

# GASB No. 75

## *Postemployment Benefits Other Than Pensions*



November 6, 2015



*Solving Tomorrow's Benefit Plan Challenges...Today*

## GASB No. 75

### Why a New Standard?

- Improve usefulness of financial statements for state and local governmental plans
  - No longer focus on the funding-based model
  - Require consistency in measurement & disclosure
  - Require more comprehensive measures of OPEB Liability and Expense
  - Improve comparability
  - Improve understandability and decision-usefulness
  - Improve information for assessing accountability and interperiod equity
  - Increase supporting information and disclosures



## GASB No. 75

### Agenda

- When is the Effective Date
- What are the Significant Changes
  - Liability shown on face of financial statement
  - Elimination of ARC
  - EAN Funding Method
  - Discount Rate
  - Additional Disclosure Items & Required Supplementary Info.
  - Miscellaneous Changes
- Transition

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## GASB No. 75

### Other Items Briefly

- OPEB plans administered through a Trust
- Special Funding Situations
  - Non-employer Contributing Entities
- Cost-sharing & Agent Employers
- Defined Contribution OPEB Plans
- Insured OPEB Plans

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## GASB No. 75 - OPEB Trust

- OPEB Trust must meet all three:
  - i. Contributions, as well as earnings on those contributions, are irrevocable
  - ii. Dedicated to providing OPEB to plan members AND
  - iii. Protected from creditors
- Not currently allowed in NYS

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## DC OPEB Plans

- Defined Contribution
  - Amount of employer contribution is defined
  - Individual Account
  - OPEB depends on contributions & earnings
  - GASB No. 75 ¶230 - 242
- Defined Benefit
  - Amount of employer-provided benefit is defined

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## Insured OPEB Plans

- Insured OPEB Plans
  - Premium paid to insurer while active employee
  - Insurer assumes OPEB obligation
  - GASB No. 75 ¶227 - 228

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## GASB No. 75 – Effective Date

- Fiscal Years beginning after  
6/15/2017

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## GASB No. 75 – Significant Changes

- OPEB Liability
  - the portion of the Present Value of projected benefit payments to be provided to participants that is attributed to past service
- Net OPEB Liability
  - Recognize a Net OPEB Liability on the face of the financial statement
  - $\text{OPEB liability} - \text{OPEB assets} = \text{Net OPEB Liability}$

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## GASB No. 75 – Significant Changes

- OPEB Expense
  - Recognized on Income Statement
  - Illustrates sources of changes in OPEB Liability

	<b>Total OPEB Liability</b>
<b>Balance at 6/30/2018</b>	851,095
<b>Changes for the Year:</b>	
Service Cost	16,712
Interest on OPEB	33,898
Changes of benefit terms	(203,619)
Differences between expected and actual experience	58,936
Changes in assumptions or other inputs	45,945
Benefit Payments	(23,983)
<b>Net Changes</b>	<b>(72,111)</b>
<b>Balance at 6/30/2019</b>	<b>778,984</b>

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## GASB No. 75 – Significant Changes

- OPEB Expense
  - Changes recognized immediately
    - Service Cost
      - The portion of the actuarial present value of projected benefit payments that is attributed to the period of employee service
    - Interest on the total OPEB liability
    - Effects of plan changes

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## GASB No. 75 – Significant Changes

- OPEB Expense
  - Changes recognized over current & future periods
    - Differences between Actual and Expected experience
    - Changes in actuarial assumptions
    - Recognized over a closed period = average of expected remaining services of all employees (active and inactive)
    - Portions of these changes not recognized in OPEB Expense are reported as deferred outflows / inflows
  - Expect increased volatility

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## GASB No. 75 – Significant Changes

- OPEB Expense
  - Alternative Measurement Method
    - All changes are reflected immediately

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## GASB No. 75 – Significant Changes

- Actuarial Funding Method
  - GASB 45
    - Choose among 6 methods
      - Level percent of payroll, or
      - Level dollar amount
    - Projected Unit Credit most common

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## GASB No. 75 – Significant Changes

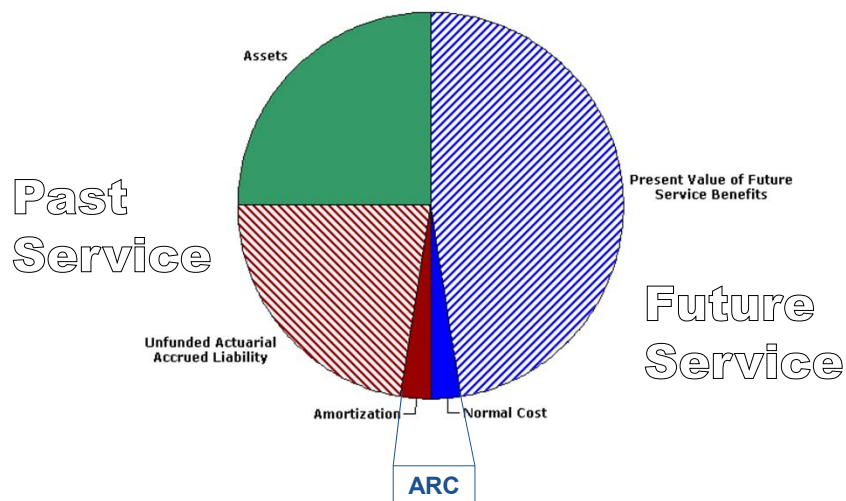
- Actuarial Funding Method
  - GASB 75
    - Entry Age Normal (EAN) Funding Method as level % of pay
      - No variation from this (e.g. EAN Level dollar not allowed)
      - Best reflects long-term nature of the exchange of EE service for OPEB by attributing service costs over employment period rather than attributing benefits to the employment period
      - Most likely result in increase in OPEB Liability vs. PUC
    - Single method will:
      - Improve comparability and understandability
      - Reduce complexity of information

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## Actuarial Funding Method – GASB 45



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## GASB No. 75 – Significant Changes

- Actuarial Funding Method
  - Entry Age Normal (EAN)
    - EAN Normal Cost amount will increase each year as payroll increases and as present value of future benefit increases
    - Each year, the EAN Normal Cost amount is a level percent of that year's payroll

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## GASB No. 75 – Significant Changes

- Actuarial Funding Method
  - Entry Age Normal (EAN) vs. Projected Unit Credit (PUC)
    - Method Type
      - PUC is a Benefit Allocation Method
        - Benefits are allocated to a particular year and the present value of the allocated benefit portion is assigned to each year
        - Normal Cost = increase in the accumulated benefit each year
      - EAN is a Cost Allocation Method
        - Prospective benefit at retirement is estimated, the present value at the entry age is estimated and the cost is allocated to a particular year
        - Normal Cost = present value of prospective benefit ÷ pay spread over all years

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## GASB No. 75 – Significant Changes

- Actuarial Funding Method
  - Entry Age Normal (EAN) vs. Projected Unit Credit (PUC)
    - Normal Cost Patterns
      - PUC Normal Cost is not level; increases with interest and aging
      - EAN Normal Cost is a level percent of pay (but most likely an increasing dollar amount)
    - Normal Cost
      - PUC captures the present value of benefits as they accrue
      - EAN create level contributions throughout the working career of the employee

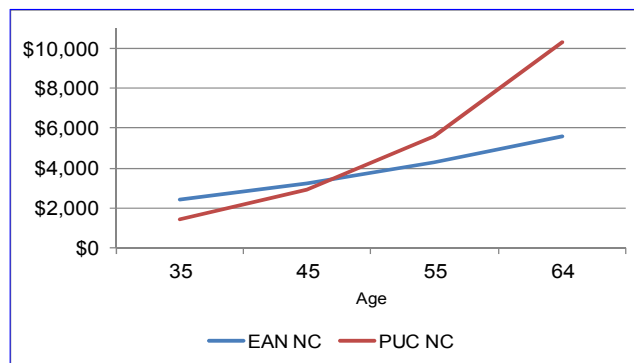
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## GASB No. 75 – Significant Changes

- Actuarial Funding Method – *Compare Normal Cost*
  - Entry Age Normal (EAN) vs. Projected Unit Credit (PUC)



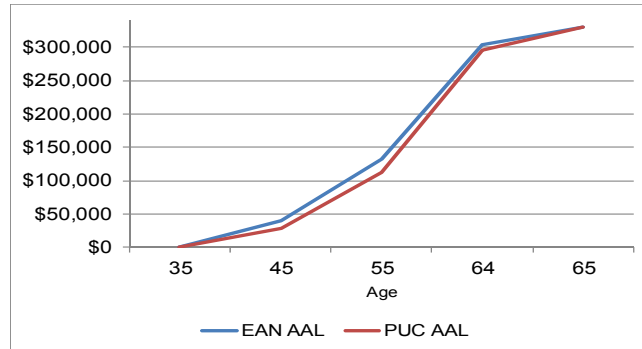
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## GASB No. 75 – Significant Changes

- Actuarial Funding Method – *Compare AAL*
  - Entry Age Normal (EAN) vs. Projected Unit Credit (PUC)



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## GASB No. 75 – Significant Changes

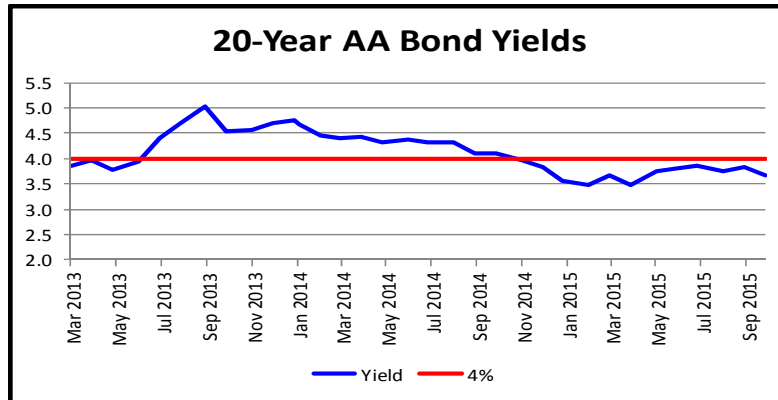
- Discount Rate
  - Unfunded OPEB
    - High quality 20-year tax-exempt municipal bond yield (AA or higher)
  - Funded OPEB
    - Until assets no longer cover expected OPEB payments
      - Long-term expected yield on assets
      - Investment strategy must be designed to achieve that yield
    - After assets no longer cover expected OPEB payments
      - Yield or index for 20-year tax-exempt general obligation municipal bond yield (AA or higher)

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## GASB No. 75 – Significant Changes



This index is based on an average of certain general obligation municipal bonds maturing in 20 years and having an average rating equivalent of Moody's Aa2 and Standard & Poor's AA.

Federal Reserve Economic Data  
Link: <http://research.stlouisfed.org/fred2/series/WSLB20/#>

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## GASB No. 75 – Significant Changes

- **Additional Disclosure Items**
  - GASB recognizes OPEB assumptions will vary from actual experience
    - Determination of assumptions must comply with ASOPs to enhance consistency
  - Therefore, additional disclosures are required to assist users' understanding of the impact of the uncertainty of OPEB assumptions

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## GASB No. 75 – Significant Changes

- Additional Disclosure Items
  - Total OPEB Liability
  - Net OPEB assets (if there is a Trust)
  - Reconciliation of deferred outflows and deferred inflows of resources related to OPEB
  - Dates of experience studies on which assumptions are based
  - Inputs for the determination of Discount Rate

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## GASB No. 75 – Significant Changes

- Additional Disclosure Items
  - OPEB Liability using +/- 1% healthcare trend
  - OPEB Liability using +/- 1% discount rate
  - Info about employer's contribution policy and the basis for determining contributions
  - Effects of changes in OPEB Liability during the period

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## GASB No. 75 – Significant Changes

- Additional Required Supplementary Information for each of the past 10 Years
  - BOY and EOY OPEB Liability balances
  - Effects of changes in OPEB Liability
  - OPEB plan's assets
  - OPEB Liability and ratios:
    - Payroll
    - OPEB Liability as a % of Payroll
    - OPEB Plan's fiduciary net position as % of Payroll

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## GASB No. 75 – Significant Changes

- Additional Required Supplementary Information for each of the past 10 Years
  - Schedule of Contributions
    - Difference between actuarially determined contributions and actual contributions
    - Payroll
    - OPEB Contributions as a % of Payroll

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## GASB No. 75 – Miscellaneous Changes

- Frequency
  - Triennial valuations no longer allowed
  - Alternative Measurement Method Valuations must also be biennial
  - Size of the Govt does not change the significance of the OPEB information

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## GASB No. 75 – Miscellaneous Changes

- Community-rated Medical Plans
  - No community-rating exception to the implicit subsidy recognition
    - Conforms with ASOP 6
    - No guarantee that the employer will be able to continue in the community-rating pool
  - Previously, if the medical plan was community-rated and retirees contributed 100% of the premium, the GASB 45 liability = \$0

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## GASB No. 75 - Transition

- Period of time where comparisons to prior years will be difficult

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## GASB No. 75 - Transition

- Funding NYS OPEB Plans
  - NYS Comptroller Thomas DiNapoli proposed legislation to create an optional investment pool fund OPEB, April 2015
    - ~\$68.2 billion unfunded for NYS
    - ~\$68.3 billion unfunded for Local Govts outside of NYC
    - 30+ other states allow funding
    - DiNapoli's proposed OPEB Fund would meet GASB 75 definition for Trust
  - <https://www.osc.state.ny.us/press/releases/apr15/041315.htm#close> (press release)
  - <http://www.osc.state.ny.us/press/releases/june15/061615.htm> (DiNapoli op-ed)

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# GASB No. 75 - Transition

- Funding NYS OPEB Plans
  - NYS Comptroller Thomas DiNapoli proposed legislation to create an optional investment pool fund OPEB
    - State-administered OPEB Fund would be separate/distinct from Common Retirement Fund
    - Several investment options provided
    - Separate accounts for the State and any participating Local Govt
    - Fund amounts commingled for investment purposes
    - Actuarial assumptions and contributions determined by participating Local Govt
    - Administrative fee charged to participants



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