

16th Biennial Forum of Government Auditors

Other Post Employment Benefits (OPEB) Accounting Standard – GASB 45

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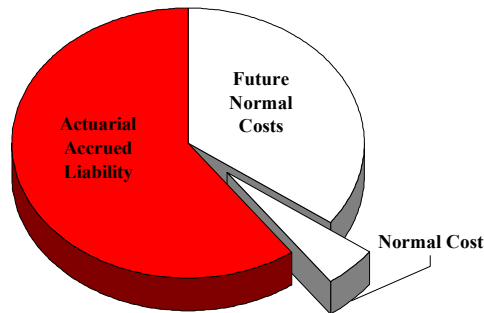
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GASB 45 Agenda

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Definitions

Present Value of Benefits



■ PVPB - Present Value of all Projected Benefits:

- Discounted value (at valuation date - 6/30/04), of all future expected benefit payments based on various (actuarial) assumptions

Definitions

■ Actuarial Accrued Liability (AAL):

- Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
- Portion of PVB “earned” at measurement

■ Current Normal Cost (NC):

- Portion of PVB allocated to (or “earned” during) current year
- Value of employee and employer current service benefit

Annual Required Contribution (ARC)

- Actuarially determined
- Includes:
 - Normal Cost
 - Amortization of Unfunded Actuarial Accrued Liability
- Simplified method for “Plans” with < 100 lives

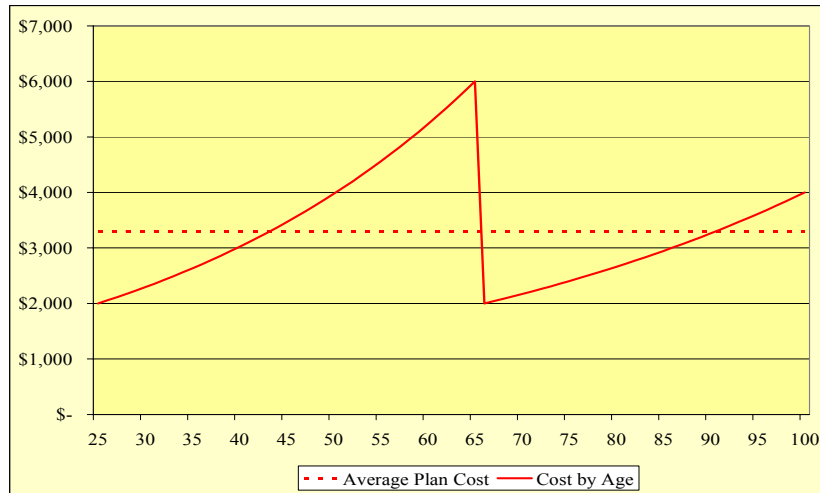


Key Actuarial Assumptions

- Discount Rate:
 - Used to calculate present values
 - Long-term rate
 - Based on source of funding
 - Pay-as-you-go discount rates 4-5%
 - Pre-fund - Qualifying trust or equivalent 4-8%
- Healthcare and/or \$ Cap Trend
- Retirement Rates



Implied Subsidy



Implied vs. Cash Subsidy

- Cash Subsidy:
 - Portion of premium District pays, e.g.
 - 1st \$200 of monthly premium, with retiree paying difference
 - 75% of retiree's premium
- Implied Subsidy:
 - Retirees pay pooled active & retiree rates vs. retiree only rate
 - Results in higher cost allocated to actives
 - "Community Rated" plans do not need to value Implied Subsidy
 - Most agencies participating in CalPERS Healthcare (PEMHCA) will be considered Community Rated
 - < 1-2% of total plan experience
 - GASB Q&A puts responsibility for determining Community Rated into actuary's hands

Key Actuarial Methods

- Funding Method:
 - Generally follows retirement plan:
 - Typically “Entry Age Normal”
 - Spreads costs as level % of Pay
- UAL Amortization
 - Level % of Pay or Level \$
 - Open or closed amortization period



Implications

- Encourages, Does Not Require, Funding
- Numbers Will be Large
- Bond Rating:
 - Have A Plan!



Examples of Retiree Medical Plan Design

- \$ Cap
 - Service related?
 - Future increases?
- % Premium
 - Service related?
 - Single/2-party/family?
 - HMO/PPO?
- Participation
 - Implied Subsidy
- Sick Leave Conversion
 - E.g. 8 hours = 1 months premiums



Other Issues

- Vested rights?
 - Similar to pensions?
 - Communications to employees?
- Set up trust?
 - Assets can not, legally, be used for any other purpose
- Substantive Plan?
 - Plan as currently constituted based on:
 - Documentation and communications
 - Past history (for instance of Cap increases)
 - Not impacted by:
 - Ability of employer to reduce (or increase) benefits in future unless substantiated by past history
 - Pre funding



Annual OPEB Cost (AOC)

- Year 1: $AOC = ARC$
- If actual contribution always = ARC, then
 $AOC = ARC$
- If historically actual contribution \neq ARC, then
 $AOC = ARC$, adjusted for:
 - Interest on NOO and
 - Amortization of NOO



Net OPEB Obligation (NOO)

- Historical difference between:
 - Annual OPEB Cost (AOC) and
 - Actual contributions
- NOO (End of Year) =
 - + NOO (Beginning of Year)
 - + Annual OPEB Cost
 - Actual contributions
- If actual contribution always = ARC, then $NOO = 0$



Current Funding Vehicles

- PayGo?
 - Significant majority
 - Several have allocated reserves
- Component of Pension Plan?
 - Portion of “excess earnings”
 - 401(h) Account



Current Funding Vehicles

- Trust?
 - Many considering
 - Few currently setting one up , fewer still will fund full ARC
 - IRC Section 115 – Integral Part Trust
 - 501(c)(9) – VEBA Trust



Simplified Example - Active

(Assumes 0% Interest and Other Simplifying Assumptions)

If:	<u>Age</u>	<u>Service</u>	<u>Wages</u>
■ At Hire:	35	0	-
■ Current:	45	10	\$ 60,000
■ At Retirement:	60	25	-

Then:

■ PVPB ₄₅	=		\$ 100,000
■ AAL ₄₅	=	(10/25) x 100,000	= 40,000
■ Assets	=		<u>0</u>
■ UAAL	=		40,000
■ NC _{45/46}	=	(1/25) x 100,000	= 4,000
■ Pay-As-You-Go			0



Simplified Example - Active

(Assumes 0% Interest and Other Simplifying Assumptions)

■ Normal Cost	=		\$ 4,000
■ UAAL Amortization	=	(1/20) x 40,000	= <u>2,000</u>
■ ARC - \$	=		6,000
■ ARC - %	=	6,000 / 60,000	= 10%
■ Pay as You Go Cost			0

		Pay-As-You-Go Without Trust	Pre-fund With Trust
■ BoY NOO	=	\$ 0	\$ 0
■ + ARC	=	6,000	6,000
■ - Payments	=	<u>0</u>	<u>(6,000)</u>
■ EoY NOO	=	6,000	0



Simplified Example - Retiree

(Assumes 0% Interest and Other Simplifying Assumptions)

If:	<u>Age</u>	<u>Service</u>	<u>Annual Payment</u>
■ At retirement:	60	25	-
■ Current Age:	62	25	\$ 4,000
Then:			
■ PVPB ₆₂	=		\$ 100,000
■ AAL ₆₂	=	(25/25) x 100,000	= 100,000
■ Assets	=		<u>0</u>
■ UAAL	=		100,000
■ NC _{62/63}	=	(0/25) x 100,000	= 0
■ Pay-As-You-Go			4,000



Simplified Example - Retiree

(Assumes 0% Interest and Other Simplifying Assumptions)

■ Normal Cost	=		\$ 0
■ UAAL Amortization	=	(1/20) x 100,000	= <u>5,000</u>
■ ARC - \$	=		5,000
■ ARC - %	=		N/A
■ Pay as You Go Cost			4,000

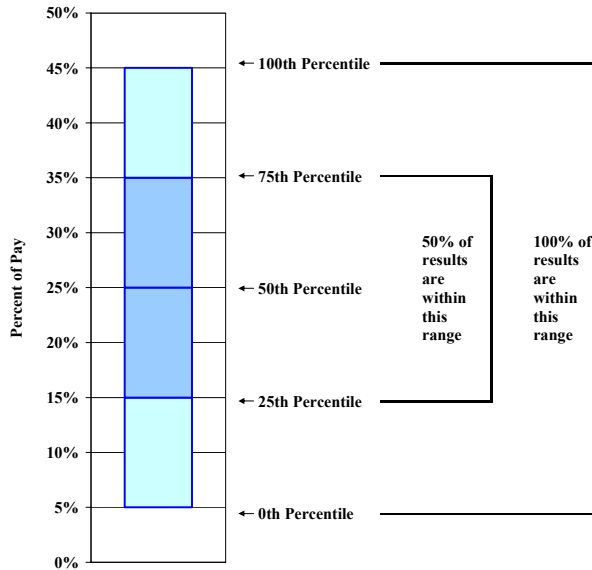
		Pay-As-You-Go Without Trust	Pre-fund With Trust
■ Net OPEB Obligation			
■ BoY NOO	=	\$ 0	\$ 0
■ + ARC	=	5,000	5,000
■ - Payments	=	<u>(4,000)</u>	<u>(5,000)</u>
■ EoY NOO	=	1,000	0



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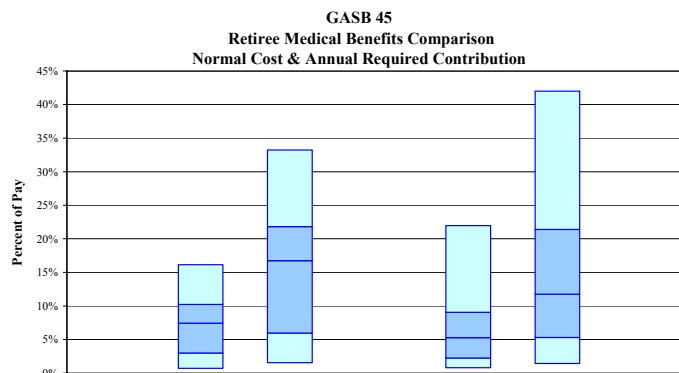
Retiree Healthcare Benefits

Sample Percentile Graph



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Normal Cost & ARC As % of Payroll

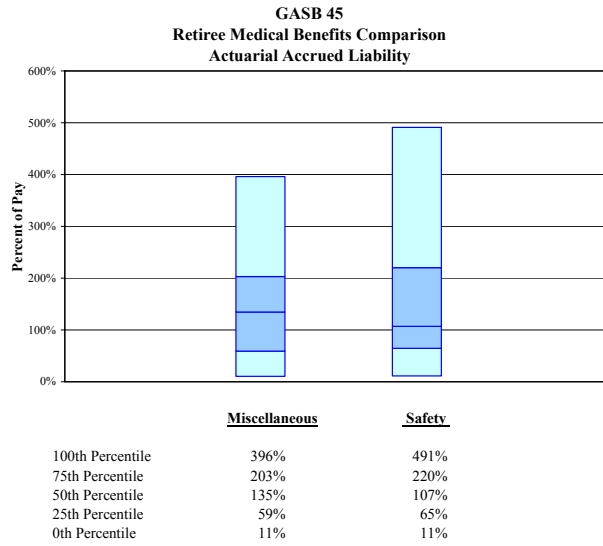


	Miscellaneous		Safety	
	NC	ARC	NC	ARC
100th Percentile	16.1%	33.2%	22.0%	42.0%
75th Percentile	10.2%	21.8%	9.1%	21.4%
50th Percentile	7.5%	16.7%	5.3%	11.8%
25th Percentile	3.0%	6.0%	2.2%	5.3%
0th Percentile	0.7%	1.5%	0.8%	1.4%



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AAL – As % of Payroll



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Average Payroll

