

# GASB Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

April 4, 2017

The webinar will begin at 12:30 pm CT.



**Tara Laughlin, CPA, CGFM**  
Senior Manager, Assurance Services

# Administration



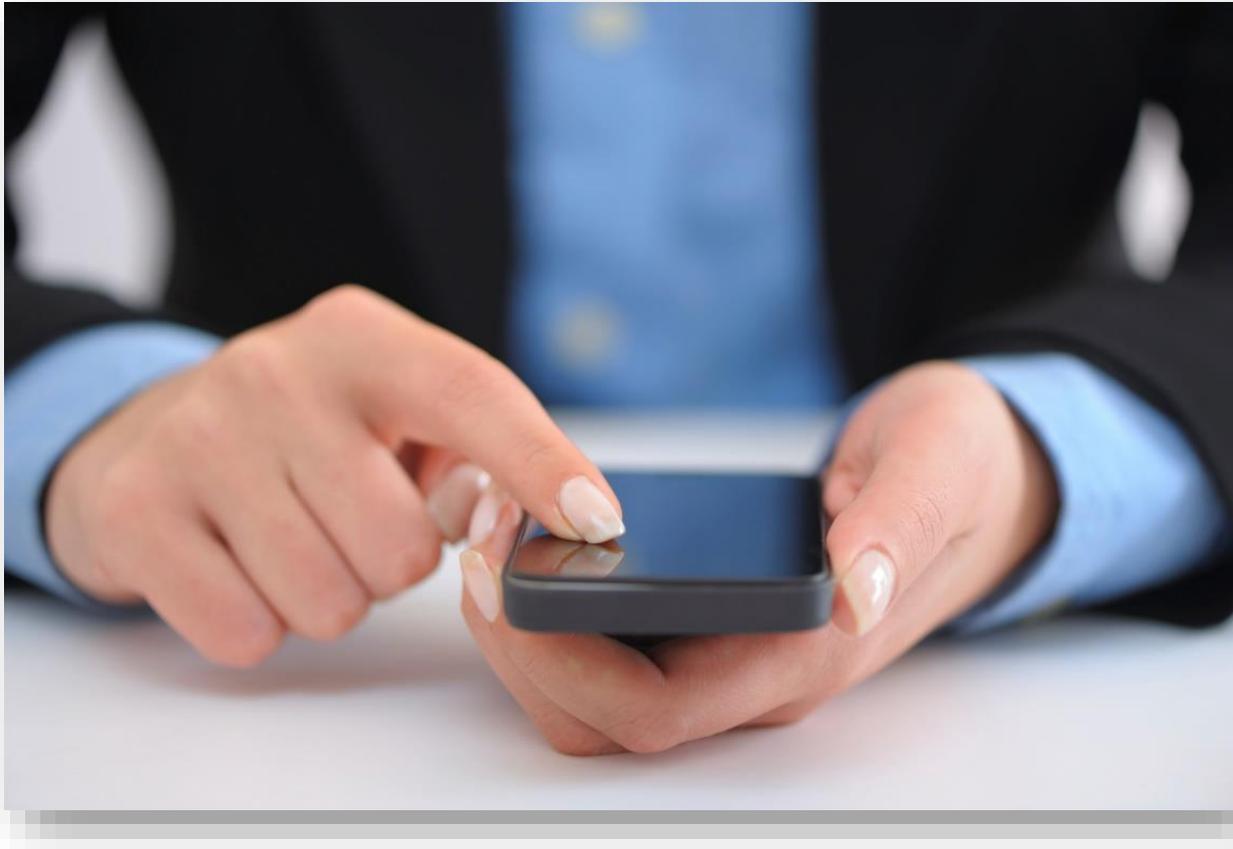
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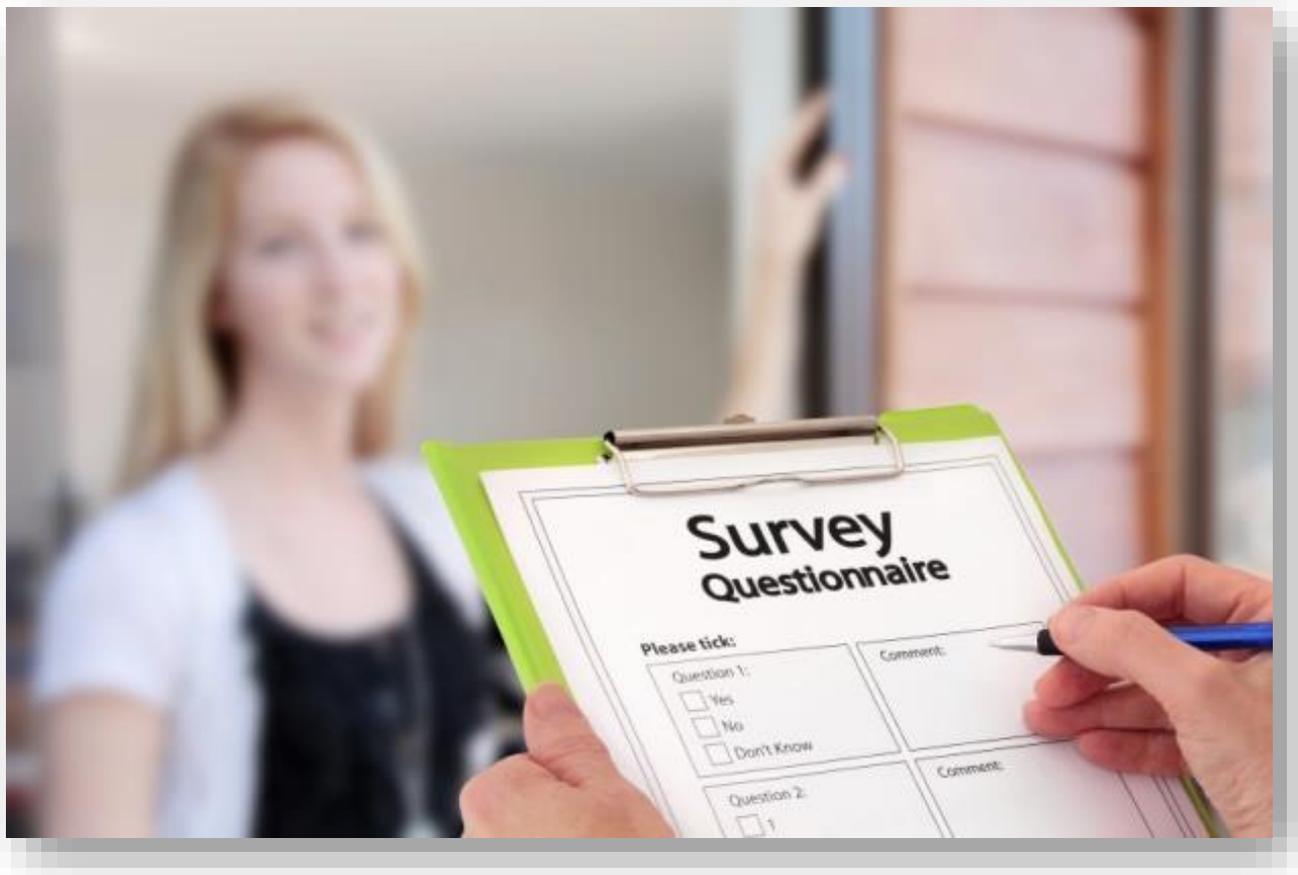
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# Our Presenter



## **Tara J. Laughlin, CPA, CGFM**

7 years' experience, specializing in auditing and consulting services for governmental and not-for-profit entities

Member, American Institute of Certified Public Accountants, Government Finance Officers Association

# Learning Objectives

Discuss the different types of OPEB plans covered under GASB 75.

Outline employer accounting and reporting requirements for single employer plans.

Outline implementation best practices and challenges.

# Statement 75 Highlights

- Provides guidance for **employer** reporting
  - Plan reporting covered by GASB 74
- Replaces Statements 45 and 57 for OPEB
- Effective for periods beginning after June 15, 2017
  - Year-end effective dates are:
    - June 30, 2018
    - December 31, 2018
- GASB encourages early application.

# Scope and Applicability

- Defined benefit and defined contribution OPEB administered through trusts or equivalent arrangements in which:
  - Employer contributions and earnings on those contributions are irrevocable
  - OPEB Plan assets are dedicated to providing benefits to plan members
  - OPEB plan assets are legally protected from creditors

# Scope and Applicability - Continued

- Defined benefit and defined contribution OPEB that are **not** administered through a trust
- Applies to the financial statements of all state and local governmental **employers** whose employees are provided OPEB through one of the plan types discussed previously

# Special Funding Situations

Similar to GASB 68 criteria, special funding situations exist when:

- Nonemployer is legally responsible for providing OPEB support either by making contributions **directly** to a plan that is administered through a trust or making benefit payments directly as OPEB comes due for non-trusted plans and **either**:
  - The amount of the contributions or benefit payments for which a nonemployer is legally responsible is not dependent upon one or more events unrelated to OPEB
  - Nonemployer entity is the only entity with a legal obligation to provide support.

# Polling Question #1

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# Statement 75 Organization

Statement 75 has sub-headers throughout to assist users in applying the proper guidance. Sub-headers include:

## Defined Benefit

- Trusted Plans
  - **Defined benefit single and agent employers**
  - Defined benefit cost-sharing employers
  - Defined benefit special funding situations
- Non-trusted Plans
  - **Employer**
  - Stand alone statements
  - Special funding situations

Alternative measurement method

Insured plans

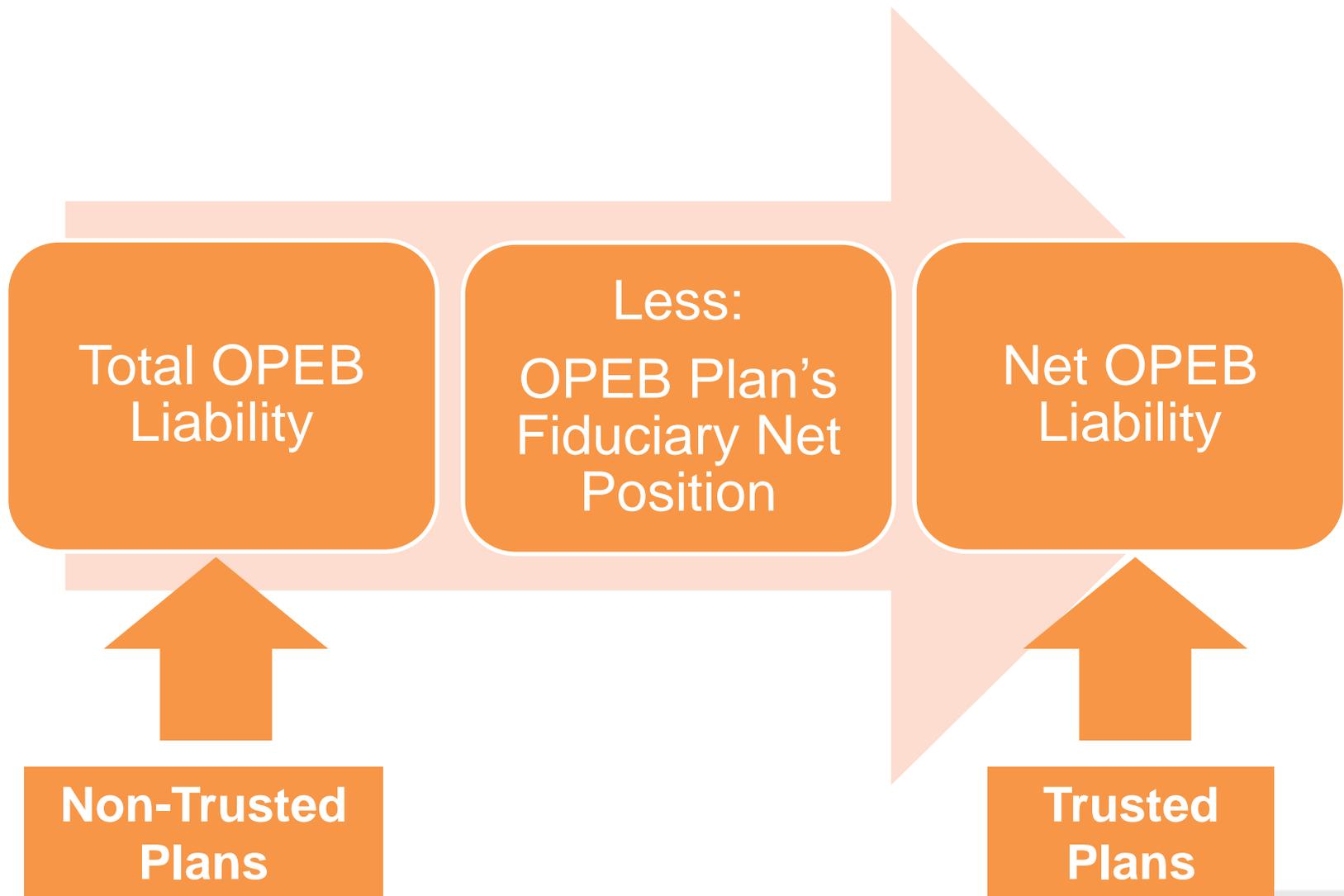
# Statement 75 Organization

Statement 75 has sub-headers throughout to assist users in applying the proper guidance. Sub-headers include:

## Defined Contribution

- No special funding situation
- Special funding situation

# Recognition of Total and Net OPEB Liability



# Total and Net OPEB Liability Measurement

Two timelines must be considered:

- 1) Net/Total OPEB liability should be measured as of the measurement date, which cannot be earlier than the employer's prior fiscal year and no later than employer's current fiscal year.
  - We will discuss why the measurement date more than likely will be your current fiscal year, if you have a trusted plan.

# Total and Net OPEB Liability Measurement

- 2) Net/Total OPEB liability should be determined by an actuarial valuation as of the measurement date or by using roll-forward procedures to the measurement date from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end
  - We will discuss next why the actuarial date more than likely needs to be within 24 months of the most recent fiscal year-end, if you have a trusted plan.

# Total and Net OPEB Liability Measurement

Earliest Possible Actuarial Date		Prior FYE	Current FYE
		Measurement Date Availability for GASB 75	
			Measurement date for GASB 74



Actuarial Date Availability for GASB 75			
	Actuarial Date Availability for GASB 74		
December 31, 2015	June 30, 2016	June 30, 2017	June 30, 2018

# Total and Net OPEB Liability Measurement

- When using an actuarial valuation that is dated before the measurement date, roll-forward procedures must be completed to roll forward the actuarial valuation information to the measurement date.
- If significant changes occur between the actuarial valuation date and the measurement date, professional judgment should be used to determine the extent of procedures needed and consideration should be given to whether a new valuation report is needed.
  - Change in discount rate could be a trigger for a new valuation report
- Actuarial valuations of the “total OPEB liability” should be performed at least biannually, more frequently is encouraged.

# Actuarial Assumptions

- Selection of all assumptions used in determining the total OPEB liability and related measures should be made in conformity with Actuarial Standard of Practice issued by the Actuarial Standards Board.
  - A *deviation* as used by the Actuarial Standard of Practice should not be considered in conformity with this statement.

# Actuarial Assumptions - Projected Benefit Payments

- Projected benefit payments should include:
  - All benefits provided to active and inactive employees in accordance with benefit terms and other legal requirements in force at the measurement date
  - Automatic and projected ad hoc (if substantively automatic) post-employment benefit changes including COLAs, projected salary and service credit changes
  - Taxes using rates in effect at measurement date
- Projected benefit payments should not include administrative costs.

# Actuarial Assumptions - Projected Benefit Payments

- Projected benefit payments should be based on claim costs or age-adjusted premiums approximating claim costs (in conformity with Actuarial Standards).
- Legal/contractual caps should be taken into consideration if they has been enforced historically.
- Benefit payments made from an allocated insurance contract should be excluded if contract irrevocably transfers responsibility, payments to acquire contract have been made and there is remote likelihood of required payments by the employer.

# Actuarial Assumptions - Attribution of Actuarial Present Value

- **Must** use the entry age actuarial cost method
- This is a change from GASB 45 which allowed for other methods that GASB 75 no longer allows.

# Actuarial Assumptions Discount Rate

**A single blended rate should be used to discount project future benefit payments, based on:**

Trusted

The long-term expected rate of return on OPEB plan investments (net of investment expenses) that are expected to be used to finance the payment of benefits to the extent that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested, using a strategy to achieve that return

**AND**

A yield or index rate for 20-year, tax-exempt general obligation (municipal) bonds with average rating of AA or higher, to the extent that the conditions above are not met.

# Actuarial Assumptions Discount Rate

**A single blended rate should be used to discount project future benefit payments, based on:**

Non-  
trusted

A yield or index rate for 20-year, tax-exempt general obligation (municipal) bonds with average rating of AA or higher, to the extent that the conditions above are not met

# OPEB Expense Recognition

The changes in net (trust) and total (non-trust) OPEB liability should be recognized in OPEB expense except as indicated below:	Trusted	Non-Trusted
<p>Differences between expected and actual experience and changes in assumptions should be recognized over a closed period equal to the average expected remaining service lives of all employees</p> <ul style="list-style-type: none"><li>- Unrecognized portion is deferred outflows or inflows</li></ul>	X	X
<p>Difference between projected and actual earnings on OPEB plan investments over a closed 5-year period.</p> <ul style="list-style-type: none"><li>- Unrecognized portion from different measurement periods should be aggregated and recognized as a net deferred outflow or inflow</li></ul>	X	N/A

# OPEB Expense Recognition

The changes in net (trust) and total (non-trust) OPEB liability should be recognized in OPEB expense except as indicated below:	Trusted	Non-Trusted
Employer contributions should <b>not</b> be recognized in OPEB expense.	X	X
Amounts paid by nonemployers should be revenue.	X	X
Administrative costs should be recognized in OPEB expense.	N/A	X
Employer contributions made subsequent to the measurement date should be a deferred outflow.	X	N/A
Amounts incurred for administrative expenses subsequent to the measurement date should be a deferred outflow.	N/A	X

# Polling Question #2

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# Current Financial Resources and Modified Accrual Basis of Accounting

- Total (non-trusted) or net (trusted) OPEB liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources.
- OPEB expenditures should be recognized equal to the total of
  - Amounts paid for OPEB as benefits come due
  - Change between beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

# Note Disclosure Requirements - General

- For both trusted and non-trusted single employer OPEB plans, employers must disclose:
  - Total of OPEB liabilities, net OPEB assets (only applicable to trusts), deferred outflows and inflows of resources related to OPEB and OPEB expense/expenditures associated with defined OPEB liabilities, as applicable, if not otherwise identifiable in the financial statements
  - If a primary government and component units are in the same OPEB plan, the disclosures in the reporting entity's financial statements should separate the primary government (including blended component units) and discretely presented component units

# Note Disclosure Requirements – Plan Descriptions

- For both trusted and non-trusted single employer OPEB plans, OPEB plan descriptions should include:
  - Name of plan, administrator of the plan, and that the plan is a single-employer plan
  - Benefit terms, including: classes of employees covered, types of benefits, key elements of the OPEB formula, terms of benefit changes, legal authority
  - Number of employees covered

# Note Disclosure Requirements – Plan Descriptions

## Additional plan description disclosure requirements

Trusted	Non-Trusted
Contribution requirements: basis for determining contributions, legal authority requirements, legal or contractual maximum rates, contribution rates, amount of contributions recognized by the OPEB plan during the reporting period	Fact that no assets are accumulated in a trust that meet all the requirements to be a trusted plan. If assets are accumulated in a trust that doesn't meet all requirements, must disclose each criterion not met.
Whether the OPEB plan issued a stand-alone financial report and how to obtain	Authority which requires employer to pay OPEB as benefits come due and amounts paid by the employer for OPEB benefits during the reporting period

# Note Disclosure Requirements - Assumptions

- For both trusted and non-trusted single employer OPEB plans, OPEB assumption disclosures regarding:
  - Inflation
  - Health care cost trend rates
  - Salary changes
  - Ad hoc postemployment benefit changes
  - Sharing of benefit-related costs with inactive employees
  - Source of mortality assumptions
  - Dates of experience studies
  - Discount rate used
  - Measures of the total (non-trusted) or net (trusted) OPEB liability for +/- 1% of the healthcare cost trend rate and +/- 1% of the discount rate

# Note Disclosure Requirements – Assumptions Discount Rate

- Additional discount rate disclosures are required for trusted plans:
  - Discount rate used and change in discount rate since prior measurement date, if any
  - Assumptions about projected cash flows
  - Long-term rate of return and how it was determined
  - Municipal bond rate used, if incorporated into the rate
  - Periods in which long-term rate of return is used and period municipal bond rate is used
  - Assumed asset allocations and long-term real rate of return for each asset class

# Note Disclosure Requirements - Other

- For both trusted and non-trusted single employer OPEB plans, OPEB other disclosures regarding:
  - Changes in the total (non-trusted) or net (trusted) OPEB liability
  - Measurement date
  - Actuarial valuation date (if roll forward procedures were used)
  - Changes in assumptions/benefit terms
  - Changes subsequent to the measurement date
  - OPEB expense for the period
  - Balance of deferred outflows and inflows and aggregate impact on OPEB expense in each of the next 5 years and thereafter
- Trusted plans need to disclose information about plan's fiduciary net position, if not publicly available

- 10-year schedule of changes in net OPEB liability that separately presents components included in footnote disclosure
- 10-year schedule presenting:
  - Total OPEB liability
  - OPEB fiduciary net position
  - Net OPEB liability
  - Net position as a percentage of total liability
  - Covered-employee payroll
  - Net OPEB liability as a percentage of covered payroll

- 10-year schedule related to employer contributions
  - Will be based on the actuarially determined contributions, if calculated or statute/contractual requirements.
- Notes to RSI include:
  - Significant methods and assumptions used
  - Factors that significantly affect trends
  - Investment related factors

- 10-year schedule of changes in total OPEB liability that separately presents components included in footnote disclosure
- 10-year schedule presenting:
  - Total OPEB liability
  - Covered-employee payroll
  - Total OPEB liability as a percentage of covered payroll
- Notes to the RSI Schedules include:
  - Fact that no assets are accumulated in a trust
  - Factors that significantly affect trends

# Transition Guidance

- There may be circumstances in which it is not practical for a government to determine the amounts of ALL applicable deferred inflows and deferred outflows related to OPEB. In such circumstances, the government should only report a beginning deferred outflow for:
  - Trusted OPEB plans, contributions made subsequent to the measurement date of the beginning net OPEB liability, but before the beginning of the government's fiscal year
  - Non-trusted OPEB Plans, the amount paid by the government for OPEB as benefits come due, subsequent to the measurement date of the beginning total OPEB liability but before the beginning of the government's fiscal year

# Transition Guidance

- No other beginning balances for deferred outflow or inflows should be reported in these circumstances.
- If restatement of all prior periods is not practical, the cumulative effect of applying this Statement should be reported as a restatement to beginning net position for the earliest period restated.
- Notes should disclose the nature of restatement and its effect. In addition, should disclose that restating prior periods *presented* was not practical.
- RSI 10-year schedules should present as many years as information is available in the year of implementation and should build up to 10 years in future reporting periods.

# Polling Question #3

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## Example #1 – Trusted Single Employer OPEB Plan

City of Trust and its OPEB plan have a June 30<sup>th</sup> year end and the following information related to their OPEB plan.

Item	Amount
GASB 45 OPEB Obligation, 6/30/17	\$600,000
Net OPEB Liability, 6/30/17	\$3,000,000
Net OPEB Liability, 6/30/18	\$3,500,000
Net OPEB Claims & Expense, FY 2018	\$1,500,000
Contributions to the Trust, FY 2018	\$800,000
Investment return over expectation – current year	\$200,000
Actuarial losses on liability – current year	\$180,000

## Example #1 – Trusted Single Employer OPEB Plan

- City of Trust has elected to not record any beginning deferred inflows and outflows other than that required by the standard.
- City of Trust's actuary determined the average remaining service life is 6 years.
- City of Trust is using a measurement date that is the same as its fiscal year-end.

# Example #1 – Trusted Single Employer OPEB Plan

## Prior-period adjustment:

Description	Debit	Credit
Net Position	\$3,000,000	
Net OPEB Liability		\$3,000,000
<b>To record beginning NOL</b>		
Net OPEB Obligation	\$600,000	
Net Position		\$600,000
<b>To remove GASB 45 liability</b>		

# Example #1 – Trusted Single Employer OPEB Plan

## Record FY 2018 Amount:

Description	Debit	Credit
OPEB Expense	\$2,810,000	
Deferred Outflows – Actuarial Losses	\$150,000	
Deferred Inflows – Investment		\$160,000
OPEB Payments/Contributions to Trust		\$2,300,000
Net OPEB Liability		\$500,000
<b>To record FY 2018 amounts</b>		

# Example #1 – Trusted Single Employer OPEB Plan

## OPEB Expense reconciliation:

Description	Amount
Change in Net OPEB liability	\$500,000
FY 2018 OPEB Payments	\$1,500,000
FY 2018 Contributions	\$800,000
Deferred outflow – Actuarial Losses	(\$150,000)
Deferred inflow – Excess Investment Earnings	\$160,000
<b>Total FY 2018 OPEB Expense</b>	<b>\$2,810,000</b>

## Example #2 – Non-trusted Single Employer OPEB Plan

Nontrusted County has a Dec. 31st year-end.

Item	Amount
GASB 45 OPEB Obligation, 12/31/17	\$600,000
Total OPEB Liability, 12/31/17	\$3,000,000
Total OPEB Liability, 12/31/18	\$3,500,000
Total OPEB Claims & Expense, FY 2018	\$1,500,000
Actuarial losses on liability – current year	\$180,000

## Example #2 – Non-trusted Single Employer OPEB Plan

- Nontrusted County has elected to not record any beginning deferred inflows and outflows other than that required by the standard.
- Nontrusted County's actuary determined the average remaining service life is 6 years.
- Nontrusted County is using a measurement date that is the same as its fiscal year-end.

## Example #2 – Non-trusted Single Employer OPEB Plan

Prior-period adjustment:

Description	Debit	Credit
Net Position	\$3,000,000	
Total OPEB Liability		\$3,000,000
<b>To record beginning TOL</b>		
Net OPEB Obligation	\$600,000	
Net Position		\$600,000
<b>To remove GASB 45 liability</b>		

## Example #2 – Non-trusted Single Employer OPEB Plan

### Record FY 2018 Amount:

Description	Debit	Credit
OPEB Expense	\$1,850,000	
Deferred Outflows – Actuarial Losses	\$150,000	
OPEB Payments		\$1,500,000
Total OPEB Liability		\$500,000
<b>To record FY 2018 amounts</b>		

## Example #2 – Non-trusted Single Employer OPEB Plan

### OPEB Expense reconciliation:

Description	Amount
Change in Total OPEB liability	\$500,000
FY 2018 OPEB Payments	\$1,500,000
Deferred outflow – Actuarial Losses	(\$150,000)
<b>Total FY 2018 OPEB Expense</b>	<b>\$1,850,000</b>

# Allocation to funds

- Similar to GASB 68, it is required that the OPEB liability should be allocated to a fund if **material** and if the liability is expected to be liquidated through resources of that fund.
- Could use the following bases for allocation:
  - Actuarially determined contributions (preferred, if calculated)
  - Premiums paid on behalf of the fund's employees
  - Entity-specific experience, including participations rates
  - Method for allocating just has to be reasonable.

# Keys to implementation

- Start discussions with your actuaries to make sure that they are aware of changes this statement made.
  - Some assumptions that could be used under Statement 45 are no longer available.
  - Deviations as used by the Actuarial Standard of Practice should not be used.
- Discuss timing with your actuaries to allow adequate time to implement this standard.
- Ensure that actuarial valuations and measurement dates used are in compliance with requirements.
- Ensure that all information is obtained for required footnote and RSI disclosures.

# Polling Question #4

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# Resources

- The full statement can be accessed for free on [gasb.org](http://gasb.org).
- Detail footnote examples are located in appendix C of the statement on pg. 203.
  - Footnote examples are organized by type of plan. These are great guides for drafting footnotes.
- Implementation guides for GASB 74/75 are set to come out during 2017.

# Thank you!

## Tara Laughlin, CPA, CFGM

Senior Manager, Assurance Services

✉ [Tara.Laughlin@aghlc.com](mailto:Tara.Laughlin@aghlc.com)

**in** [www.linkedin.com/in/tarajlaughlin](http://www.linkedin.com/in/tarajlaughlin)

📱 316.291.4043

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mike.ditch@aghlc.com