

GASB Statement 45

Financial Disclosures – Tips and Updates

MASBO and Hildi Incorporated

May 5th, 2010

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What is an OPEB?

When promised in the form of a defined benefit, OPEB (other post employment benefits) includes:

- Post-retirement Health Care Benefits

- Medical, dental, vision, hearing, and other health-related benefits whether provided separately or through the pension plan

- Other Benefits

- Life insurance, disability, long-term care, etc., when provided separately from a defined benefit pension plan

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What is an OPEB?

Two types of benefits/liabilities:

- 1) Direct Subsidized Benefits
- 2) Implicit Rate Subsidy Benefits

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What is NOT an OPEB covered under GASB 45?

- Pension benefits (GASB 25 and 27)
- Termination benefits (GASB 47)
- Most Payouts of Unused Sick Leave (GASB 16)
- Most Severance type benefits (GASB 16)
- Disability programs and Workers Compensation

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What is NOT an OPEB covered under GASB 45?

Hildi Inc. provides actuarial services for:

- Pension benefits (GASB 25 and 27)
- Termination benefits (GASB 47)
- Most Payouts of Unused Sick Leave (GASB 16)
- Most Severance type benefits (GASB 16)

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Implicit Rate Subsidy

- Blend retiree claims with active employee claims and “average” the cost - Result is a “blended” rate
- Under GASB the **actual** cost for the retiree portion must be reflected as an implicit rate subsidy
- Creates implicit rate subsidy liability issues, even if the employer does not contribute toward the premium

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Implicit Rate Subsidy – Early Retiree Example



=> \$300

Blended Premium Charged for the Employer Sponsored Plan



=> \$700

Age 60 Actual Cost



=> \$300

Retiree Premium
(Single)

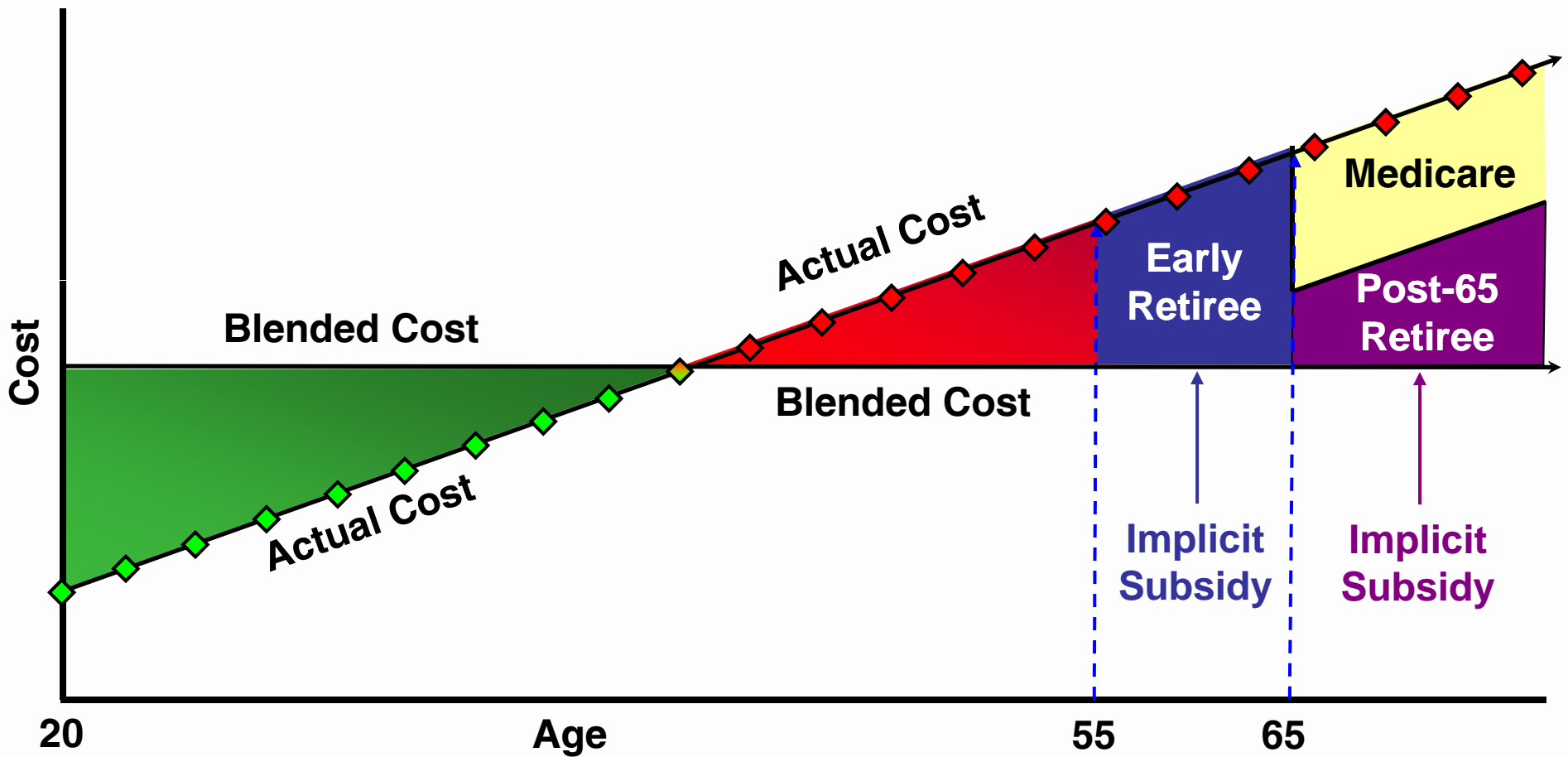


=> \$400

Implicit Subsidy } **Employer must recognize liability**



Implicit Rate Subsidy



Certain graphics supplied by America's VEBA Solution

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Actuarial Valuation Timing

- Plans with total membership of 200 or more = actuarial valuations required at least every **two** years
- Plans with total membership of less than 200 = actuarial valuations required at least every **three** years
- Plans with total membership of less than 100 = allowed to use “alternative measurement method”

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Actuarial Valuation Timing

- Plans with total membership of 200 or more = actuarial valuations required at least every **two** years
- For example
 - July 1, 2008 valuation date can be used for June 30, 2009 and June 30, 2010 disclosures
 - The next required valuation is July 1, 2010 for disclosures at June 30, 2011 and June 30, 2012

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Actuarial Valuation Timing

- Plans with total membership of less than 200 = actuarial valuations required at least every **three** years
- For example
 - July 1, 2009 valuation date can be used for June 30, 2010, June 30, 2011 and June 30, 2012 disclosures
 - The next required valuation is July 1, 2012 for disclosures at June 30, 2013, June 30, 2014, and June 30, 2015

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Actuarial results – Go through sample report pages (see handout)

- **OPEBs** = Other Post Employment and Postretirement Benefits
- **Pay-as-you-go** = Current Retiree/Beneficiary Health and Welfare Expenditures
- **Normal Cost** = measures value of benefits “earned” in a year. . .determined from the actuarial cost method
- **Actuarial Accrued Liability (AAL)** = The portion of the present value of prospective benefits allocated to past service. . .determined from the actuarial cost method
- **ARC = Annual Required Contribution** (Sum of Normal Cost and Amortization Cost with interest to year end)
- **Annual OPEB Cost** = If the employer has a Net OPEB Obligation, then Annual OPEB Cost is the ARC plus one year’s interest on the Net OPEB Obligation plus and adjustment to the ARC
- **Net OPEB Obligation** = The cumulative difference between annual OPEB cost and the employer’s contributions to the plan
- **Amortization Cost** = Level amount, including Principal and Interest, required to amortize a liability or change in liability



Possible Prefunding Options

- Pay as you go
- Pre-fund the GASB 45 liability from your General Fund into an Internal Service Fund
- Pre-fund the GASB 45 liability from your General Fund into an OPEB Trust
- Pre-fund the GASB 45 liability from OPEB Bond Proceeds into an OPEB Trust



Possible Prefunding Options

OPEB Trusts

- Revocable - Assets **NOT** recognized within the GASB 45 Actuarial Valuation
- Irrevocable – Assets recognized within the GASB 45 Actuarial Valuation that offset the Actuarial Accrued Liability

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Prefunding Considerations

Plan Assets

- Segregated and Restricted in a Trust
- Employer contributions are **irrevocable**
- Assets are dedicated to providing benefits to retirees/beneficiaries
- Assets are legally protected from creditors

Examples of Types of Funding Vehicles

- VEBAs
- Section 115 Trust

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Prefunding Considerations

Why consider prefunding?

- Possible lower actual plan costs due to higher returns in a trust vs. general operating funds
- Lower accounting liability and expense
- May reduce potential impact of the OPEB liability on borrowing costs
- Promised benefits to retirees would be more secure

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Legislative Update

- 1) If a School District wants to issue OPEB Bonds without voter approval, the sale must take place on the Bonds by October 1, 2009**
- 2) A School District can possibly submit an annual levy for OPEBs**

A District seeking levy authority must:

- Have created an actuarial liability to pay postemployment benefits to employees after termination of service
- Have a “Sunset clause” in their current collective bargaining agreement
- Apply for the authority with the Commissioner of Education
- Maximum levy authority cannot exceed:
 - \$9,242,000 for taxes payable in 2010
 - \$29,863,000 for taxes payable in 2011
 - the sum of 2011’s authority and \$14,000,000 for taxes payable in 2012

Minnesota Laws 2009, Chapter 96, Article 1, Sections 16 and 19

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