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Actuaries & Consultants

OPEB: A Closer Look at the Present and Future

GASB Statements No. 43 & No. 45

Agenda

- Overview
- The Actuarial Calculation
- Accounting
- GASB OPEB Accounting Exposure Draft
- Actuarial Secrets

Overview

Overview

- Plan sponsors have accounted for Other Post Employment Benefits ("OPEB") on a pay-as-you-go basis

- GASB 43/45 changes it to Accrual Basis Accounting
  - Future benefits promised to all employees including actives are reflected in addition to retirees

Overview

Types of OPEB

- Retiree healthcare benefits (medical, prescription drugs, dental, vision)
- Other Benefits (life insurance, disability, long-term care; when provided separately from a pension plan)

Not OPEB

- Sick Leave, Special Termination Benefits, Vacation, Early Retirement Incentives

Overview

<u>GASB 43</u>

Financial reporting for OPEB plans pre-funded or administered through a trust

- i.e., if Funding the liability

<u>GASB 45</u>

Financial reporting for OPEB plan sponsors

- i.e., Not Funding the liability

Overview

<u>Frequency of Valuation</u>

- 200 or more total members = At least every 2 years
- 200 members or fewer = At least every 3 years
- A valuation must be performed in a year that a change occurs which significantly affects costs (subjective)

The Actuarial Calculation

The Actuarial Calculation

<u>Required Data & Information</u>

- Plan Provisions
- Participant Data (Census)
- Health Care Costs
- Economic & Demographic Assumptions

The Actuarial Calculation

Plan Provisions

- Eligibility criteria
- Retiree benefit plan specifics
- Retiree contribution schedules

The Actuarial Calculation

Participant Data (Census)

- Individual-specific field of information
- For actives, retirees, and their spouses

The Actuarial Calculation

<u>Health Care Costs</u>

- Fully Insured
  - Premiums for last 3 years
- Self Insured
  - Paid claim experience for the last 3 years
  - Enrollment by month for the last 3 years
  - Large claim information
  - Stop-loss premiums and recoveries

The Actuarial Calculation

Economic & Demographic Assumptions

- Discount Rate
- Per Capita Claim Costs
- Healthcare Cost Trend Rate
- Mortality Rates
- Termination Rates
- Retirement Rates
- Participation Rates
- Percent Married

The Actuarial Calculation

<u>Implicit Rate Subsidy</u>

"When an employer provides benefits to both active employees and retirees through the same plan, the benefits to retirees should be segregated and measured independently for actuarial measurement purposes. The projection of future retiree benefits should be based on claims costs, or age-adjusted premiums approximating claims costs, for retirees, in accordance with actuarial standards issued by the Actuarial Standards Board."

The Actuarial Calculation

<u>Implicit Rate Subsidy (real words)</u>

- Situation where actives and pre-Medicare retirees are charged the same premium.
- That premium rate cannot be used as the basis of starting per capita costs in the valuation.
- The actuary must estimate the premium that would be charged if pre-Medicare retirees were viewed independently.
- The premium is much higher since costs increase with age. Range = 150% - 200% of the charged premium

Accounting

Accounting

<u>Actuarial Accrued Liability ("AAL")</u>

The AAL is the actuarial present value of future benefits based on employees' service rendered to the measurement data using the selected actuarial cost method. It is that portion of the Actuarial Present Value of plan benefits and expenses allocated to prior years of employment.

Accounting

<u>Annual Required Contribution ("ARC")</u>

The ARC is the "required" cash contribution to the plan in order to keep up with benefit accruals and payments. It is an amount that would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded liability if paid on an ongoing basis.

Accounting

<u>Net OPEB Obligation (“NOO”)</u>

[Balance Sheet Item]

The NOO is the cumulative difference between past amounts expensed and past amounts actually contributed.

Accounting

Annual OPEB Cost (Expense)

[Income Statement Item]

The Annual OPEB Cost is an accrual-basis measure of the periodic cost of an employer’s participation in a defined benefit OPEB plan. It is the annual charge to the Income Statement.

Accounting

Other Required Information

- Footnote Disclosures
  - Includes plan description, funding policy and limitations, OPEB cost and contributions made, funded status of the plan, and actuarial methods and assumptions

- Required Supplementary Information
  - Includes 3 year schedule of funding progress, 3 year schedule of employer contributions vs. the ARC, and significant changes in the plan, methods or assumptions over the last 3 years

GASB OPEB Accounting Exposure Draft

GASB OPEB Accounting Exposure Draft

Most of the GASB 67/68 pension changes are carrying over to OPEB

- Net OPEB Liability (i.e., the entire unfunded liability) goes on the face of the financial statements. Major change from the incremental Net OPEB Obligation currently used as the Balance Sheet liability.
- Discount Rate will be based on a projection of whether the current assets plus projected contributions are expected to cover current plan members' future benefit payments.
- Enhanced disclosures of historical contributions, funded status, and the basis for selecting actuarial assumptions.

GASB OPEB Accounting Exposure Draft

Most of the GASB 67/68 pension changes are carrying over to OPEB

- Accelerated recognition of liability changes in OPEB expense. (no more 30 year open amortizations)
- Funding and accounting are officially separated (i.e., no more ARC).

GASB OPEB Accounting Exposure Draft

- The Community-Rating exception to the Implicit Subsidy liability will no longer apply.
- The Entry Age Normal (level percent of pay) actuarial method to allocate liabilities between past and future service periods will be mandatory.
- Disclosure of the Net OPEB Liability's sensitivity to changes in Medical Trend (+/- 1%), Discount Rate (+/- 1%), and combinations thereof.
- Actuarial valuations are required at least biennially. The triennial option for employers with fewer than 200 members will be eliminated.

Actuarial Secrets

Actuarial Secrets

Item #1

If you engage a new actuary, their first step should be to match the results from the last valuation.

- This is common practice in private sector actuarial work
- Coding intricacies not provided in the last report may emerge

Actuarial Secrets

Item #2

Absolutely, positively do not get tricked on fees!

- Do not agree to a “fee range” – will typically (and coincidentally?) result in you paying the high-end point
- Demand a fixed fee to avoid “backdoor billing”

Actuarial Secrets

Item #3

Be wary of the term "Industry Standard"

- In health care, there are few Industry Standards due to its complexity and plan sponsor-specific nature
- May be a sign that the actuary "punted"

Actuarial Secrets

<u>Item #4</u>

Doing the valuation a second time takes less time and effort than doing it the first time

- The modeling already exists
- The provisions are already identified
- Fee decrease?

Actuarial Secrets

Item #5

Very little, if any, additional work is required by the actuary in the "interim years"

- Results are based on the last full valuation performed
- Amounts determined by formula
- Typically performed by the auditor

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