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FINE TUNING: TYING UP THE LOOSE ENDS OF OPEB ACCOUNTING

The views expressed in this presentation are those of the speaker. Official positions of the GASB are determined only after extensive due process and deliberation.

OVERVIEW OF TODAY'S SESSION

- × Introduction

 - + GASB activities: past, present, and future

- × Implementation issues

 - + GASB technical inquiries

 - + GFOA review comments

- × Wrap-up & additional questions

INTRODUCTION— PAST, PRESENT, AND FUTURE

A LOOK BACK

- × May 1990—Statement 12
- × November 1994—Statement 26
- × September 1995—Deliberations began
- × Early 1997—Deliberation placed on hold
- × August 1999—Deliberations restarted
- × February 2003—Exposure Drafts
- × January 2004—Revised Employer Exposure Draft
- × March 2004—Statement 43
- × June 2004—Statement 45
- × June 2005—Implementation Guide
- × December 2004—Technical Bulletin 2004-2
- × June 2006—Technical Bulletin 2006-1
- × December 2008—Technical Bulletin 2008-1
- × December 2009—Statement 57

RECENT ACTIVITIES

× Statement 57

- + December 2009

- + OPEB issues related to agent employers and agent multiple-employer plans

 - × Alternative measurement method

 - × Frequency and timing of actuarial valuations

- + AMM provisions effective immediately

- + Other provisions effective for funded status information first presented in plan financial statements in periods beginning after June 15, 2011

A LOOK AHEAD

- × Postemployment Benefits Accounting and Financial Reporting project
 - + Preliminary Views on employer *pension* issues
 - + Project plans to separately consider:
 - × Additional employer accounting issues
 - × Plan accounting and reporting
 - × Note disclosures
 - × OPEB

IMPLEMENTATION ISSUES

IMPLEMENTATION ISSUES: EFFECTIVE DATES

× Statement 45 (Employers)

+ Based on phase of government for Statement 34

× Phase 1: periods beginning after December 15, 2006

× Phase 2: periods beginning after December 15, 2007

× Phase 3: periods beginning after December 15, 2008

× Statement 43 (Plans)

+ Based on participating employers: one year earlier

COORDINATION WITH OTHER STANDARDS

- × Sole employer—Statement 10 coordination
 - + Activity associated with active employees falls under Statement 10
 - + Activity associated with retiree benefits falls under Statement 45

FREQUENCY AND TIMING OF MEASUREMENTS

× Frequency

- + 200 or more plan members—at least biennially
- + <200 plan members—at least triennially
- + In multiple-employer plan, employers at least as frequently as is required for the plan

× Valuation date

- + Within 24 months of beginning of employer reporting period for which it first determines the ARC
- + Within 24 months of end of plan fiscal year
- + Plan and employer(s) need to coordinate timing of valuations to meet both requirements

PROJECTION OF BENEFITS

- × Community-rated classification
 - + 2-step evaluation process
 1. Is plan community rated?
 - * Multiple employers
 - * Premiums based on claims experience of all employers
 - * Same unadjusted premiums charged for actives and retirees of all employers
 2. If community rated, does it qualify for the exception?
 - * Individual employer evaluation
 - * If all members of the employer were non-Medicare-eligible retirees, would the same rates be charged?
 - + Effect on the calculation if qualify and choose to use the community-rated exception

DISCOUNT RATE

- × Long-term expected yield on investments expected to be used to finance the benefits
 - + If funding policy is to contribute at least the ARC, look at plan investments
 - + If no plan assets, look at employer investments
 - + If some plans assets, but contribution policy $<$ ARC, blended rate reflecting proportionate amounts of assets expected to be used

AMORTIZATION PERIODS

- ✘ When single rate used to amortize UAAL, maximum 30-year period
- ✘ If components of UAAL are amortized separately, weighted average period must be 30-years or less
- ✘ Minimum period of 10 years applies only to decrease in UAAL due to:
 - + Change in actuarial cost method
 - + Change in method of determining actuarial value of plan assets

ADJUSTMENTS TO THE ARC

- × One result of actuarial measurement is the ARC
- × If there is a beginning net OPEB obligation, ARC is not expense

ARC

+/- Interest (beg. net OPEB obligation x discount rate)

-/+ ARC adjustment (beg. net OPEB obligation / amortization factor)

Annual OPEB cost = expense

ADJUSTMENTS TO THE ARC

- × For funding, appropriate to consider total unfunded amount in determining ARC
- × However, for accounting, don't want to double-count amounts that were incorporated into past ARCs but were not funded
- × Purpose of adjustments is to reverse out (an estimate of) the piece of the ARC that was accounted for in prior period
- × Adjustment methodology specified

ADJUSTMENTS TO THE ARC

× Technical Bulletin 2008-1

+ What if you know the amount of the ARC associated with past under- or overcontributions?

× May use known amount rather than estimation approach described in Statement for ARC adjustment

× When might this occur?

★ Actuary separately tracks and amortizes component of the UAAL related to past under-/overcontributions

OR

★ Year 2 (and possibly year 3) of implementation when new ARC is not calculated for that period

× ARC adjustment = \$0

× Interest adjustment still applies

ADJUSTMENTS TO THE ARC

- × If amount of ARC for past under- / overcontributions is *not* known, what to do when same ARC (ARC rate) is applied is applied for multiple periods?
 - + Same process each period
 - + Basis for the adjustments would be beginning net OPEB obligation in each period
 - + Apply estimation methodology from Statement

ADJUSTMENTS TO THE ARC

- × What if the alternative measurement method is being used to determine the ARC?
 - + Same approach as for ARC developed from actuarial valuation

CONTRIBUTIONS

- × Payment of benefits (claims or premiums)
 - + Includes amounts notionally thought of as for active employees but that pay “implicit subsidy”
- × Transferred assets to a qualifying OPEB plan trust

CONTRIBUTIONS

- × If employer pays premiums (or claims) directly and is then reimbursed by the OPEB plan, should the payment of premiums (or claims) be considered a contribution in relation to the ARC in the period the payment is made?
 - + No. Initial transfer of assets to the OPEB plan would be accounted for as a contribution.
 - + Employer recognizes a receivable from the plan when premiums (claims) paid, receipt of reimbursement settled the receivable

CONTRIBUTIONS

- × Employer transfers assets
 - + To a third-party that is not a qualifying OPEB plan trust
 - + In amounts greater than pay-as-you-go
- × Amounts greater than pay-as-you-go not considered a contribution
- × Assets accumulated by the third party remain employer assets for financial reporting purposes
- × Contributions only considered to be made when assets held by third party used to make benefit payments

CONTRIBUTIONS

- × When made from more than one fund
 - + Allocation of the ARC required
 - + Other components of annual OPEB cost (interest adjustment, ARC adjustment) follow ARC
 - + Any resulting net OPEB obligation recognized in accrual-basis funds
 - + Total net OPEB obligation, if any, shown in government-wide statement of net assets

CONTRIBUTIONS

- × Allocation to more than one fund
 - + Statement 45 does not specify basis
 - + Examples include:
 - × Actual contributions to the plan
 - × Covered payrolls

CONTRIBUTIONS—USE OF AN ISF

- × Use of ISF by sole employer for actives and retirees, no OPEB trust—Alternative 1
 - + Consider OPEB contributions to be made from ISF
 - × Annual OPEB cost and any resulting net OPEB obligation pertain to ISF
 - × Cost-reimbursement on accrual basis in ISF
 - × If funds not transferring full annual OPEB cost to ISF
 - ★ ISF reports interfund receivable for accumulated difference
 - ★ All funds, including governmental funds, report an interfund payable for accumulated differences

CONTRIBUTIONS—USE OF AN ISF

- × Use of ISF by sole employer for actives and retirees, no OPEB trust—Alternative 2
 - + Use of a “pass-through” account in ISF
 - × Payments in from other funds and payments out for claims/premiums
 - × ISF ultimately reflects only active employee activity
 - × Individual contributing funds report their portions of benefit payments (contributions) and allocated shares of annual OPEB cost and any resulting net OPEB obligation
 - ★ Modified-accrual basis in governmental funds
 - ★ Accrual-basis in proprietary funds

REPORTING THE NET OPEB OBLIGATION (ASSET)

- × If more than one plan, all recognition requirements apply separately for participation in each plan
 - + Determined by restrictions, if any, on assets (existing or hypothetical) in the plan
 - + Separate display is not necessary; however, OPEB liabilities and OPEB assets to different plans should not be offset
- × Net OPEB obligation is reported as a long-term liability—no amount due within one year

COST-SHARING ISSUES

- × Community rating and cost sharing are different
 - + Both involve multiple employers
 - + Both involve the application of a single cost structure among employers
 - + Both involve pooling of benefit risk
 - × Community rating is short term (annual premium structure)
 - × Cost-sharing is longer term (liabilities)
 - + Cost sharing also includes pooling of assets in a qualifying OPEB plan trust for purposes of paying benefits to any employer's plan member

COST-SHARING ISSUES

- × Accounting is based on contractually required contributions (CRCs) rather than ARCs
- × Differences between CRCs and actual contributions reported as OPEB liability or asset
- × If don't qualify as cost-sharing because no qualifying OPEB plan trust, then report as agent employer

COST-SHARING ISSUES

- × Cost-sharing is not the same as defined contribution
 - + DC involves contributions while active and individual member accounts
 - + Similar accounting results
 - + Important to understand distinction—descriptions matter (ex. certain recent legislative efforts)

ALTERNATIVE MEASUREMENT METHOD

- × Employers with fewer than 100 plan members
- × Calculations and selection of assumptions should be guided by actuarial standards
- × Certain assumptions may be simplified

EMPLOYER NOTE DISCLOSURES

- × Describe the plan
 - + Name of the plan
 - + Type of plan (single employer, agent multiple employer, or cost sharing multiple employer)
 - + Types of benefits provided
 - + Citation of authority for establishment of / amendment to the plan
 - + Whether plan issues a stand-alone financial report or is included in the report of a PERS or another entity
 - × If so, how to obtain the report

EMPLOYER NOTE DISCLOSURES

- × Describe the funding policy
 - + Citation of authority under which contribution rates are established / amended
 - + Required contribution rate(s) of plan members
 - + Required contribution rate(s) of employer
 - × Legal or contractual maximum contribution rates, if any
 - × If required contribution differs from ARC, describe how rate is determined
 - × If cost-sharing:
 - ★ Disclose \$ amount of required contributions and % of required amount contributed—current year & prior 2 years
 - ★ Describe how rate is determined or that it is pay-go

EMPLOYER NOTE DISCLOSURES

× Sole and agent employers

+ Current year—show the following components of annual OPEB cost:

ARC

+/- Interest on the net OPEB obligation

-/+ ARC adjustment

Annual OPEB cost

- Actual contributions

+/- Change in net OPEB obligation

Beginning net OPEB obligation

Ending net OPEB obligation

EMPLOYER NOTE DISCLOSURES

× Sole and agent employers

+ Current year—show the following related to most recent actuarial valuation:

Actuarial valuation date

Actuarial value of assets (AVA)

Actuarial accrued liability (AAL)

Unfunded actuarial accrued liability (UAAL) [AAL-AVA]

AVA as % of AAL

Annual covered payroll

UAAL as a % of annual covered payroll

+ If aggregate used for ARC, information above must be presented on entry age basis

EMPLOYER NOTE DISCLOSURES

× Sole and agent employers

+ Three most recent years (current and 2 immediately prior)

Year	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Ending Net OPEB Obligation
20X1	\$XXX,XXX	XX.X %	\$ XXX,XXX
20X2	XXX,XXX	XX.X	XXX,XXX
20X3	XXX,XXX	XX.X	XXX,XXX

EMPLOYER NOTE DISCLOSURES

- × Sole and agent employers
 - + Narrative disclosures identified in Statement
 - + Information about actuarial methods/assumptions
 - × Actuarial cost method
 - × Method used to determine actuarial value of assets
 - × Inflation rate
 - × Invest return rate (including information about method of determining a blended rate, if applicable)
 - × Benefit increases
 - × Projected salary increases
 - × Healthcare cost trend rate
 - × Amortization method (level \$, level % of pay)
 - × Amortization period and whether open or closed
 - × If aggregate used for ARC, disclose use of entry age for funded status/progress information

EMPLOYER RSI

- × Sole and agent employers
 - + Funded status info for three most recent valuations
 - × If aggregate for ARC, use entry age to present RSI
 - + Factors significantly affecting identification of trends
- × Cost-sharing employers
 - + No RSI requirement unless plan does not issue Statement 43 information
 - × Present schedules of funding progress and employer contributions (from Statement 43) for plan as a whole and include information to understand the scale of the information relative to the employer

PLANS (I)

- × When does Statement 43 apply?
 - + All defined benefit OPEB plans (trusts) that meet the requirements for a qualifying OPEB plan trust
 - × Dedicated purpose (OPEB)
 - × Contributions irrevocable
 - × Protected from creditors
 - + Multiple-employer defined benefit plans that do not meet the criteria

PLANS (II)

- × Reporting a plan in a sponsor's financial statements
 - + Criterion for inclusion is in Statement 14—does the sponsor have fiduciary responsibility for the plan (trust)
 - + If the sponsor (1) is also an participating employer and (2) reports the plan in its financial statements, then coordinate presentation of note disclosures/RSI to avoid duplication
 - + If separate plan financial statements are not available and sponsor includes more than one plan in its financial statements, should present financial statements for *individual* OPEB plans in notes (separate columns)

PLANS (III)

- × Specific display issues

- + Statement of plan net assets

- × Present plan assets by major categories of assets held (cash and cash equivalents, receivables, investments, assets used in plan operations)
 - × Principal components of receivables and investments (by investment type) should be displayed

PLANS (III)

× Specific display issues

+ Statement of changes in plan net assets

× Additions should separately display

- ★ Contributions from employer(s)—includes benefit payments that are not run through the trust (constructive receipt)
- ★ Contributions from plan members
- ★ Contributions from sources other than the employer(s) and plan members
- ★ Net investment income, including its components

× Deductions include separate display of

- ★ Benefits and refunds paid to plan members—includes benefit payments that are not run through the trust (constructive payment)
- ★ Total administrative expense

PLANS (IV)

× Note disclosures

+ Description of plan

- × Type of plan (single-employer, agent, cost-sharing)
- × Number of participating employers
- × Classes of employees covered
- × Number of plan members
 - ★ Break out # in active service, terminated employees with benefit accruals but not yet receiving, retired employees and beneficiaries
 - ★ If closed to new members, disclose that fact
- × General benefit provisions (types of benefits, policies with regard to COLAs, and authority for establishing/amending benefits)

PLANS (IV)

- × Note disclosures (cont.)

- + Significant accounting policies

- × Basis of accounting, including policy for recognition of contributions, benefits paid, refunds paid
- × How fair value of investments is determined—methods and assumptions if based on other than quoted market prices

PLANS (IV)

- × Note disclosures (cont.)
 - + Contributions and reserves
 - × Authority under which contribution requirements are established/may be amended
 - × Funding policy
 - ★ How contributions of entities are determined
 - ★ How costs of administering the plan are financed
 - ★ Legal or contractual contribution rates, if any
 - × Required contribution rate(s) of plan members, if applicable
 - ★ As amount per member or as a percentage of covered payroll
 - × Terms of any long-term contracts for contributions and amounts outstanding at the reporting date
 - × Balances in the plan's legally required reserves and description of purpose

PLANS (IV)

- × Note disclosures (cont.)
 - + Funded status as of the most recent actuarial valuation date
 - + Narrative information about actuarial calculations from Statement
 - + Reference to multi-year information in RSI
 - + Methods and assumptions used

PLANS (IV)

- × Note disclosures (cont.)

- + For plan presented in employer financial report, if publicly available stand-alone report that complies with Statement 43 is issued

- × Reduced plan note disclosure requirements for presentation in employer's report

- ★ Plan description—plan type and # of participating employers

- ★ Summary of significant accounting policies

- ★ Description of long-term contracts for contributions and amounts outstanding

- ★ Information about how to obtain the stand-alone plan financial report

PLANS (V)

× RSI

+ Schedule of funding progress—three most recent valuations

× If aggregate for ARC, use entry age for funding progress

+ Schedule of employer contributions—three most recent valuations

Year	ARC (in \$)	% of ARC Contributed by Employers
20X1	\$XXX,XXX	XX.X %
20X2	XXX,XXX	XX.X
20X3	XXX,XXX	XX.X

PLANS (VI)

- × Other issues

- + Pensions plan(s) and OPEB plan(s) should be reported separately

WRAP-UP & ADDITIONAL QUESTIONS

RESOURCES

- × Implementation Guide
- × Technical inquiry submission form—
www.gasb.org