



CSMFO CONFERENCE

# OPEB: An Accounting and Audit Perspective

MARCH 3, 2016

**mgo**  
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# Agenda



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- Highlights of Changes
- GASB 75 Concepts
- Effective Date and Transition
- Accounting Entries
- Disclosures and RSI
- Audit Perspective

# Highlights of Changes

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# Highlights of Changes.

- Separates accounting from funding
- Introduces net OPEB liability, and OPEB related deferred outflows of resources and deferred inflows of resources for the statement of net position
- Elimination of the annual required contribution (ARC) concept for recognizing OPEB expense (however, OPEB expenditures will still be used as the outflows measurement of governmental funds)
- OPEB expense is now a comprehensive measurement consisting of elements that have both immediate recognition and amortization of items with deferred recognition

# Highlights of Changes.



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- Significant increase in disclosures and information reported as required supplementary information
- A blended discount rate used in cases where the projected benefits exceed the projected plan resources (i.e., a crossover date)
- Shorter amortization periods: average remaining service period of all employees (active and inactive) or five years for the difference between actual and projected investment returns
- Continuing with the provisions for allowing the Alternative Measurement Method, in place of an actuarial valuation, for smaller governments (i.e., fewer than 100 active and inactive employees as of the beginning of measurement period)

# GASB 75 Concepts

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# GASB 75 Concepts.

## WHAT IS OPEB?

- OPEB (Other Postemployment Benefits) are benefits other than pensions that governments provide to their retirees, principally in the form of health care benefits.
- OPEB may also include death benefits, life insurance, disability, long-term care, and other services when those benefits are provided separately from a pension plan.
- OPEB does not include termination benefits or termination payments for sick leave, unless there is a provision for converting unused sick leave to provide or enhance OPEB benefits.

# GASB 75 Concepts.



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## TYPES OF OPEB PLANS

- Defined Contribution
  1. Individual account for each employee
  2. Defines contributions while employee renders service
  3. Benefits based on contributions and earnings
- Defined Benefit
  - Insured Plans
  - Plans administered through trusts that meet the specified criteria (paragraph 4)
    - Single Employer
    - Agent Multiple-Employer
    - Cost-Sharing Multiple-Employer
  - Plans not administered through trusts
- Special Funding Situations (not covered in this presentation)



# GASB 75 Concepts.

## NET OPEB LIABILITY

- Measured as the difference between the employer's total OPEB liability and the plan's fiduciary net position, as of the measurement date.
  - Total OPEB Liability = The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB 75.
  - Fiduciary Net Position = Derived from the OPEB plan's Statement of Net Position, as of the measurement date.
- Governments that do not provide OPEB through a trust would be required to recognize the entire OPEB liability in the financial statements.

# GASB 75 Concepts.



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## OPEB EXPENSE

- Measured as the change in net OPEB liability, with certain exceptions

### Immediate recognition:

- Service costs (+)
- Interest on total OPEB liability (+)
- Changes of benefit terms (+ or -)
- Benefit payments (-)
- Projected investment returns over the year (-)
- Administrative expenses and other changes of the OPEB plan (+ or -)

### Deferred recognition:

- Changes due to changes in actuarial assumptions or other inputs
- Changes due to differences in expected and actual actuarial experience
- Changes due to difference between projected and actual investment returns

# GASB 75 Concepts.

## DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

- Changes in total OPEB liability due to changes in actuarial assumptions and differences in expected and actual actuarial experience.
  - These amounts are amortized over a closed period equal to the average of the expected remaining service period of all employees (active and inactive).
- Changes in the plan's fiduciary net position due to difference between projected and actual investment returns.
  - These amounts are amortized over a closed five-year period.

# GASB 75 Concepts.

## DISCOUNT RATE

- Long-term expected rate of return on assets
- For plans with “Crossover Date” ...

A single rate “**Blended**” that assumes a long-term expected rate of return on OPEB plan investments to the extent it will cover the projected benefit payments, with the difference assuming a 20-year AA/Aa tax-exempt municipal bond yield or index rate.

# GASB 75 Concepts.

## TIMING AND FREQUENCY CONSIDERATIONS

- **Measurement Date:** The net OPEB liability should be measured as of a date no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.
  - Most governments will utilize a measurement date of June 30, 2017 for the fiscal year ending June 30, 2018 for the CalPERS CERBT plans, due to the timing of when plan information will be available.
  - Important: a measurement date of June 30, 2016 will be needed to make the appropriate beginning balance entries.
- Measurement of net OPEB liability can be from:
  - Actuarial valuation as of the measurement date.
  - Update method – procedures rolling forward amounts from previous actuarial valuation. \*\*\* (Note: it must reflect significant changes from the actuarial valuation date up to the measurement date!)

# Effective Date and Transition

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# Effective Date and Transition.



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- GASB 74 - Effective for fiscal years beginning after June 15, 2016 (e.g., for the year ending June 30, 2017)
- GASB 75 - Effective for fiscal years beginning after June 15, 2017 (e.g., for the year ending June 30, 2018)
- Employers are required to restate prior year financial statements under the new rules, if practical
  - If restatement of all prior periods is not practical, cumulative effect of applying GASB 75 to beginning balances
  - If restating all beginning deferred outflows and inflows is not practical, start with a zero beginning balances, with the exception of contributions made subsequent to measurement date

# Effective Date and Transition.



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- For 10 year trend information in Required Supplementary Information ... all 10 years may not be readily available. During the transition period, present as many years as are available.
  - Build the 10 year trend information over time

# Accounting Entries

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# Accounting Entries.



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## START WITH RESTATEMENT OF BEGINNING BALANCES:

	Debit	Credit
<b>1 Record beginning balances</b>		
Net position, beginning of year	\$ xx,xxx,xxx	
Deferred outflows of resources - employer OPEB contributions	\$ x,xxx,xxx	
Net OPEB liability		\$ xx,xxx,xxx

- a) Record the Net OPEB Liability at beginning of year
- b) Assuming a Measurement Date that is one year previous to the plan sponsor's year-end: Record the employer OPEB contributions made in the previous year that relate to the current Measurement Date
  - It is assumed that all other deferred outflows and inflows of resources will start with zero beginning balances
- c) Remove any net OPEB assets or net OPEB obligations associated with the old standards (GASB 45)
- d) Note: this restatement is only required for the year of implementation

# Accounting Entries.

## NEXT, RECORD THE ENTRIES RELATED TO EMPLOYER CONTRIBUTIONS:

	Debit	Credit
<b>2 Recognize timing of employer OPEB contributions</b>		
Net OPEB liability	\$ x,xxx,xxx	
Deferred outflows of resources - OPEB contributions		\$ x,xxx,xxx
Deferred outflows of resources - OPEB contributions	\$ x,xxx,xxx	
OPEB contributions made subsequent to the current Measurement Date		\$ x,xxx,xxx
a) Reduce Net OPEB Liability by the OPEB contributions made during the Measurement Period ( <i>i.e., the beginning deferred outflows of resources balance related to restatement</i> )		
b) Defer the OPEB contributions made during the current year that relate to the subsequent Measurement Period ... these OPEB contributions will be used to reduce the Net OPEB Liability in the following year (e.g., FYE 6/30/18 contributions that will be included in the Measurement Period for FYE 6/30/19)		

# Accounting Entries.

## FINALLY, RECORD THE ENTRIES RELATED TO OPEB EXPENSE:

	Debit	Credit
<b>3 Record OPEB expense and deferred items</b>		
OPEB expense	\$ x,xxx,xxx	
Deferred outflows of resources - changes of assumptions	\$ xxx,xxx	
Deferred inflows of resources - differences expected/actual experience		\$ xxx,xxx
Deferred inflows of resources - differences projected/actual earnings		\$ xxx,xxx
Net OPEB liability		\$ xxx,xxx

- a) Record OPEB expense
- b) Record the unamortized balances of deferred outflows and inflows of resources that do not meet the definitions for immediate recognition



# Accounting Entries.



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## ALLOCATE AMONG FUNDS

Once the accounting entries are determined, an evaluation of the government's "reporting entity" should be made for purposes of recording the OPEB amounts ... for example, using OPEB contribution effort:

	<u>OPEB Contributions</u>	<u>Allocation</u>	
OPEB contributions:			
General Fund:			
General government	\$ xx,xxx,xxx	11%	} 75%
Public safety	xxx,xxx,xxx	47%	
Transportation	xx,xxx,xxx	11%	
Parks and recreation	x,xxx,xxx	6%	
Water Enterprise Fund	xx,xxx,xxx	20%	
Internal Service Fund	x,xxx,xxx	5%	
	<u>                    </u>	<u>                    </u>	
Totals for fiscal year	<u>\$ xxx,xxx,xxx</u>	<u>100%</u>	

# Disclosures and RSI

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# Disclosures and RSI.



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## NOTES TO THE FINANCIAL STATEMENTS ALL DEFINED BENEFIT PLAN TYPES

- Total (aggregate) all OPEB related amounts, if the total amounts are not otherwise identifiable in the financial statements
  - Disclosures related to multiple OPEB plans should be combined in a manner that avoids unnecessary duplication
  - Separately identify amounts between primary government and discretely presented component units
- OPEB Plan Description
  - Name of plan
  - Identification of entity that administers the plan
  - Identification of the type of plan
  - Benefit terms
  - Plan membership (not cost-sharing employers)
  - Contribution requirements
  - Stand-alone OPEB plan reporting and how to obtain it

# Disclosures and RSI.



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*(continued)*

- **Assumptions and Other Inputs**

- Inflation
- Healthcare cost trend rates
- Salary changes
- Ad-hoc postemployment benefit changes, including COLAs
- Sharing of benefit-related costs with inactive employees, and an affirmation that these costs are based on an established pattern of practice
- Mortality assumptions and sources
- Dates of experience studies
- If the Alternative Measurement Method is used to measure the total OPEB liability
- Sensitivity analysis of net OPEB liability for healthcare cost trend rates ( $\pm 1\%$ )

# Disclosures and RSI.



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*(continued)*

- **Assumptions and Other Inputs**
  - Discount rate
    - ✓ Rate applied and changes from last measurement date
    - ✓ Assumptions made about projected cash flows
    - ✓ Long-term expected rate of return and how derived
    - ✓ Municipal bond rate and source (if applicable)
    - ✓ Projection period for long-term and municipal rates
    - ✓ Assumed asset allocation and long-term expected rate of return for each major asset class
    - ✓ Sensitivity analysis for the net OPEB liability ( $\pm 1\%$ )
  
- **OPEB Plan's Fiduciary Net Position**

# Disclosures and RSI.



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## NOTES TO THE FINANCIAL STATEMENTS - SINGLE AND AGENT EMPLOYERS

- Detail of changes in the net OPEB liability
- Special funding situation, if any
- Measurement and actuarial valuation dates, including disclosure of update procedures if applicable
- Description of changes in assumptions and other inputs
- Description of changes in benefit terms
- Benefit payments attributable to the purchase of allocated insurance contracts
- Significant changes affecting OPEB after the measurement date
- Amount of OPEB expense recognized by employer
- Balance of deferred outflows of resources and deferred inflows of resources related to OPEB
- Schedule of amortization of deferred outflows of resources and deferred inflows of resources for the next five (5) years and total thereafter



# Disclosures and RSI.



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## NOTES TO THE FINANCIAL STATEMENTS - COST-SHARING EMPLOYERS

- Employer's proportionate share of the collective net OPEB liability, basis for proportionate share and changes in proportionate share since the prior measurement date
- Special funding situation, if any
- Measurement date
- Date of actuarial valuation and any update procedures
- Description of changes in assumptions and other inputs
- Description of changes in benefit terms
- Significant changes affecting the net OPEB liability after measurement date
- Amount of OPEB expense recognized by employer
- Balance of deferred outflows of resources and deferred inflows of resources related to OPEB
- Schedule of amortization of deferred outflows of resources and deferred inflows of resources for the next five (5) years and total thereafter

# Disclosures and RSI.



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## REQUIRED SUPPLEMENTARY INFORMATION – SINGLE AND AGENT EMPLOYERS

- Present separately for each single/agent OPEB plan:
  - 10 year schedule of changes in the net OPEB liability
  - 10 year schedule of total OPEB liability, plan's fiduciary net position, net OPEB liability, covered-employee payroll, and ratios
    - Expand for employers with a special funding situation
  - 10 year schedule of actuarially determined contributions (if applicable)
  - 10 year schedule of statutorily or contractually established contributions (if applicable)
  - Notes to required supplementary information

# Disclosures and RSI.



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## REQUIRED SUPPLEMENTARY INFORMATION – COST-SHARING EMPLOYERS

- Present separately for each cost-sharing OPEB plan:
  - 10 year schedule of employer’s proportion (%) of collective net OPEB liability, proportionate share of net OPEB liability, covered-employee payroll, and ratios
    - Expand for employers with a special funding situation
  - 10 year schedule of statutorily or contractually established employer contributions
  - Notes to required supplementary information

# Audit Perspective

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# Audit Perspective.

## AUDIT CONSIDERATIONS

- Sufficient evidence supporting the OPEB plan's fiduciary net position at the Measurement Date (and also for beginning balances in the year of implementation)
- Sufficient evidence supporting the calculation of the total OPEB liability by the actuary
  - Actuarial assumptions with appropriate, reliable, and verifiable information
  - Using the work of a specialist
- Responsibility for testing of the underlying census data used by the actuary

# Audit Perspective.

## AGENT PLAN ISSUES

- GAAP financial statements of the plan and additional unaudited information from the plan may NOT provide sufficient appropriate audit evidence for the governmental employer auditor.
  - Absent additional audit evidence from the agent plan, the employer auditor would not likely be able to accumulate sufficient appropriate audit evidence.

## GASB 67/68 REMEDY

- White Paper - *Governmental Employer Participation in Agent Multiple-Employer Plans: Issues Related to Information for Employer Reporting*
- AICPA Audit and Accounting Guide: *State and Local Governments*
- AICPA Governmental Audit Quality Center (GAQC) Guidance

# Audit Perspective.



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## COST-SHARING PLAN ISSUES

- Audited financial statements of the plan only include disclosure of the collective net OPEB liability for the plan as a whole. They do NOT include:
  - Deferred outflows/inflows of resources by category
  - Pension expense
  - Each participating employer's share of collective pension amounts
- Standard is silent on who (plan or each individual participating employer) should calculate allocation percentages
- Audited financial statements of the plan may not include necessary information to calculate allocation percentages
- Standard provides flexibility in approach to determining allocations
- Standard encourages an allocation method that would be difficult to audit as it is based on projected future contribution effort

# Audit Perspective.

## COST-SHARING PLAN ISSUES (continued)

- GAAP financial statements of the plan and additional unaudited information from the plan may NOT provide sufficient appropriate audit evidence for the governmental employer auditor.
  - Absent additional audit evidence on proportionate share allocation, the collective deferred amounts, and pension expense from the cost-sharing plan, the employer auditor would not likely be able to accumulate sufficient appropriate audit evidence.

## GASB 67/68 REMEDY

- White Paper - *Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting*
- White Paper - *Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in the Audit of Financial Statements*
- AICPA Audit and Accounting Guide: *State and Local Governments*
- AICPA Governmental Audit Quality Center (GAQC) Guidance



# Questions? Let's Talk.

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