MASBO with Hildi Inc.

Actuarial ABCs

GASB 75

Postemployment Benefits Other Than Pensions

Review of a Sample Report

July 14, 2020

- This presentation was prepared for the MASBO 2020 July School Business Essentials Briefing
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Overview of the session

- Inventory of Postemployment Benefits
- Valuation cycle
- Input items for the valuation
- Common data issues
- Possible annual OPEB levy

Inventory of Post-Employment Benefits from Prior to Current GASB Statements

OPEBs	GASB 45	GASB 75
Unused Sick Leave	GASB 16	GASB 16
Pensions	GASB 27	GASB 68, with assets GASB 73, no assets

GASB 75 vs. GASB 73 vs. GASB 16

GASB 75 – Accounting for Other Post Employment Benefits **Other than Pensions**

- Mainly post retirement medical, dental, and/or life benefits
- Some hybrid "severance" type of benefits

GASB 73 – Accounting for Pensions by State and Local Governmental Employers

- Pension benefits
- Severance type benefits

GASB 16 – Accounting for Other Compensated Absences

- Benefits based on accumulated unused sick leave days or accumulated vacation days

Current Inventory of Post-Employment Benefits for Public Entities

GASB	Post-Employment Benefits	Examples
75	All Other Post-Employment Benefits other than Pensions (OPEBs)	• Retirees are allowed to continue on Entity's medical plan and offered the group/blended premium until Medicare eligibility (retiree pays all or a portion of the premium) / Implicit Rate Subsidy • Retiree receives a lump sum payment to a health reimbursement arrangement after termination/retirement / Direct Subsidized Benefit • District pays for the single retiree medical coverage at a certain dollar amount per month for a certain number of years or to Medicare eligibility, whichever is earlier

GASB 75 - OPEB Liability

Types of Liability

- Implicit Rate Subsidy Liability

  (Early Retiree Claims minus Blended/Group Premium Rate) / Minnesota Statute on Insurance Continuation 471.61 subd 2b.

- Direct Subsidized Liability

  How much of any post employment medical, dental, and/or life premium is paid and for how long?

Implicit Rate Subsidy – Early Retiree Example

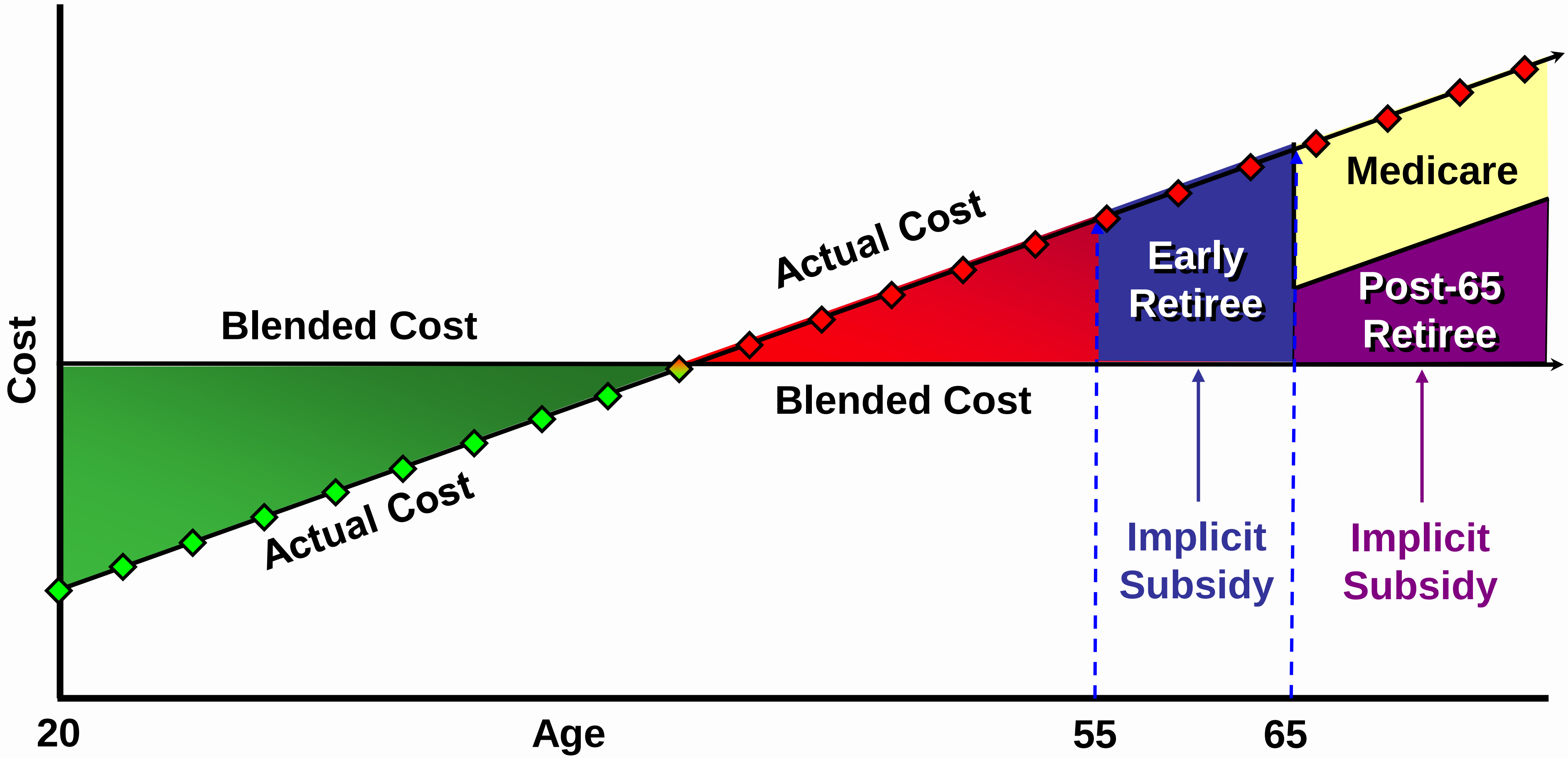
=> $632 **Blended Premium Charged for the Employer Sponsored Plan**

=> $955 **Age 60 Actual Cost**

=> $632 **Retiree Premium** (Single)

=> $323 **Implicit Subsidy** — **Employer must recognize liability**

Implicit Rate Subsidy



Current Inventory of Post-Employment Benefits for Public Entities

<table>
<tr><th>GASB</th><th>Post-Employment Benefits</th><th>Examples</th></tr>
<tr><td>73</td><td>Pension benefits
(not OPEBs and not GASB 16)</td><td rowspan="2">• Retiree receives a lump sum payment equal to a number of days per year of service times the daily rate of pay (not paid to a health reimbursement arrangement)
• Retiree receives a monthly annuity for a number of years based on a percentage multiplied by final average salary times years of service</td></tr>
<tr><td>68</td><td>Pension benefits with assets
(for ex: TRA and/or PERA – not OPEBs and not GASB 16)</td></tr>
</table>

Current Inventory of Post-Employment Benefits for Public Entities

GASB	Post-Employment Benefits	Examples
16	Payouts for Accumulated Unused Sick Leave	• Retiree receives a lump sum payment equal to a percentage of accumulated unused sick leave days times the daily rate of pay

Measurement Date vs. Fiscal Year

Terminology

- Valuation Date (VD)
- Measurement Date (MD)
- Reporting Date (RD)

Measurement Date vs. Fiscal Year

- Actuarial Liabilities (AL) are initially calculated as of the Valuation Date (VD)
- Actuarial Liabilities (AL) at the Valuation Date (VD) are then rolled forward for financial reporting purposes to the Measurement Date (MD) to become a Total OPEB Liability (TOL)
- Assets are measured as of the Measurement Date (MD) – never rolled forward
- Reporting Date (RD) aligns with the fiscal year end

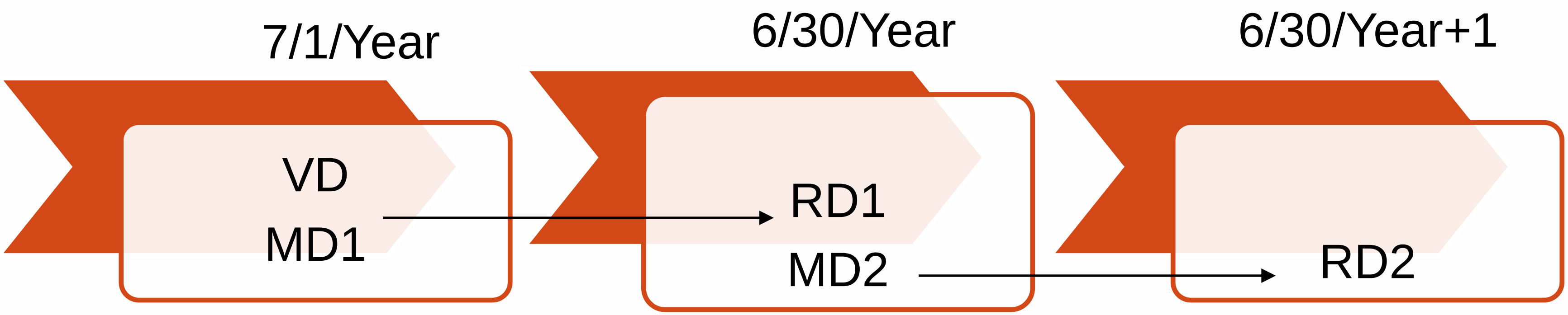
For most Districts without assets/OPEB Trust, the Measurement Date is as of the *beginning* of the fiscal year (i.e. for a June 30, 2020 GASB 75 disclosure the liability is calculated as of July 1, 2019)

For most Districts with assets/OPEB Trust, the Measurement Date is will be the same as the Reporting Date or the end of the fiscal year (i.e. for a June 30, 2020 GASB 75 disclosure the liability is calculated as of July 1, 2019 and brought forward/measured at June 30, 2020)

Measurement Date vs. Fiscal Year

Valuation Date (VD)
Measurement Date (MD)
Reporting Date (RD)

7/1-6/30 Fiscal Year Example
with the lookback method

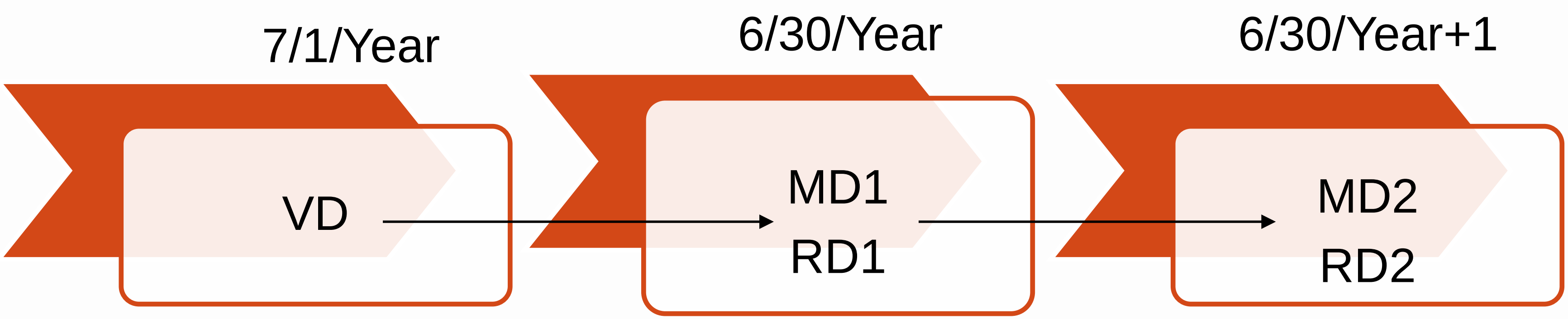


Biennial Cycle; Measurement Date May Be Up to 12 Months Prior to the Reporting Date

Measurement Date vs. Fiscal Year

Valuation Date (VD)
Measurement Date (MD)
Reporting Date (RD)

7/1-6/30 Fiscal Year Example without the lookback method



Biennial Cycle; Measurement Date Must Equal the Reporting Date

Input Items

- Claims cost information
- Plan Provisions
- Actuarial Assumptions
- Participant demographic data / census data
- OPEB Asset/Trust information

Claims cost information

- Request from your District’s health care provider or third party administrator
- Actual claims paid is gathered for the last few years
- Premium information for all medical, dental, and life plans will be sent to the actuary by the District

Plan Provisions

- Employee Contracts
- Memorandum of Understanding
    - OPEB Early Retirement Incentives

Let your actuary know if there have been any changes to your plan provisions for any post-employment benefits

Call your actuary for any questions surrounding changes in plan design or post-employment benefit discussions during union negotiations

Assumptions

- Each assumption needs to be reasonable
- Based on state pension experience studies then adjusted for a specific District for OPEB purposes
- Provide feedback to your actuary on retirement patterns, retiree plan participation, and any other trends that you are noticing at your District

Common Data Issues

- Census data should be as of the valuation date
  - If employees that terminated after the valuation date are removed, the new hires replacing them should be added
  - The census data should be a representative group as of the valuation date for the upcoming fiscal year
- Active data should include all those that have **access** to medical insurance, not just those that elect medical coverage for the current year
  - Employees that do not have any option to enroll should be excluded
- Ideally, active data should include salary for the current year (i.e. salary for 7/1/2019-6/30/2020 for a July 1, 2019 valuation)
- The salary definition extracted should be consistent from one valuation cycle to the next

Common Data Issues

- Retiree data should include all those that have elected to continue medical coverage, even if they pay the "full" (group rate) premium themselves
- Ideally, retiree data should include any subsidized benefit amounts for the current year (i.e. subsidized benefits to be paid in 2019-2020 for a July 1, 2019 valuation)

Common Data Issues

Data should also include employees out on long-term disability that are on the entity's medical plan

- If disabled employees are expected back to work soon, they can be included with the active participants
- Helpful to provide as much information as possible for participants on LTD
  - Is the employee expected back to work? Anticipated date of return?
  - Is the participant Medicare eligible due to disability?
  - Does the participant meet the eligibility for Social Security due to disability?

Common Data Issues

For GASB 73 and/or GASB 16 valuations

- Data elements needed **as of the valuation date**
  - Unused sick leave days or hours
  - Daily rates of pay
  - Employer matching contribution amounts
    (if used as an offset in the GASB 73 or GASB 16 benefit formulas)
  - Remaining payments to retirees

Other Data Items

Do results need to be split by different groups?

- Disclosure exhibits more complicated under GASB 73 and 75 than GASB 27 and 45
- Request breakouts from your actuary at the beginning of the valuation cycle
  - Census data should include the code needed for the breakouts for each participant (actives and retirees)

Actuarial Valuation

Input Items

Participant Data/ Census Information

Assets/Claim Cost Information

OPEB Provisions

The Actuarial Black Box

Actuarial Assumptions, Actuarial Cost Methods, and Actuarial Asset Methods

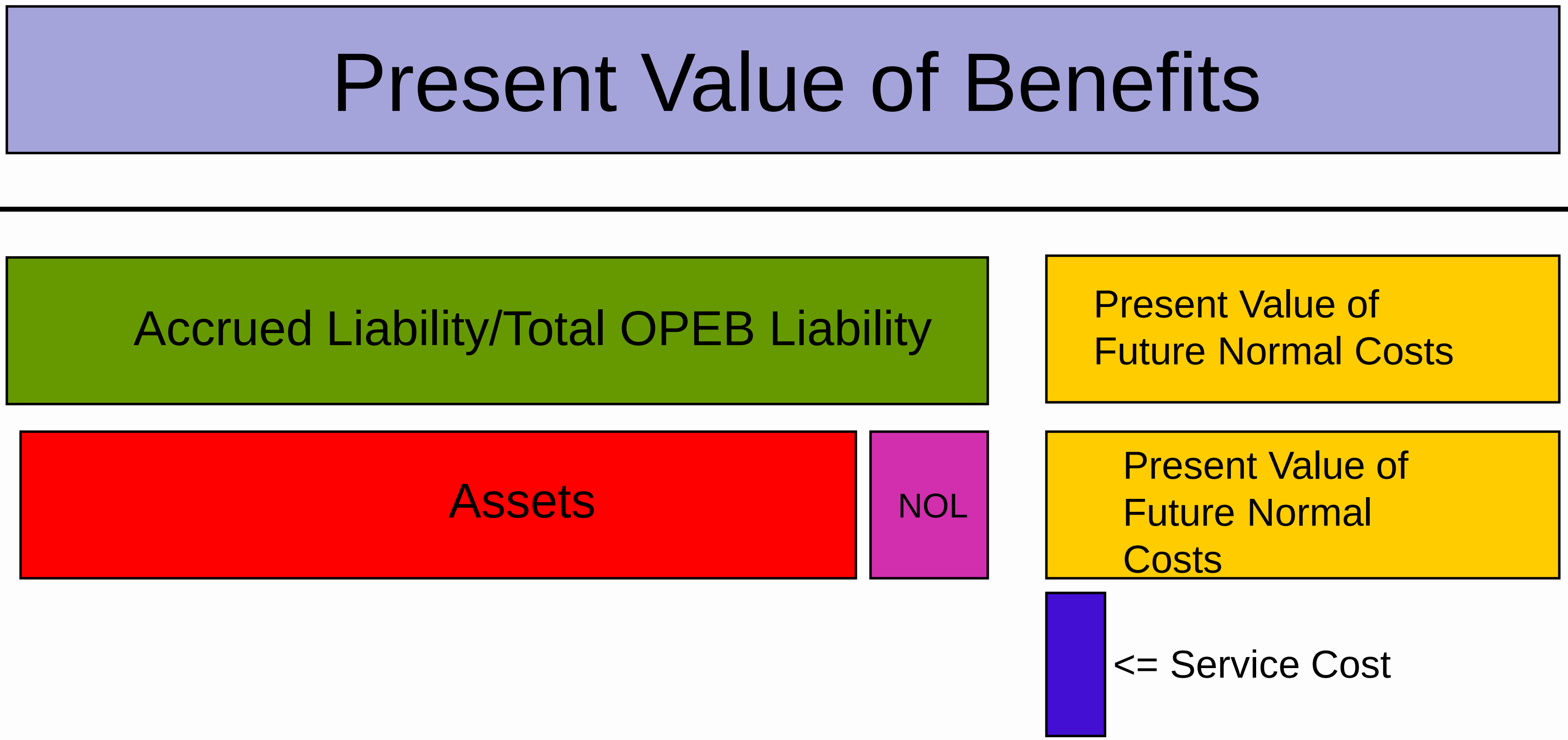
Actuarially Determined Contribution (ADC)

Actuarial Accrued Liability (TOL) and Service Cost

Net OPEB Liability

Results

GASB 75 Liabilities and Annual Expense



Timeline for the July 1, 2020 GASB 75 Valuation Cycle

April 2020

- Prepare information for the June 30, 2020 disclosures
- Gather preliminary information needed for the July 1, 2020 GASB 75 valuation
- Send claims cost letter to your health insurance provider for the
- July 1, 2020 valuation

June-July 2020

- Complete the GASB 75, and possibly GASB 73, disclosure data request spreadsheet for June 30, 2020
- Gather actual OPEB payments for 2019-2020 and send a copy of the June 30, 2019 financial statement
- Without an OPEB Trust: Refer to the plan provisions summary (in the July 1, 2018 GASB 75 valuation report) for the benefit payments to include for updating the estimated deferred outflow of employer contributions/benefit payments for the 2019-2020 fiscal year
- With an OPEB Trust: Send the OPEB Trust Reconciliation and the final audited OPEB Trust values

August to October 2020

- Complete the Hildi Inc. GASB 75 Excel Datashell for the July 1, 2020 valuation
- The Excel Datashell includes a checklist and instructions
- Complete the data request packet checklist on items needed for the GASB 75 July 1, 2020 valuation

November 2020 to March 2021

- Make sure to send us:
- GASB 75 2020-2021 participant information in Hildi Inc. Excel Datashell
- Updated employee contracts
- Insurance premium information for 2020-2021
- A copy of the June 30, 2020 financial statement

June-July 2021

- Complete the GASB 75, and possibly GASB 73, disclosure data request spreadsheet for June 30, 2021
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June-July 2022

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- Gather actual OPEB payments for 2021-2022 and send a copy of the June 30, 2021 financial statement
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Deferred Outflow of Resources due to Employer Contributions

- Most common issue in GASB 75 or GASB 73 disclosures
- For OPEBs without a trust, the "deferred outflow of resources due to employer contributions" is *actual* benefit payments made between the Measurement Date and the Fiscal Year End
- Our valuation reports are generally created before the Fiscal Year End so the actual benefits paid during the fiscal year are unknown and the amount shown in our report is an <u>estimate</u>

Sample GASB 75 Actuarial Valuation Report

Deferred Outflows of Resources		
Liability Losses	$	0
Assumption Changes		16,000
Investment Losses		N/A
Estimated Employer Contributions*		230,000
Estimated Total*		246,000
Deferred Inflows of Resources		
Liability Gains	$	20,000
Assumption Changes		0
Investment Gains		N/A
Total		20,000
Future Recognition of Deferred Flows in OPEB Expense (Fiscal Years Ending)		
June 30, 2020		N/A
June 30, 2021	$	(1,000)
June 30, 2022		(1,000)
June 30, 2023		(1,000)
June 30, 2024		(1,000)
June 30, 2025		0
Thereafter		0

7/1/2019 Valuation Date
7/1/2019 Measurement Date
6/30/2020 Reporting Date

Update with Actual Benefit Payments

* Under GASB 75, employer contributions made after the Measurement Date and before the Reporting Date must be disclosed as Deferred Outflows of Resources. The amount shown should be updated with the actual employer contributions when preparing the disclosures at fiscal year-end.

Deferred Outflow of Resources due to Employer Contributions

- The deferred outflow due to employer contributions should be updated with the ***actual*** benefits paid during the fiscal year
  - For OPEBs, include benefit payments for any subsidized benefits paid and the implicit rate subsidy
  - Review the summary of plan provisions in the report to ensure all benefits are included
  - If the actual benefit amount paid is significantly different than the estimate, may want to discuss with your actuary to review for accuracy
- It is important to update with the actual benefit payments because the amount is used to roll forward the liability in the following fiscal year
  - If the liability is rolled forward with the estimated value rather than the actual value, it can lead to actuarial gains/losses in future years

Sample GASB 75 Actuarial Valuation Report

7/1/2019 Valuation Date
7/1/2019 Measurement Date
6/30/2020 Reporting Date

Deferred Outflows of Resources		
Liability Losses	$	0
Assumption Changes		16,000
Investment Losses		N/A
Estimated Employer Contributions*		230,000
Estimated Total*		246,000

Year Beginning July 1 and Ending June 30	Implicit Subsidy Only Payments	Subsidized Payments	Total Projected Net Payments
2019	$ 110,000	$ 120,000	$ 230,000
2020	150,000	140,000	290,000
2021	160,000	130,000	290,000
2022	190,000	100,000	290,000
2023	170,000	50,000	220,000

Implicit Subsidy is generally taken from the actuarial report (sometimes trued up for self-funded medical plans).

Direct Subsidized payments need to be determined based on what the entity actually contributed/paid during the fiscal year.

GASB 75 and 73 Disclosures

For Districts with an OPEB Trust

- Funding policy statement, and
- Investment Policy statement

ASSET CLASS	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN BY CLASS
Cash	xx%	xx%
Fixed Income	xx%	xx%
Domestic Equity	xx%	xx%
International equity	xx%	xx%
Real estate	xx%	xx%
Other (Describe)	xx%	xx%
TOTAL	100%	XX%

- *Audited* reconciliation and statement for the prior fiscal year

Value at Beginning of Year:	x.xx
Changes from beginning to end of year:	
1. Employer Contributions (including receivables)	x.xx
1. Employee Contributions	x.xx
1. Net Investment Return	x.xx
1. Benefit Payments	x.xx
1. Administrative Expenses	x.xx
1. Other Changes (please describe)	x.xx
Value at End of Year:	x.xx

GASB 75 and 73 Disclosures

For all Districts

- OPEBs or pension payments paid from the general fund or an Irrevocable/Revocable OPEB trust for the fiscal year (for OPEBs split by subsidized benefits and implicit only benefits.) These should include all payments that will be assigned/accounted for in the fiscal year, even if the actual payouts do not take place until after the close of the fiscal year
- Copy of prior year financial statement
  (June 30, 2019 needed in preparation for the June 30, 2020 disclosures)
- A description of any changes to your pension benefits or OPEBs or any Early Retirement Incentives with OPEBs offered.

Contact Information

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