The Future is Now: Implementing GASB Guidance on Pension and OPEB

Tuesday, May 24, 2016 | 10:20 a.m. to 12:00 p.m. | 1.5 CPE

Moderator: Debra Roberts, MBA, CPA, CRC, Director of Finance, Maryland Supplemental Retirement Plans, Baltimore, MD

Speakers: Jeff Markert, Partner, KPMG, LLP, New York, NY
Bob Scott, Assistant City Manager/Chief Financial Officer, City of Carrollton, Carrollton, TX
Rocky Joyner, Vice President and Actuary, Segal Consulting, Atlanta, GA
Todays presenters

Facilitator 1
Jeff Markert
Partner
KPMG LLP

Facilitator 2
Bob Scott
CFO/Assistant City Manager
City of Carrollton, Texas

Facilitator 3
Leon F. (Rocky) Joyner, Jr.
Vice President and Actuary
Segal Consulting
Agenda

— Pensions
  ▪ Supporting Actuarial Assumptions
  ▪ Year 2 Considerations
  ▪ Statement No. 73
  ▪ Statement No. 78
  ▪ Statement No. 82

— Other Post Employment Benefits (OPEB)
  ▪ Overview of Employer Standard (Statement No. 75)
  ▪ Highlights of Plan Standard (Statement No. 74)
Supporting actuarial assumptions
## Actuarial reports

<table>
<thead>
<tr>
<th>Accounting Valuation</th>
<th>Funding Valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used to calculate total pension liability of plan</td>
<td>Used to calculate actuarially determined contribution</td>
</tr>
<tr>
<td>Assumptions driven by GASB 67/68</td>
<td>Assumptions driven by Plan’s board and/or State law</td>
</tr>
<tr>
<td>Designed to measure total pension liability as of measurement date</td>
<td>Designed to fully fund plan by a certain date</td>
</tr>
<tr>
<td>Plan Net Position is used to determine Net Pension Liability</td>
<td>Actuarial value of assets are used to determine unfunded actuarial accrued liability</td>
</tr>
</tbody>
</table>
Employer responsibilities

— Establishing financial reporting processes and controls over measurement of pension amount
  ▪ Reporting processes and controls will be different depending on type of plan (single-employer, agent, or cost-sharing)

— Supporting assumptions with appropriate, reliable, and verifiable information
  ▪ Not sufficient to rely solely on assumptions provided by plan or plan actuary
  ▪ Significantly higher level of responsibility for single-employer and agent plans
    • Discount rate
    • Long-term expected rate of return on plan
    • Mortality
    • Underlying census data
Practice challenges related to accounting valuations

— Accounting valuations not including necessary information, such as discount rate calculation
— Lack of employer involvement in establishment of assumptions
— Lack of documentation supporting actuarial assumptions
— Not updating reviewing assumptions each year
— Misunderstanding of relationship of assumptions used for “best estimate” measurement of net pension liability under GASB 68 vs. assumptions used for funding valuations that affect current measurement period
— Assumptions being changed for subsequent funding valuation but not for measurement of net pension liability as of current measurement date
Long-term rate of return – When is it used?

Measure total pension liability

Develop actuarially determined contribution
Long-term rate of return – How is it determined?

Actuarially Determined Contribution
- Pension board selects rate
- Based on best-estimate of future real rates of return
- Based on overall funding policy

Total Pension Liability
- Management selects appropriate rate
- Based on best-estimate of future real rates of return
- Point-in-time estimate at measurement date
Support for long-term rate of return

— Should be forward-looking
— Usually based on analysis of expected returns correlated to target asset allocation as of measurement date
— Consider inputs to assumption (i.e., inflation factor) to determine if reasonable based on plan investments, investing strategy and market conditions
— Validate individual rates for each asset class

Investment advisor often helps develop the long-term rate of return, based on building block approach, Monte Carlo simulation or proprietary method
Changes in long-term rate of return assumption

— Understand why it is or is not changing:
  - Did asset allocation change?
  - Did market conditions change?
— Determine if change is appropriate and supportable

Management changed asset allocation resulting in lower expected returns

The Board voted to change the rate
Mortality assumption

— Unique to each plan
  ▪ May be based on standard tables modified for employer characteristics
  ▪ Large employers may use own experience
  ▪ One-size does not fit all
— Understand why a certain table and improvement scale is being used
  ▪ Most current improvement scale may or may not be appropriate

Mortality assumption needs to be reviewed each year and must include allowance for future improvement!
Change in assumption scenario – plan and employer

— The City of Schermer Pension Plan uses a valuation date as of July 1, 2014 and rolls forward the total pension liability to the Plan’s year end of June 30, 2015.

— The City of Schermer (employer) measures its total pension liability as of June 30, 2015 for their fiscal year ended June 30, 2016.

— The Plan uses 1) a long-term rate of return of 7.5%, and 2) the RP-2000 mortality table, as adjusted.

— In August 2015, the Plan completes its July 1, 2016 funding valuation using certain assumptions that have been changes. Specifically, the valuation uses 1) a long-term rate of return of 7.25%, and 2) the MP-2015 mortality tables.
Change in assumption scenario – plan and employer

— When the auditor asked management why the rate changed, they stated it was due to the pension board voting to change the rate.

Question: What should the City and Plan do?
Management considerations for changes in assumptions

1. What is the reason for the plan changing the assumptions?

2. Is the change in assumption based on a future change in asset allocation?

3. Is it appropriate to have different long-term rates of return for funding and accounting purposes?

4. What is impact if the current financial statements were issued without considering the change for subsequent funding valuation?

Assumptions needs to be reviewed each year! Consider all relevant information available when plan financial statements are issued.
Key take aways

— Accounting valuation reports should include a discount rate calculation
  ▪ Focus on appropriateness of projected contributions when evaluating the discount rate calculation
  ▪ Perform retrospective analysis on prior discount rate calculations to determine whether assumptions are appropriate

— For single-employer plans, both employer and plan management are responsible for the actuarial assumptions

— For agent plans, the employer management is solely responsible for actuarial assumptions

— For cost-sharing plans, the plan management is primarily responsible for actuarial assumptions
Key take aways (continued)

— Actuarial assumptions for single-employer and cost-sharing plans should consider all relevant information through the date the plan financial statements are issued.

— Actuarial assumptions for agent plans should consider all relevant information through the date the individual employer financial statements are issued.

— Consider whether changes made in the subsequent funding valuation should be incorporated into current measurement of total pension liability for financial reporting purposes.

— Employer management should “look-through” to the plans to determine what information was available at the time the plan financial statements were issued.
Key take aways (continued)

— Actuarial assumptions needs to be reviewed each year
  ▪ Actuarial experience study may serve as the starting point, but all other relevant factors must be considered
  ▪ Long-term rate of return is forward looking and is usually based on analysis of expected returns correlated to target asset allocation as of measurement date
    • Historical investment returns are only a secondary consideration
  ▪ Mortality assumptions should consider future mortality improvement
— Management’s evaluation and consideration of actuarial assumptions needs to be documented each year
Year 2 considerations
Discount rate (cross-over) calculation

— Evaluation required every year
  - Understand changes to plan provisions that would affect projection of fiduciary net position
  - Need appropriate documentation over discount rate

— Retrospective review
  - Compare actuals from last year to corresponding projections used

— Employer contributions
  - Consider short-falls in employer funding
  - Change to average of last 5 years contributions if necessary
  - Be skeptical of declining normal costs or rapid benefits from adding a tier for new employees
    - Benefits from prospective changes usually accrue slowly
Cost-sharing employers

— Allocation basis
  ▪ Large change in proportion is indicator that allocation methodology may be flawed

— Schedule of Pension Amounts by Employer
  ▪ Reports cumulative deferred outflows and inflows of resources
  ▪ Correct application of layering
  ▪ Changes to average of expected remaining service lives of all members
  ▪ Consider prior year balances when performing proof
### GASB 68 schedules – Do they balance?

- Test to determine if schedule as a whole or individual employers balance
  - Debits and credits of individual employers likely will not balance
  - Should be small or no difference

<table>
<thead>
<tr>
<th>Change in Net Pension Liability</th>
<th>Change in Deferred Outflows of Resources</th>
<th>Change in Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
<tr>
<td>Pension Expense</td>
<td>Contributions During Measurement Period</td>
<td></td>
</tr>
</tbody>
</table>
Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68
Amendments to statements 67 and 68

— Clarifies application of certain provisions of Statements 67 and 68

- Information required to be presented as notes to the 10-year schedules of RSI about investment-related factors that significantly affect trends in reported amounts
- Accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities
- Timing of employer recognition of revenue for support of non-employer contributing entities not in a special funding situation

**Effective for June 30, 2016 year-ends**
**Retroactively apply by restating all periods presented**
Assets accumulated for pensions not administered as trusts

- Assets accumulated for pensions reported as assets of employer or non-employer contributing entity
- Assets held by government in a fiduciary capacity for other governments should be reported in agency fund

Effective for June 30, 2016 year-ends
Retroactively apply by restating all periods presented
Pensions provided through plans not administered as trusts

— Follows principals of Statement No. 68 for measurement, financial reporting and disclosure

— Key difference – No investment or pension plan related amounts or disclosures

  • Discount using 20-year tax exempt high quality municipal bond index
  • Total Pension Liability recorded by employer
  • No deferral relating to differences between expected and actual earnings on plan investments
  • No expected return on plan investments component of pension expense

• No investment related disclosures
• No discount rate calculation disclosures

Effective for June 30, 2017 year-ends
Retroactively apply by restating all periods presented, if practical.
Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans
Multiple-employer defined benefit pension plans

— Objective

- Address practice issues for employers participating in certain non-governmental cost-sharing multiple employer defined benefit pension plans (e.g. Taft-Hartley plans)

— Scope and Applicability

- Establishes accounting and financial reporting standards for employers that participate in a cost-sharing multiple-employer defined benefit pension plan that:
  - Meets criteria of paragraph 4 of Statement 68;
  - Is not a state or local governmental pension plan;
  - Provides pensions to employees of state or local governmental employers as well as non-governmental employers; and
  - Has no predominant state or local governmental employer

— Effective for December 31, 2016 year-ends
Statement No. 82, 
*Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*
Pension issues

— Objective
  ▪ Address specific pension issues identified during the implementation of the new pension standards, specifically:
    • Presentation of payroll related measures in required supplementary information
    • Selection of assumptions and treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes
    • Classification of payments made by employers to satisfy employee contribution requirements

— Effective for June 30, 2017 year-ends
Pension issues – Required supplementary information

— Schedule of Changes in Net Pension Liability and Related Ratios

- Covered payroll is payroll measure that should be presented in the ratios
- Covered payroll is the payroll on which contributions to a pension plan are based
- Applies to plan (GASB 67) and employer (GASB 68) disclosures
Pension issues – Assumptions and employer-paid member contributions

— Selection of Assumptions

- A deviation from Actuarial Standards of Practice in selecting assumptions to measure total pension liability is not considered to be in conformity with Statement 67, 68 or 73
- A deviation is defined in Actuarial Standards of Practice

— Employer-paid Member Contributions

- Member contributions should be classified as such according to plan terms
  - Present as member contributions in plan financial statements
  - Considered employee contributions for purposes of GASB 68, including in determining an employer’s proportionate share of net pension liability
Overview of Employer OPEB Standard
Employer standard

— Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
  ▪ Effective for June 30, 2018 year-ends
— Apply changes retroactively by restating financial statements for all periods presented, if practical
  ▪ May not be practical to present balances all deferred outflows and inflows of resources at beginning of period
  ▪ Should report beginning deferred outflow of resources for transactions subsequent to measurement date
— Divided into two primary sections:
  ▪ OPEB provided through plans administered as trusts or equivalent arrangements
  ▪ OPEB provided through plans that are NOT administered as trusts or equivalent arrangements
Overview of employer standard

— Conceptual shift in reporting OPEB liabilities in full accrual financial statements
  ▪ Under current approach, liability recognized to extent the actuarially required contribution is not funded
  ▪ Under new approach, liability recognized as employees earn OPEB benefits by providing services
  ▪ Changes to OPEB liability recognized immediately as OPEB expense or deferred outflow/inflow of resources depending on nature of change
— No significant changes to accounting for OPEB in governmental funds
— Substantive changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes
Overview of employer standard - continued

— Following amounts for a defined benefit OPEB plan determined as of a date no earlier than the end of the employer’s prior fiscal year:

  - Total (Net) OPEB liability
  - OPEB expense
  - Deferred outflows and inflows of resources related to OPEB

— Employers participating in single-employer plans recognize 100% of above amounts for each plan

— Employers participating in cost-sharing plans will recognize proportionate share of above amounts for each plan

Employers participating in trusted plans, recognize Net OPEB Liability

Employers participating in non-trusted plans, recognize Total OPEB Liability
Overview of employer standard - continued

— Other differences from GASB 45:

- Actuarial methodology and discounting guidance will result in a different OPEB liability than GASB 45
- Annual measurement dates are now required
- Triennial valuations no longer allowed
- Expense volatility likely due to frequent plan changes and volatile healthcare inflation and claims patterns
- Much more robust note and RSI is required
Types of OPEB

— Postemployment healthcare benefits
  ▪ Medical, dental, vision, hearing, other health-related benefits
  ▪ Provided either separately from or through a pension plan

— Other postemployment benefits when provided separately from a pension plan
  ▪ Death benefits, life insurance, disability, long-term care

OPEB does *NOT* include termination benefits or termination payments for sick leave, except for effects of termination benefits on liabilities for defined benefit OPEB.
Defined benefit OPEB plans

- Benefits an employee will receive after separation from employment are defined by benefit terms, which can be any of:

  - Specified dollar amount,
  - Amount calculated based on one or more factors, such as age, years of service and compensation, or
  - Type or level of coverage such as prescription drug coverage or percentage of health insurance premiums.

GASB 75 covers defined contribution and defined benefit OPEB plans. Focus of this session is defined benefit OPEB plans.
Defined benefit OPEB plans - continued

- Defined Benefit OPEB Plan
  - Trust or equivalent arrangement
    - Single employer
  - No trust or equivalent arrangement
    - Agent multiple-employer
    - Cost-sharing multiple-employer
    - Single employer
    - Primary government + component units
Trust or equivalent arrangements

- OPEB plans may be administered through a trust or equivalent arrangement
  - Contributions from employers and nonemployer contributing entities to OPEB plan and earnings on those contributions are irrevocable
  - OPEB plan assets dedicated to providing OPEB to plan members in accordance with benefit terms
  - OPEB plan assets are legally protected from creditors of employer(s), nonemployer contributing entities, plan administrator and plan members

Recognition and measurement on employers financial statements dependent upon whether plan is administered as a trust or not.
## Types of defined benefit OPEB plans

<table>
<thead>
<tr>
<th>Single Employer</th>
<th>Agent Multiple-employer</th>
<th>Cost-sharing Multiple-employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Provides OPEB to employees of one employer</td>
<td>— Provides OPEB to employees of more than one employer</td>
<td>— Provides OPEB to employees of more than one employer</td>
</tr>
<tr>
<td>— Primary government and component units collectively considered to be one employer</td>
<td>— Assets are pooled for investment purposes, but separate accounts maintained for each employer</td>
<td>— Employers pool or share obligations</td>
</tr>
<tr>
<td></td>
<td>— Employer’s share of pooled assets is legally available only for its employees</td>
<td>— Plan assets can be used to pay benefits of retirees from any employer</td>
</tr>
</tbody>
</table>
Primary government and its component units

- Treatment similar for trusted and non-trusted plans

- OPEB plans that only include employees of the primary government and its component units are considered single-employer plans:
  - In stand-alone primary government and component unit financial statements, account for and report participation as if cost-sharing employers
  - In reporting entity’s financial statements, follow note disclosures and RSI for a single or agent employer plan:
    - Separately identify amounts related to the primary government and amounts related to discretely presented component units in the note disclosures
OPEB liability

— Plan administered as a trust or equivalent arrangement:
  ▪ Employer reports a net OPEB liability in their financial statements

— Plan NOT administered as a trust or equivalent arrangement:
  ▪ Employer reports a total OPEB liability in their financial statements

Plans with fewer than 100 members (active and inactive) may use the alternative measurement method.
Measurement of the total OPEB liability in employer’s financial statements must be as of a date no earlier than the end of the employer’s prior fiscal year. Measurement must be based on an actuarial valuation performed within 30 months plus 1 day of the employer’s year-end. If actuarial valuation not performed as of measurement date, update procedures must be performed to roll forward amounts to measurement date.
Discounting future benefit payments to present value

Plans administered as a trust or equivalent arrangement:

— A single blended rate should be used to discount projected future benefit payments, based on:
  
  - The long-term expected rate of return on plan investments (net of investment expenses) that are expected to be used to finance the payment of OPEB benefits to the extent that the 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/Aa or higher, to the extent that the conditions above are not met.

This will likely result in a lower discount rate for plans that are partially funded, thus increasing total OPEB liability.
Discounting future benefit payments to present value

Total OPEB Liability

Projecting
Discounting
Attributing

Plans *NOT* administered as a trust or equivalent arrangement:

- A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with average rating of AA/Aa or higher (or equivalent quality on another rating scale)
- Previously used investment yield on investments expected to be used to finance benefits, which may have been yield on operating cash

This may result in a higher discount rate for plans not administered as a trust, thus decreasing total OPEB liability.
# Employer note disclosures - descriptions

<table>
<thead>
<tr>
<th>Plan Description</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of plan, administrator of plan, and type of plan</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Benefit terms, including (1) classes of employees covered, (2) types of benefits, (3) key elements of OPEB formula, (4) terms or policies with respect to automatic benefit changes, including ad hoc colas, (5) legal authority</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Number of employees covered</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fact that no assets accumulated in a trust</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Contribution requirements, including (1) authority under which contributions made, (2) legal or maximum contributions rates, (3) contribution rates, and (4) contributions made</td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Authority under which to pay OPEB benefits as they come due and amount</td>
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<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Availability of audited plan financial statements</td>
<td>✓</td>
<td></td>
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</tbody>
</table>

**A = Trusted: Single/Agent**  **B = Trusted: Cost-sharing**  **C = Non-trusted: Single**  **D = Non-trusted: PG + CU**
# Employer note disclosures - assumptions

<table>
<thead>
<tr>
<th>Assumptions and Other Inputs</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant assumptions, including inflation, healthcare cost trend rates, salary changes, postemployment benefit changes</td>
<td>✓</td>
<td>✓</td>
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</tr>
<tr>
<td>Source of mortality assumptions</td>
<td>✓</td>
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<td>✓</td>
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</tr>
<tr>
<td>Dates of experience studies</td>
<td>✓</td>
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<td>✓</td>
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</tr>
<tr>
<td>Fact that projections of sharing of benefit costs based on established pattern of practice</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Net</strong> OPEB liability sensitivity to healthcare cost trend rate (+/- 1%)</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong> OPEB liability sensitivity to healthcare cost trend rate (+/- 1%)</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

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## Employer note disclosures – discount rates

<table>
<thead>
<tr>
<th>Discount Rate</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate used</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Assumptions about projected cash flows</td>
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<td>✓</td>
<td></td>
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</tr>
<tr>
<td>Long-term expected rate of return on plan investments and how determined</td>
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<td>✓</td>
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</tr>
<tr>
<td>Municipal bond rate used</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</tr>
<tr>
<td>Periods of projected benefit payments applied to long-term rate of return and municipal bond rate, if applicable</td>
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<td>✓</td>
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</tr>
<tr>
<td>Assumed asset allocation and long-term expected real rate of return for each major asset class</td>
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<td></td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

### Net OPEB liability sensitivity to discount rate (+/- 1%)

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<thead>
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</table>
## Employer note disclosures – additional disclosures

<table>
<thead>
<tr>
<th>Additional Disclosures</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information about plan’s fiduciary net position if report not publicly available</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schedule of changes in <strong>net</strong> OPEB liability</td>
<td>✓</td>
<td></td>
<td></td>
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<tr>
<td>Schedule of changes in <strong>total</strong> OPEB liability</td>
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<tr>
<td>Measurement date</td>
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<tr>
<td>Actuarial valuation date</td>
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<td>✓</td>
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</tr>
<tr>
<td>Employers proportionate share of net (total) OPEB liability and basis for allocation</td>
<td>✓</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Changes in assumptions and benefit terms</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Changes subsequent to measurement date</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>OPEB expense in current period</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Balance of deferred outflows/inflows by source and aggregate impact on OPEB expense in each of next 5 years and thereafter</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

**A = Trusted: Single/Agent**

**B = Trusted: Cost-sharing**

**C = Non-trusted: Single**

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### 10-Year Schedules

<table>
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<tr>
<td>Changes in net OPEB liability by source</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Components of net OPEB liability and related ratios</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportionate share of net OPEB liability</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Employer contributions</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in total OPEB liability by source</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Total OPEB liability as a percentage of covered employee payroll</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Proportionate share of total OPEB liability</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

**A = Trusted: Single/Agent**

**B = Trusted: Cost-sharing**

**C = Non-trusted: Single**

**D = Non-trusted: PG + CU**
## Summary of differences between trusted and non-trusted plans

<table>
<thead>
<tr>
<th></th>
<th>Trusted</th>
<th>Non- Trusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>Single blended rate</td>
<td>20-year tax exempt high quality municipal bond index</td>
</tr>
<tr>
<td>Liability recognized</td>
<td>Net OPEB liability</td>
<td>Total OPEB liability</td>
</tr>
<tr>
<td>Deferral outflow/inflow of resources related to difference between expect and actual earnings on plan investments</td>
<td>Included</td>
<td>Not included</td>
</tr>
<tr>
<td>Investment related disclosures</td>
<td>Included</td>
<td>Not included</td>
</tr>
<tr>
<td>Discount rate calculation disclosures</td>
<td>Included</td>
<td>Not included</td>
</tr>
</tbody>
</table>
BEGIN IMPLEMENTATION PLANNING NOW!

- Unlike Pensions, OPEB plan management and employer management are typically one in the same – YOU!
  - In pensions someone else typically hires the actuary and approves the assumptions (we have to determine the reasonableness of assumptions)
  - In OPEB the employer hires the actuary and approve/choose the assumptions
  - For employers, Pensions = ultimate responsibility but OPEB = primary and ultimate responsibility

- In spite of the similarities in standards there are significant differences between OPEB and pension valuations that must be considered in producing an OPEB liability that is both fairly stated and auditable

- Care should be taken to understand and present these differences which may include different assumptions for similar purposes.
## Implementation

— Significant differences include:

- Critical actuarial assumptions are either different or different in impact:

<table>
<thead>
<tr>
<th>Pensions</th>
<th>OPEB</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Rate of Return</td>
<td>Long-Term Rate of Return</td>
<td>Usually the main driver for Pension; often immaterial for OPEB due to limited funding</td>
</tr>
<tr>
<td>Mortality Rate</td>
<td>Mortality Rate</td>
<td>Crucial for Pension because it determines the payment period; less so for OPEB since much of the liability is pre-65</td>
</tr>
<tr>
<td>Inflation/Salary Progression</td>
<td>Inflation/Salary Progression</td>
<td>For Pension this is usually the basis for the benefit; for OPEB it is usually important for amortization purposes only</td>
</tr>
<tr>
<td>Retirement Age/Rates</td>
<td>Retirement Age/Rates</td>
<td>For Pension this can be an age point if payment forms are actuarially equivalent; for OPEB retirement rates are crucial to determine cash-flows and liabilities</td>
</tr>
<tr>
<td>Inflation-COLAs</td>
<td>Health Care Trend Rate</td>
<td>For Pension this only matters if the Plan has a post-retirement COLA; for OPEB this is the main driver for liabilities</td>
</tr>
<tr>
<td>Retirement Options</td>
<td>Participation Rate; Plan Choice; Utilization by Age; Number of beneficiaries; Cadillac tax issues</td>
<td>For Pension the form of benefit is often actuarially equivalent and does not impact plan liability; For OPEB there are multiple choices all of which significantly impact plan liabilities</td>
</tr>
</tbody>
</table>
Other Differences

- Plan documentation - In OPEB it is much less formal (determining the substantive plan can be a challenge) and not unusual for governments to forget to inform the actuary of key plan provisions.

- Plan Changes - Health care plans have frequent plan changes that must be both communicated to the actuary and evaluated for the need for a fresh valuation.

- Post 65 provisions - Pensions are typically a lifetime benefit but OPEB can end or be substantially reduced with Medicare eligibility. Proper inclusion in the valuation of these provisions is critical.

- COLAs and Substantively Automatic COLAs - Yes, these can apply to OPEB but are often smaller in impact and less likely to be automatic. Examples: a $300 monthly stipend for purchase of a Medicare supplement that increase with CPI or a stipend that was $300 and has been increased in three of the last five years and is now $325.

- Source of data - Unlike pensions where benefits are based on payroll data, health claims data is maintained by health insurers or third party administrators who can change from year to year.
Plan standard

— Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pensions
  ▪ Effective for June 30, 2017 year-ends
— Apply changes retroactively by restating financial statements for all periods presented, if practical
  ▪ 10-year RSI schedule of employer contributions should be presented in year of transition
  ▪ Other 10-year RSI schedules present information that is available until 10-years has been accumulated

Applicable to plans administered as a trust or equivalent arrangement.
Overview of plan standard

— Recognition, measurement, and presentation of financial statement amounts generally similar to current guidance.

— Note disclosures and required supplementary information
  ▪ Similar to nature of disclosures for employers, with the addition of information on investment policies and actual rates of return on plan assets.
  ▪ Certain information only required for single-employer and cost-sharing plans.

— Requirements regarding the measurement of net OPEB liability (asset) are similar to the requirements for employers.
  ▪ Net OPEB liability (asset) not recognized by OPEB plans.
What questions do you have?
Thank you