

GASB 75 Year 2 Accounting for Retiree Medical Benefits



August 2019
2019 Educational Session
Prepared for Participating
Employers in MMEHT

Recorded by
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- *Maine Municipal Employees Health Trust (MMEHT) is making this recorded session available to its participating entities to help address the GASB 75 requirements, in the 2nd year of implementation.*
- *This session will review retiree medical benefits offered and will explain the roll-forward valuation process for the 2nd year. We also review the method of distributing GASB 75 reports for your 2019 financial statements.*
- *GASB 75 applies to entities subject to governmental accounting standards and participating in the MMEHT health insurance program to reflect the value that the retiree medical benefits provide and are offered in the MMEHT.*
- *We hope this session is helpful and thank you for your time.*



- About Retiree Medical Benefits
 - The value of retiree medical benefits
 - Common terms
- What does GASB 75 mean in the 2nd year?
 - Timing
 - Roll-forward valuation
- Access to your GASB 75 reports
 - What will the 2nd year GASB 75 reports look like?
- Frequently Asked Questions

About Retiree Medical Benefits



- Certain requirements must be met to be eligible for MMEHT retiree medical benefits:

- Employee works until retirement;
- Eligible to retire in the employer's retirement plan (Many participate in the Maine Public Employees Retirement System, with eligibility at a combination of age/ service);
- If no sponsored plan, attain age 55 with at least 5 years of service.



- The MMEHT program offers retiree coverage on a blended premium rate basis for actives and retirees resulting in a more stable, pooled cost of health coverage.
- Some entities offer additional defined subsidies for groups of retirees, particularly with union negotiated benefits.
- **Bottom-line: MMEHT retiree medical plans deliver value.**

About Retiree Medical Benefits



- The focus of retiree medical benefits is offering insurance coverage to eligible retirees. When Medicare starts, the MMEHT plan offers coverage on the portion that Medicare does not cover.

Non-Medicare

Medicare

- Prior to Medicare, MMEHT offers eligible retirees the option to enroll in retiree coverage.
- Retiree enrolls in one of the active plans offered by the employer.
- Retiree can enroll covered spouse and covered dependent children.
- Premiums cover medical and prescription drug benefits.

- Generally Medicare starts at age 65, but does not cover prescription drugs!
- MMEHT offers a supplemental plan that the retiree can buy.
- Available to both the retiree and spouse.
- MMEHT offers both medical and prescription drug benefits to supplement Medicare.

Some Accounting Terms



Some terms commonly used include:

- **GASB 75**, or Governmental Accounting Standards Board Statement No. 75. This is the accounting standard that impacts requirements for the audited financial statements of public entities. No. 75 focuses on OPEB benefits.
 - Now applies regardless of size of entity and regardless of community rating or pooled rates.
- **OPEB**, or Other Postretirement Employment Benefits, refers to retiree medical health coverage. Retiree medical is offered through participation in the MMEHT health benefits program.

GASB 75 looks at the OPEB value of benefits including both implicit or explicit benefits.

- **“Implicit”** benefits refer to the value of pooling coverages as part of the overall MMEHT program and offering eligible retirees the option to enroll in the group rates in the MMEHT program.
- **“Explicit”** refers to explicit subsidies paid by the employer group, for example, paying a portion of the premium. Explicit provisions usually relate to bargaining agreements with union employees.

GASB 75 Valuation Cycle



- 2018 was the first year GASB 75 applied, replacing the former GASB 45. 2019 is the second year of implementation of GASB 75.
- GASB 75 requires:
 - ✓ **Full** actuarial valuations every two (2) years and
 - ✓ **Roll-forward** valuations in between
- 2019 is a Roll-forward valuation year.



2018 Full Valuation

- By person census
- Claims by age
- All assumptions studied



2019 Roll-forward

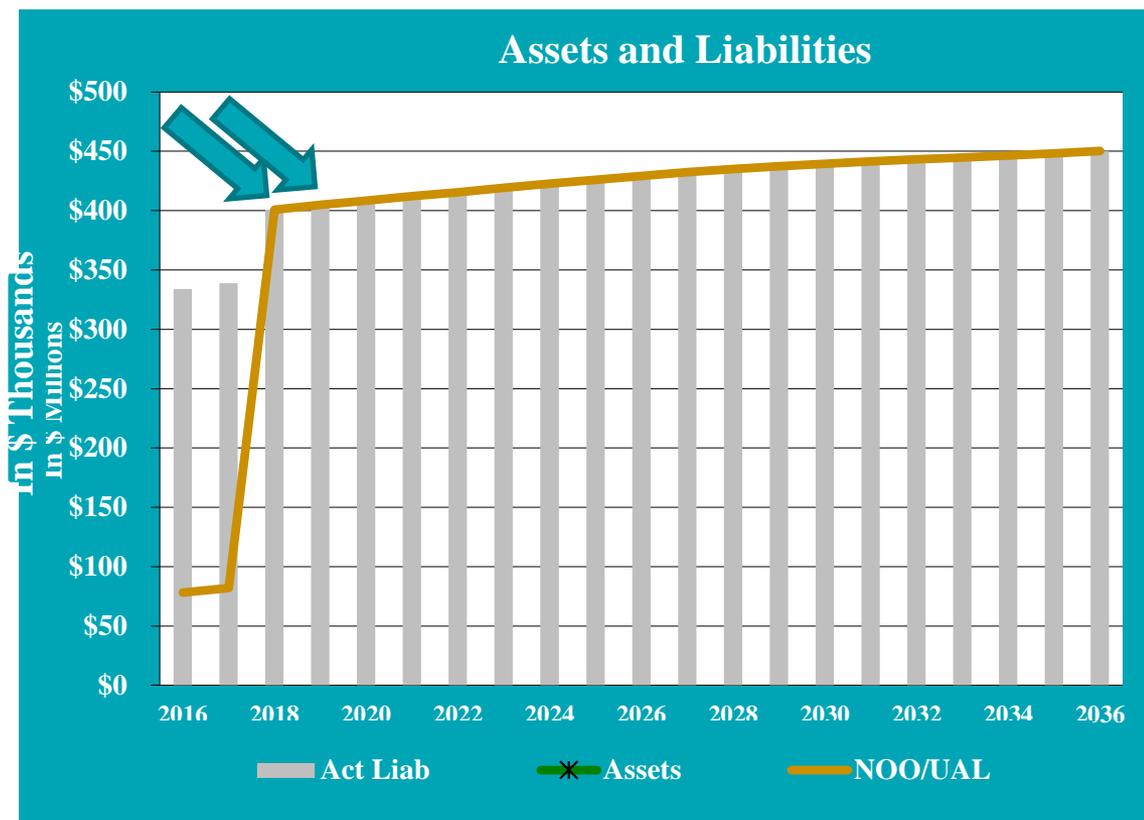
- Same census
- Same claims
- Updated discount rate

GASB 75 Two (2) Year Cycle

Unfunded Liability to Balance Sheet



Recall that new GASB 75 put on the books the Net OPEB Liability, not accruals as with GASB 45. This means more focus on measuring the liability. MMEHT entities participating in the MMEHT program do not maintain assets at the local level. As with GASB 45, GASB 75 reports do not include assets.



- In this example, the NOL (referred to as Net OPEB Liability in GASB 75), is shown, in 2018 and after, as the “gold line”.
- GASB 75 increased prior accrual amounts (“Net OPEB Obligation” or NOO) to the full liability on the balance sheet.
- The GASB 75 liability also increases or decreases due to the discount rate at each measurement date.

• Projections use this base valuation year and assume that all assumptions and methods are exactly realized with no gain/loss.

Discount Rate for each GASB 75



- **GASB 75** defined the discount rate, which is used to convert year by year projected costs to a single sum present value or “liability” at the measurement date.

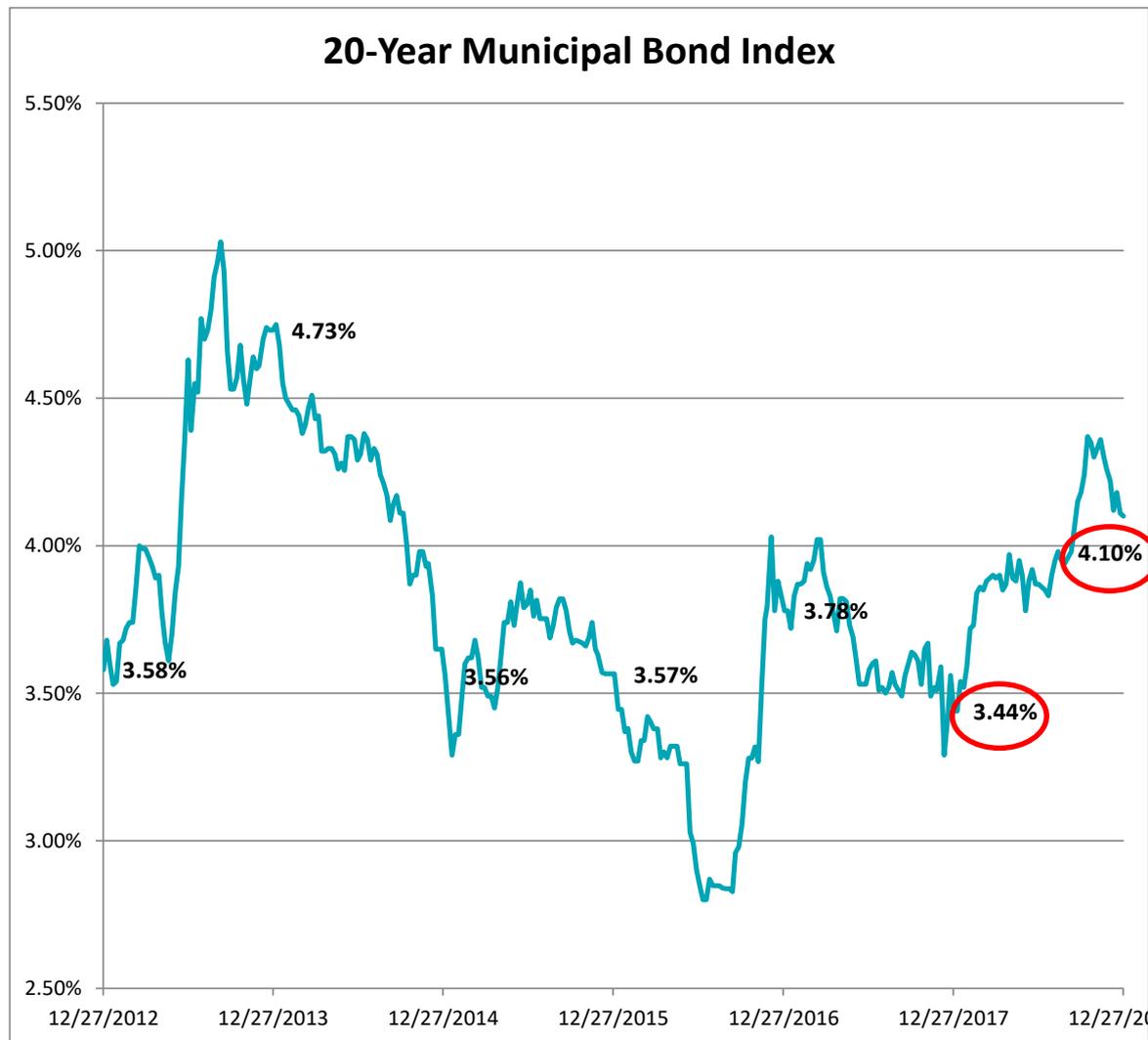


- **Definition of Discount Rate** - A yield or index rate for 20-year, tax- exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), for plans with no prefunding solely for retiree medical.

20 Year Tax-Exempt Bond Rates



- Discount rate is defined as a single rate equal to 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa.
- Last year, the GASB 75 discount rate was 3.44% and this year it is 4.10% per annum.



Receiving Your 2019 GASB 75 Report



- With the 2nd year of GASB 75, the roll-forward year, you will again receive an invitation to the portal.
 - Please log in with your username (provided to you in the email invitation from Cheiron) and set your password.
 - This year, you can share the report with your auditors directly from the GASB 75 Portal.
 - You will also have access to last year's report for easy reference.
- Remember the census data used in the 2019 roll-forward year is the same as what was used in 2018. So when the auditors ask for census, they will use the same file as in 2018.

July 2019

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

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4. Independence Day

date provided for 12/31 without warning

August 2019

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

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September 2019

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

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2. Labor Day

date provided for 12/31 without warning



Maine Municipal
Employees Health Trust

GASB 75 Reports Portal

Username

Password

[Forgot Password?](#)

[Sign in](#)



- You will have access to both the report and the census data employed



Sign out



Maine Municipal
Employees Health Trust

GASB 75 Reports Dashboard

Share this page with your auditor

GASB 75 Reports for Year: 2019

GroupID: 01021



PDF

View the report in your
browser

View Report



PDF

Download the report to your
device

Download Report



Excel

Does your auditor need
census file extracts?

Download Data

GASB 75 Reports for Year: 2018

GroupID: 01021



- You can also opt to share the portal with your auditor directly from the site.

The screenshot displays the Cheiron logo in the top left and a 'Sign out' button in the top right. A 'Share Reports' dialog box is open, containing the following text: 'If a share authorization has expired, but the auditor needs access again, please enter the auditor's email again below and click share. You can also share with multiple email addresses if needed.' Below this is a text input field labeled 'Enter Auditors Email' and a 'Share' button. A yellow banner below the dialog reads 'Share this page with your auditor'. The main content area shows 'GASB 75 Reports for Year: 2019' with 'GroupID: 01021'. It features three report options: 'View Report' (PDF icon), 'Download Report' (PDF icon), and 'Download Data' (Excel icon). Below this is a section for 'GASB 75 Reports for Year: 2018' with 'GroupID: 01021'.



Summary of Results

Summary of Results		
Reporting Date	06/30/2019	06/30/2018
Measurement Date	01/01/2019	01/01/2018
Valuation Date	01/01/2018	01/01/2018
Total OPEB Liability	\$ 4,150,577	\$ 4,429,665
Plan Fiduciary Net Position	<u>0</u>	<u>0</u>
Net OPEB Liability	<u>\$ 4,150,577</u>	\$ 4,429,665
Deferred Inflows	343,315	0
Deferred Outflows	<u>208,203</u>	<u>242,903</u>
Net Impact on Statement of Net Position	\$ 4,285,689	\$ 4,186,762
Contributions Subsequent to Measurement Date	<u>79,977</u>	<u>76,229</u>
Net Impact on Statement of Net Position	\$ 4,205,712	\$ 4,110,533
OPEB Expense (\$ Amount)	\$ 258,880	\$ 288,757
OPEB Expense (% of Payroll)	2.0%	2.3%

The Net OPEB Liability, or the “Liability”.

Reconciliation of Changes



The table below shows changes in the Change in Net OPEB Liability during the 2018 Measurement Year.

Change in Net OPEB Liability			
Increase (Decrease)			
	Net OPEB	Plan	Net OPEB
	Liability	Fiduciary	Liability
	(a)	Net	(a) - (b)
		Position	
		(b)	
Balances at 01/01/2018			
(Reporting June 30, 2018)	\$ 4,429,665	\$ 0	\$ 4,429,665
Changes for the year:			
Service cost	119,463		119,463
Interest	153,762		153,762
Changes of benefits	0		0
Differences between expected and actual experience	0		0
Changes of assumptions	(392,360)		(392,360)
Contributions – employer		159,953	(159,953)
Contributions – member		0	0
Net investment income		0	0
Benefit payments	(159,953)	(159,953)	0
Administrative expense		0	0
Net changes	(279,088)	0	(279,088)
Balances at 01/01/2019			
(Reporting June 30, 2019)	\$ 4,150,577	\$ 0	\$ 4,150,577

 **The “Liability”**

OPEB Expense Exhibits



The “Expense” – Done Two Ways

- We calculate the OPEB expense in two ways to demonstrate and confirm internal report accuracy.
- Both methods yield the same OPEB expense amount.
- In this example, \$258,880 is the annual expense.

Calculation of OPEB Expense		
	FYE 2019	FYE 2018
Change in Net OPEB Liability	\$(279,088)	\$ 379,203
Change in Deferred Outflows	34,700	(242,903)
Change in Deferred Inflows	343,315	0
Employer Contributions	159,953	152,457
OPEB Expense	\$ 258,880	\$ 288,757
OPEB Expense as % of Payroll	2.0%	2.3%
Operating Expenses		
Service cost	\$ 119,463	\$ 100,023
Employee contributions	0	0
Administrative expenses	0	0
Total	\$ 119,463	\$ 100,023
Financing Expenses		
Interest cost	\$ 153,762	\$ 154,034
Expected return on assets	0	0
Total	\$ 153,762	\$ 154,034
Changes		
Benefit changes	\$ 0	\$ 0
Recognition of assumption changes	(20,614)	28,431
Recognition of liability gains and losses	6,269	6,269
Recognition of investment gains and losses	0	0
Total	\$ (14,345)	\$ 34,700
OPEB Expense	\$ 258,880	\$ 288,757

Sample Disclosures in Footnotes



These are tables that the auditors will use to complete the footnote to the financial statements of each entity:

Sensitivity of Net OPEB Liability to Changes in Discount Rate			
	1% Decrease 3.10%	Discount Rate 4.10%	1% Increase 5.10%
Total OPEB Liability	\$4,767,678	\$4,150,577	\$3,649,693
Plan Fiduciary Net Position	0	0	0
Net OPEB Liability	<u>\$4,767,678</u>	<u>\$4,150,577</u>	<u>\$3,649,693</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%	0.00%

Sensitivity of Net OPEB Liability to Changes in Healthcare Cost Trend			
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Total OPEB Liability	\$3,774,926	\$4,150,577	\$4,622,016
Plan Fiduciary Net Position	0	0	0
Net OPEB Liability	<u>\$3,774,926</u>	<u>\$4,150,577</u>	<u>\$4,622,016</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%	0.00%	0.00%

Sample Required Information



These are tables that the auditors can refer to that document the “deferred inflows and outflows”:

Table 6		
Schedule of Deferred Inflows and Outflows		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 89,226	\$ 0
Changes in assumptions	51,588	55,139
Net difference between projected and actual earnings on OPEB plan investments	0	0
Total	<u>\$ 140,814</u>	<u>\$ 55,139</u>
<p>Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:</p>		
Year ended June 30:		
2020	113,244	
2021	(27,569)	
2022	0	
2023	0	
2024	0	
Thereafter	0	



- Why do employers need to report OPEB liability and expense on financial statements?
 - GASB 75 requires that all entities subject to governmental accounting standards, regardless of size and regardless of community rates, show the value of offering retiree medical benefits.
 - MMEHT includes retiree medical benefits in its package of benefits.
- Why is a roll-forward report needed under GASB 75 in the 2nd year?
 - GASB 75 requires that each year the liabilities and expense be measured and updated, but allows for a simpler roll-forward method in the 2nd year.
 - This is because of GASB 75 reflects the actual liability on the books and this liability is measured each year even if the discount rate were unchanged.

Frequently Asked Questions



- If we make a change in our collectively bargained benefits before fiscal yearend, does that impact our GASB 75?
 - Yes, if the changes impact retiree medical benefits.
- What about plan changes or other changes announced after fiscal yearend?
 - Not recognized until the next GASB 75 report.
- How often do I need an actuarial valuation?
 - Full GASB 75 valuations are required every 2 years.
 - Roll-forward valuations are used in between the full year valuations. 2019 is a Roll-forward year.

Frequently Asked Questions



- What should I have ready when my auditors are here to complete the 2nd year GASB 75?
 - Please provide your auditors with the valuation report for 2019.
 - Even though 2019 uses the simpler roll-forward method, the report format is virtually the same as last year.
 - Remind the auditors that the census data is unchanged from the prior year.

Thank you for your time today. Please contact Assistant Director Kristy Gould at the Health Trust with further questions about obtaining your report.



This analysis was prepared exclusively for MMEHT for educational purposes of understanding the new accounting standards under GASB 75.

This analysis has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practices set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report.

To the extent any legal issues are involved in any determinations, we recommend you consult appropriate counsel regarding contractual and legal issues identified in this presentation. We are not attorneys and our firm does not provide any legal services or advice.

This analysis was prepared exclusively for MMEHT for the purposes as stated above. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to such other users.

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Principal Consulting Actuary*



Terminology Differences Reflect New Approach

GASB 45	GASB 75 (OPEB)	GASB 68 (Pension)
Actuarial Accrued Liability	Total OPEB Liability (TOL)	Total Pension Liability (TPL)
Actuarial Value or Market Value of Assets	Plan Fiduciary Net Position	Plan Fiduciary Net Position
Unfunded Actuarial Accrued Liability	Net OPEB Liability (NOL)	Net Pension Liability (NPL)
Annual OPEB Cost	OPEB Expense	Pension Expense
Annual Required Contribution (ARC)	Actuarially Determined Contribution (ADC)	Actuarially Determined Contribution (ADC)
Net OPEB Obligation (NOO)	Net OPEB Liability (NOL)	Net Pension Liability (NPL)



Expense Compared to GASB 45 and 75

GASB 45	GASB 75
<p>Expense =</p> <ul style="list-style-type: none"> Normal Cost (ER) + Interest on BOY NOO + UAAL Amortization - Adjustment to ARC 	<p>Expense =</p> <ul style="list-style-type: none"> Service Cost + OPEB Administrative Expenses - Employee Contributions + Interest on TOL/TPL - Expected Earnings on Plan Investments + <u>Recognized</u> Liability for Benefit Changes + <u>Recognized</u> Out/Inflows- New Assumptions - <u>Recognized</u> Out/Inflows - Liability Experience - <u>Recognized</u> Out/Inflows - Asset Experience

OPEB Accounting-Amortizations



Deferral Periods for Expense Compared to GASB 45 and 75/68

	GASB 45	GASB 75	GASB 68
Investment gains/losses	Up to 30 years	5 years	5 years
Liability gains/losses	Up to 30 years	Average working lifetime	Average working lifetime
Assumption changes	Up to 30 years	Average working lifetime	Average working lifetime
Plan changes	Up to 30 years (Amortized)	Immediate recognition (One time!)	Immediate recognition (One time!)