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*GASB 16, 27, 45, and 47:*  
How to Deal With Them

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# Outline

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1. Quick recap of initial GASB implementation experience
2. Understand background of GASB statements
3. Comparison of statements 16, 27, 45, and 47
4. Discuss ways to “deal” with the GASB requirements
  - Valuation assumptions
  - Valuation process
  - Plan benefits & funding

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# Recap of GASB Implementation

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- ✓ Many districts have completed 1<sup>st</sup> round of GASB implementation
  - “Opportunity” to refamiliarize with retiree benefit programs
  - Now preparing for round 2
  
- ✓ Interpretive Refinements
  - Auditors, Districts, and Actuaries have had time and experience to develop their interpretations of GASB statements
  - Better benefit plan classification and refined calculations
  
- ✓ Benefit and Process Adjustments
  - Any changes to assumptions, benefits, or assets?
  - Ability to streamline/simplify benefits?
  - Adjust timing of valuation?

# Background of GASB Statements

## OPEB in the Media

“School districts struggle to pay retirees' health benefits”

“The next retirement time bomb”

“Officials continue to grapple with liability issue”

*“District is stretching out OPEB burden”*

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# Background of GASB Statements

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- Transparency and accountability are expected in today's world
  - Costs of public pensions and OPEB obligations are becoming more visible in media
  - Recession has highlighted benefit costs, public/private disparities
- Require reasonable accounting of benefit promises
- Some promises are clear, while others are not
  - More likely to incorrectly value cost if not easily quantifiable
  - May be poorly written, unwritten, or administered differently
  - GASB requires effort to prepare best estimate of benefit value

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# Comparison of Statements 16, 27, 45, and 47

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- **GASB 16:** *Accounting for Compensated Absences*
  - Unused sick leave
  - Unused vacation
- **GASB 27:** *Accounting for Pensions by State and Local Governmental Employers*
  - Defined benefit pensions
  - Other benefits provided through the pension plan
- **GASB 45:** *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
  - OPEB grab bag
  - Health-related benefits from other plans
- **GASB 47:** *Accounting for Termination Benefits*

# GASB 16: Compensated Absences

**Requirement:** Accrue a liability for “compensated absences that are attributable to services already rendered and are not contingent on a specific event that is outside the control of the employer and employee.”

## **Includes:**

- Vacation Leave
- Sick Leave
- Sabbatical Leave

## **Other details:**

- Use current pay rates (i.e., no projections)
- Also accrue liability for secondary salary-related payments
  - Social Security/Medicare Taxes
  - Pension plan contributions

## **Calculations:**

- Accrued liability
- Actuarial calculations not necessarily needed

# GASB 27: Pension Benefits

**Requirement:** Accrue a liability for “retirement income and all other benefits provided through a defined benefit pension plan, except postemployment healthcare benefits.”

## **Includes:**

- Pension benefits
- Life insurance
- Other benefits provided through a DB pension plan

## **Other details:**

- Does not include postemployment healthcare benefits (medical, dental, vision, etc.)
- What constitutes a “DB pension plan”?

## **Calculations:**

- Balance sheet liability and annual expense
  - ARC
  - Annual Pension Cost
  - Net Pension Obligation
- Actuarial calculations generally required
- Full valuation every 2 years

# GASB 45: OPEB

**Requirement:** Accrue a liability for “postemployment benefits other than pension benefits.”

## **Includes:**

- Healthcare benefits
  - Medical
  - Dental
  - Vision
- Other benefits (if not provided through pension plans)
  - Life insurance
  - Disability
  - Long-term care
- Certain HCSP payments

## **Other details:**

- Postemployment healthcare benefits are “always” OPEB.
- Any postemployment benefit provided through a plan that does not provide retirement income is considered OPEB.

## **Calculations:**

- Balance sheet liability and annual expense
  - ARC
  - Annual OPEB Cost
  - Net OPEB Obligation
- Actuarial calculations generally required
- Full valuation every 2-3 years

# GASB 47: Termination Benefits

**Requirement:** Recognize a liability and expense for voluntary and involuntary termination benefits.

## **Includes:**

- Voluntary termination benefits (e.g., early retirement incentives)
- Involuntary termination benefits (e.g., severance benefits)

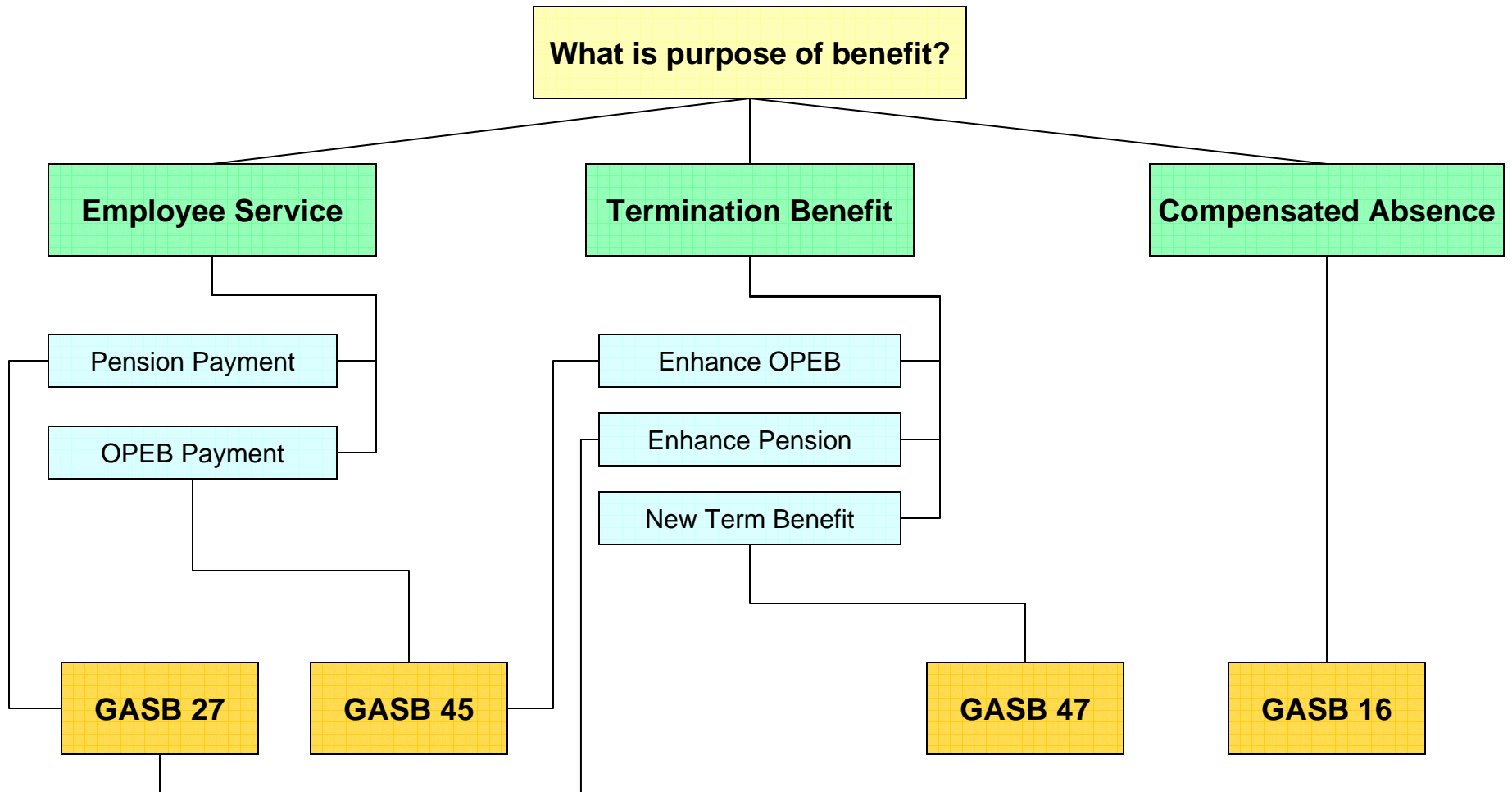
## **Other details:**

- Voluntary benefits recognized *when offer is accepted* and amount can be estimated
- Involuntary benefits recognized when plan of termination *has been approved* by those with authority to commit the government to the plan

## **Calculations:**

- Depends on type of termination benefit
- May require actuarial calculations

# Classifying Benefits Under GASB



# Classifying Benefits Under GASB

<b>Example 1</b>	
<b>Severance Benefit</b>	50% x USL (max 90 days) x pay rate
<b>Form of Payment</b>	Cash payment
<b>Classification</b>	Compensated absence – GASB 16

<b>Example 2</b>	
<b>Severance Benefit</b>	50% x USL (max 90 days) x pay rate
<b>Form of Payment</b>	Payment to Health Care Savings Plan (HCSP)
<b>Classification</b>	Compensated absence – GASB 16

# Classifying Benefits Under GASB

## Example 3

<b>Severance Benefit</b>	4 days of pay per yr of svc (max 100 days)
<b>Form of Payment</b>	Cash payment
<b>Classification</b>	Pension – GASB 27

## Example 4

<b>Severance Benefit</b>	4 days of pay per yr of svc (max 100 days)
<b>Form of Payment</b>	Payment to HCSP
<b>Classification</b>	OPEB – GASB 45

# Classifying Benefits Under GASB

## Example 5

<b>Severance Benefit</b>	District currently offers 5 years of free retiree healthcare coverage. If retire before July 1, 2010 with 20 years of service, then get additional 5 years free.
<b>Form of Payment</b>	Subsidized healthcare coverage
<b>Classification</b>	OPEB – GASB 45 with termination benefit footnote

## Example 6

<b>Severance Benefit</b>	1 month of retiree medical premiums for each day of unused sick leave at retirement.
<b>Form of Payment</b>	Conversion of unused sick leave to retiree health premiums.
<b>Classification</b>	OPEB – GASB 45

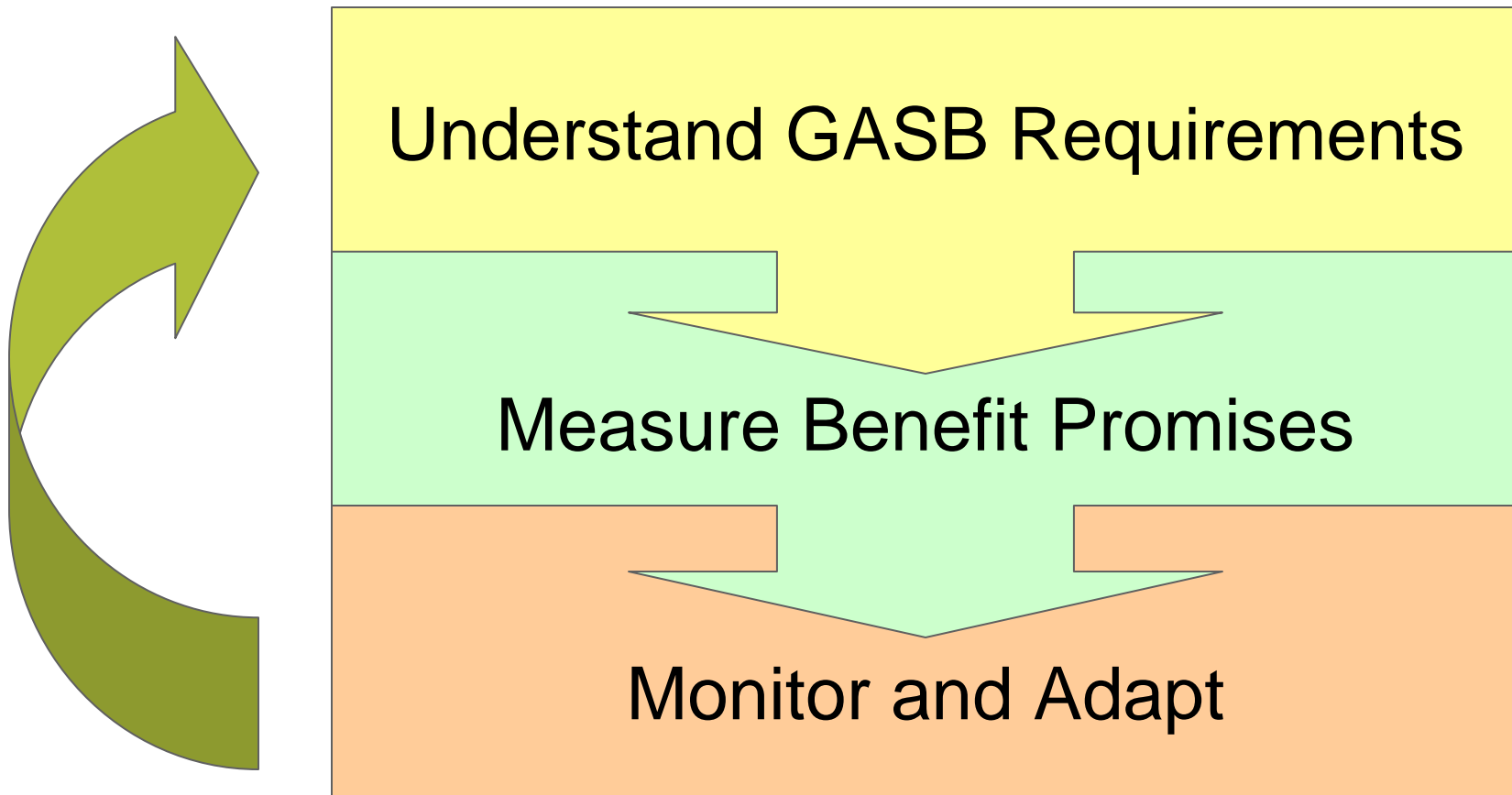
# Classifying Benefits Under GASB

<b>Example 7</b>	
<b>Severance Benefit</b>	<p>A = 50% x USL (max 90 days) x pay rate</p> <p>B = 4 days of pay per yr of svc (max 100 days)</p> <p>C = A + B (max 150 days)</p> <p>D = C – 403(b) contributions, with offset applied to B first</p>
<b>Form of Payment</b>	25% paid as cash, 75% paid to HCSP
<b>Classification</b>	<p>A is a compensated absence benefit (GASB 16)</p> <p>25% of B is Pension (GASB 27)</p> <p>75% of B is OPEB (GASB 45)</p> <p>Operation of 150 day limit on C is undefined, so we cannot definitely determine allocation of benefit between A and B.</p>

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# Dealing with GASB Statements

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# Dealing with GASB Statements

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- GASB requirements provide framework
  - Account for benefit promises
  - Use GASB measurement techniques
- Districts have options within GASB framework
  - Valuation assumptions
  - Valuation process
  - Plan benefits & funding

# Dealing with GASB Statements

## Valuation Assumptions

### Economic

- Discount rate, if funded
- Pay increase rates
- Healthcare trend rates
- UAAL amortization method

### Demographic

- Participation rates
  - Employee
  - Spouse
  - Pre/post Medicare
- Retirement/turnover rates
- Plan election

# Dealing with GASB Statements

## Valuation Process

- Timing – beginning or end of FY
- Gather census, plan info, experience, and prior disclosures
- Know options and repercussions
  - Alternative method vs. full valuation: what are the costs?
  - Do some of the work “in-house”
- Who’s responsible for GASB vs. UFARS?

# Dealing with GASB Statements

## Plan Benefits & Funding

- Discuss materiality and classification with auditor
- How can benefits be adjusted to minimize costs/complexity?
  - Make use of your valuation report
  - Knowledge of costs can be used to your advantage.
- Pros and cons of advance funding

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# Summary

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- Many districts have had initial experience with GASB requirements and need to use this to their advantage
- Interpretations of GASB standards are evolving; auditors, districts, and actuaries need to communicate
- Results and processes will be refined over first few cycles
- Make use of your GASB knowledge to improve accounting results and benefit programs

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# Discussion and Questions

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# Additional Information

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