

Implementing GASB 75 *Accounting and financial reporting for other post-employment benefits*

Judy McNeal, Chief Financial Officer – KPERS

Michele Stromp, Partner – KPMG LLP

Julie Barrientos, Director – KPMG LLP

July 25, 2018

Timed Agenda

Introduction and overview of GASB 75 provisions



25 min

Impact of measurement date



15 min

Transition provisions



10 min

Special funding situation



10 min

Note disclosures and RSI



15 min

Frequently asked questions



10 min

Q & A and Wrap-up



5 min

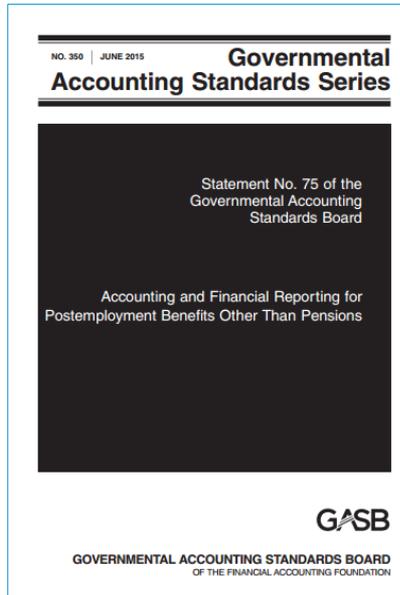
Course objectives

After completing this course, you will be able to:

- Apply the new reporting requirements of GASB 75
- Define the terms total OPEB liability, deferred outflows/inflows of resources and OPEB expense as described in GASB 75
- Select the appropriate measurement date to implement GASB 75
- Prepare the journal entries to record the total OPEB liability, OPEB expense, and deferred outflows/inflows of resources using the information provided by KPERS
- Prepare disclosures to comply with GASB 75

Introduction to GASB 75

Employer standard – Statement No.75



Apply changes retroactively by restating financial statements for all periods presented, if practical

- May not be practical to present balances all deferred outflows and inflows of resources at beginning of period.
- Should report beginning deferred outflow of resources for transactions subsequent to the measurement date
- RSI schedules present information that is available until 10 years have been accumulated

Effective for financial statement periods beginning after June 15, 2017



Two primary sections: OPEB provided through plans **administered/ NOT administered** through qualifying trusts or equivalent arrangements

Types of postemployment benefits

Healthcare	Other
Medical	Death benefits
Dental	Life insurance
Vision	Disability
Hearing	Long-term care

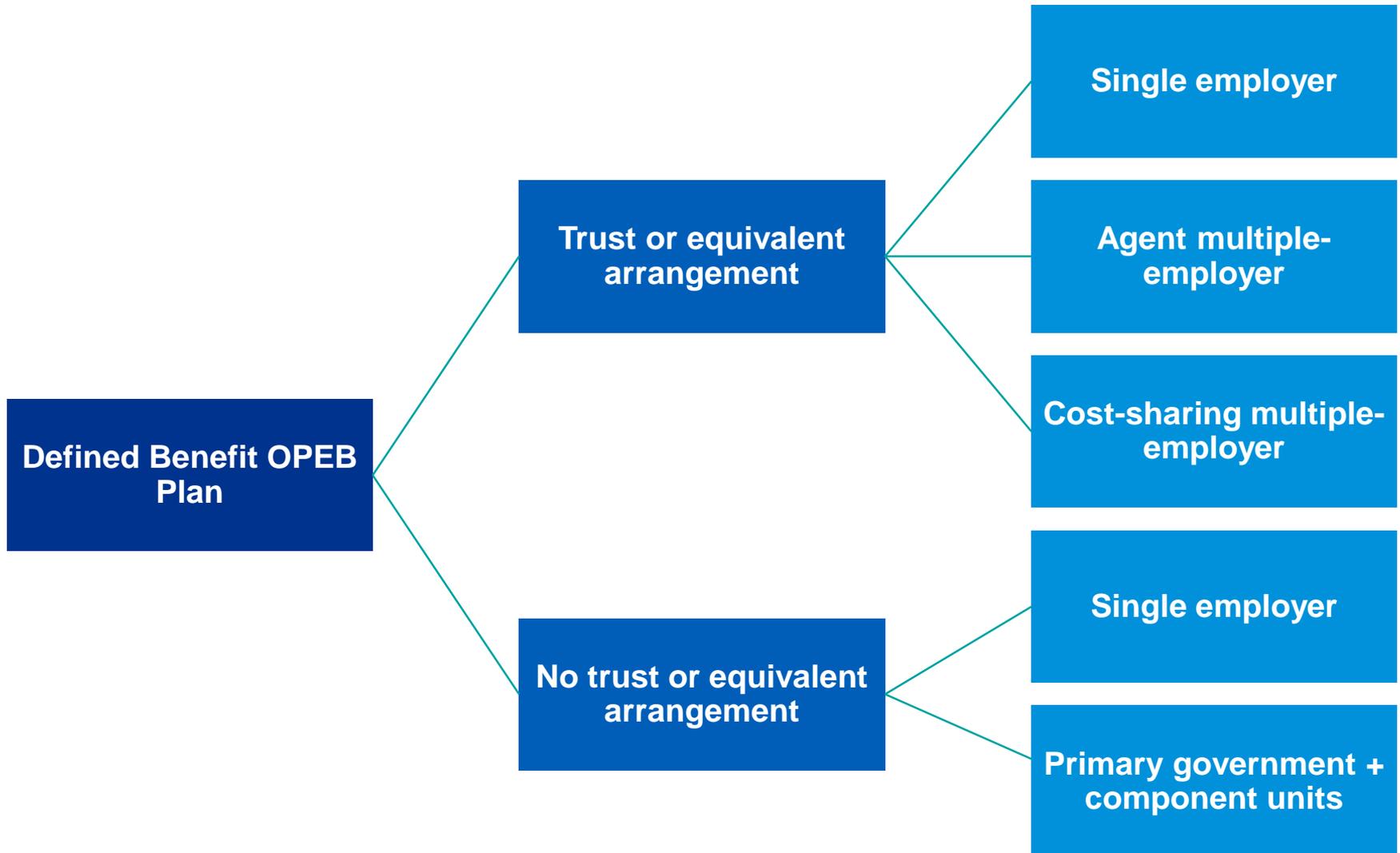
Always OPEB!

OPEB when NOT
provided through a
pension plan



Benefits provided through the KPERS D & D Trust include 1) death benefits for active and disabled members, 2) long-term disability benefits to active members of the KPERS state, school, and local coverage groups, and 3) death benefits to active members of the judges group.

Overview of plan types



Trust or equivalent arrangements (qualifying trust)

1

Contributions from employers and nonemployer contributing entities to OPEB plan and earnings on those contributions are irrevocable

2

OPEB plan assets dedicated to providing OPEB to plan members in accordance with benefit terms

3

OPEB plan assets are legally protected from creditors of employer(s), nonemployer contributing entities, plan administrator and plan members



Recognition and measurement on employers financial statements dependent upon whether plan is administered through a qualifying trust.

Trust or equivalent arrangements (qualifying trust)

Question 4.13 of Implementation Guide 2017-2, *Financial Reporting for Postemployment Benefits Other than Pension Plans* addresses the issue as to whether a trust meets criteria 3(b) if benefits are provided to both active and inactive members, as follows:

Q – If postemployment healthcare benefits (classified as OPEB) and some other benefit that is not OPEB (for example, pensions or active employee healthcare) are administered through a single trust, can that arrangement be considered as meeting the requirements of paragraph 3b of Statement 74 – that is, that “OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms”?

A – The OPEB partition of the trust would meet the criterion of paragraph 3b of Statement 74 (regarding dedicated purpose) only if steps have been taken to ensure that the assets, once initially allocated to OPEB, are dedicated solely to providing OPEB until the point in time at which all benefits provided through the OPEB plan have been paid. That is, in the context of Statement 74, dedicated purpose should be understood as referring to the purpose of providing OPEB through a single plan rather than, for example, providing OPEB and some other benefit such as pensions or active employee healthcare.

Trust or equivalent arrangements (qualifying trust)

Because benefits in the D & D trust can be used to provide benefits to both active and inactive participants, KPERS has determined that the D & D trust is NOT a qualifying trust based on the criteria in GASB Statement No. 74. Accordingly, each employer (government) is considered to be administering their own single-employer defined benefit OPEB plan on a pay-go basis. The role of KPERS is effectively to facilitate the purchase of benefits on an annual basis.

Types of defined benefit OPEB plans

Single Employer	Agent Multiple-employer	Cost-sharing Multiple-employer
<ul style="list-style-type: none">— Provides OPEB to employees of one employer— Primary government and component units collectively considered to be one employer	<ul style="list-style-type: none">— Provides OPEB to employees of more than one employer— Assets are pooled for investment purposes, but separate accounts maintained for each employer— Employer's share of pooled assets is legally available only for its employees	<ul style="list-style-type: none">— Provides OPEB to employees of more than one employer— Employers pool or share obligations— Plan assets can be used to pay the benefits of retirees from any employer

Primary government and its component units

- Collectively considered to be one employer for purposes of classifying OPEB plans
- OPEB plans that only include employees of the primary government and its component units are considered single-employer plans:
 - In stand-alone primary government and component unit financial statements, account for and report participation as if cost-sharing employers
 - In reporting entity's financial statements, follow note disclosures and RSI for a single or agent employer plan:
 - Separately identify amounts related to the primary government and amounts related to discretely presented component units in the note disclosures



Similar treatment for participation in trusted and non-trusted plans

Overview of Accounting and Reporting (no qualifying trust)

Overview of employer standard

- Conceptual shift in reporting OPEB liabilities in full accrual financial statements
 - Under current approach, liability recognized to the extent the actuarially required contribution is not funded
 - Under new approach, liability recognized as employees earn OPEB benefits by providing services
 - Changes to OPEB liability recognized immediately as OPEB expense or deferred outflow/inflow of resources depending on nature of change
- No significant changes to accounting for OPEB in governmental funds
- Substantive changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes

Overview of employer standard (continued)

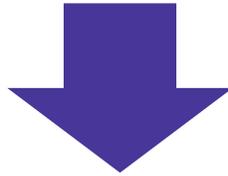
- The following amounts for a defined benefit OPEB plan determined as of a date no earlier than the end of the employer's prior fiscal year:
 - Total OPEB liability
 - OPEB expense
 - Deferred outflows and inflows of resources related to OPEB
- Employers participating in single-employer and agent multiple employer plans recognize 100% of above amounts for each plan
- Employers participating in cost-sharing multiple-employer plans and primary governments/component units recognize their proportionate share of OPEB amounts for the plan as a whole
- Provides guidance for note disclosures and required supplementary information

Employers participating in *trusted* plans, recognize *Net* OPEB Liability

Employers participating in *non-trusted* plans, recognize *Total* OPEB Liability

Changes in Total OPEB liability immediately recognized as OPEB expense

Changes in the Total OPEB Liability



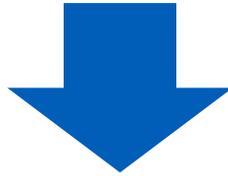
Current period service cost

Interest on the beginning total OPEB liability

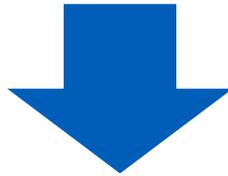
Impact of changes in benefit terms

Changes in Total OPEB liability resulting in deferred outflows/inflows of resources

Changes in the total OPEB liability



Effects of actuarial differences and changes in assumptions related to economic or demographic factors attributable to *active and inactive employees, including retirees*



Recognize as deferred inflow/outflow and amortize over a closed period *equal to the average of the expected remaining service lives of all employees (active, inactive, and retirees)*

Deferred outflows and inflows of resources

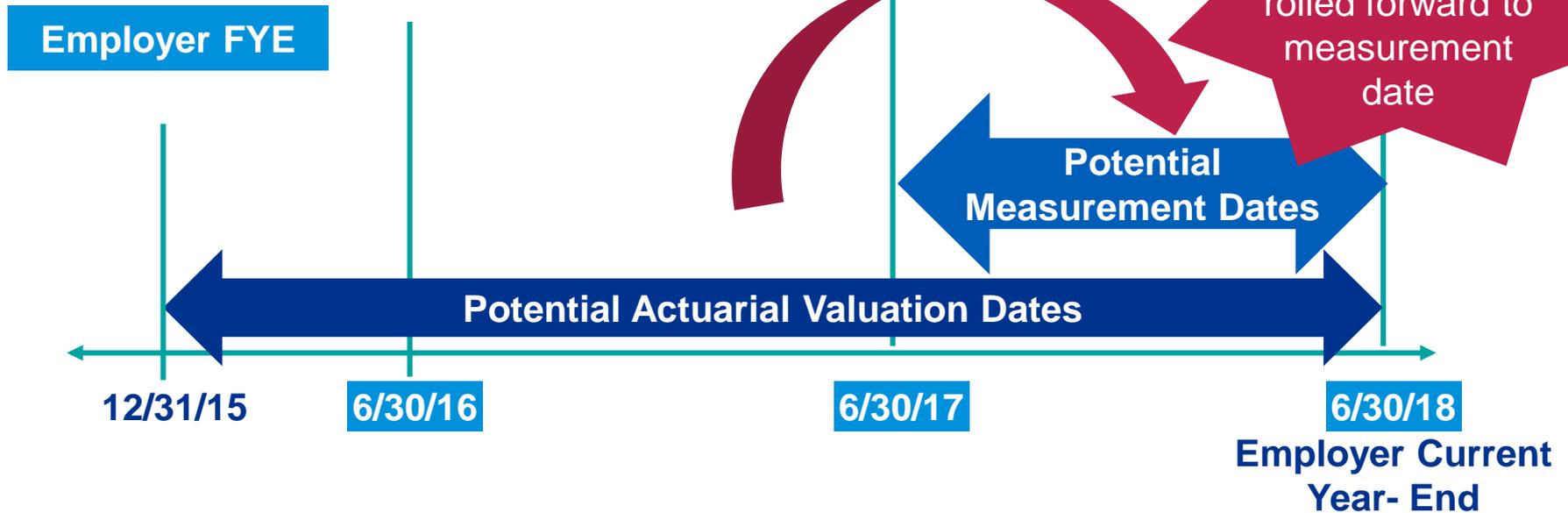
- Differences between expected and actual experience with economic and demographic factors:
 - Mortality
 - Payroll increases
 - Retirements
 - Employee turnover
- Effect of changes in assumptions about future economic and demographic factors:
 - Discount rate (must use a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher, or equivalent quality on another rating scale since it is an unfunded plan)
 - Mortality (tables)
 - Future payroll increases
 - Future inflation rate
 - Retirements
 - Employee turnover

How will I know the amounts to report as total OPEB liability, OPEB expense, deferred outflows of resources, or deferred inflows of resources?

- KPERs will provide information needed by each its employers to facilitate the employers' audits
 - Milliman Inc. will provide separate actuarial reports for each employer
 - KPER's auditor, CliftonLarsonAllen LLP, will prepare a SOC1 type II report on the census data for the Disability Plan
 - KPERs will provide sample note disclosures for use by its employers

Impact of measurement date

Measurement date

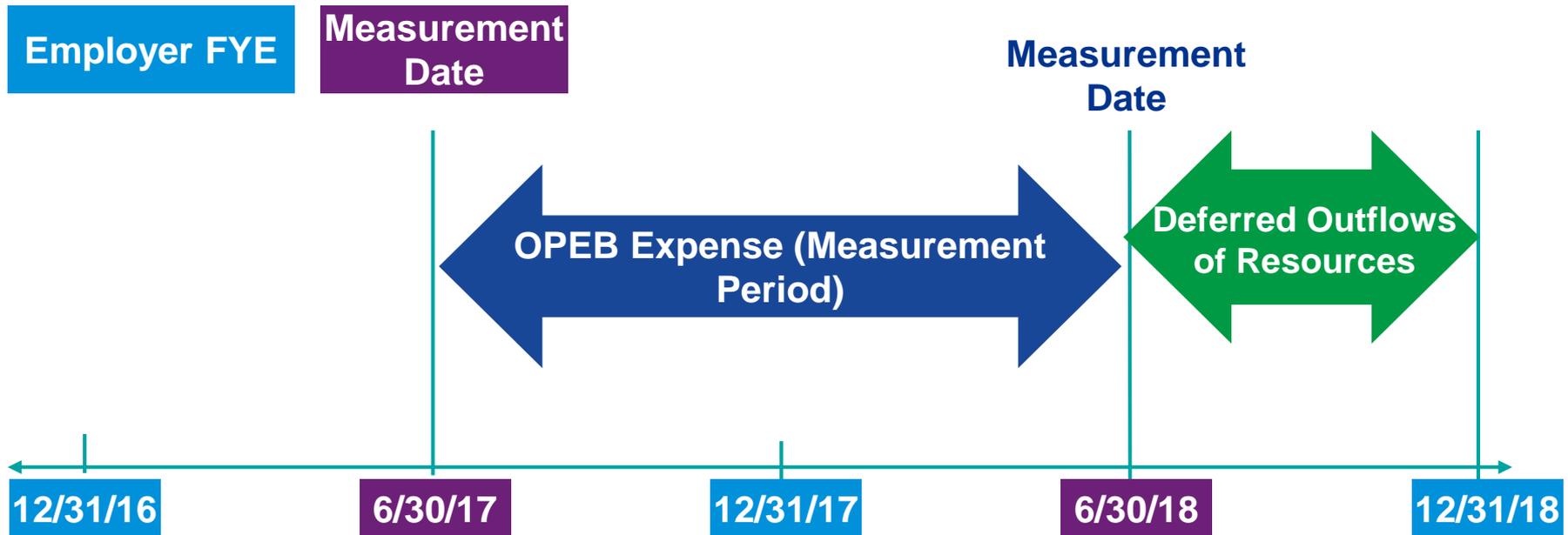


- Measurement of the total OPEB liability in employer's financial statements must be as of a date no earlier than the end of the employer's prior fiscal year.
- Measurement must be based on an actuarial valuation performed within 30 months plus 1 day of the employer's year-end.
- If actuarial valuation not performed as of measurement date, update procedures must be performed to roll forward amounts to measurement date.

Measurement date

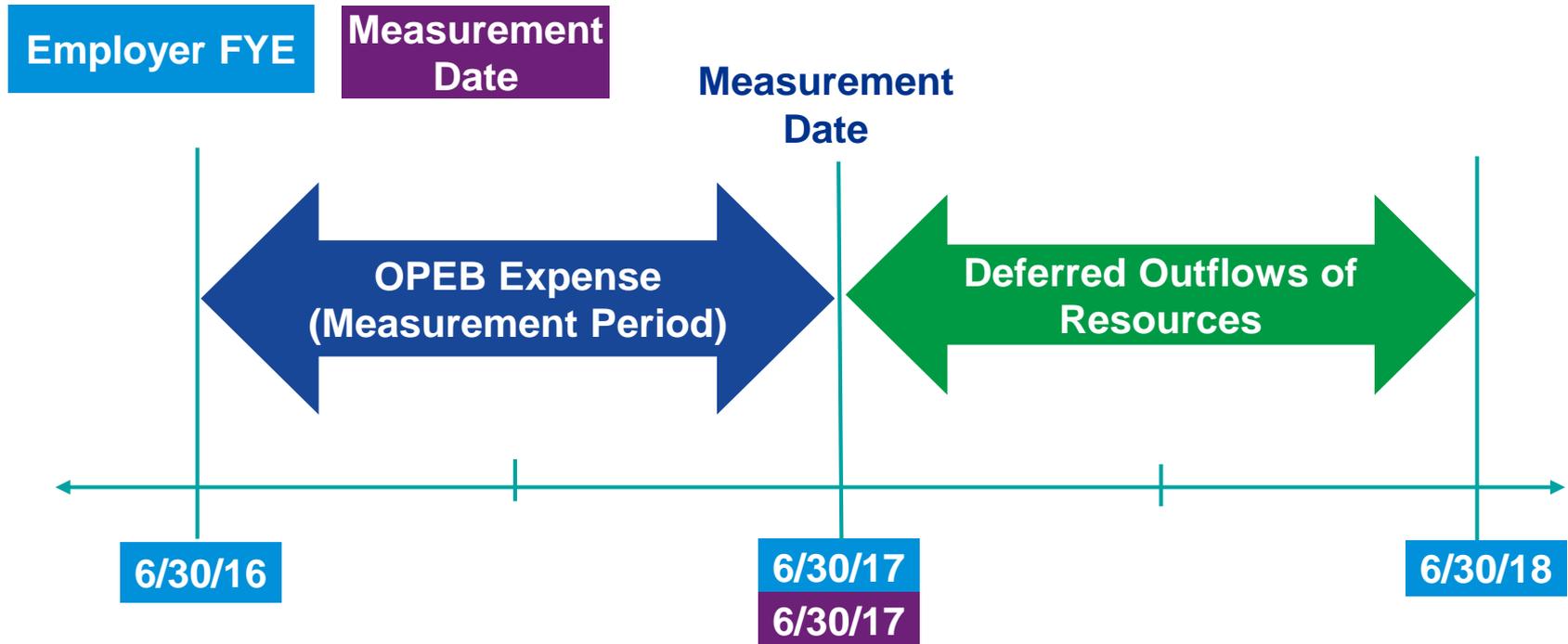
- The measurement date for each employer will be assumed to be June 30
- The actuarial valuation for each employer will be performed as of December 31, with update procedures used to roll forward the total OPEB liability to the following June 30
- Employers that have a year end other than June 30 will use the measurement date of June 30 that precedes their year end
- Employers that have a year end of June 30 can chose to use the current year or the prior year as the measurement date
- Benefit payments made and administrative costs incurred subsequent to the measurement date of the OPEB liability and before the end of the employer's reporting period should be recognized as a deferred outflow of resources

Example – Impact of measurement date employer specific deferrals



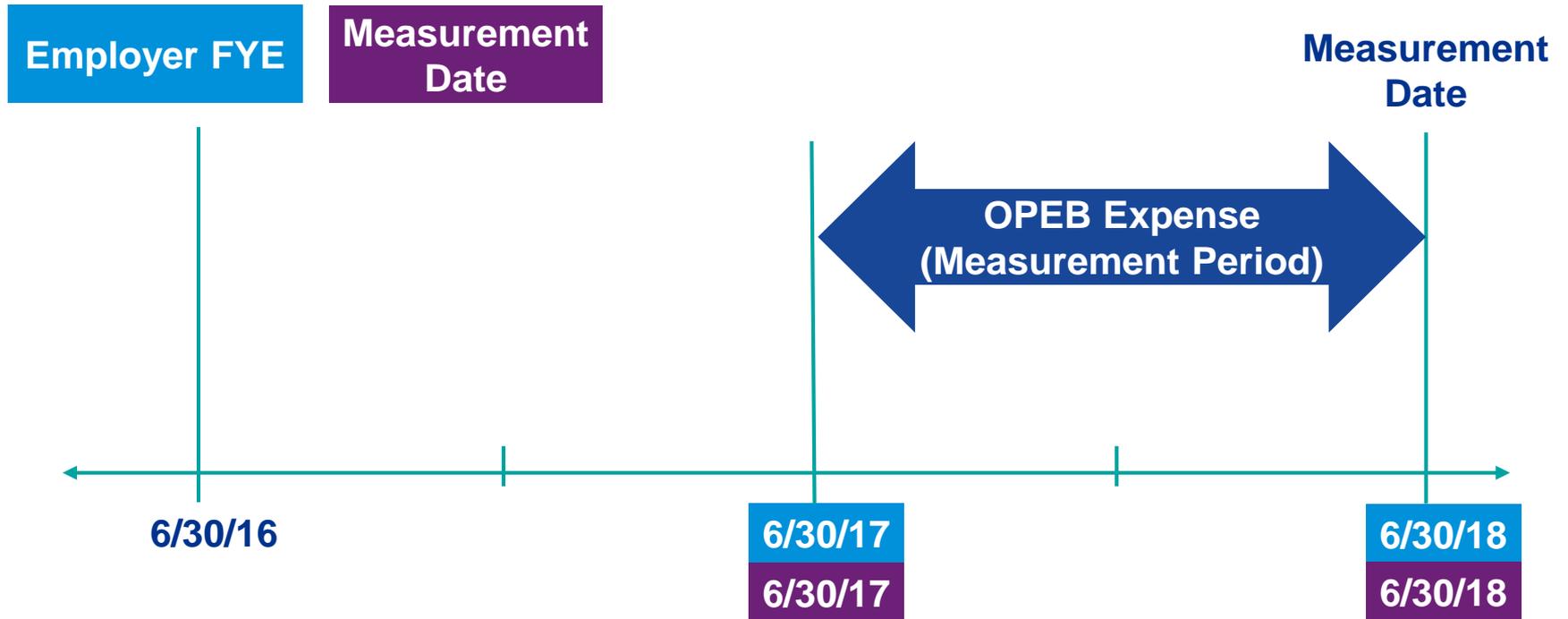
- Benefit payments made and administrative costs incurred subsequent to the measurement date of the OPEB liability and before the end of the employer's reporting period should be recognized as a deferred outflow of resources.

Example – Impact of using prior year measurement date



- For employers that have a year end of June 30, the employer may choose either the current year end or prior year end as the measurement date.
- Benefit payments made and administrative costs incurred subsequent to the measurement date of the OPEB liability and before the end of the employer's reporting period should be recognized as a deferred outflow of resources.

Example – Impact of using current year measurement date



- For employers that have a year end of June 30, the employer may choose either the current year end or prior year end as the measurement date.

Considerations for selection of measurement date for employers with year end of June 30

- Timeliness of information available from the OPEB plans
 - Actuarial valuations
- Impact on precision of recorded amounts
- Significance of changes since measurement date

Transition provisions

Transition provisions

- Changes made to comply with the standards should be treated as an adjustment of prior periods if “practical”, resulting in restatement of those periods
 - Employers should not report beginning balances of deferred outflows/inflows of resources if not practical to determine
- Ten-year RSI schedule related to contributions should be presented in full upon implementation, if applicable.
- Employers will not be able to present all years of other RSI information retrospectively because information is not available
 - Present information for as many years as available until 10 years of information are available.

Transition provisions (continued)

- Beginning equity will be restated by the amount of the OPEB liability as of the prior year measurement date less the deferred outflows of resources for benefit payments made and administrative costs incurred subsequent to the measurement date (as of the prior year measurement date)
- Beginning balances for all other deferred outflows/inflows of resources will be zero
- Not required to restate comparative information in MD&A
- It is recommended that cash-basis employers include GASB 75 information in their footnote disclosures. Disclosure requirements include:
 - Plan description
 - Significant assumptions, including but not limited to
 - Discount rate
 - Measurement date
 - Amount of OPEB expense
 - Balances of deferred outflows and inflows by type

Special funding situation

Special funding situation overview

- Special funding situations are circumstances in which a nonemployer entity is legally responsible for providing financial support for OPEB of the employees of another entity by making benefit payments directly as the OPEB comes due in circumstances when which OPEB is provided through an OPEB plan that is not administered through a trust that meets the criteria in paragraph 4 of the standard, and either of the following criteria is met:
 - Amount of benefit payments is *not* dependent upon one or more events or circumstances unrelated to OPEB
 - Nonemployer entity is the only entity with a legal obligation to provide financial support directly to an OPEB plan that is used to provide OPEB to employees of another entity.

KPERS

- The State makes a 1% contributions to KPERS for non-public school district schools as defined in K.S.A. 74-4931 (2) and (3). These contributions for area vocational technical schools and community junior colleges qualifies as a special funding situation.
 - The State will record its portion of the liability that pertains to these schools
 - These schools will disclose the special funding situation in the notes to the financial statements.

Note disclosures
and required
supplementary
information

Note disclosures

Plan Description	A	B
Name of plan, administrator of plan, and type of plan (e.g. single employer defined benefit OPEB Plan)	✓	✓
Benefit terms, including (1) classes of employees covered, (2) types of benefits, (3) key elements of OPEB formula, (4) terms or policies with respect to automatic benefit changes, including ad hoc colas, (5) the authority under which the benefit terms can be established and amended (6) whether the plan is closed to new entrants	✓	✓
Number of employees covered	✓	
Fact that no assets are accumulated in a trust, or disclose if OPEB is provided through a trust that is not qualified and the reason it is not qualified	✓	✓
Authority for requirements of the employer or the nonemployer contributing entities to pay OPEB benefits as they come due are established and amended, and amount paid by the employer for OPEB as the benefits came due during the reporting period	✓	✓

**A = Non-trusted:
Single**

**B = Non-trusted:
PG + CU**

Note disclosures

Assumptions and other inputs	A	B
Significant assumptions, including inflation, healthcare cost trend rates (if applicable), salary changes, postemployment benefit changes	✓	✓
Source of mortality assumptions	✓	✓
Dates of experience studies	✓	✓
The sharing of benefit-related costs with inactive employees, and if those projections for the sharing of benefit-related costs are based on an established pattern of practice, that fact should be disclosed.	✓	✓
Total OPEB liability sensitivity to healthcare cost trend rate (if applicable) (+/- 1%)	✓	✓

A = Non-trusted:
Single

B = Non-trusted:
PG + CU

Note disclosures

Discount Rate	A	B
Municipal bond rate used	✓	✓
Total OPEB liability sensitivity to municipal bond rate (+/- 1%)	✓	✓

A = Non-trusted:
Single

B = Non-trusted:
PG + CU

Note disclosures

Additional Disclosures	A	B
Schedule of changes in total OPEB liability	✓	
Measurement date	✓	✓
Actuarial valuation date	✓	✓
Employers proportionate share of net (total) OPEB liability and basis for allocation		✓
Special funding situations disclose the proportion (percentage) of the total OPEB liability, the basis for which its proportion was determined, and the change in proportion since the measurement date	✓	✓
Changes in assumptions and benefit terms	✓	✓
Changes subsequent to measurement date	✓	✓
OPEB expense in current period	✓	✓
Balance of deferred outflows/inflows by source and aggregate impact on OPEB expense in each of next 5 years and thereafter	✓	✓

**A = Non-trusted:
Single**

**B = Non-trusted:
PG + CU**

Expense and deferred outflows/inflows example

For the year ended June 30, 2018, the District recognized OPEB expense of \$22,388. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resource related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 25,970	\$ 14,134
Changes of assumptions	—	855
Transactions subsequent to the measurement date	1,065	—
Total	\$ 27,035	\$ 14,989

\$1,065 reported as deferred outflows of resources resulting from amounts paid by the District for OPEB benefits due and amounts incurred by the District for OPEB administrative expenses subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as shown at right:

Year ended June 30:	
2019	\$ 1,212
2020	1,212
2021	1,212
2022	1,212
2023	1,212
Thereafter	4,921

Schedule of changes in total OPEB liability by source - Example

	Total OPEB Liability
Balance at 6/30/17	\$ 851,095
Changes for the year:	
Service cost	16,712
Interest	33,898
Changes in benefit terms	(203,619)
Differences between expected and actual experience	58,936
Changes in assumptions or other inputs	45,945
Benefit payments	(23,983)
Net changes	(72,111)
Balance at 6/30/18	\$ 778,984

Required supplementary information

10-Year Schedules	A	B
Changes in total OPEB liability by source	✓	
Total OPEB liability as a percentage of covered employee payroll	✓	
Proportionate share of total OPEB liability		✓

**A = Non-trusted:
Single**

**B = Non-trusted:
PG + CU**

Frequently asked implementation questions

Frequently asked implementation questions

- If I do not prepare financial statements on the full accrual basis of accounting, do I need to record my total OPEB liability and the related OPEB amounts?
 - No, however you should consider disclosing the OPEB amounts, as this could be useful information for the users of your financial statements.
- If I participate in KPERS but follow FASB standards, do I have to record the OPEB liability?
 - No, however you should provide similar disclosure information as required by FASB when an employer participates in a single-employer OPEB plan.

AICPA guidance

2018 State and Local Government Audit and Accounting Guide – Chapter 14 – Defined Benefit Postemployment Benefits other than Pensions (Plan & Employer Considerations)

- Part I – Plan Accounting, Financial Reporting, and Auditing Considerations for Defined Benefit OPEB Plans Administered Through a Qualifying Trust
- Part II – Employer Accounting, Financial Reporting, and Auditing Considerations for Defined Benefit OPEB Plans Administered Through a Qualifying Trust: Single and Agent Employers
- Part III – Employer Accounting, Financial Reporting, and Auditing Considerations for Defined Benefit OPEB Plans Administered Through a Qualifying Trust: Cost-Sharing Employers
- Part IV – Employer Accounting, Financial Reporting, and Auditing Considerations for Defined Benefit OPEB Plans That Are Not Administered Through a Qualifying Trust

Q&A and Wrap-up

Thank you for attending!

- Please make sure you have initialed the attendance sheet
- Please complete the course evaluation form

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.