



Government

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Oh No...It's OPEB!

Other Postemployment Benefits Implementation of GASB Statement No. 75

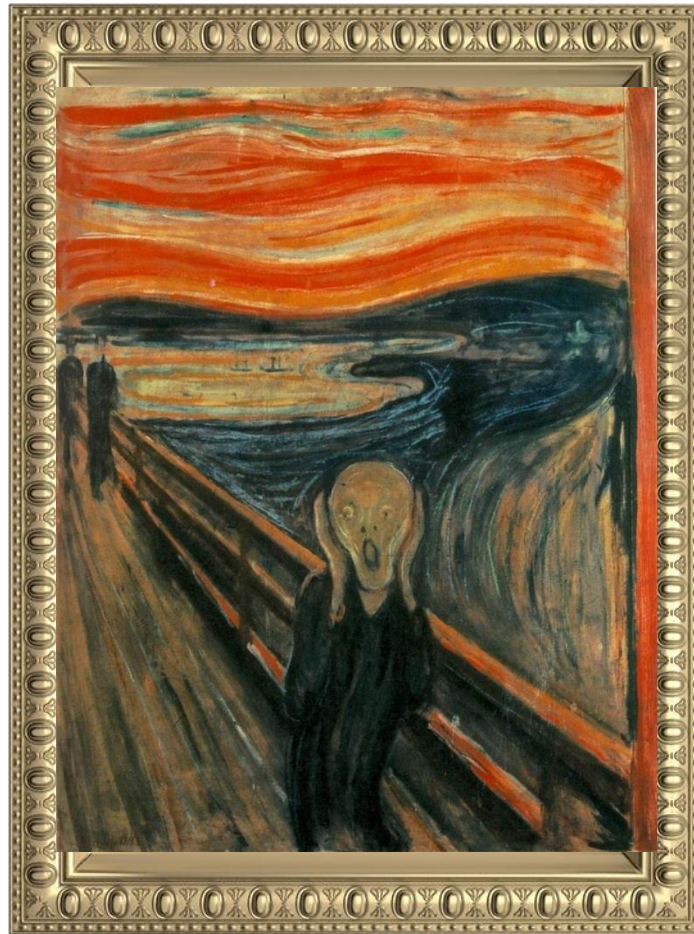
GFOAT Spring Institute 2018

Deborah Beams, CPA

Director, BKD

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Does OPEB Make You Want to Scream?



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OPEB and Texas – A History

- 2004
 - GASB 45 – original OPEB standard
 - Debate whether OPEB is really a liability
- 2007
 - HB2365 – Texas governments can opt out
- 2012
 - GASB fellow from Texas not assigned to OPEB project
- 2017
 - SB753 – Repeal of opt-out provision



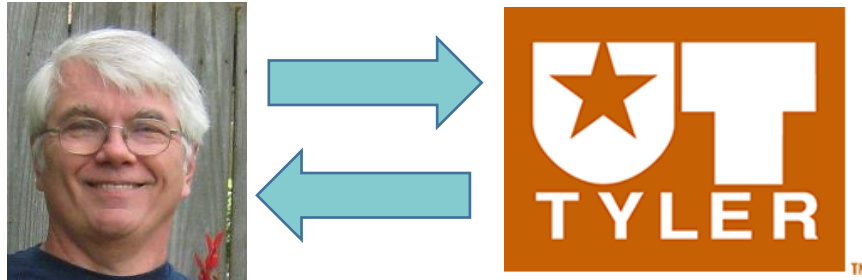
GASB 75 – A History

- 2004
 - GASB 45 – original OPEB standard
 - Debate whether OPEB is really a liability
- 2005 and 2007
 - GASB Concepts Statements No. 3 and 4 issued
- 2008
 - Postemployment benefits project started
 - Pensions (GASB 67 and 68) and OPEB (GASB 74 & 75)
- 2015
 - Debate whether OPEB is really a liability
 - GASB 74 and 75 issued

Is OPEB a Liability?

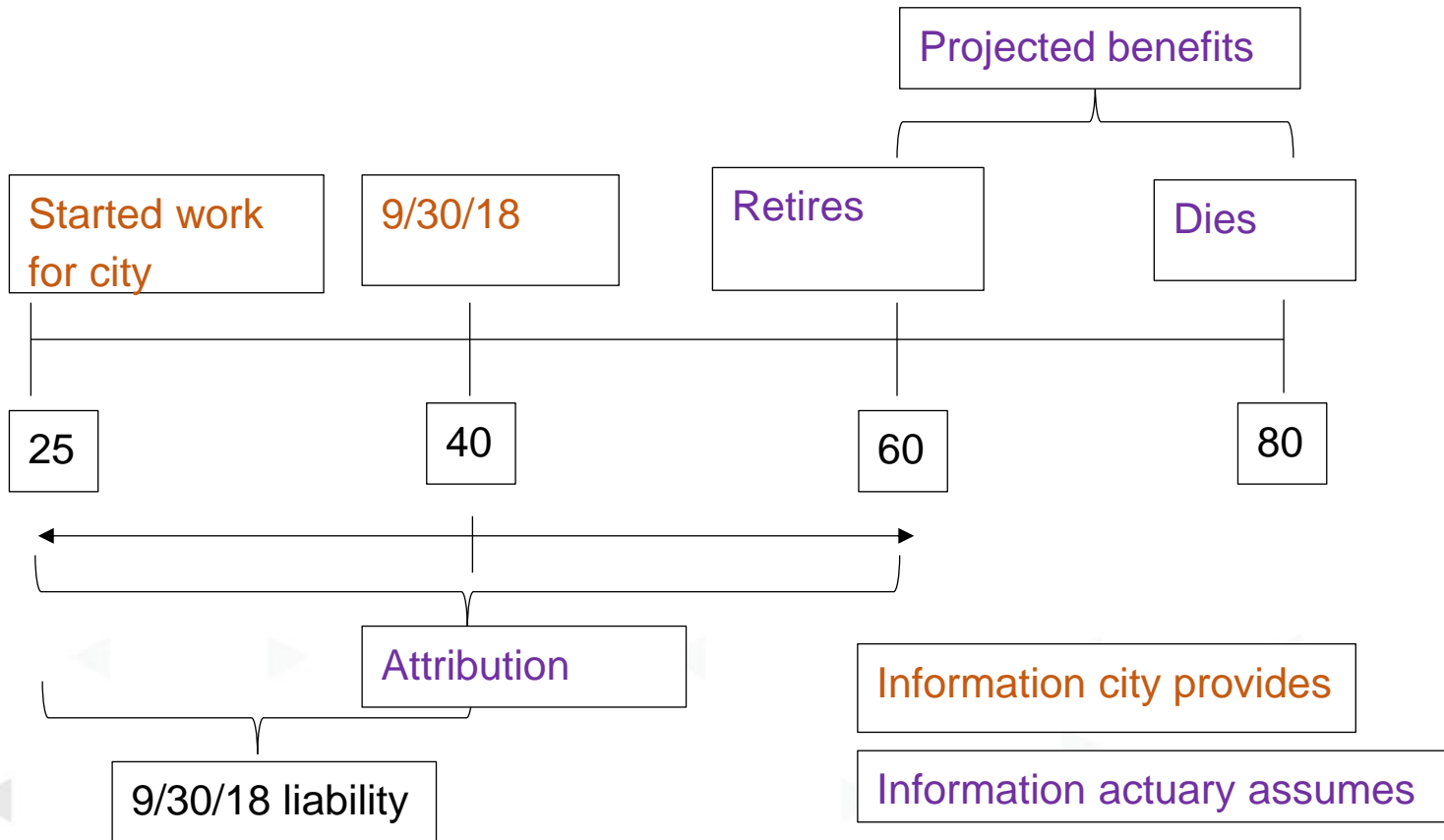
GASB Says Yes

Employer-Employee Exchange



- Employee provides services to government
- Government provides benefits to employee
- Benefits provided after retirement are earned while working

What is the OPEB Liability?



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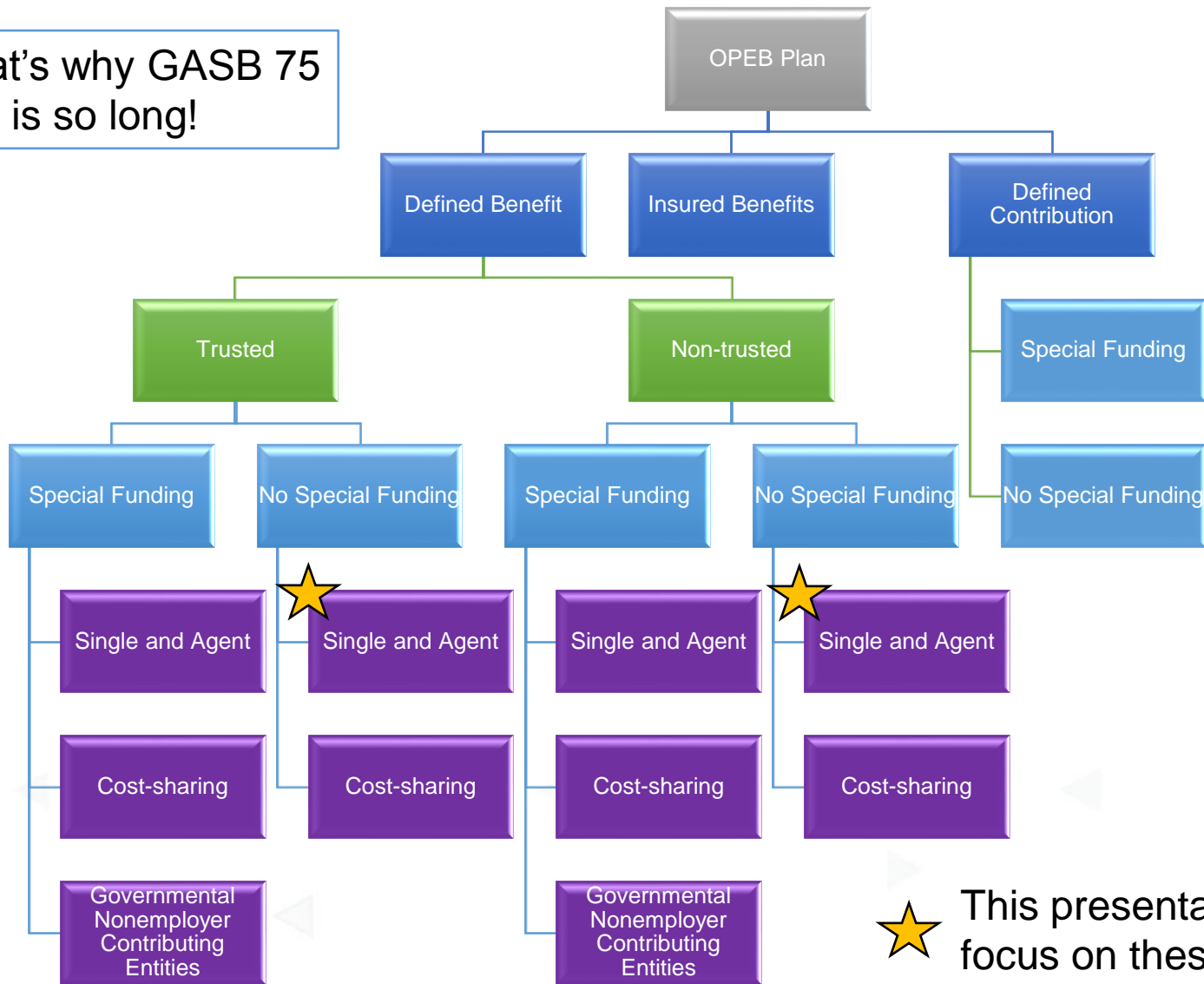
Do I have an OPEB Plan?

- Benefits paid after employment
 - Retiree healthcare – through pension plan or not
 - Payment of premiums or claims
 - Stipend paid to retiree to offset cost of outside plan
 - Implicit rate subsidy if retirees in same plan with actives
 - Life insurance, disability, long-term care – separate from pension plan
- Written plan document or policy not required

What Kind of OPEB Plan?

- Defined benefit or defined contribution
 - Individual employee accounts?
 - Who is responsible for funding deficiencies?
- Qualifying trust or no trust
 - Irrevocable contributions
 - Legally protected from creditors
- Special funding situation or not
 - Entity other than employer legally required to contribute
- Single employer, agent multiple, cost-sharing
 - How many employers are involved?
 - Primary government + component units = single employer

So that's why GASB 75 is so long!



★ This presentation will focus on these types

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Now What?

- Currently
 - OPEB liability = cumulative deficiency in annual required contributions
 - Unfunded liability was just disclosed:

Funded Status and Funding Progress

As of December 31, 2016, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$876,821, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$876,821. The covered payroll (annual payroll of active employees covered by the plan) was \$13,863,623, and the ratio of the UAAL to the covered payroll was 6.3%.

- GASB 75
 - OPEB liability = unfunded liability (total or net)

Changes in the OPEB liability

- Some will become deferred inflows/outflows

Item	When recognized
Differences between expected and actual experience	Over average expected remaining service lives of employees
Changes of assumptions	Over average expected remaining service lives of employees
Contributions after measurement date	Next fiscal year
(If trust) Difference between projected and actual earnings on investments	Over five-year period

- Everything else will flow through CY expense

Measurement Date

- Liability does not have to be measured at the end of the fiscal year
 - Except GASB 74 disclosures for trust
 - Measurement date can be anything in between end of previous fiscal year and end of current fiscal year
 - Fiscal year September 30, 2018 options:
 - September 30, 2017
 - December 31, 2017
 - September 30, 2018
 - April 17, 2018
- Will be common choices
- Not likely but a possibility!

Oh Actuary!

- Actuarial valuations at least every two years
 - As of the measurement date or
 - No earlier than 30 months prior, rolled forward
- Assumptions
 - Discount rate
 - Trust – long-term rate of return on plan investments
 - To the extent that plan is expected to have funds
 - No trust – 20-year tax-exempt AA muni bond rate
 - Healthcare trend rate
 - Entry age attribution method
- Evaluation of actuary qualifications

Reviewing the actuarial report

- Is the measurement date correct?
- Was the census data used accurate?
- How was the discount rate determined?
 - If a trust, was there a crossover point?
- Are there separate sensitivity analyses for +/- 1% in discount rate and in healthcare trend rate?
- Are deferred inflows/outflows deferred over an appropriate period of time?

Example Journal Entries

- Fact pattern for example
 - Fiscal year end September 30
 - Measurement date December 31
 - No OPEB trust

Journal Entries Needed

- Beginning of implementation year

Remove GASB 45 liability	GASB 45 liability	2,000,000	
	Net position		2,000,000
Add BOY GASB 75 liability	Net position	10,000,000	
	BOY GASB 75 liability		10,000,000
Add subsequent contributions	Deferred outflow - contributions	300,000	
	Net position		300,000

* Add other beginning deferred outflows/inflows if known

Net position, as previously reported	115,000,000
Change in accounting principle	(7,700,000)
Net position, as restated	107,300,000

Journal Entries Needed

- Annual recognition of GASB 75 amounts
- Activity during the year:
 - OPEB payments reduce OPEB liability; but
 - Many governments choose to record OPEB payments as OPEB expense during the year and true up at the end

OPEB expense	425,000	
Cash		425,000

Journal Entries Needed

- Annual recognition of GASB 75 amounts

Account	Ending Balance	Source
OPEB expense	935,000	Actuary report
Deferred outflow – experience*	120,000	Actuary report
Deferred outflow – assumptions*	330,000	Actuary report
Deferred outflow – contributions	310,000	Employer records
OPEB liability	10,970,000	Actuary report

* Could be deferred outflow or inflow, example using outflow

** Also would be deferred outflow or inflow for investment return, if trust

Journal Entries Needed

- Annual recognition of GASB 75 amounts

OPEB expense	510,000	*				
Deferred outflow - experience	120,000	**				
Deferred outflow - assumptions	330,000	**				
Deferred outflow - contributions	10,000	***				
OPEB liability		****	970,000			
<p>* 935,000 ending bal - 425,000 activity already recorded</p> <p>** After initial year, entry will be amount necessary to bring balance to equal actuary report</p> <p>*** 310,000 ending bal - 300,000 PY balance</p> <p>**** 10,970,000 ending bal - 10,000,000 PY balance</p>						

What if it's a cost-sharing plan?

- Each employer gets proportion allocation of:
 - Collective net OPEB liability
 - Collective deferred inflows/outflows
 - Collective OPEB expense
- Proportion based on contributions
 - City A contributions - \$3,500
 - All employer contributions - \$100,000
 - City A's proportion – 3.5%
- Change in proportion = deferred outflow/inflow

What if it's a cost-sharing plan?

Prior year proportion	3.25%		
PY collective net OPEB liability		42,000,000	
PY employer net OPEB liability			1,365,000
Current year proportion	3.30%		
CY collective OPEB expense		2,150,000	
CY employer OPEB expense			70,950
CY collective deferred outflows		350,000	
CY employer deferred outflows			11,550
CY collective net OPEB liability		44,500,000	
CY employer net OPEB liability			1,468,500
PY liab + CY expense + CY deferred		44,500,000	1,447,500
Difference - change in proportion – def. outflow		-	21,000

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Component units and funds

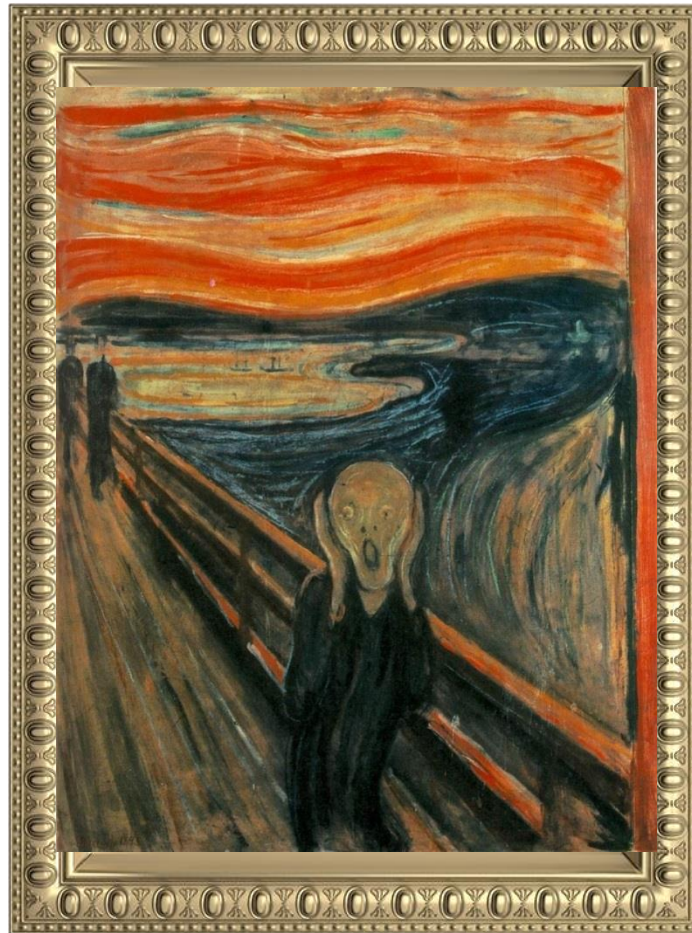
- Allocating the OPEB liability to funds
 - GASB 75 does not prescribe
 - General requirement for enterprise funds – directly related to and expected to be paid from
- Allocating the OPEB liability to component units
 - Treated as cost-sharing
 - In standalone reports and primary government notes
 - Same for blended or discretely presented

Disclosures and RSI

- Considerably more than GASB 45
- Most will be similar to GASB 68
 - Healthcare trend rate sensitivity
- RSI payroll measures
 - If no trust, covered-employee payroll
 - If trust (GASB 85 amendment):
 - Contributions based on pay, covered payroll
 - Contributions not based on pay, covered-employee payroll

Still Feel Like This?

Did you notice
these people?



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GASB 75 Resources

- GASB Implementation Guide – authoritative
- GASB Technical Inquiry service
- GFOA resource center
- BKD archived webinar – November 2017
- Bob Scott

Questions?

Thank You!