



Overview of OPEB Accounting Changes

“More matter with less art”

Hamlet Act 2, Scene 2

Presenters

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As the leader of Bolton's OPEB practice, Kevin is responsible for the actuarial valuation under GASB45 for over 100 governmental plans, including Anne Arundel, Baltimore, Harford, Howard, and St. Mary's counties, Fort Lauderdale, FL and the New York State Thruway. He has authored articles on GASB45 and was a speaker at the Society of Actuary's Health Care Section Annual Meeting on this topic. He was also the chairperson of a SOA group that oversaw the development of a model used by actuaries to estimate long-term medical trends.

Kris Seets, FSA, EA, FCA

As a lead actuary for over 20 of Maryland's local government plans, Kris has extensive exposure to plan funding and financial reporting. This past year, he assisted 10 Maryland counties, the MTA, and the DC Metro with the implementation of the new GASB68 pension accounting standard. He is an active member of the GFOA in Maryland, Florida, New Jersey, and Virginia, where he has provided educational seminars on various employee benefits topics.

Major Changes To the GASB OPEB Standards

- Change in Focus
- Tighter Timing
- Discount Rate Rules
- Increased Disclosure
- More Volatile Annual Expense

Similarities to GASB Pension Standards

- ▶ Focus, timing, and disclosures are all similar to pensions
 - ▶ Many will already be familiar with the implementation issues
 - ▶ Many questions from auditors and actuaries have already been resolved
- ▶ Similar to pensions, the new standards will require more reporting
 - ▶ This will probably be more of a departure from the current schedule for OPEB plans than it was for pensions

Change in Focus

- Focus on accrued liabilities instead of expense
- No Actuarial Required Contribution (ARC)
- The Net OPEB Obligation (NOO) is gone
- The liability on the financial statements is now the unfunded actuarial accrued liability

Tighter Timing I – For Governments with no OPEB trust

- ▶ GASB75 required no later than FYE2018
- ▶ Valuation date must be within 30 months of the end of the fiscal year (e.g. on or after 12/31/2015 for FYE 6/30/2018)
- ▶ ALL governments must perform a valuation at least once every two years
- ▶ Governments must select a measurement date
- ▶ The measurement date could be as early as the last day of the prior FY (e.g.6/30/2017) or as late as the last day of the FY (e.g.6/30/2018) for FYE2018
- ▶ Roll forward from valuation date to measurement date

Tighter Timing II – For Governments with OPEB trusts

- GASB74 governs plan accounting
- GASB74 measurements are as of the *end* of the plan year
- GASB74 is effective in 2017
- GASB75 governs employer accounting
- GASB75 measurements can be anytime in the fiscal year
- GASB75 is effective in 2018

GASB75 Measurement Date Selection

- Generally pick either the earliest or the latest possible measurement dates (e.g. 6/30/2017 or 6/30/2018 for FYE2018)
- Reasons to pick the last possible measurement date
 - GASB74 and GASB75 will have the same entries for the same year
 - Not an issue for governments with no OPEB trust
- Reasons *Not* to pick the last possible measurement date
 - Less time to prepare CAFR

Measurement Date Selection

- Reasons to pick the earliest possible measurement date
 - CAFR footnote is ready a year in advance
- Reasons *Not* to pick the earliest possible measurement date
 - GASB74 and GASB75 will have the same entries for different years
 - GASB74 for YE 6/30/2017 would equal GASB75 for YE 6/30/2018
 - Can be confusing
 - Not an issue for governments with no OPEB trust

Discount Rate Rules I – For Governments with No OPEB Trust

- Based on an *index* rate
- The index must be a 20 year tax exempt municipal bonds average AA/Aa or higher
- Will change daily
- We can no longer provide two years of results in advance
- Bond rates have been below 4 percent and trending downward

Discount Rate Rules II – For Governments with a Trust

- ▶ If an Actuarially Determined Contribution is made, the discount rate is still based on the long term expected rate of return
 - ▶ More rigor
 - ▶ More transparency
 - ▶ For the long term rate of return on trust assets
 - ▶ Must disclose long term inflation assumption
 - ▶ Must look at investment policy and long term real rate of return by asset class
- ▶ If funded but with ad hoc contributions, the discount rate is still based on a blended rate
 - ▶ The funded portion is still based on the long term expected rate of return on trust assets
 - ▶ The unfunded portion is based on a bond *index as of the measurement date*

Long Term Rate of Return Example

Asset Class	Target Allocation	Long Term Expected Real Rate of Return	Weighted Average Calculation
Domestic Equity	40%	5.8%	2.3%
Fixed Income	35%	1.0%	0.4%
Private Equity	20%	6.0%	1.2%
Real Estate	3%	5.9%	0.2%
Cash	2%	0.0%	0.0%
Total	100%		4.0%
Inflation			3.0%
Rate of Return			7.0%

Blending Method

- Based on when plan is projected to be insolvent
- Use long term expected rate of return to discount benefit payments while solvent
- Use bond index to discount benefit payments while insolvent
- Determine single equivalent discount rate

Blending Method

- To determine date of insolvency, consider contribution policy or past contributions
- Contribution level based on average contributions (including pay-go) over last 5 years
- Must subtract normal cost of future hires from the contribution levels

Increased Disclosure I

- Net OPEB Liability
- Expense for Period
- Deferred inflows and outflows
- Description of Plan
- # of employees and retirees in Plan
- Key assumptions
- Net OPEB Liability if trend is 1 percent higher or 1 percent lower

Increased Disclosure II

- Net OPEB Liability if discount rate is 1 percent higher and 1 percent lower
- The discount rate and the discount rate in the last measurement period
- Reconciliation of OPEB Liability
- Valuation and measurement date
- Description of changes in assumptions
- Description of changes in benefits
- Schedule of future inflows and outflows to be recognized in expense

Additional Disclosure for Funded Plans

- ▶ Net OPEB Assets
- ▶ Basis for determining contributions
- ▶ How the long term rate of return was set
 - ▶ Investment allocation
 - ▶ Long term real rate of return by major asset class
- ▶ Assumptions about projected cash flow to trust
- ▶ In the RSI - 10 year schedule of actuarially determined contribution and the actual contribution

Required Supplementary Information

- ▶ 10 year schedule of changes in the net OPEB liability
- ▶ 10 year schedule of Net OPEB Liability, Payroll, and Net OPEB Liability as a % of payroll

The Annual Expense

- GASB75 Expense Components
 - Service Cost
 - Interest Cost
 - Minus benefit payments
 - Minus expected rate of return on assets
 - Changes in the Plan
 - Liability Experience Gains or Losses divided by expected remaining service lives of employees and retirees
 - Asset Experience Gains or Losses are recognized over 5 years
 - Changes in the liability due to changes in assumptions divided by expected remaining service lives of employees and retirees
- Experience Gains not yet expensed are deferred inflows of resources
- Experience Losses not yet expensed are deferred outflows of resources
- Will there be any interest in the expense??

Expense Example 1 Unfunded Plan

	2018	2019	2020
1. OPEB Liability	50,000	40,000	55,000
2. Plan Fiduciary Net Position (i.e. assets)	-		
3. Net OPEB Liability (1.-2.)	50,000	40,000	55,000
Reconciliation of OPEB Liability			
1. Service cost	1,200	1,000	1,500
2. Interest cost	1,500	2,000	2,300
3. Change in benefit terms	-	(8,200)	-
4. Difference between expected and actual experience	2,800	-	-
5. Changes of Assumptions	-	(4,200)	11,900
6. Benefit Payments	(500)	(600)	(700)
7. Net change in total OPEB liability	5,000	(10,000)	15,000
8. OPEB liability beginning	45,000	50,000	40,000
9. OPEB liability ending	50,000	40,000	55,000

Expense Example 1 Unfunded Plan

	2018	2019	2020
Expense Determination (Note: Expected remaining service lives=7)			
1. Service cost	1,200	1,000	1,500
2. Interest cost	1,500	2,000	2,300
3. Change in benefit terms	-	(8,200)	-
4. Difference between expected and actual experience	400	-	-
5. Changes of Assumptions	-	(600)	1700
6. Deferred from previous years	-	400	400 + (600) = (200)
7. Benefit Payments	(500)	(600)	(700)
8. Expense	2,600	(6,000)	4,600
Reconciliation to Total OPEB Liability			
9. Cumulative Expense	47,600	41,600	46,200
10. Deferred Outflows	2,400	2,000	1,600 + 10,200 = 11,800
11. Minus Deferred Inflows	-	3,600	3,000
12. Total OPEB liability	50,000	40,000	55,000

Expense Example – Reconcile Liability

	2018	2019	2020
	2018	2019	2020
1. OPEB Liability	52,000	41,500	56,500
2. Plan Fiduciary Net Position (i.e. assets)	25,000	31,000	35,000
3. Net OPEB Liability (1.-2.)	27,000	10,500	21,500
Reconciliation of OPEB Liability			
1. Service cost	1,200	1,000	900
2. Interest cost	3,500	3,600	2,900
3. Change in benefit terms	-	(8,200)	-
4. Difference in experience	2,800	-	-
5. Changes of assumptions	-	(6,300)	11,900
6. Benefit payments	(500)	(600)	(700)
7. Net change in total OPEB liability	7,000	(10,500)	15,000
8. OPEB liability beginning	45,000	52,000	41,500
9. OPEB liability ending	52,000	41,500	56,500

Expense Example – Reconcile Assets

	2018	2019	2020
1. OPEB Liability	52,000	41,500	56,500
2. Plan Fiduciary Net Position (i.e. assets)	25,000	31,000	35,000
3. Net OPEB Liability (1.-2.)	27,000	10,500	21,500
Reconciliation of plan fiduciary net position			
1. Contributions	3,500	3,500	2,300
2. Net investment income	400	3,200	2,500
3. Benefit payments	(500)	(600)	(700)
4. Administrative expenses	(100)	(100)	(100)
5. Net change in plan fiduciary net position	3,300	6,000	4,000
6. Plan fiduciary net position beginning	21,700	25,000	31,000
7. Plan fiduciary net position ending	25,000	31,000	35,000

Recognition in Expense

	2018	2019	2020
Liability Expense Impact (Note: Expected remaining service lives=7)			
1. Service cost	1,200	1,000	900
2. Interest cost	3,500	3,600	2,900
3. Change in benefit terms	-	(8,200)	-
4. Difference in experience recognized	400	-	-
5. Changes of assumptions recognized	-	(900)	1700
6. Deferred from previous years	-	400	400+(900)=(500)
7. Benefit Payments	(500)	(600)	(700)
8. Recognized in expense	4,600	(4,700)	4,300
Reconciliation to Total OPEB Liability			
9. Cumulative liability recognized	49,600	44,900	49,200
10. Deferred outflows	2,400	2,000	1,600+10,200=11,800
11. Minus deferred inflows	-	5,400	4,500
12. Total OPEB liability	52,000	41,500	56,500

Recognition of Investment Experience

	2018	2019	2020
Asset Expense Impact			
1. Contributions	3,500	3,500	2,300
2. Net investment income	400	3,200	2,500
3. Expected Investment Income	1,400	1,700	2,000
4. Investment Gain (loss)	(1,000)	1,500	500
5. Current investment gain (loss) recognized	(200)	300	100
6. Past investment gain (loss) recognized	-	(200)	100
7. Benefit payments	(500)	(600)	(700)
8. Administrative expenses	(100)	(100)	(100)
9. Recognized in Expense [3. plus 5. through 8.]	600	1,100	1,400
Reconciliation to Net Fiduciary Position			
10. Cumulative assets recognized	25,800	30,400	34,100
11. Minus deferred outflows	800	600	400
12. Plus deferred inflows	-	1,200	1,300
13. Net fiduciary position	25,000	31,000	35,000

Expense Example

	2018	2019	2020
GASB75 Expense			
1. Service cost	1,200	1,000	900
2. Interest cost	3,500	3,600	2,900
3. Expected investment income	(1,400)	(1,700)	(2,000)
4. Administrative expenses	100	100	100
5. Change in benefit terms	-	(8,200)	-
6. Difference between expected and actual experience recognized in first year	600	(300)	(100)
7. Changes of assumptions	-	(900)	1700
8. Deferred amounts from previous years	-	600	(600)
9. Total Expense (income)	4,000	(5,800)	2,900

Final Reconciliation

	2018	2019	2020
Net OPEB Liability			
1. OPEB Liability	52,000	41,500	56,500
2. Plan Fiduciary Net Position (i.e. assets)	25,000	31,000	35,000
3. Net OPEB Liability (1.-2.)	27,000	10,500	21,500
Reconciliation			
4. Net OPEB liability recognized	23,300	23,800	14,500
5. OPEB Expense (income)	4,000	(5,800)	2,900
6. Deferred outflows	3,200	2,600	12,200
7. Minus deferred inflows	-	6,600	5,800
8. Minus employer contributions	3,500	3,500	2,300
9. Net OPEB liability end	27,000	10,500	21,500
10. Net OPEB Liability recognized end	23,800	14,500	15,100
11. Deferred Amounts	3,200	(4,000)	6,400

Summary

- ▶ Changes very similar to pension standards (GASB68)
 - ▶ Focus on the unfunded liability

- ▶ Requirement to produce valuations at least once every two years

- ▶ Measurement will need to be updated annually
 - ▶ Can no longer produce 2 years of results at once

- ▶ Funding the OPEB will significantly reduce the balance sheet liability
 - ▶ Allows measurement to be based on expected asset return (e.g. 6%-7%) rather than bond rates (e.g. 3%-4%)