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Accounting for Retirement - Round 2: Retiree Health and Other Benefits (GASB 73, 74, 75)

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Agenda of Sections

Overview of GASB Statements 73, 74, and 75

GASB Statement 75

GASB Statement 74

GASB Statement 73

Recent Mortality Assumptions Update

New OPEB Accounting and Financial Reporting Standards:

GASB Statements 73, 74, and 75

Overview

In June 2015, GASB released new accounting and financial reporting standards related to OPEB plans for state and local governments. The final GASB 74/75 standards have been released and they include many of the changes that were implemented for pensions under GASB 67/68.

- GASB Statement 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
 - GASB Statement 74, Financial Reporting for OPEB Plans
 - GASB Statement 75, Accounting and Financial Reporting for OPEB Plans
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- This presentation will provide an overview of the new Statements and highlight the significant changes
 - Part I: GASB Statement 75
 - Part II: GASB Statement 74
 - Part III: GASB Statement 73

Executive summary

- GASB 75 replaces GASB 45 (Entity reporting)
 - Net OPEB liability is now on balance sheet
 - was shown only in footnote under GASB 45
 - Assets, if any, are reported at Fair Value
 - GASB 45 permitted assets to be reported using smoothing methods
 - A single actuarial method is required — Entry Age Normal Level % of Pay
 - GASB 45 had six permissible methods
 - New discount rate setting methodology
 - GASB 45 required use of Expected Return on Trust Assets for funded plans and Expected Return on General Assets for unfunded plans
 - Unfunded plans — use high-quality 20 year tax-exempt obligation municipal bond rates
 - Funded plans — use blend of Expected Return on Trust Assets and municipal bond index
 - Since municipal bond yields are low, some funded plans will have to use lower discount rates (which produce higher unfunded liabilities)
 - Amortization of the components of unfunded liability is accelerated
 - That is, initial gain/loss, assumption changes, plan amendments, experience gain/loss
 - New disclosure requirements for both financial statements and RSI

Executive summary (cont'd)

- GASB 75 replaces GASB 45 (Entity reporting) – (cont'd)
 - Cost-Sharing Employers
 - Under GASB 45, cost-sharing employers had simplified accounting and financial reporting
 - Now, a cost-sharing employer that does not have a special funding situation will be required to recognize a liability for its proportionate share of the net OPEB liability (of all employers for benefits provided through the OPEB plan)—the collective net OPEB liability.
 - An employer's proportion should be determined on consistent basis
 - Should be measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period
 - If the employer's proportion is actuarially determined, can use the proportion established at the date of the actuarial valuation.
 - Ultimately proportion % needs to be consistent with contributions
 - Need to recognize proportion of expense and deferred inflows/outflows as well

Executive summary (cont'd)

- GASB 74 replaces GASB 43 (Plan reporting)
 - A lot of changes parallel changes in GASB 75
 - New disclosure requirements for both financial statements and RSI
- GASB 73
 - Establishes standards of accounting and financial reporting for pension plans that are not administered through trusts that meet the requirements of GASB 68
 - Standards parallel GASB 68
 - Effective for FYs beginning after June 15, 2016
 - Amends certain provisions of GASB 67/68
 - Effective for FYs beginning after June 15, 2015
- Transition Issues

Critical Issues for Implementation of GASB 75

Identify Affected OPEB Plans and their type

- single employer; agent employer; cost-sharing

Review GASB 74 Implementation (plan financials): Required for FY beginning after June 15, 2016

GASB 75 Implementation (employer's financials): Required for FY beginning after June 15, 2017

- Earlier application is encouraged
- Applies to employer's government-wide financial statement
- Need to also review the effect on the General Fund

Critical Issues for Implementation of GASB 75

Select Accounting Basis under GASB 75

- Cost Method – new standard requires Entry Age Normal as % of Pay (EAN)
 - Was one of the acceptable methods under GASB 45
 - Only one version of EAN is acceptable under GASB 74/75

- Discount rate
 - For unfunded plans – new standard changes rate to municipal bond index
 - For funded plans – new standard potentially requires a blending of expected return on trust assets and municipal bond index
 - Determine the practical effect on discount rate for employer plans
 - will funded plans need to blend with municipal bond index (resulting in lower rate)?
 - will unfunded plans end up in lower rate?

- Select appropriate “Measurement Date” and actuarial valuation date
 - Measurement Date should occur no later than current fiscal year-end and no earlier than previous fiscal year-end
 - Actuarial valuation date must be as of date not more than 30 months (+1 day) prior to FYE

Critical Issues for Implementation of GASB 75

Transition (“First Year Issues”)

- Develop opening balance

Where there are cost-sharing arrangements

- Review their reporting under GASB 75 and timing
- Understand the basis for allocation of costs/liabilities to participating employers and impact on the employer
- Will the employer require a report for these plans covering their operations?
- Review implications if there are “non-employer contributions” and “special funding arrangements”.

Part I:
GASB Statement 75

Highlights

- Scope limited to OPEB Plans that meet certain criteria
- Revises recognition, measurement, and disclosure requirements for all employers
 - Liability
 - Measured net of OPEB plan's fiduciary net position
 - Fully recognized in accrual-basis financial statements
 - Changes in the liability
 - Some recognized as expense in the period of the change
 - Others recognized as deferred outflows/inflows of resources with expense recognized over defined future periods
 - Effective for FYs beginning after June 15, 2017

Scope and applicability

- Applies to defined benefit OPEB plans:
 - Specifies the benefits that employees will receive after their employment
 - Plan could be administered through the trust – funded plan
 - Plan could be administered through general assets – unfunded plan
- Alternative option for OPEB plans with fewer than 100 plan members (active and inactive) to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability.
 - Carried forward from GASB 45

GASB Statement 75

Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with benefits through the OPEB plan and whether OPEB obligations and OPEB plan assets are shared.

- **Single employers** are those whose employees are provided with defined benefit OPEB through single-employer OPEB plans — OPEB plans in which benefits are provided to the employees of only one employer
- **Agent employers** are those whose employees are provided with defined benefit OPEB through agent multiple-employer OPEB plans — OPEB plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees
- **Cost-sharing employers** are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans — OPEB plans in which the benefit obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides benefits through the OPEB plan

Employer Net OPEB Liability

Two potential liabilities

- Liability to the OPEB plan (payables)
 - Short-term amounts (contributions payable at year-end)
 - Long-term amounts
 - Example — installment contract for individual past service liability upon joining a cost-sharing plan
- Liability to employees for OPEB Plans
 - “Net OPEB liability” (NOL)

Employer Net OPEB Liability (cont.)

Measurement of the Net OPEB liability (NOL)

Total OPEB liability (TOL)
Less: Plan's fiduciary net position
Net OPEB liability

TOL — actuarial PV of projected benefit payments attributed to past periods

Fiduciary net position — bottom line of plan's financial statements

Single/agent employers recognize 100% of NOL

Cost-sharing employers recognize proportionate share of collective NOL

NOL: Timing of measurement

- Potentially three different dates:
 - Fiscal year end (FYE)
 - Measurement date (of NOL)
 - As of date no earlier than end of prior fiscal year
 - Both components (TOL/plan net position) as of the same date
 - Actuarial valuation date (of TOL)
 - If not measurement date, as of date not more than 30 months (+1 day) prior to FYE
 - Actuarial valuations at least every two years (more frequent valuations encouraged)
- Coordination with OPEB plan

NOL: Timing of measurement (cont.)

Example A:

Employer Fiscal Year = Plan Fiscal Year = Year Ending June 30

- GASB 75 must be implemented no later than FY2018 (note: GASB 74 implementation no later than FY2017).
- Measurement date for FY2018 reporting:
Requirement is: between June 30, 2017 and June 30, 2018
Client chooses June 30, 2018 – end of year
- Actuarial valuation date:
Requirement is: between December 31, 2015 and June 30, 2018
Example: June 30, 2016
- Plan reporting:
Requirement is: June 30 (end of fiscal year)

NOL: Timing of measurement (cont.)

Example B:

Employer Fiscal Year = Plan Fiscal Year = Year Ending June 30

- GASB 75 must be implemented no later than FY2018 (note: GASB 74 implementation no later than FY2017).
- Measurement date for FY2018 reporting:
Requirement is: between June 30, 2017 and June 30, 2018
Client chooses June 30, 2017 – end of previous year
- Actuarial valuation date:
Requirement is: between December 31, 2015 and June 30, 2018
Example: June 30, 2016
- Plan reporting:
Requirement is: June 30 (end of fiscal year)

NOL: Timing of measurement (cont.)

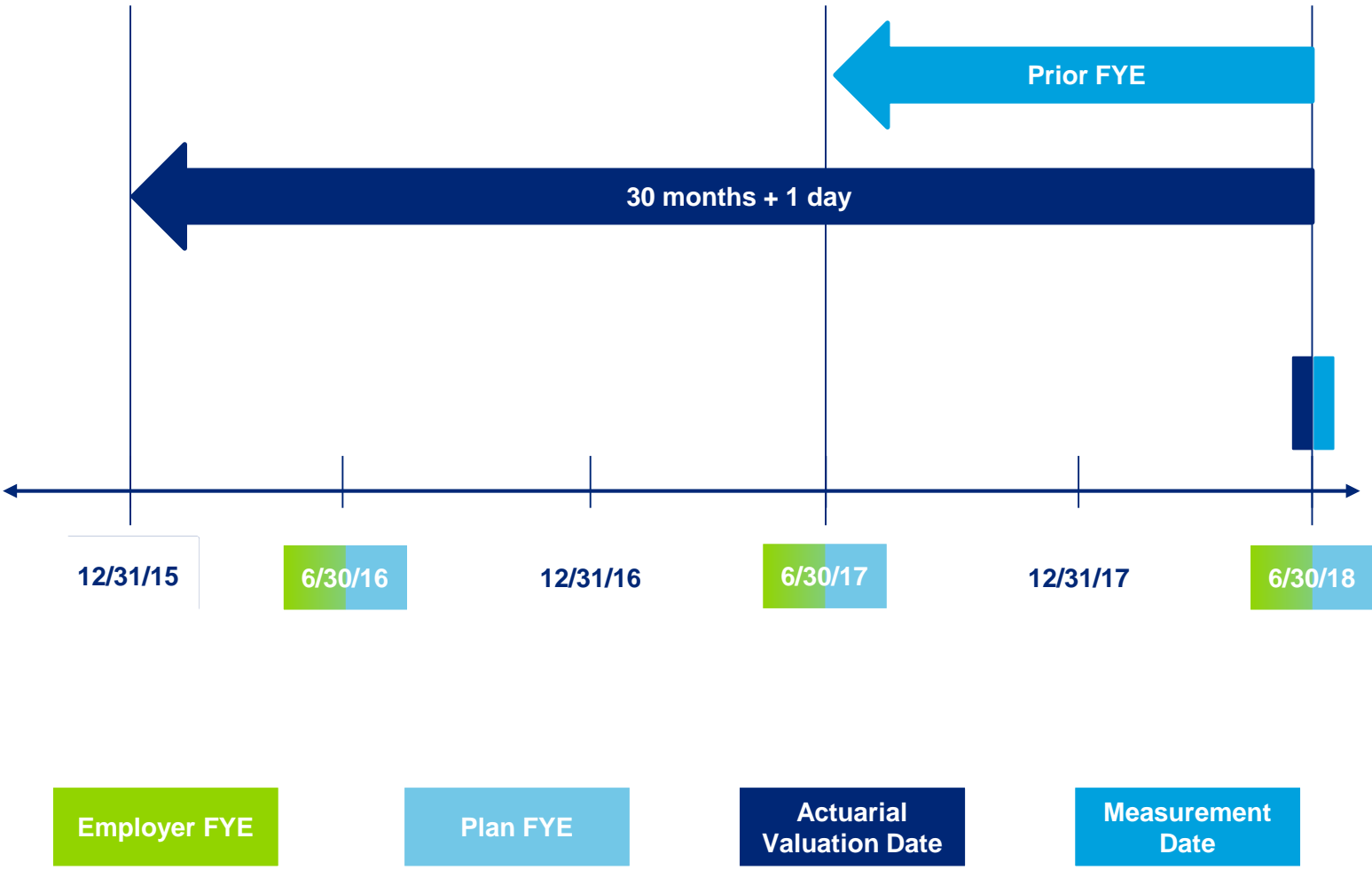
Example C:

Employer Fiscal Year = Year Ending June 30

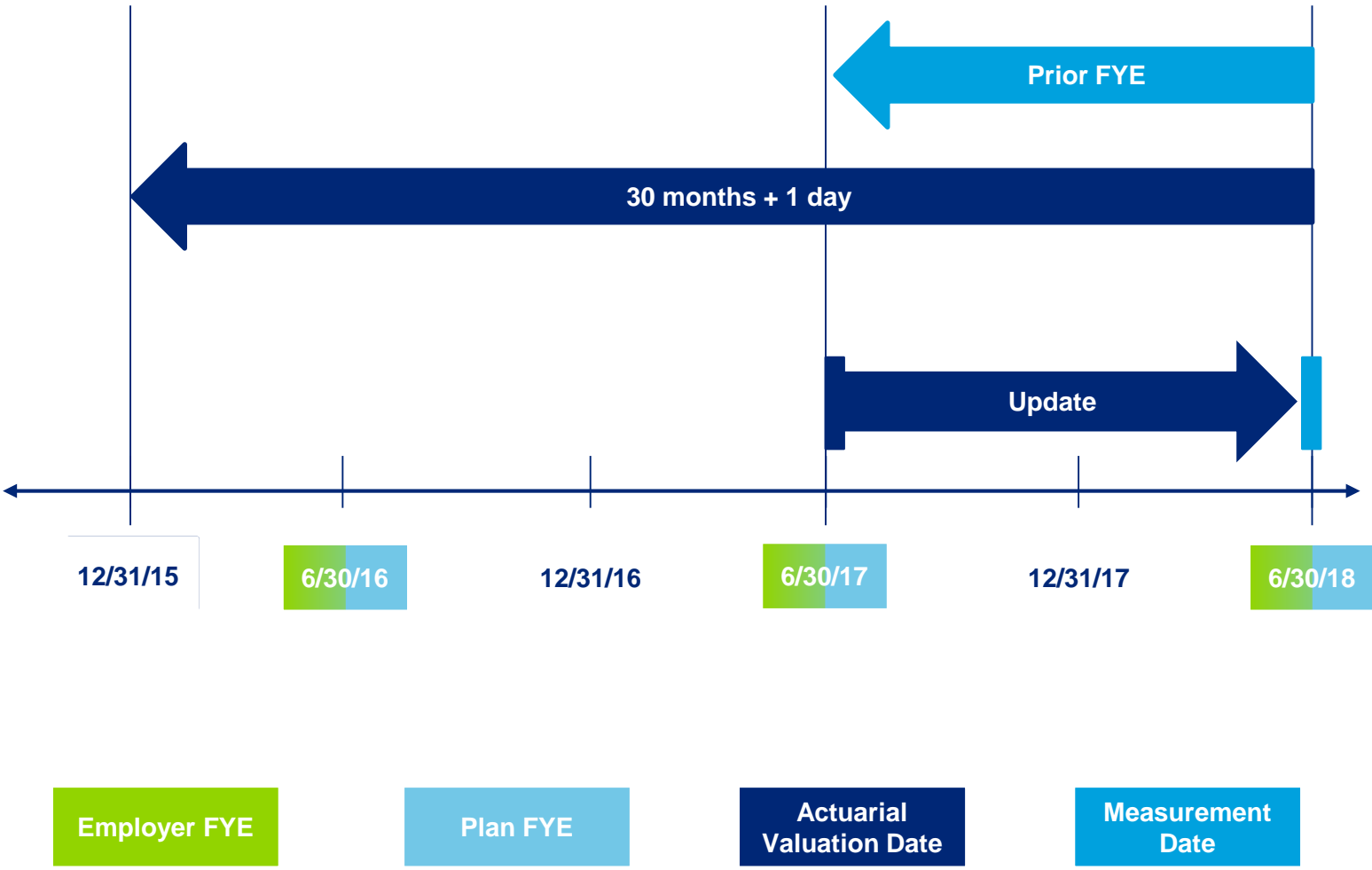
Plan Fiscal Year = Year Ending December 31

- GASB 75 must be implemented no later than FY2018 (note: GASB 74 implementation no later than FY2017).
- Measurement date for FY 2018 reporting:
Requirement is: between June 30, 2017 and June 30, 2018
Client chooses December 31, 2017 – middle of year
- Actuarial valuation date:
Requirement is: between December 31, 2015 and June 30, 2018
Example: December 31, 2016
- Plan reporting:
Requirement is: December 31 (end of fiscal year)

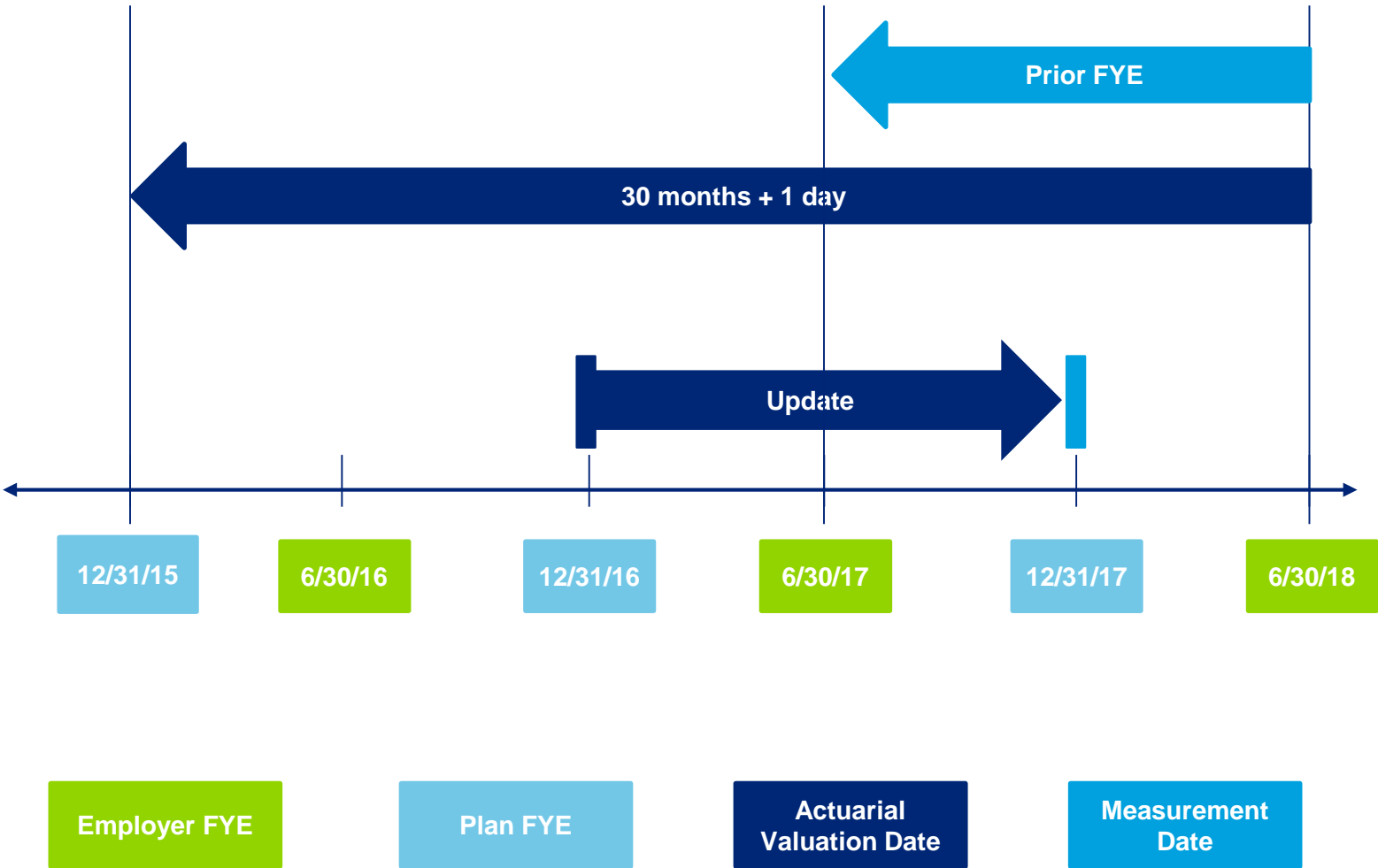
NOL: Timing of measurement example A



NOL: Timing of measurement example B



NOL: Timing of measurement example C



Employer NOL

If significant changes occur between the actuarial valuation date and the measurement date, professional judgment should be used to determine whether a new valuation is needed.

NOL: Measurement — General approach

- Three broad steps
 - Projection — Project benefit payments
 - Discounting — Discount projected benefit payments to actuarial present value
 - Attribution — Attribute actuarial present value to periods
- Methods and assumptions
 - Generally, assumptions in conformity with Actuarial Standards of Practice
 - Fewer alternatives than Statement 45 for methods and assumptions for GAAP reporting purposes
 - No changes required to actuarial methods and assumptions used to determine funding amounts

NOL: Measurement — Projection

- Benefit terms/agreements at measurement date
- Current active and inactive employees
- Incorporate expectations of:
 - Salary changes
 - Service credits
 - Ad hoc postemployment benefit change if substantively automatic

Changes in NOL

Calculated from measurement date to measurement date
("measurement period")

NOL recognized in current reporting period

LESS: NOL recognized in prior reporting period

Change in NOL for current reporting period

Changes in NOL (cont.)

- Recognize most changes as expense in full in reporting period of change
 - Examples: service cost, interest on TOL, effects of benefit changes, projected earnings on OPEB plan investments
- Exceptions:
 - Differences between expected and actual experience (TOL)
 - Changes of assumptions (TOL)
 - Difference between projected and actual earnings on OPEB plan investments
 - Employer contributions

Changes in NOL — TOL exceptions

- Expense recognized in current and future periods
 - Systematic and rational method
 - Closed period beginning in current period
 - Average of expected remaining service lives of all employees (active and inactive, including retirees)
- Portion not recognized in expense = deferred outflow of resources/deferred inflow of resources related to OPEB

Changes in NOL — Investment earnings exception

- Expense recognized in current and future periods
 - Systematic and rational method
 - Closed five-year period beginning in current period
- Portion not recognized in expense = deferred outflow of resources/deferred inflow of resources related to OPEB Plan
- Report **net** deferred outflow of resources/deferred inflow of resources from this source

Changes in NOL — Employer contributions

- During the measurement period
 - Directly reduce NOL (no expense impact)
- Subsequent to the measurement date, but prior to end of employer's fiscal year
 - Deferred outflow of resources related to OPEB Plans
 - Directly reduce NOL in next reporting period (no expense impact)

Calculation of OPEB Expense — Illustration

	Total OPEB liability (a)	Plan fiduciary net position (b)	Net OPEB liability (a) – (b)	Deferred outflows of resources	Deferred inflows of resources	OPEB expense
Balances at 12/31/X8	\$3,045,893	\$2,283,333	\$762,560	\$289,881	\$30,107	
Changes for the year						
Service cost	101,695		101,695			\$101,695
Interest	231,141		231,141			231,141
Changes of benefit terms	—		—			
Differences between expected and actual experience	(69,638)		(69,638)	—	63,582	(6,056)
Changes of assumption	—		—	—	—	—
Contributions — employer		109,544	(109,544)			
Contributions — employees		51,119	(51,119)			(51,119)
Net investment income		199,273	(199,273)	(16,804)	—	(182,469)
Benefit payments, including refunds	(126,863)	(126,863)	—			
Administrative expense		(3,427)	3,427			3,427
Other		8	(8)			(8)
Expense for beginning deferred amounts				(60,320)	(3,592)	56,728
Net changes	136,335	229,654	(93,319)	(77,124)	59,990	
Balances at 12/31/X9	\$3,182,228	\$2,512,987	\$669,241	\$212,757	\$90,097	\$153,339

BOY Balance Sheet + Expense – Contributions = EOY Balance Sheet

\$502,786 [$\$762,560 - \$289,881 + \$30,107$] + **\$153,339** - **\$109,544** = **\$546,581** [$\$669,241 - \$212,757 + \$90,097$]

NOL cost-sharing plans

- Cost sharing plan — “A multiple employer defined benefit OPEB plan in which the OPEB obligations to the employees of more than one employer are pooled and OPEB plan assets can be used to pay the benefits of the employees of any employer that provides benefits through the OPEB plan.”
- Under GASB 45, employers in a cost sharing plan report the contractually required contribution in their financial statements
- Under GASB 75, employers in cost sharing plans will have to report their proportionate shares of the collective Net OPEB Liability
- Single employers with component units are effectively treated like cost-sharing plans

NOL cost-sharing plans — Proportionate shares

- The method to calculate proportionate shares is flexible
 - All of the collective NOL must be allocated to employers (and other contributing entities)
 - Method should be based on the manner in which contributions to the OPEB plan are determined (i.e., proportionate share of expected future sacrifice of resources)
 - Must disclose a description of the method used
- Simple example — All employers pay the same actuarially determined contribution rate as a percentage of payroll
 - Proportionate shares can be determined based on proportion of expected payroll

NOL cost-sharing plans — Proportionate shares (cont.)

- Additional examples
 - Employers pay different normal cost rates, but all pay the same actuarially determined UAL rate
 - Can allocate in proportion to expected payroll
 - Employers pay different normal cost and UAL rates reflecting different benefit provisions for different classes of employees and allocation of UAL to the different classes
 - Can allocate in proportion to expected contributions (contribution rate times expected payroll)
 - Non-employer contributing entities
 - Reflect structure of agreement for contributions from non-employer contributing entities

NOL cost-sharing plans — Proportionate shares (cont.)

- Additional examples (cont.)
 - Transition charges —When an employer enters a cost-sharing plan, they may be assessed an additional contribution over a period of time
 - In determining collective NOL, outstanding transition charges are treated as a receivable
 - Employer recognizes a liability for the outstanding transition charges in addition to its proportionate share of the NOL
 - Contributions for transition charges should be excluded from proportionate share calculation
 - Terminating employers
 - Proportionate share should reflect terms of plan for allocating costs to terminating or terminated employers

NOL: Measurement — Attribution

- Single method
 - Entry age actuarial cost method
 - Level percentage of pay
- Individually applied
- Beginning = First period of benefit accrual
- Ending = Expected retirement
- Same benefit terms to determine service cost as to determine actuarial present value of projected benefit payments
 - Under certain variations of Entry Age Normal, the benefit terms for new hires are used to determine service cost. Those variations would not be permissible under GASB 75 if benefits for new hires are different than for longer service employees.

Discount rate determination

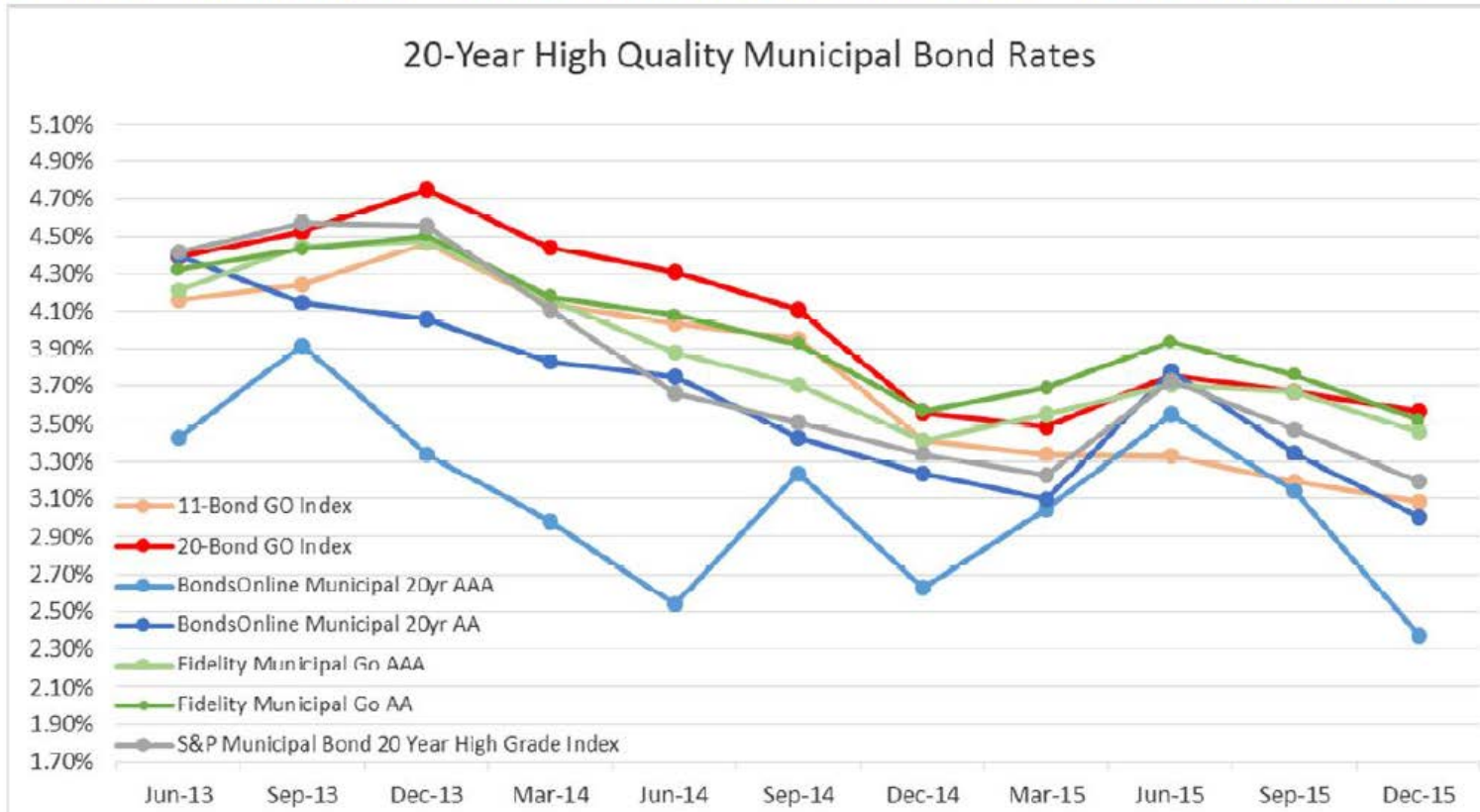
- Single discount rate
 - Funded Plans:
 - Long Term expected Rate of Return (LTeRoR) on OPEB plan investments, to extent that plan net position:
 - Projected to be sufficient to pay benefits
 - Plan assets expected to be invested using a strategy to achieve that return
 - Yield or index rate for 20-year, tax-exempt general obligation municipal bond rate to extent that conditions for LTeRoR not met
 - Unfunded Plans:
 - Yield or index rate for 20-year, tax-exempt general obligation municipal bond rate

Discount rate determination (cont.)

- Some funded plans contribute:
 - Normal cost PLUS closed amortization payments
 - These **probably** have discount rates = LTeROR
- Some funded plans contribute:
 - Normal cost PLUS open amortization payments
 - These **almost always** have lower rates than their LTeROR
- Unfunded plans:
 - **Might** have lower rates than their LTeROR

Discount rate determination (cont.)

20-Year Municipal Bond Index for GASB 75 Discount Rate



	20-year MMD	11-Bond GO Index	20-Bond GO Index	BondsOnline Municipal 20yr AAA	BondsOnline Municipal 20yr AA	Fidelity Municipal Go AAA	Fidelity Municipal Go AA	S&P Municipal Bond 20 Year High Grade Index
6/30/2014	3.04%	4.03%	4.29%	2.54%	3.75%	3.88%	4.08%	3.66%
6/30/2015	3.01%	3.40%	3.80%	3.55%	3.78%	3.71%	3.94%	3.73%

Discount rate determination (cont.)

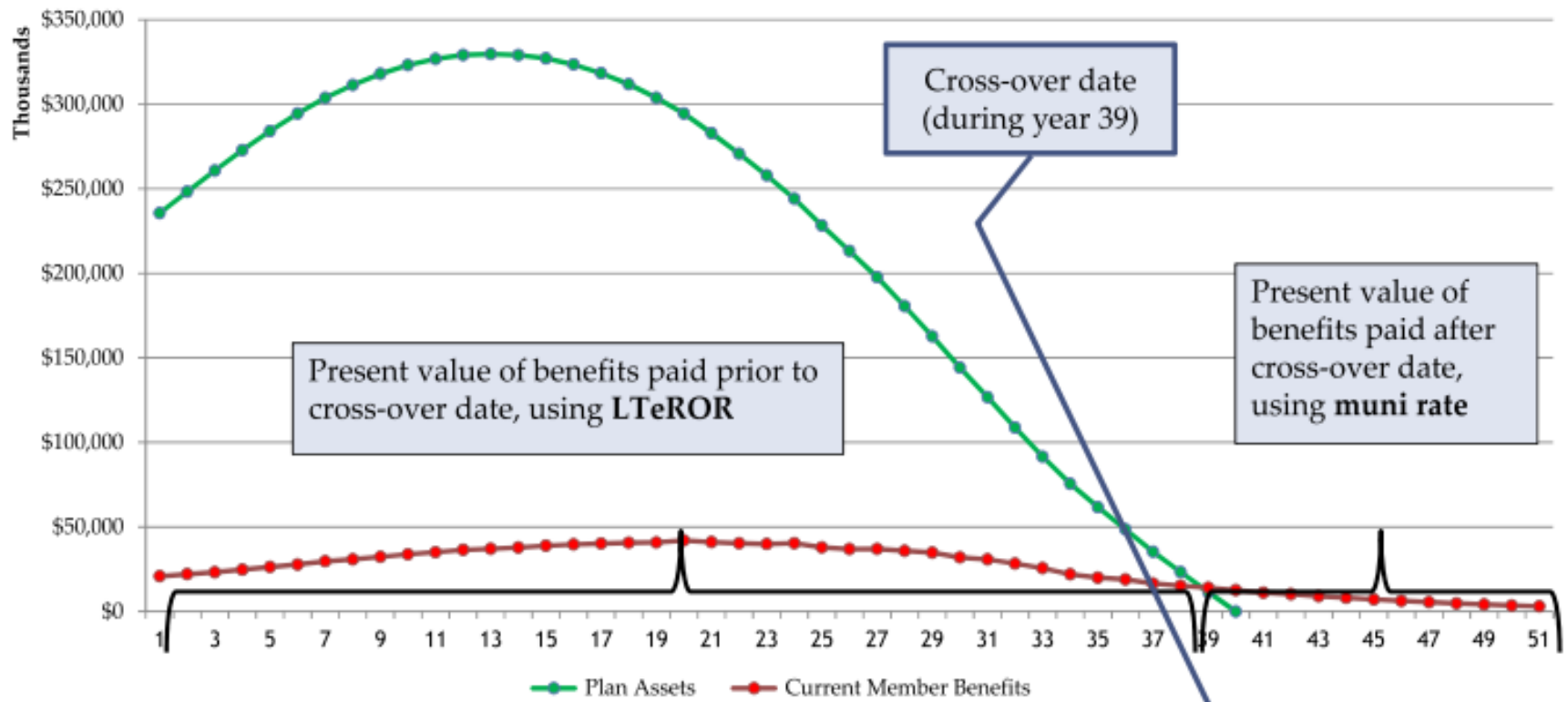
Five broad steps to determine the discount rate:

1. Project benefits for current members
- 2. Project plan assets (Simulate a closed plan)**
3. Calculate Present Value (PV) using LTeROR for benefits till year when plan assets go to zero (aka, the cross-over date) (funded plans only)
4. Calculate PV using muni rate* for any benefits remaining to be paid after cross-over date
5. Calculate the single equivalent rate for all benefits that produces the sum of those two PVs

* Yield or index for 20-year, tax-exempt general obligation bonds with an average rating of AA/Aa or higher

Discount rate determination (cont.)

ABC Government - Field Test Projection of Plan's Fiduciary Net Position (Plan Assets)



Discount rate determination (cont.)

Project plan assets (simulate a closed plan runoff)

1. Project **benefits** for current actives and inactive
2. Project **administrative expenses**
3. Project **employee contributions** from current actives
4. Project **contributions from the employer and other sources** for current members (simple or complex), pursuant to the funding policy and the five-year lookback rule*
5. Project **investment return** using LTeROR under expected investment policy

* Refer to paragraph 28 in GASB 68

Discount rate determination (cont.)

- GASB's principles for projecting contributions:
 - Contributions from employers and nonemployer contributing entities, if any, intended to finance benefits **of current active and inactive plan members** (status at the measurement date)
 - It should not include cash flows for contributions from employers or nonemployer contributing entities intended to finance the service costs of **future plan members**
- Simulates a closed plan (not a frozen plan) forecast
- Whether there is a cross-over date (and when) is all about funding policy

Discount rate determination (cont.)

- Simple employer contribution projection:
 - When the funding policy is to contribute a normal cost plus an amortization payment, under an individual actuarial cost method
 - Approach: (a) closed group projection of normal cost (in dollars) and (b) amortization payment schedule (in dollars)

Discount rate determination (cont.)

- More complex employer contribution projection:
 - When the funding policy is to contribute based on a spread-gain method, a flat statutory method or when professional judgment is required
 - Approach: (a) an open group projection (b) offset by entry age normal costs of future hires

Discount rate determination (cont.)

- Sometimes, employers do not make contributions equal to their funding policy
- Sometimes, employers do not have a funding policy
- Use professional judgment
- Consider the recent five-year contribution history, per GASB standards

Impute a funding policy consistent with practice and apply the simple or complex approach accordingly

Amortization periods

- Changes in the total OPEB liability resulting from current-period service cost, interest on the total OPEB liability, and changes of benefit terms (plan amendment) are required to be included in OPEB expense immediately
- Projected earning on the OPEB plan's investments also are required to be included in the determination of OPEB expense immediately
- The effects of certain other changes in the net OPEB liability are required to be included in OPEB expense over the current and future periods. The effects on the total OPEB liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience (experience gain/loss) are required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning with the current period
- The effect on the net OPEB liability of differences between the projected earnings on OPEB plan investments and actual experience with regard to those earnings is required to be included in OPEB expense in a systematic and rational manner over a closed period of five years, beginning with the current period

Disclosures — Notes to financial statements

- Descriptive information
 - Type of plan, identification of administrator
 - Benefit terms — types of benefits, key elements of benefit formula, classes of employees covered, legal authority
 - Contributions — basis, authority, rate (\$ or % of pay), contributions in reporting period
 - Availability of plan report

Disclosures — Notes to financial statements (cont.)

- Significant assumptions/other inputs in TOL
 - Inflation, salary changes, postemployment benefit changes, mortality assumptions, healthcare assumptions, dates of experience studies
 - Discount rate
 - Rate
 - Assumptions regarding cash flows
 - Municipal bond rate (if applicable)
 - Periods to which each rate applied
 - How LTEROR determined
 - Assumed asset allocation/expected real rates of return
 - NOL at discount rate +/- 1% based on overall discount rate
 - NOL at trend rates +/- 1% based on overall trend rates

Disclosures — Notes to financial statements (cont.)

Discount rate. The discount rate used to measure the total OPEB liability was 4.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the City's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the City's proportionate share of the net OPEB liability calculated using the discount rate of 4.50%, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.50%) or 1-percentage-point higher (5.50%) than the current rate:

	1% Decrease (3.50%)	Current Discount Rate (4.50%)	1% Increase (5.50%)
City's proportionate share of the net OPEB liability	\$16,476	\$14,910	\$13,091

Disclosures — Notes to financial statements (cont.)

- Information regarding OPEB plan's fiduciary net position or reference to plan report
- Measurement date, actuarial valuation date
- Changes of assumptions/other inputs and changes of benefit terms
- Changes subsequent to measurement date
- OPEB expense in current reporting period
- Deferred outflows/inflows of resources
- Balance by source
 - Net impact on OPEB expense in each of the next five years and thereafter in the aggregate
 - Amount that will be reduction of NOL

Disclosures — Notes to financial statements (cont.)

For the year ended December 31, 20x9, the City recognized OPEB expense of \$2,395. At December 31, 20x9, the City reported deferred outflows of resources and deferred inflows of resource related to OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$2,657	\$142
Changes of assumptions	1,714	130
Net difference between projected and actual earnings on OPEB plan investments	—	2,188
Changes in proportion and differences between City contributions and proportionate share of contributions	747	153
City contributions subsequent to the measurement date	1,065	—
Total	\$6,183	\$2,613

\$1,065 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 20Y0. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB as shown at right:

Year ended December 31	
20Y0	\$(269)
20Y1	161
20Y2	217
20Y3	545
20Y4	551
Thereafter	1,300

Disclosures — Notes to financial statements (cont.)

- Single/agent only
 - Number of employees covered — inactive receiving benefits, inactive not receiving benefits, active
 - Allocated insurance contracts
 - Schedule of changes in NOL by source for current period
 - Service cost, interest, benefit changes, contributions by source, plan investment income, etc.
 - If special funding situation:
 - Amounts in schedule for collective NOL
 - Nonemployer Contributing Entity's (NCE's) proportionate share (amount) of collective NOL
 - Employer's proportionate share of collective NOL

Disclosures — Notes to financial statements (cont.)

- Cost-sharing only
 - Employer's proportion, basis for proportion, change in proportion
 - Employer's proportionate share (amount) of collective NPL
 - If special funding situation:
 - NCE's proportionate share
 - Total of employer's and NCE's proportionate shares

Disclosures — RSI

Required supplementary information of single and agent employers



Disclosures — RSI (cont.)

Required supplementary information of single and agent employers (cont.)

- Required to present the following schedules covering each of the past 10 years as required supplementary information (only required prospectively):
 - Changes in the net OPEB liability, presented in the separate categories as required for the notes
 - Information about the components of the net OPEB liability and related ratios as of the measurement date of the net OPEB liability:
 - the total OPEB liability
 - the OPEB plan's fiduciary net position
 - the net OPEB liability
 - the OPEB plan's fiduciary net position as a percentage of the total OPEB liability
 - the covered-employee payroll
 - the net OPEB liability as a percentage of covered-employee payroll

Disclosures — RSI (cont.)

Required supplementary information of single and agent employers (cont.)

- If an actuarially determined contribution is calculated, the employer would present in required supplementary information a schedule covering each of the past 10 years that includes:
 1. the actuarially determined contribution of the employer
 2. the amount of contributions recognized by the OPEB plan in relation to the actuarially determined contribution of the employer
 3. the difference between 1 and 2
 4. the covered-employee payroll
 5. the amount of contributions recognized by the OPEB plan in relation to the actuarially determined contribution of the employer as a percentage of covered-employee payroll

Disclosures — RSI (cont.)

Required supplementary information of single and agent employers (cont.)

- If an actuarially determined contribution is not calculated and the contribution requirements of the employer are statutorily or contractually established, the employer would present in required supplementary information a schedule covering each of the past 10 years that includes:
 1. the statutorily or contractually required employer contribution
 2. the amount of contributions recognized by the OPEB plan in relation to the amount in 1
 3. the difference between 1 and 2
 4. the covered-employee payroll
 5. the amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution as a percentage of covered-employee payroll

Transition Issues

- Adjustment of beginning net position
 - If employer has beginning NOO (and NOL)
 - Debit: NOO, DO of resources
 - Credit: NOL, DI of resources
 - Debit/credit: Net position.
- Beginning deferred outflows/deferred inflows of resources balances all or nothing at initial implementation
- Implementation guides are available for both GASB 74 and GASB 75

Part II: GASB Statement 74

GASB Statement 74

Summary

Financial Statements

- Statement of fiduciary net position
- Statement of changes in fiduciary net position

Notes to Financial Statements

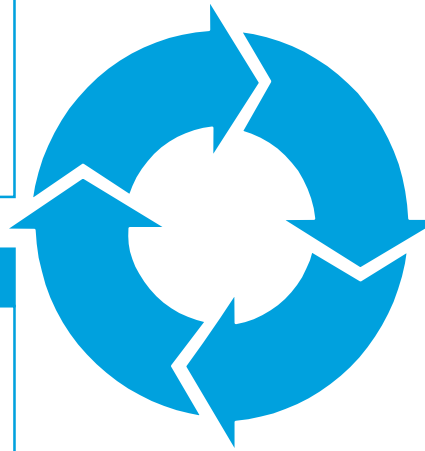
- More descriptive information regarding plan description, investments, allocated insurance contracts, reserves, net OPEB liability, actuarial assumptions, and discount rate

RSI

- Schedule of changes in the net OPEB liability and related ratios
- Schedule of contributions
- Schedule of investment returns

Net OPEB Liability

- Net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position



Highlights

- Scope limited to defined benefit and defined contribution plans administered through trusts that meet certain criteria (same as criteria in Statement 75)
- Few changes from Statement 43 for financial statement recognition
- Notes/RSI changes primarily to reflect changes in measurement of liabilities of employers

Highlights (cont.)

- Notable changes in note disclosures/RSI
 - Annual money-weighted rate of return (one year in notes and 10 years in RSI)
 - Notes for single-employer and cost-sharing OPEB plans
 - Components of NOL and net position as % of TOL (one year)
 - Assumptions used to measure TOL
 - RSI for single-employer and cost-sharing OPEB plans (10 years):
 - Schedule of change in NOL by source
 - Components of NOL/related ratios
 - Schedule of actuarially determined contributions
 - Aggregated employer-related information not required for agent OPEB plans

Highlights (cont.)

- Effective for fiscal years beginning after June 15, 2016
- RSI prospective (except contribution schedule, if presented), if information not initially available

Disclosure — Notes to financial statements

- Defined benefit OPEB plans administered through VEBA trusts are required to present two financial statements — **a statement of fiduciary net position and a statement of changes in fiduciary net position**
- The *statement of fiduciary net position* presents the following items as of the end of the plan's reporting period:
 - Assets, such as cash and cash equivalents, receivables from employers and plan members, investments (measured at fair value), and equipment and other assets used in plan operations
 - Must show the principal components of the receivables and investments categories
 - Deferred outflows of resources
 - Liabilities, such as benefit payments due to plan members
 - Deferred inflows of resources
 - Fiduciary net position: Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources at the end of the OPEB plan's reporting period should be reported as **net position restricted for OPEB**

Fiduciary net position

Assets

Plus: Deferred outflows of resources

Less: Liabilities

Less: Deferred inflows of resources

Disclosure — Notes to financial statements (cont.)

- The *statement of changes in fiduciary net position* presents the following items for the plan's reporting period:
 - Additions, such as contributions from employers, nonemployer contributing entities, and plan members, and net investment income
 - Net investment income, including separate display of (1) investment income and (2) investment expense, including investment management and custodial fees and all other significant investment-related costs, if separable
 - Deductions, such as benefit payments and administrative expenses
 - Net increase (decrease) in fiduciary net position, which equals the difference between additions and deductions
- Net increase (decrease) in fiduciary net position
 - The difference between total additions and total deductions presented in the *statement of changes in fiduciary net position* should be reported as the **net increase (or decrease) in net position**

Disclosure — Notes to financial statements (cont.)

- The notes to financial statements of defined benefit OPEB plans should offer descriptive information, including the types of benefits provided, the classes of plan members covered, and the composition of the plan's board
- Notes regarding plan investments should present the plan's investment policies, describe how it determines fair value, identify concentrations of investments with individual organizations equaling or exceeding 5% of plan net position, and disclose annual money-weighted rate of return on OPEB plan investments
- The notes also should provide information about contribution receivables, reserves, and allocated insurance contracts
- Refer to **GASB 74 paragraph 34** for a detail listing of the items that should be disclosed in the notes to the financial statements

Disclosure — Notes to financial statements (cont.)

- Single-employer and cost-sharing OPEB plans also would disclose the following:
 - As of the **end** of the plan's reporting period
 - the total OPEB liability
 - the OPEB plan's fiduciary net position
 - the net OPEB liability, and
 - the OPEB plan's fiduciary net position as a percentage of the total OPEB liability.
 - Significant assumptions and other inputs used to measure the total OPEB liability, including assumptions about inflation, salary changes, and ad hoc postemployment benefit changes (including ad hoc COLAs)
 - With regard to mortality assumptions, the source of the assumptions (for example, the published tables on which the assumption is based or that the assumptions are based on a study of the experience of the covered group) should be disclosed
 - The dates of experience studies on which significant assumptions are based also should be disclosed. If different rates are assumed for different periods, information should be disclosed about what rates are applied to the different periods of the measurement

Disclosure — Notes to financial statements (cont.)

- Single-employer and cost-sharing OPEB plans also would disclose the following, continued:
 - The following information should be disclosed about the discount rate:
 - The discount rate applied and the change in the discount rate since the plan's prior fiscal year-end, if any
 - Assumptions about projected cash flows into and out of the OPEB plan, such as contributions
 - The long-term expected rate of return on OPEB plan investments and a description of how it was determined
 - If the discount rate incorporates a municipal bond rate, the municipal bond rate used and the source of that rate
 - The periods of projected benefit payments to which the long-term expected rate of return and, if used, the municipal bond rate applied to determine the discount rate
 - The assumed asset allocation of the OPEB plan's portfolio, the long-term expected real rate of return for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means
 - Net OPEB liability calculated using a discount rate that is 1% higher and 1% lower than the discount rate used
 - Net OPEB liability calculated using a trend rates that is 1% higher and 1% lower than the trend rates used
 - The date of the actuarial valuation on which the total OPEB liability is based and, if applicable, the fact that update procedures were used to roll forward the total OPEB liability to the OPEB plan's fiscal year-end

Disclosure — RSI

- Single-employer and cost-sharing OPEB plans must present the following schedules covering the past ten (10) fiscal years as RSI as of the plan's fiscal year-end:
 - Changes in the net OPEB liability, including the beginning and ending balances of the total OPEB liability, the OPEB plan's fiduciary net position, and the net OPEB liability and the effects on those items during the year of the following: service costs, interest on total OPEB liability, changes of benefit terms, differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total OPEB liability, changes of assumptions, contributions, net investment income, benefits paid, and OPEB plan administrative expenses
 - Information about the components of the net OPEB liability of the employer(s) and related ratios, including (1) the total OPEB liability, (2) the OPEB plan's fiduciary net position, (3) the net OPEB liability, (4) the ratio of the OPEB plan's fiduciary net position to the total OPEB liability, (5) the amount of covered-employee payroll, and (6) net OPEB liability as a percentage of covered-employee payroll

Disclosure — RSI (cont.)

- If the contributions of employer(s) or nonemployer contributing entities to a single-employer or cost-sharing OPEB plan are actuarially determined, the plan would present a schedule covering the past 10 fiscal years that includes:
 1. the actuarially determined contributions* of employers or nonemployer contributing entities
 2. for cost-sharing OPEB plans, the contractually required contribution* of employers or nonemployer contributing entities, if different from (1)
 3. the amount of contributions recognized in relation to (1). Contributions should include only amounts recognized as additions resulting from cash contributions and from contributions recognized by the OPEB plan as current receivables
 4. the difference between (1) and (3)
 5. the amount of covered-employee payroll, and
 6. contributions as a percentage of covered-employee payroll

*exclude amounts to finance specific liabilities of individual employers or nonemployer contributing entities

Disclosure — RSI (cont.)

- All defined benefit OPEB plans, including agent OPEB plans, would present in required supplementary information a schedule covering the past 10 fiscal years that includes the annual money-weighted rate of return on OPEB plan investments, net of investment expenses. **Should be calculated as required by paragraph 34b(3)**
- Significant methods and assumptions used in determining the actuarially calculated contributions should be presented as notes to the schedules.
- All plans should explain factors that significantly affect trends in the amounts reported in the RSI schedules, such as changes in benefit terms, changes in the size or composition of the population covered by benefit terms, or the use of different assumptions
- RSI schedules should be presented for as many years for which information measured in conformity with GASB Statement 74 is available, up to 10 years. Encouraged, but not required, to determine retroactively when implemented

Part III: GASB Statement 73

Highlights

- Scope limited to defined benefit and defined contribution pension plans that are not administered through trusts that meet certain criteria (same as criteria in Statement 68) – Not considered plan assets
- Standards parallel GASB 68 requirements
- Since there are no plan assets:
 - Net Pension Liability is equal to Total Pension Liability
 - Discount rate is determined based on a yield or index rate for 20-year, tax-exempt general obligation municipal bond rate
- Refer to **GASB 73 paragraphs 115 and 116** for details of how assets accumulated for pension purposes should be reported
- Effective for fiscal years beginning after June 15, 2016

Highlights

- Amends certain provisions of GASB 67/68
 - Information about investment-related factors that significantly affect trends in the amounts reported should be limited to factors over which the pension plan or participating governments have influence (for example, changes in investment policies). Information about external, economic factors (for example, changes in market prices) should not be presented
 - Exclude amounts associated with separately financed specific liabilities in information to be presented in contribution-related schedules of required supplementary information, actuarially determined contributions, contractually required contributions, and statutorily required contributions should
 - Refer to **GASB 73 paragraph 121** for details of how employers and nonemployer contributing entity should recognize a separately financed specific liability
 - Employers to recognize revenue for the support of a nonemployer contributing entity that is not in a special funding situation in the reporting period in which the contribution of the nonemployer contributing entity is reported as a change in the net pension liability or collective net pension liability
- Effective for FYs beginning after June 15, 2015

Mortality Assumptions Update

Background

Mortality assumptions include:

- Base table
- Projection scale (to project base table to future years); reflects assumptions about improvements in longevity

In Fall of 2014 Society of Actuaries released RP-2014 base table and MP-2014 projection scale.

In Fall of 2015 Society of Actuaries released MP-2015 projections scale.

Recent Developments

RPEC is planning on providing annual updates to its mortality projection scales, and expects to publish Scale MP-2016 later this year, probably in late October. The SSA has published mortality rates for 2012 and 2013. At a minimum, the MP-2016 scale will reflect these additional two years of SSA mortality rates.

In August 2015, RPEC initiated a mortality study on members of public pension plans in the United States. This study focuses on mortality experience during calendar years 2009–2013. The committee intends to examine variations in mortality by job classification and geography. RPEC anticipates presenting preliminary results in late 2017 with final publication of new mortality tables in 2018.

Questions?



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