

# **IMPLEMENTING GASB STATEMENT NO. 75**

## **ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

### **A CCMA WHITE PAPER FOR CALIFORNIA LOCAL GOVERNMENTS**

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CALIFORNIA COMMITTEE ON MUNICIPAL ACCOUNTING  
(a joint committee comprised of representatives of the League of California Cities  
and the California Society of Certified Public Accountants)**

#### **I. Introduction**

##### **A. Objectives for the CCMA White Paper**

The Governmental Accounting Standards Board (GASB) issued its Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“OPEB”). Many local governments offer retiree medical benefits that will be subject to new requirements through this statement. The Net OPEB Liability will now be reported on the face of the Statement of Net Position, similar to the Net Pension Liability recently added through GASB 68.

GASB has prepared a summary of GASB 75, which provides a helpful introduction and detail on the statement’s changes. The GASB summary is available on the GASB web page at <http://www.gasb.org>. Go to the Statements of Governmental Accounting Standards and for each statement there is a summary and full text.

This CCMA White Paper has been prepared to assist California local governments and their auditors with the implementation of the new OPEB reporting requirements. For most local governments with July 1 to June 30 fiscal years, implementation will be required in the June 30, 2018 financial statements.

California local governments will find that GASB 75 has many accounting and reporting features that are similar to the recently implemented GASB 68 pension statement. However, gathering needed data for local OPEB plans and participants will likely to be more complex than the GASB 68 pension experience. Because a significant number of local governments are members of the CalPERS pension system, participating employers have enjoyed easy access to standard CalPERS accounting reports to meet GASB 68 accounting and reporting requirements. In contrast, the significance and structure of OPEB programs vary widely across California local governments. Some local governments are investing current assets in Section 115 trusts restricted for the payment of future benefits; some earmark internal reserves to address future payments; others “pay-as-you-go” without advance funding. Some local governments contract

and pay medical benefits directly, bill retirees for their cost share, and maintain their own participant data files. Others provide benefits through the CalPERS PEMCHA program, rely on CalPERS participant data files, and have CalPERS deduct the retiree share of monthly medical premiums from pension checks. A local government may offer a complex benefit structure that differs by employee association, date of hire, years of service, family size, and Medicare eligibility. Benefits might be a fixed dollar stipend or a cost-share arrangement. Each local government offering OPEB benefits will be responsible for contracting for their own actuarial services, validating participant data, and implementing actuarial assumptions that meet GASB criteria.

Many California local governments are investing OPEB plan assets through a few common Section 115 Trust providers (such as the California Employers' Retiree Benefit Trust (CERBT), Public Agency Retirement System (PARS), and other financial institutions). The specifics of each trust vehicle can impact the required accounting, reporting, and auditing process. Through a series of Questions and Answers presented below, local governments participating in these programs can identify accounting and reporting methods that may be applicable to their specific plans.

Scope and Limitations: This CCMA White Paper summarizes and does not contain all of the information contained in GASB 75. Readers should look to the full text of the GASB Statement to fully understand the details of their responsibilities. Local governments and their auditors must apply their own professional judgment to determine if information in this CCMA White Paper is appropriate for their facts and circumstances and must ultimately draw their own conclusions as to the proper implementation of GASB 75.

## B. Questions and Answers

1. My agency has an OPEB trust fund with **CERBT**. Do I have a single-employer plan, an agent multiple-employer plan, or a cost-sharing multiple-employer plan?

A. The Plan should be reported as an **Agent Multiple-Employer Plan** for the following reasons:

The Agreement to Prefund Other Postemployment Benefits through CalPERS includes the following excerpts (emphasis added):

WHEREAS (2) The California Public Employees' Retirement System (CalPERS) Board of Administration (Board) has ***sole and exclusive control and power over the administration and investment of the Prefunding Plan*** (sometimes also referred to as CERBT)...

WHEREAS (5) The Prefunding Plan is a trust fund that is intended to perform an essential governmental function within the meaning of Section 115 of the Internal Revenue Code as an ***agent multiple-employer defined benefit plan*** as defined in Governmental Accounting Standards Board (GASB) Statements for Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB Standards) consisting of an aggregation of single-employer plans, with pooled administrative and investment functions;...

CalPERS/CERBT has indicated that it is the Plan Administrator and is therefore issuing an audited report on the Schedule of Changes in Fiduciary Net Position by Employer.

However, the employer's plan activities should be reconciled with those included in the CERBT Schedule of Changes in Fiduciary Net Position by Employer, to ensure it includes all contributions to and benefits paid by the Plan.

2. My agency has an OPEB trust fund with PARS. Do I have a single-employer plan, an agent multiple-employer plan, or a cost-sharing multiple-employer plan?

A. Depending on the local government's contract with PARS, you could have a Single-Employer or an Agent Multiple-Employer **Trust**. PARS offers both types of Trust arrangements.

Consult the OPEB Adoption Agreement, Trust Agreement, and Master Plan Document, as applicable, to determine whether it is a Single-Employer or Agent Multiple-Employer Trust. For example, the Adoption Agreement for the PRHCP Section 115 Trust adopts the Public Agency Post-Retirement Health Care Plan Trust Agreement, an Agent Multiple-Employer Trust.

3. My agency has an OPEB trust fund with an investment company. The bank's investment managers invest the funds based on the investment guidelines provided by my agency. Do I have a single-employer plan, an agent multiple-employer plan, or a cost-sharing multiple-employer plan?

A. Single-Employer Plan

4. Which OPEB trust funds are required to be reported in the employer's financial statements as a fiduciary fund?

A. Under current GAAP, the decision of whether to report the OPEB trust fund in the local government's financial statements may vary based on the level of the employer's administrative involvement.

Concurrent with the implementation of GASB 84 (effective for FYE 06/30/20), an OPEB trust fund that meets the definition of GASB 74 Paragraph 3 would be reported as a fiduciary activity in the local government's financial statements if the local government controls the trust fund assets. Control is defined by GASB 84 as follows:

"A government controls the assets of an activity if the government (a) holds the assets or (be) has the ability to direct the use, exchanges, or employment of the assets in a manner that provides benefits to the specified or intended recipients. Restrictions from legal or other external restraints that stipulate the assets can be used only for a specific purpose do not negate a government's control of the assets."

Typically, if the local government has an OPEB Trust Fund with PARS or another investment custodian, the local government would be required to report an OPEB Trust Fund as a fiduciary activity in the local government's financial statements. While CERBT may be required to be reported in the same manner, the local government is advised to review the upcoming GASB 84 Implementation Guide to determine if there is clarifying guidance and discuss the issue further with the local government's auditor.

If the local government is not currently reporting an OPEB Trust Fund, the local government has the option of early implementing GASB 84, but we are not recommending to do so for CERBT Plans until GASB provides further guidance in the forthcoming GASB 84 Implementation Guide.

5. My agency reports an OPEB Trust Fund. Some benefit payments are paid through the OPEB Trust Account and others are not. Are all benefit payments required to be reported in the employer's financial statements (fiduciary activities)?

A. Yes, GASB 74 paragraph 31 requires reporting the OPEB **Plan**, which may include payments made by the local government inside and/or outside a trust. Accordingly, the deductions section of the Statement of Changes in Fiduciary Net Position should display all benefit payments to plan members and total administrative expenses. Benefit payments should include implied (implicit) subsidy payments. This amount normally will come from the plan's actuary. Benefit payments should exclude amounts such as premiums or co-pays paid by inactive plan members.

CERBT reports 100% of the Plan trust contributions and benefit payments, even if the benefit payments were not paid by the trust. (Note that non-trust contributions and benefit payments are reported annually to CERBT by employers. Employers should verify they are correct.) However, other trust funds such as PARS will only report benefit payments that were paid out of the trust. Thus, the employer will be required to review and modify the trust fund transactions to ensure all activities of the plan are reported.

6. What benefit payments are reported in the employer's financial statements under GASB 75?

A. GASB 75 also requires reporting the OPEB **Plan**, which may include payments made by the local government inside and/or outside a trust. Accordingly, the benefit payments shown in the Notes and RSI under Changes in Net OPEB Liability (for changes in total OPEB liability and, if applicable, changes in fiduciary net position) should display all benefit payments to plan members. Benefit payments should include implied (implicit) subsidy payments. This amount normally will come from the plan's actuary. Benefit payments should exclude amounts such as premiums or co-pays paid by inactive plan members.

CERBT reports 100% of the Plan trust contributions and benefit payments, even if the benefit payments were not paid by the trust. (Note that non-trust contributions and benefit payments are reported annually to CERBT by employers. Employers should verify they are correct.) However, other trust funds such as PARS will only report benefit payments that were paid by the trust. Thus, the employer will be required to review and modify the trust fund transactions to ensure all activities of the plan are reported.

7. What amounts should be reported as employer contributions?
  - A. GASB 74 and 75 require reporting the OPEB "**Plan**", which may include payments made by the local government inside and/or outside a trust. Accordingly, the contributions displays total contributions made by the employer, both directly to or on behalf of plan members and the trust. Contributions should include:
    - I. Amounts paid by the local government to the trust
    - II. Cash benefit payments made directly by the local government to or on behalf of retirees, if not reimbursed from the trust
    - III. Implied (implicit) subsidy payments if not reimbursed from the trust. This amount normally will be calculated by the local government's actuary.

8. What are the suggested allocation methodologies to record the Net OPEB Liability in the Proprietary Funds, Fiduciary Funds, and Governmental Activities?
  - A. The Net OPEB Liability and related accounts should be allocated in the Government-wide Statements between Governmental Activities, Business-Type Activities, and Component Units in a proportion that represents the facts and circumstances of the ultimate payment of OPEB benefit payments. Allocations should be made on the basis of the benefits that each fund and program offer to its eligible employees. Allocations of the Net OPEB Liability to Enterprise, Internal Service, and Fiduciary Funds are appropriate if plan contributions or benefits are paid from these funds.

Common allocation methods include a percentage of payroll, a percentage of plan contributions (pay-as-you-go benefits plus new trust contributions), Total OPEB Liability, or the number of full time employees. Allocations should be fair, reasonable, and appropriate for each local government's particular plan characteristics. An allocation methodology that is reasonable for one government might not be appropriate for another government.

During the years since GASB 45 was implemented in 1999, many California local governments have negotiated new or reduced retiree medical benefit levels with their employees. Implementation of GASB 75 provides an opportunity to revisit and update prior allocations that have been used under GASB 45. If different tiers of benefits are offered to Public Safety or other specific employee bargaining groups, or to employees with certain hiring dates, and these differences are significant, the actuarial valuation can layer the Net OPEB liability by employee group or tier of benefit offered. A separate allocation basis might be appropriate to match the cost of benefits with specific public safety or other programs that are tied to the General Fund or other specific funds.

Further, certain Enterprise Funds or Component Units with budget capacity may have fully funded their prior actuarially determined contributions in prior years, while a fiscally challenged General Fund in the same plan might have been limited to pay-as-you-go funding. Large public utility operations might be examples of these situations. If material, consider if the actuarial valuation should allocate both the plan's OPEB Liability and Fiduciary Net Position by contributing fund. Even with full funding of prior annual actuarial recommended contributions, an Enterprise Fund may still have an allocated Net OPEB Liability to report at the fund level due to amortization of the plan's annual actuarial gains and losses.

While allocations are based upon the total cost of OPEB benefits offered to all employees, general ledger entries to individual funds are posted only to accrual basis funds such as Enterprise and Internal Service Funds. As a long-term obligation, the Net OPEB Liability does not impact the General Fund's current year modified accrual reporting of expenditures, budget, or fund balance. Instead, allocations to modified accrual programs such as the General Fund are recorded as conversion entries from the fund level statements to the Government-wide accrual basis statements. Internal Service programs that are staffed with employees earning benefits, such as vehicle maintenance funds, appropriately share in Net OPEB Liability allocations, even if subsequently reclassified as Governmental or Business-Type activities in the Government Wide Statement of Net Position.

Prior to GASB 75, some local governments have used an internal service fund to account for the consolidated GASB Statement 45 OPEB obligation. Perhaps the amount has been immaterial. As local governments implement GASB 75 and move to full reporting of the Net OPEB Liability, the liability should be allocated to all participating activities on the Statement of Net Position.

Local governments should document the justification for the selected methodology if not using a common allocation methodology and consider the cost vs. benefit of using alternate methodologies. Is the relative value of precision worth the extra cost and effort? During implementation, local governments should discuss the proposed allocation methodology with their OPEB actuary and auditor.

9. My agency is not funding a trust and will use the Municipal Bond Rate as the Discount Rate for the Total OPEB Liability. How should my agency determine the Municipal Bond Rate?
  - A. Selection of the municipal bond rate is the employer's responsibility. Employers not prefunding the OPEB obligation through a trust, or who are partially prefunding the obligation, will need to select a municipal bond rate meeting the following requirements: "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)," The GASB has said it will not provide any guidance regarding specific bond indices. Common indices include, but are not limited to, (in alphabetical order) the Bond Buyer 11-Bond General Obligation Index, Bond Buyer 20-Bond General Obligation Index, Fidelity General Obligation AA Index, and the S&P Municipal Bond 20 Year High Grade Rate Index. Local governments can use any index they believe meets the definition in the Statement.

10. My agency is funding a trust but is not funding the implied subsidy portion of the OPEB Liability. How is the discount rate impacted by this decision?

A. In general, employers not funding the implied subsidy portion of the OPEB liability should expect to use a discount rate lower than the expected rate of return on trust assets but higher than the municipal bond rate. The actuary will determine the discount rate as specified in GASB 75, also known as the "crossover," "sufficiency," or "depletion" test. The test measures how long the trust's assets will be sufficient to pay plan benefits, including both cash and implied subsidy benefit payments.

11. If there are no separately issued financial statements for the OPEB plan, what additional disclosures are required in the employer's financial statements?

A. In addition to the note disclosures required by GASB 75, paragraph 54, the employer would have to include information in its financial statements to comply with all note disclosure requirements applicable to the OPEB plan. This information includes information required by GASB 74 as well as information required by other GASB Statements. Those additional disclosures would include reporting the Change in Fiduciary Net Position, the annual money-weighted rate of return on investments, RSI reporting 10 years of the annual money-weighted rate of return on investments, and OPEB Trust deposit and investment disclosures under GASB 31, 40, and 72.

These disclosure requirements will not be needed for CERBT because they issue separate financial statements. These disclosure requirements will be required for some PARS Trusts and Trusts held by other custodians when separately issued financial statements are not issued.

12. What are my agency's responsibilities for reviewing the Net OPEB Liability calculation?

A. A local government's responsibility for the Net OPEB Liability is similar to its responsibility for the Net Pension Liability. The following discussion is limited to CERBT and PARS arrangements.

The local government is responsible for ensuring the reasonableness and accuracy of accounting estimates reported in its financial statements. The estimate of the Net OPEB Liability is comprised of two components: Total OPEB Liability and Fiduciary Net Position of the OPEB Plan. The difference between the two is the Net OPEB Liability.

The Total OPEB Liability is calculated by the actuary based on actuarial assumptions applied to census data provided to the actuary by the local government. The local government has the responsibility to review and approve the actuarial assumptions. The local government is also responsible for ensuring the accuracy and completeness of the census data for all active members, inactive members, and retirees of the OPEB Plan. Therefore, the local government should implement effective controls over the accumulation and preparation of the census data.

The Fiduciary Net Position of each local government plan in the CERBT agent multiple-employer plan is audited. CalPERS issues an annual report titled “California Employers’ Retiree Benefit Trust, Agent Multiple-Employer Other Postemployment Benefits Plan, Schedule of Changes in Fiduciary Net Position by Employer”, which provides an audit opinion on each employer plan. This audit report will be posted at CalPERS’s website and is publicly available. Local governments should use the audited Fiduciary Net Position for their respective plan to calculate the Net OPEB Liability.

The Fiduciary Net Position of the PARS OPEB trust is presented in the Post-Retirement Health Care Plan Trust Financial Statements and the separate Schedule of Changes in Fiduciary Net Position by Plan and can be obtained by the local government directly from PARS. The audit reports provide an opinion on the OPEB trust as a whole and on the supplementary schedule of changes in relation to the financial statements as a whole. To supplement the audit report, PARS has also issued a SOC 1 Type II report on the PARS system and suitability of the design and operating effectiveness of its controls.

13. We provide employee census data to the actuary to calculate the Net OPEB Liability. Is my agency required to test census data?
  - A. Yes. Census data is used by the actuary to estimate the Total OPEB Liability. Accordingly, the local government should implement effective controls over the accumulation and preparation of the census data to ensure completeness and accuracy of the data. The local government should implement effective controls to ensure that the actuary has used the correct data.
  
14. My agency has good records supporting employee census data for active employees. What information is required to be retained for retired employees and for how long?
  - A. Census data is used by the actuary to calculate the estimated Total OPEB Liability. The local government should consult with its actuary to determine how long and in what form census data should be retained. In general, information required to determine the benefits and to allocate cost for the benefits should be retained as long as any retiree or their survivors are or could be eligible for benefits. This will depend on each local government’s individual circumstances, but could include items such as department or fund with active, bargaining unit, hire date and retirement date. Underlying employee records should be retained in accordance with the local government’s record retention policy.



15. What type of information does my agency need to retain regarding plan benefits and for how long?

- A. Local governments should consult their attorneys to determine specific information to be retained and the applicable time period. The following answer is provided from an accounting viewpoint only.

Information on plan benefits is needed for the actuary to determine the value of all promised benefits and for the auditor to evaluate whether the actuary's calculations are reasonable. The information needed includes:

- I. Who is or could be entitled to benefits, including records of employees and retirees, their covered spouses/domestic partners, dependents, and/or survivors as applicable. Terminated employees not yet retired may also be entitled to future benefits, and retirees who have currently waived coverage may also be entitled to elect coverage in the future.
- II. What healthcare benefits are provided? This may depend on an employee's hire or retirement date, or employment group. Benefits may include a choice of medical, dental or vision plans, Medicare premium coverage and/or life insurance. In some cases specific benefits may have been promised and in other cases the promise may be to provide the same coverage as for active employees. Many other variations are possible. Records of the promised benefits should be maintained as long as there are any possible employees or retirees or survivors who could be eligible for the benefit.
- III. What contributions are required of retirees? Records of retiree and dependent required contributions, employer subsidies, or premium sharing arrangements should also be maintained as long as there are any possible employees or retirees or survivors who could be eligible for the benefit.

16. The GASB 75 Required Supplementary Information example includes covered payroll. Since payroll is not a factor in calculating my agency's OPEB liability, should covered payroll be disclosed?

- A. The answer is dependent on whether the plan is administered through a trust.
- I. If the plan is administered through a trust, then Covered-Employee Payroll should be disclosed in RSI if OPEB contributions are not based on a measure of pay. If OPEB contributions are based on a measure of pay, then RSI should report Covered Payroll. (GASB 85, paragraph 14)
  - II. If the plan is not administered through a trust, then Covered-Employee Payroll should be reported in RSI. (GASB 75, paragraph 170(b))

17. Many California employers provide health care through the CalPERS Health Program. The Public Employees' Medical & Hospital Care Act (PEMHCA) has rules that govern the benefits that must be provided to retirees. What are some of the requirements of PEMHCA that we should be aware of?
  - A. See Exhibit 1 for a description of some of the requirements.

## **Exhibit 1**

### **Summary of CalPERS Health Plans (PEMHCA) Rules for Retiree Medical Benefits**

The Public Employees Medical and Hospital Care Act (PEMHCA) governs health care provided to employees and retirees under health care plans administered by CalPERS. All public agencies providing health care to their active employees through CalPERS PEMHCA plans are also required to offer health care under those plans to their retirees. The rules regarding retiree health care are found in sections §22892 and §22893 of the Government Code. The rules are summarized below in order to assist participating agencies and their auditors in understanding the requirements in connection with reporting under GASB Statements 74 and 75.

Note that public agencies can have different health care benefits for different employee groups. PEMHCA benefits can be adopted with different provisions and at different times for each bargaining unit.

#### **“Equal” Benefits under § 22892**

**Eligibility:** Employees who retire directly (within 120 days of separation from service) from a participating agency with a service or disability annuity. They must have been eligible for health benefits immediately before retirement. Note that participation in the CalPERS retirement system is not required but the retiree must be receiving an annuity benefit (CalPERS allows some flexibility for the small number of agencies that have defined contribution plans). Benefits are provided to surviving spouses only if the retiree elected a pension annuity with a survivor benefit. Eligible retirees who previously waived PEMHCA benefits can elect coverage in any later year during open enrollment.

**Benefit:** The same (“Equal”) benefit must be provided retirees as active employees. The minimum employer contribution (“MEC” or “PEMHCA Minimum”) is announced each year by CalPERS. It is \$133/month for 2018 and is expected to be \$136/month for 2019. This is the minimum amount that must be paid by the employer (as long as it is “equal” to the amount paid for active employees). The remainder of the health care premium is paid by the retiree.

**Phase-in: “Unequal” Method.** An agency is permitted to phase into retiree benefits by paying \$1 in the first year after adoption, 5% of the active employee amount in the 2<sup>nd</sup> year, and an additional 5% of the active employee amount each year, up to 100% in the 20<sup>th</sup> year. However, increases in any year are limited to \$100/per month. Note that the phase-in applies to the smaller of the active employee employer-paid premium and the PEMHCA Minimum (MEC).

**Cafeteria Plan:** If an employer establishes a cafeteria plan, active employees may be allocated a specified amount of flexible credits for benefits. The “equal” rule above does not apply to cafeteria plan credits; it only applies to amounts specifically designated as health care contributions.

**§ 22893 - State 100/90 Vesting**

Eligibility: Employees who retire directly (within 120 days of separation from service) from a participating agency with a service or disability annuity after 5 years of service with the adopting agency. Note that participation in the CalPERS retirement system is not required. The portion of the full benefit paid depends on total CalPERS service as follows:

<b>Years of CalPERS Service</b>	<b>Percentage</b>
< 10	0%
10	50%
11	55%
↓	↓
≥ 20 or Disability Retirement	100%

Employees with 20 or more years of service at the adopting agency do not need to retire directly from that agency to receive the benefit. They are classified as inactives entitled to future benefits and can elect retiree healthcare from the adopting agency at or after retirement, even if they had intervening employment elsewhere.

Benefit: The required employer-paid benefit is based on the weighted average of the premiums of the 4 PEMHCA plans with highest enrollment each year. The required benefit amount is the retiree's premium but not more than vested percentage above multiplied by the following:

<b>Coverage</b>	<b>Formula</b>	<b>2018 Cap</b>
Single coverage:	100% of the weighted average	\$725
2-party coverage:	Amount for single plus 90% of the increase in the 2-party weighted average over the single coverage weighted average	\$1,377
Family coverage	Amount for single plus 90% of the increase in the family weighted average over the single coverage weighted average	\$1,766

Other: Agencies already in PEMHCA can adopt this option. It will apply to future hires only but can also be offered to current employees.

**1 - To remove prior year Net OPEB Obligation or Asset that was recorded in accordance with GASB 45.**

**\*\* Note: A balance has been reported in prior years in accordance with GASB 45. This balance needs to be adjusted to reflect the beginning balance in accordance with GASB 75**

Dr - Net OPEB Obligation/(Asset) in accordance with GASB 45		\$XXX
Cr - Unrestricted Net Position (restatement)	\$XXX	

**2 - To restate beginning Net OPEB Liability/(Asset) in accordance with GASB 75.**

Dr - Net OPEB Liability/(Asset)	92,104	
Cr - Unrestricted Net Position (restatement)		92,104

**3 - To restate prior year for OPEB contributions made after measurement date June 30, 2016**

Dr - Deferred Outflow - contribution made after measurement date (6/30/2016)	279,009	
Cr - Unrestricted Net Position (restatement)		279,009

**4 - Journal Entry - To remove current year contributions and record deferred outflow of resources for contributions made after the measurement date**

DR - Deferred Outflow - Contribution after measurement date (6/30/2017)	324,982	
CR -OPEB Expense		324,982

**5 - Journal Entry - To recognize contribution as a reduction of Net OPEB Liability/(Asset) (this is the prior year contribution that was recognized as deferred outflow made after the measurement date 06/30/2016)**

DR - Net OPEB Liability/(Asset)	279,009	
CR - Deferred Outflow - 2017 Contribution		279,009

**6 - Journal Entry - To recognize current year OPEB expense and actuarial deferred outflows/(inflows)**

Dr - Deferred Outflow -changes in assumptions	67,739	
Dr - Deferred Outflow - Net difference between projected and actual earnings on OPEB plan investments	208,226	
Dr - OPEB Expense	265,289	
CR - Net OPEB Liability/(Asset)		541,254
	<u>\$ 541,254</u>	<u>\$ 541,254</u>

	<u>Net OPEB Liability/Asset calculation</u>	
	Beginning balance	(92,104)
Less: Contribution during the measurement period		279,009
	Less: Ending balance	<u>170,141</u>
<b>Change in Net OPEB Liability/(Asset):</b>		<b>(541,254)</b>

**Agent Multiple-Employer OPEB Example - June 30, 2017 Measurement date**

	Per OPEB Actuary Report		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability/(Asset)
<b>Balance at June 30, 2016</b>	\$ 4,275,266	\$ 4,367,370	\$ (92,104)
<i>Changes recognized for measurement period:</i>			-
Service cost	187,026	-	187,026
Interest	314,699	-	314,699
Changes of assumptions	81,287	-	81,287
Contributions - employer	-	279,009	(279,009)
Net investment income	-	43,839	(43,839)
Benefit payments	(279,009)	(279,009)	-
Administrative expense	-	(2,081)	2,081
Net changes	<b>304,003</b>	<b>41,758</b>	<b>262,245</b>
<b>Balance at June 30, 2017</b>	<b>\$ 4,579,269</b>	<b>\$ 4,409,128</b>	<b>\$ 170,141</b>

***Measurement date June 30, 2017***

***PER OPEB Actuary Report***

**Deferred Outflows**

Changes in assumptions	67,739
Net difference between projected and actual earnings on OPEB plan investments	208,226

**Employer Contributions**

***Per Employer G/L***

For fiscal year June 30, 2017	279,009
For fiscal year June 30, 2018	324,982

**Deferred Inflows**

None for the measurement period

## **Example Footnote**

**Single Employer or Agent Multiple-Employer Plans administered through a trust (Refer to GASB 75 for Cost-Sharing Plan examples)**

**NOTE: This is only an example and the local government must ensure that disclosures specific to its plan(s) are reflective of the plan(s)**

***Insert language in the Summary of Significant Accounting Policies Footnote similar to the following example. This example is for a 6/30/18 financial statement date with a 6/30/17 measurement date and a 6/30/16 valuation date.***

### **Other Postemployment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Authority's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

***Replace the current OPEB Footnote with a Footnote similar to the example below. This example is for a 6/30/18 financial statement date with a 6/30/17 measurement date and a 6/30/16 valuation date.***

### **Other Postemployment Benefits (OPEB)**

#### ***Plan Description***

The Authority has established a Retiree Healthcare Plan (HC Plan), and participates in an agent multiple-employer defined benefit retiree healthcare plan. The HC Plan provides employees who retire directly from the Authority, at a minimum age of 55, with a minimum of five years of service, a cash subsidy for monthly medical insurance premiums up to a cap of \$200 per employee or \$320 for employee plus spouse. Payments cease at age 65 when the retiree or spouse is eligible for Medicare. If applicable, a cash subsidy for the monthly medical premium continues up to a cap of \$160 for a spouse until age 65 is attained. Surviving spouses are also eligible for this benefit.

Employees who retire directly from the Authority at a minimum age of 55 with a minimum of five years of service are eligible to continue medical coverage as a participant with active employees at a blended premium rate until eligible for Medicare at age 65 as an implied subsidy. A separate financial report is not prepared for the HC Plan.

## **Employees Covered**

As of the June 30, 2016 actuarial valuation, the following current and former employees were covered by the benefit terms under the HC Plan:

Active employees	236
Inactive employees or beneficiaries currently receiving benefits	44
Inactive employees entitled to, but not yet receiving benefits	-
<b>Total</b>	<b>280</b>

## **Contributions**

The HC Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the Authority and the bargaining units. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the Authority's cash contributions were \$157,659 in payments to the trust and the estimated implied subsidy was \$167,323 resulting in total payments of \$324,982. In Fiscal Year 2016, the Authority created a trust with Public Agency Retirement Services (PARS) for the purpose of prefunding obligations for past services.

## **Net OPEB Liability**

The Authority's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2016 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

<b>Actuarial Assumptions:</b>	
Discount Rate	7.00%
Inflation	2.75%
Salary Increases	3.0% per annum, in aggregate
Investment Rate of Return	7.00%
Mortality Rate <sup>(1)</sup>	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover <sup>(2)</sup>	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	7.00% HMO/7.50% PPO decreasing to 4.50% HMO/4.50% PPO

Notes:

(1) Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

(2) The pre-retirement turnover information was developed based on CalPERS' specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.



The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term expected real rate of return</b>
Inflation Assets	5.0%	1.25%
Global Debt Securities	27.0%	2.25%
Global Equities	57.0%	5.25%
REITs	8.0%	4.50%
Commodities	3.0%	1.25%
<b>Total</b>	<b>100%</b>	

***Discount Rate***

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

### Changes in the OPEB Liability

The changes in the net OPEB liability for the HC Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
<b>Balance at June 30, 2017</b> <i>(Valuation Date June 30, 2016)</i>	\$ 4,275,266	\$ 4,367,370	\$ (92,104)
<b>Changes recognized for the measurement period:</b>			
Service cost	187,026	-	187,026
Interest	314,699	-	314,699
Changes of assumptions	81,287	-	81,287
Contributions - employer	-	279,009	(279,009)
Net investment income	-	43,839	(43,839)
Benefit payments	(279,009)	(279,009)	-
Administrative expense	-	(2,081)	2,081
<b>Net Changes</b>	<b>304,003</b>	<b>41,758</b>	<b>262,245</b>
<b>Balance at June 30, 2018</b> <i>(Measurement Date June 30, 2017)</i>	<b>\$ 4,579,269</b>	<b>\$ 4,409,128</b>	<b>\$ 170,141</b>

### Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Authority if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
<b>Net OPEB Liability</b>	\$477,493	\$170,141	(\$111,105)

**Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates**

The following presents the net OPEB liability of the Authority if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	<b>1% Decrease</b> (6.00%HMO/6.50%PPO decreasing to 3.50%HMO/3.50%PPO)	<b>Current Healthcare Cost Trend Rates</b> (7.00%HMO/7.50%PPO decreasing to 4.50%HMO/4.50%PPO)	<b>1% Increase</b> (8.00%HMO/8.50%PPO decreasing to 5.50%HMO/5.50%PPO)
<b>Net OPEB Liability</b>	(\$26,161)	\$170,141	\$504,883

**OPEB Plan Fiduciary Net Position**

PARS issues a publicly available financial report that may be obtained from the Public Agency Retirement Services, 4350 Von Karman Ave, Newport Beach, CA 92660.

**Recognition of Deferred Outflows and Deferred Inflows of Resources**

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL) (6.0 Years at June 30, 2017)

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB**

For the fiscal year ended June 30, 2018, the Authority recognized OPEB expense of \$265,289. As of fiscal year ended June 30, 2018, the Authority reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 324,982	\$ -
Changes of assumptions	67,739	-
Net difference between projected and actual earnings on OPEB plan investments	208,226	-
<b>Total</b>	<b>\$ 600,947</b>	<b>\$ -</b>

The \$324,982 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30:	Deferred Outflows/(Inflows) of Resources
2019	\$ 65,605
2020	65,605
2021	65,605
2022	65,603
2023	13,547
Thereafter	-

*Insert Required Supplementary Information Schedules similar to the examples below. These schedules will eventually report 10 years of information. Please note that the first Schedule presents the information as of the Measurement Date and the second Schedule presents the information as of the Financial Statement Date.*

**Example Authority**  
**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS**  
for the Measurement Periods Ended June 30

<i>Measurement Period</i>	<u>2017</u>
<b>Total OPEB Liability</b>	
Service cost	\$ 187,026
Interest on the total OPEB liability	314,699
Actual and expected experience difference	-
Changes in assumptions	81,287
Changes in benefit terms	-
Benefit payments	<u>(279,009)</u>
<b>Net change in total OPEB liability</b>	<b>304,003</b>
Total OPEB liability - beginning	<u>4,275,266</u>
Total OPEB liability - ending (a)	<u>\$ 4,579,269</u>
 <b>Plan Fiduciary Net Position</b>	
Contribution - employer	\$ 279,009
Net investment income	43,839
Benefit payments	(279,009)
Administrative expense	<u>(2,081)</u>
<b>Net change in plan fiduciary net position</b>	<b>41,758</b>
Plan fiduciary net position - beginning	<u>4,367,370</u>
Plan fiduciary net position - ending (b)	<u>\$ 4,409,128</u>
 <b>Net OPEB liability - ending (a)-(b)</b>	 <b>\$ 170,141</b>
 Plan fiduciary net position as a percentage of the total OPEB liability	 96.28%
Covered-employee payroll	26,692,446
 Net OPEB liability as a percentage of covered-employee payroll	 0.64%

**Notes to Schedule:**

**Changes in assumptions.** The discount rate was changed from 7.28 percent (net of administrative expense) to 7.00 percent for the measurement period ended June 30, 2017.

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**Example Authority**  
**SCHEDULE OF CONTRIBUTIONS**  
**Last Ten Fiscal Years\***

Fiscal Year Ended June 30	2018
Actuarially Determined Contribution (ADC)	\$ 324,982
Contributions in relation to the ADC	(324,982)
Contribution deficiency (excess)	\$ -
Covered-employee payroll	26,726,241
Contributions as a percentage of covered-employee payroll	1.22%

**Notes to Schedule:**

\*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the June 30, 2016 actuarial valuation.

**Methods and assumptions used to determine contributions:**

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed rolling 15-year period
Asset Valuation Method	Market value
Inflation	2.75%
Payroll Growth	3% per annum, in aggregate
Investment Rate of Return	7.00% per annum
Healthcare cost-trend rates	7.0% initial, 1.0% - 2.0% near term increase then decreasing 0.5% per year to trend rate that reflects medical price inflation.
Retirement Age	Tier 1 employees - 2.5% @55 and Tier 2 employees - 2.0% @62 The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Pre-retirement mortality probability based on 2014 CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

Historical information is required only for measurement periods for which GASB 75 is applicable.  
Future years' information will be displayed up to 10 years as information becomes available.