost	16,712
Interest	33,898
Changes of benefit terms	(203,619)
Differences between expected and actual experience	58,936
Changes in assumptions or other inputs	45,945
Benefit payments	(23,983)
Net changes	<u>(72,111)</u>
Balance at 6/30/X9	\$778,984

Changes of benefit terms reflect an increase in the retirees' share of health insurance premiums from 25 percent in 20X8 to 45 percent in 20X9.

Changes of assumptions and other inputs reflect a change in the discount rate from 4.37 percent in 20X8 to 4.00 percent in 20X9.



# New OPEB Standard: Sample Note Disclosure

*Sensitivity of the total OPEB liability to changes in the discount rate and healthcare cost trend rate.* The following presents the total OPEB liability of the County, calculated using the discount rate of 4.0 percent and healthcare cost trend rates of 9.5–5.5 percent, as well as what the County's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.0 percent) or 1-percentage-point higher (5.0 percent) than the current discount rate and healthcare cost trend rates that are 1- percentage-point lower (8.5–4.5 percent) or 1-percentage-point higher (10.5–6.5 percent) than the current healthcare cost trend rates:

	1% Decrease (3.0%)	Discount Rate (4.0%)	1% Increase (5.0%)
1% Decrease (8.5%–4.5%)	\$747,826	\$669,927	\$599,818
Healthcare Cost Trend Rates (9.5%–5.5%)	\$856,884	\$778,984	\$685,507
1% Increase (10.5%–6.5%)	\$1,036,050	\$911,412	\$802,355

# New OPEB Standard: Sample Note Disclosure

## **OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 20X9, the County recognized negative OPEB expense of \$169,031. At June 30, 20X9, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 111,188	\$ 18,327
Changes of assumptions or other inputs	\$ 98,543	\$213,409
Total	\$ 209,731	\$ 231,736

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

20Y0	\$ (15,416)
20Y1	(13,476)
20Y2	(12,781)
20Y3	(12,747)
20Y4	16,702
Thereafter	15,713



# Current GASB 45: Sample RSI

## REQUIRED SUPPLEMENTARY INFORMATION Schedule of Funding Progress for MPHP

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL)— Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b – a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b – a) / c)</b>
12/31/W9	\$10,138,007	\$16,867,561	\$6,729,554	60.1%	\$5,984,554	112.4%
12/31/X0	12,093,839	17,572,474	5,478,635	68.8	6,182,351	88.6
12/31/X1	15,107,180	19,490,482	4,383,302	77.5	6,331,031	69.2

# New OPEB Standard: RSI

## Schedules of Required Supplementary Information

### SCHEDULE OF CHANGES IN THE COUNTY'S TOTAL OPEB LIABILITY AND RELATED RATIOS

Last 10 Fiscal Years  
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total OPEB liability										
Service cost	\$ 16,712	\$ 21,688	\$ 20,346	\$ 22,832	\$ 32,840	\$ 35,925	\$ 35,162	\$ 43,772	\$ 43,063	\$ 93,396
Interest	33,898	39,177	27,886	41,014	37,254	38,436	45,817	40,440	72,712	66,990
Changes of benefit terms	(203,619)	-	-	-	-	-	(205,896)	-	(715,368)	-
Differences between expected and actual experience	58,936	16,606	46,382	32,555	(42,519)	(9,528)	15,186	(7,595)	2,039	(20,326)
Changes of assumptions or other inputs	45,946	(100,666)	66,410	(268,143)	42,249	3,966	(30,706)	11,000	(93,992)	107,030
Benefit payments	(23,983)	(22,744)	(19,055)	(17,862)	(16,879)	(14,756)	(13,320)	(11,791)	(10,161)	(9,568)
Net change in total OPEB liability	(72,111)	(46,939)	141,968	(189,704)	52,845	54,043	(153,757)	75,826	(701,707)	227,522
Total OPEB liability—beginning	851,095	897,034	755,066	944,770	891,925	837,882	991,639	915,813	1,617,520	1,389,998
Total OPEB liability—ending	\$ 778,984	\$ 851,095	\$ 897,034	\$ 755,066	\$ 944,770	\$ 891,925	\$ 837,882	\$ 991,639	\$ 915,813	\$ 1,617,520
Covered-employee payroll	\$ 561,026	\$ 547,748	\$ 560,763	\$ 561,588	\$ 535,807	\$ 515,573	\$ 499,044	\$ 486,857	\$ 453,517	\$ 432,568
Total OPEB liability as a percentage of covered-employee payroll	138.85%	155.38%	159.97%	134.45%	176.33%	173.00%	167.90%	203.66%	201.94%	373.93%

Notes to Schedule:

*Changes of benefit terms:* Amounts presented reflect an increase in the retirees' share of health insurance premiums from 0 percent in 20X0–20X2 to 25 percent in 20X3–20X8 and to 45 percent in 20X9. In 20X1, amounts reflect a change of benefit terms to require Medicare-eligible recipients to enroll in Medicare.

*Changes of assumptions:* Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

20X9	4.00 percent
20X8	4.37 percent
20X7	3.69 percent
20X6	4.33 percent
20X5	4.14 percent
20X4	4.53 percent
20X3	4.57 percent
20X2	4.34 percent
20X1	4.45 percent
20X0	3.98 percent
20W9	4.75 percent

In 20X6, amounts reflect a 1-percentage-point decrease in the healthcare cost trend rates from the prior year and adjustments to assumptions regarding spousal coverage to better reflect actual plan experience.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.



# New OPEB Standard: RSI

## SCHEDULE OF ACTUARIALLY DETERMINED CONTRIBUTIONS AND BENEFIT PAYMENTS

Last 10 Fiscal Years  
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Actuarially determined contribution	\$ 53,247	\$ 55,247	\$ 53,668	\$ 61,355	\$ 58,966	\$ 60,221	\$ 76,074	\$ 74,389	\$ 131,024	\$ 129,566
Covered-employee payroll	\$ 561,026	\$ 547,748	\$ 560,763	\$ 561,588	\$ 535,807	\$ 515,573	\$ 499,044	\$ 486,857	\$ 453,517	\$ 432,568
Actuarially determined contribution as a percentage of covered-employee payroll	9.49%	10.09%	9.57%	10.93%	11.01%	11.68%	15.24%	15.28%	28.89%	29.95%
Benefit payments	\$ 23,983	\$ 22,744	\$ 19,056	\$ 17,962	\$ 16,979	\$ 14,756	\$ 13,320	\$ 11,791	\$ 10,161	\$ 9,568

### Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, one year prior to the fiscal year to which the contribution rate applies.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Amortization period	30 years
Inflation	3.0 percent
Healthcare cost trend rates	10.5–6.5 percent, adjusted downward by 1 percentage point in 20X6
Salary increases	3.25 percent, average, including inflation
Discount rate	4.0 percent (20X0–20X6); 5.0 percent (20X7–20X9)

Other information:

Amounts presented reflect an increase in the retirees' share of health insurance premiums from 0 percent in 20X0–20X1 to 25 percent in 20X2–20X9. Beginning in 20X2, amounts reflect a change of benefit terms that requires Medicare-eligible recipients to enroll in Medicare.

In 20X7, assumptions regarding spousal coverage were adjusted to reflect actual plan experience.



## New GASB Disclosures and RSI

- New OPEB Standards require display of far more info
- Actuarial valuations will need to provide far more info
  - 8 additional alternative liability figures for +1% and -1% exhibit
  - Breakdown of components of cost
  - Support for deferred inflows and outflows
- Separate from the valuation, support will be needed for adjustment of valuation to measurement date
- Separate tracking and amortization for deferred inflows and outflows
- Info will need to be retained to show 10 year history



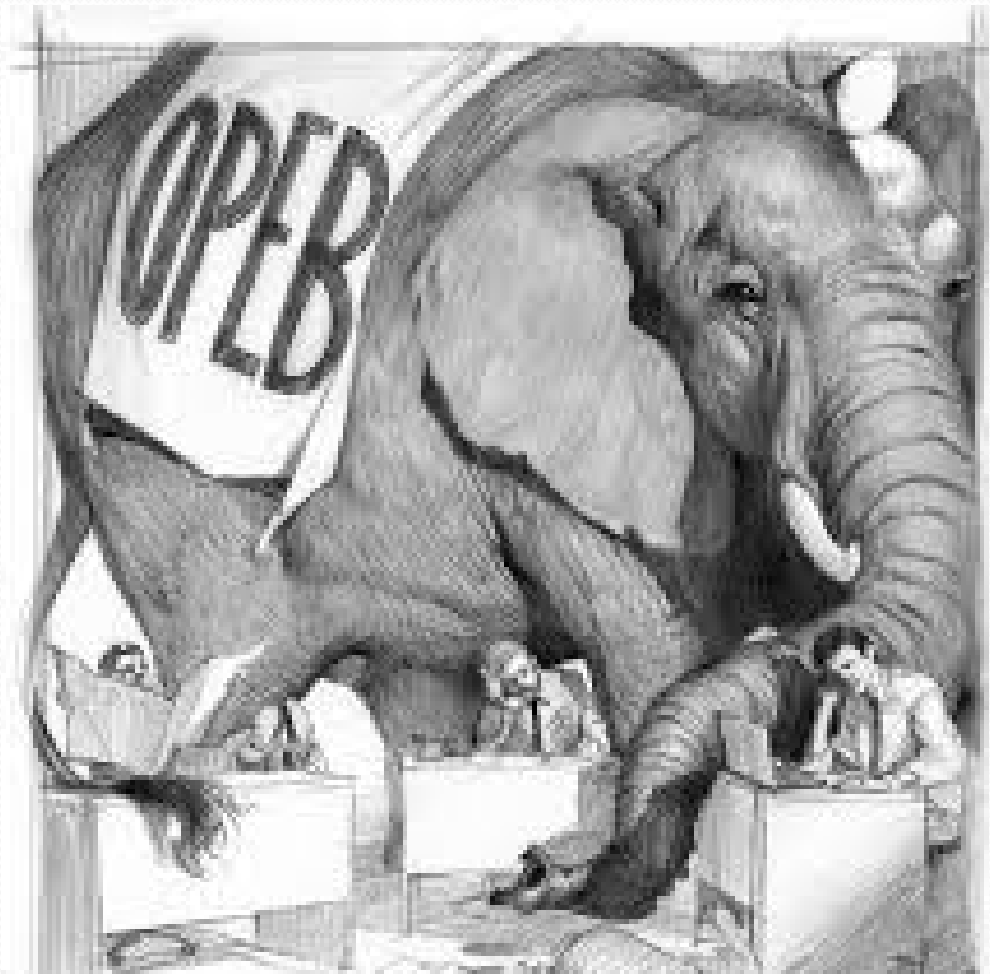


# Effective Date and Transition

- Fiscal years beginning after December 15, 2016 (one year earlier if funding through qualifying trust)
  - For June 30 year end agencies, effective date is the 2017-18 fiscal year for employer (one year earlier for trust)
- Beginning deferred outflows of resources for contributions, if any, subsequent to the measurement date should be recognized
- All other deferred outflows/inflows of resources balances are “all or nothing” at implementation
- RSI schedules will be prospective if information not initially available

# What's a Finance Officer To Do?

- CalPERS activity: Be aware of issues and be prepared to address with Board/Council in relation to changes
- ASOP 6 Exception  
3.7.7.c.4: Discuss how actuary expects to determine costs. Where appropriate and where desired, request 3.7.7.c.4
- New GASB standards: This needs at least another slide or two







## What's a Finance Officer To Do? GASB

- Think about how to communicate changes to Boards/Councils. Should be consistent with what is said about GASB 67 and 68
- If pre-funding, think about how funding process affected. Separate valuation? Using what assumptions?
- Prepare for implementation. Weigh earlier implementation to eliminate extra valuation against dealing with above issues earlier than necessary and considering availability of actuarial resources
- New standards will require a lot of additional actuarial work AND involvement of actuaries between valuations. Expect additional fees
- New standards require additional accounting resources. Where outside resources used to draft disclosures, expect additional fees

# What's a Finance Officer To Do? GASB

- New GASB OPEB standard preserves Alternative Measurement Method (AMM)
- There will be many additional calculations and disclosures needed
- Users of AMM should make sure they will have adequate support for the additional requirements
  - Multiple liability calcs
  - Expanded Note Disclosures and RSI





# Big Changes in Measuring OPEB Costs and Liabilities

Questions?

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