



The OPEB Standard: An Actuarial Perspective

March 3, 2016

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Agenda

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GASB 73 Overview

GASB 73 – Unfunded Pension Plans

- Effective FY Beginning > 6/15/16
- Everyone will recognize pension liability
 - Does not affect contributions (or require funding)
 - Discount rate will be 20 year Aa municipal bond rate
- Change in net pension liability => pension expense
- Additional note disclosures and RSI

Unfunded Pension Plans

- Unfunded single employer plans
 - Plans that provide pension benefits
 - Not funded, or funds not in Trust
 - Often small plans (limited number of people) or old plans
 - Applies to those that have employees in CalPERS subject to IRC §415.

CalPERS Replacement Benefit Fund

- Benefits > IRC §415 limit (\$210,000/yr in 2016)
- Retirees and non-retirees with large projected benefits
- No liability valued by CalPERS for
 - funding or
 - GASB 68
- Who will value for GASB 73?
- Materiality?

GASB 74 Overview

GASB 74 – OPEB Plans

- Replaces GASB 43 Effective FY Beg. > 6/15/16
- Similar to GASB 67
- Reporting for OPEB funded plans
 - In the plan's financial statements
 - Stand-alone
 - Fiduciary fund in employer's financial statements
- Does not affect/require contributions

GASB 74 – OPEB Plans

- Additional note disclosures and RSI for single employer plans and cost-sharing plans
 - Net OPEB Liability
 - Funded status & contributions relative to payroll
 - Change in NOL
 - Investment return
 - Sensitivity of NOL to 1 % increase/decrease in:
 - Discount rate
 - Medical trend rate

GASB 74 – OPEB Plans

- New definition of OPEB Plan, arrangement through which:
 - OPEB is determined
 - Assets dedicated for OPEB (if any) are managed
 - Benefits are paid as they come due
- **Some think will require agencies sponsoring funded plans, including those funding with CERBT, will have to report GASB 74**

GASB 75 Overview

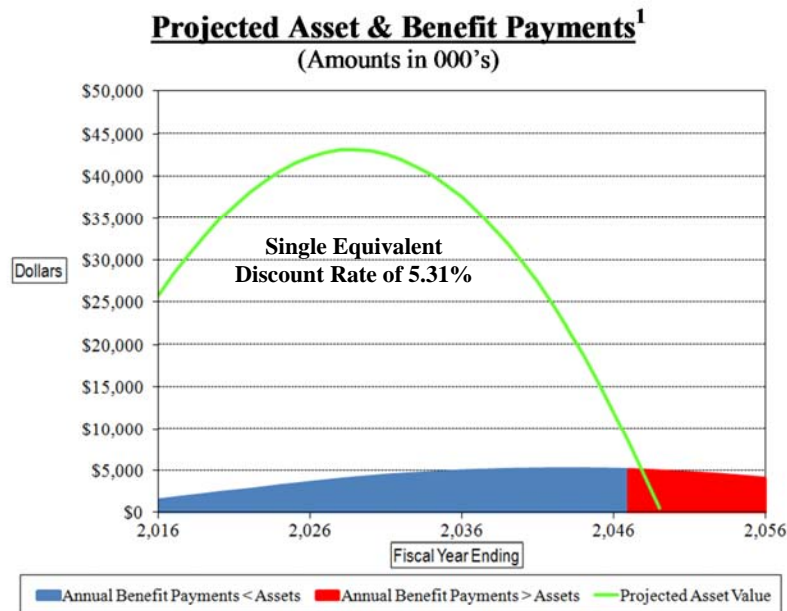
GASB 75 – Employer OPEB Reporting

- Effective FY Beginning > 6/15/17
- Replaces GASB 45
 - Similar to GASB 68
 - Everyone will recognize OPEB liability
 - Change in net OPEB liability => OPEB expense
 - Additional note disclosures and RSI
- Does not affect contributions (or require funding)

GASB 75 – Employer OPEB Reporting

- “Crossover test” to determine discount rate
 - Not the same as GASB 45
- If plan assets are projected to cover benefit payments, discount rate = expected rate of return on assets
 - Provided assets invested so as to generate that return
- Contribution policy of full ARC, with reasonable amortization period should be OK
 - Look to last 5 years of actual contributions

Sample Crossover Test

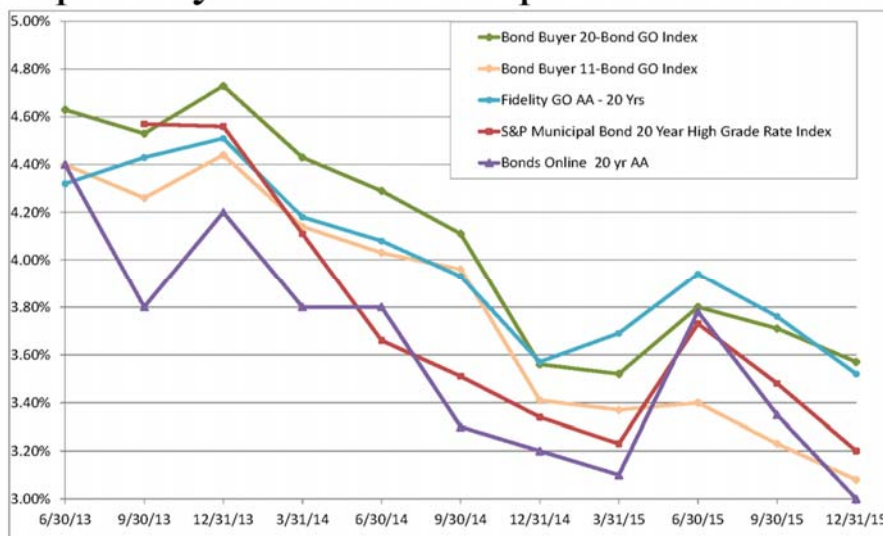


GASB 75

- Unfunded and poorly funded plans use 20 year AA municipal bond discount rate
 - Variable rate will cause large changes in total OPEB liability

GASB 75

- Sample 20 year AA municipal bond discount rate

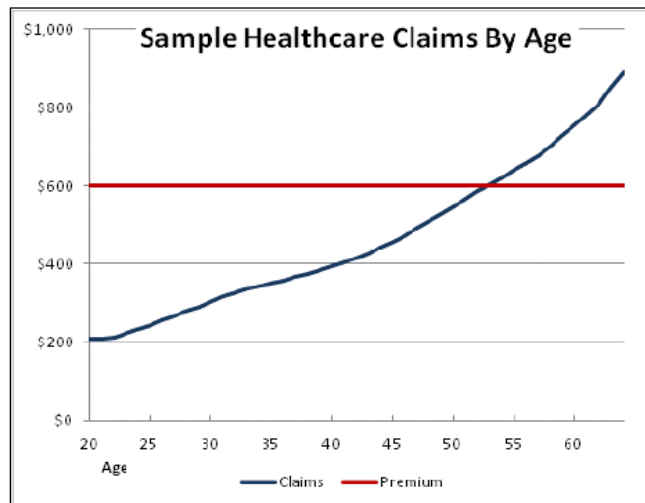


GASB 75

- All plans need biennial valuation
- Implied Subsidy required
- “Cadillac Tax” must be included
 - Will affect CalPERS medical plans
- “Insured plans”
 - Means plans where entire future OPEB obligation is transferred to insurer

Implied Subsidy

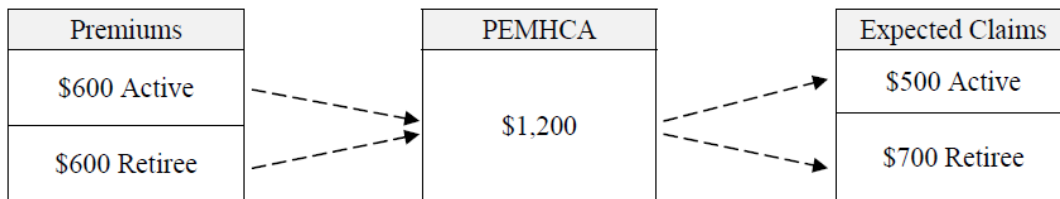
- Not required < 3/31/2015 for PEMHCA and other large pooled plans
 - Change in Actuarial Standards



Implied Subsidy

■ Implied Subsidy

- Retiree premiums < claims (benefits)



Alternative Measurement Method (AMM)

■ Still permitted for small plans

- < 100 active and inactive employees

■ However:

- More complicated
- More assumptions
- Builds in equivalent of implied subsidy
- Check with your auditor

GASB 75

- Audit issues may be fewer than with GASB 68 since employers generally control data
- Work with your actuary and auditor to:
 - Select measurement date
 - Choose valuation dates
 - CERBT may no longer collect valuation results
- Some employers may implement early

GASB 75

- Net OPEB liabilities may be quite large
 - Particularly for those not pre-funding
- Almost certainly not news to bond analysts
 - May be more of a surprise to Boards, Councils, ratepayers or taxpayers

Resources

- CCMA White Paper on California GASB 68 Implementation

- <http://blogs.calcpa.org/buzz/files/2015/05/GASB-68-White-Paper.pdf>

- Public Retirement Journal & PERS PAC Alert

- Bartel Associates www.Bartel-Associates.com:

- GASB 68, GASB 75, PEPR, Implied Subsidy, etc.

- Anthony T. Oliveira, *The Local Challenges of Pension Reform*

- <http://www.tonytoliveira.com/Research.html>

