EXECUTIVE SUMMARY

# GASB Statements 74 and 75 – A New Approach to Accounting for Public Employer OPEB Plans

**Objective**

New accounting Standards to replace GASB 43 and 45 for OPEB plans such as retiree medical and retiree life insurance. The key results will be a ***much larger liability on the balance sheet and more volatile annual OPEB expense***.

**Key Concepts**

- ***Place the Net OPEB Liability (Unfunded Actuarial Liability )on the employer's balance sheet***. (Very different from current GASB 45 which only puts the contribution deficiencies relative to the Annual OPEB cost on the balance).

- The **Net OPEB Liability** is the Actuarial Liability under the pay-related ***Entry Age Normal*** method less market value of assets (adjusted for deferred inflows and deferred outflows).

- ***Potentially two discount rates*** – one for the funded (pre depletion date) benefits and a lower discount rate for benefits not covered by projected assets. In practice the actuary is asked to develop a single equivalent rate. May be different for different plans or different years for the same plan.

**OPEB Expense is**

**Service Cost** (pay-related entry age normal), plus

**Interest** on the Total OPEB Liability (or TOL)

Less **expected return** on adjusted Market Value of assets

Plus **amortization** over varying periods:

Immediately for

- The Net OPEB Liability on the implementation date
- Plan amendments (the entire change in Net OPEB Liability is recognized immediately)

Over the weighted average work life of active and nonactive participants (approximately 5-7 years) for

- Assumption changes
- Experience gains/losses

Over 5 years for investment gains or losses relative to the actuarial discount rate

**The Schedule**

| | |
|---|---|
| May 2014 | Exposure Draft published |
| June 2015 | Final Standard published |
| 2016-17 (#74) | Effective dates |
| 2017-18 (#75) | |

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## GASB Statements 74 and 75 add new requirements for public employer OPEB plans

The new actuarial requirements starting for plan years beginning after June 15, 2016 (GASB 74– for funded plans) and fiscal years beginning after June 15, 2017 (GASB 75) include:

- The Total OPEB Liability (TOL) must be shown as of the measurement date (which cannot be earlier than the end of the prior fiscal year).
- The actuary may roll forward the TOL from a valuation date not older than 30 months from the end of the current fiscal year. Actuarial valuations must be made biennually and annual valuations are encouraged.
- The actuarial valuation must use a pure pay-related version of entry age normal cost method (individual entry age normal for all plan benefits).
    - *Most OPEB plans have used the Projected Unit Credit Cost method for GASB 45 actuarial valuations. The new Entry Age cost method mandated by GASB 74/75 will result in a higher measured Net OPEB Liability which will appear on the City's balance sheet.*
- Multiple amortization schedules must be maintained for the investment gains or losses arising over each fiscal year and for the experience gains and losses
    - *Multiple amortization schedules must be maintained. GASB 75 OPEB expense will be more volatile than expense under GASB 45 due to the much shorter amortization periods and the immediate recognition of plan changes.*
- The Total OPEB Liability must be calculated at three interest rates: the valuation rate and that rate plus one percent and minus one percent
    - *Additional valuation runs are needed*
- The Total OPEB Liability must be calculated using benchmark healthcare trend and plus 1% trend and minus 1% trend
    - *Additional valuation runs are needed*
- The discount rate to be used is a blended rate based on the long term anticipated rate under the plan's asset allocation policy and a municipal bond index rate (MBI). The MBI rate is only needed if the current contributions will not be sufficient on a closed group basis.
    - *This can be a very significant requirement if the plan cannot demonstrate that the current contribution levels will be sufficient to provide all benefits for the current participant group based on a* ***closed group projection****. Contributions, benefit payments and assets are projected for the current participant group to determine a date as of which the fund would be depleted. The long term assumed return is used to discount benefit payments before the depletion date and the municipal bond yield is used to discount benefit payments after that date.*

GASB allows and encourages the early adoption of GASB 74/75.

*For more information on this topic contact Chuck Dean, FSA or Sean Sullivan, FSA (214-891-0990 ext 14 and 15 respectively).*

| Item | Current Funding | GASB 43, 45 and 57 | GASB 74 and 75 |
|---|---|---|---|
| **Plan liability** | AAL - Actuarial Accrued Liability | OPEB Liability | TOL - Total OPEB Liability |
| **Unfunded liability** | UAAL - Unfunded Actuarial Accrued Liability | Net OPEB Liability | NOL - Net OPEB Liability |
| **Actuarial Cost Method** | Choice of methods (Entry Age Normal is the most common) | Same as funding | Pure Entry Age Normal |
| **Current service** | Normal Cost | Same | now called Service Cost |
| **Discount rate** | Expected return on assets | Same | A blended rate of expected return and the return on municipal bond index (20 years, AA or better). Requires a Depletion Date Asset and Liability projection |
| **Asset Value** | Market value or smoothed (Actuarial) value | Market Value | Market Value now called Plan Net Fiduciary Position |
| **Amortization of Unfunded Obligation at implemantation** | Usually 30 years or less | Same | Immediate for implementation date NPL. Immediate for subsequent plan amendments. |
| **Amortization of investment Gain or Loss** | Usually 30 years or less | Same, but best practive is shorter amortization | 5 years, applied separately for each measurement period |
| **Amortization of Experience Gain or Loss** | Usually 30 years or less | Same, but best practice is shorter amortization | Spread over average work life counting both active employees and nonactives (retirees). Typically 5 to 7 years. |
| **Amortization of benefit changes (plan amendments)** | Usually 30 years or less | Same, but best practice is shorter amortization | Fully recognized in current year |
| **What is put on the balance sheet** | NA | Cumulative deficiency, if any, of employer contributions relative to funding policy | Entire NOL (i.e., the Unfunded Actuarial Liability) |