TO: City Finance Officers, CPA's and Other Interested Parties

FROM: The California Committee on Municipal Accounting

DATE: January 2008

SUBJECT: **CCMA White Paper: ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS BY STATE AND LOCAL GOVERNMENTAL EMPLOYERS**

The Governmental Accounting Standards Boards (GASB) issued Statement 45 (June 2004) (OPEB) to establish measurement, recognition, and display standards for postemployment benefits other than pensions (OPEB) expenditures/expense and related liabilities, assets, note disclosures, and, if applicable, required supplementary information in the financial reports of State and local governmental employers. Reporting requirements for OPEB trust funds of employers are included in related GASB Statement 43 (Financial Reporting for Postemployment Benefit Plans Other than Pension Plans).

The California Committee on Municipal Accounting is comprised of representatives of the California Society of Certified Public Accountants and the League of California Cities. The primary purpose of CCMA is to serve the public interest by providing the highest degree of sound financial administration and ensuring the fullest cooperation between City officials and members of the Independent Accounting Profession.

This document, prepared by CCMA, is intended to assist California cities and certain other local governments and their auditors in the accounting and reporting of OPEB, primarily to clarify issues not addressed in other publications.

ACCOUNTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS BY STATE AND LOCAL GOVERNMENTAL EMPLOYERS

January 2008

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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*)

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ACCOUNTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS BY STATE AND LOCAL GOVERNMENTAL EMPLOYERS

BACKGROUND

The Governmental Accounting Standards Board (GASB) issued Statement 45 (June 2004) to establish measurement, recognition, and display standards for postemployment benefits other than pensions (OPEB) expenditures/expense and related liabilities, assets, note disclosures, and, if applicable, required supplementary information in the financial reports of State and local governmental employers. Reporting requirements for OPEB trust funds of employers are included in related Statement 43 (Financial Reporting for Postemployment Benefits Plans Other than Pension Plans).

Statement 45 is effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999:

- Phase 1 – governments with total annual revenues of $100 million or more – periods beginning after December 15, 2006
- Phase 2 – governments with total annual revenues of $10 million or more, but less than $100 million – periods beginning after December 15, 2007
- Phase 3 – governments with total annual revenues of less than $10 million – periods beginning after December 15, 2008

Statement 43 for OPEB plans is effective one year prior to the implementation date for the employer (in a single-employer plan) or for the largest participating employer in the plan (for multiple-employer plans).

Statement 45 provides accounting and financial reporting requirements for the financial statements of all governmental employers providing OPEB. Statement 43 provides accounting and financial reporting requirements for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans, or third parties, that administer them.

GASB Nos. 45 and 43 Only Apply to Employer Funded Benefits

Some local governments have arrangements where retiree postemployment benefits are funded by employee payroll deductions rather than employer funds. Such arrangements are not subject to the provisions of GASB Nos. 43 and 45. The provisions of GASB Nos. 43 and 45 only apply to the **employer** portion of funding for postemployment benefits. Any employee contributions are excluded from the determination of the ARC or UAAL.

Controls to Ensure Use of OPEB Disbursements

Based on Question 8.6.2 (below) of the 2007-2008 *GASB Comprehensive Implementation Guide*, if a local government does not have controls to ensure that the "retiree healthcare benefit payments" are being used solely for retiree healthcare costs (by paying health insurance premiums or other healthcare costs directly, by reimbursing retirees for documented healthcare costs, etc.), then the "retiree healthcare benefit" is actually a supplemental **pension** benefit covered by GASB No. 27, rather than an OPEB benefit covered by GASB No. 45:

Question 8.6.2. *Q*—A city's defined benefit pension plan for firefighters provides a health insurance subsidy in the form of an additional monthly cash payment to each pension recipient. Should the city and the plan administrator account for the health insurance subsidy (a) as OPEB, because it is described as assisting pension recipients pay for health insurance, or (b) as an additional pension benefit, because it is in effect additional fungible *retirement income* that recipients could use either for healthcare or for other purposes? (Q&A 43/45-13).

A—The use of the health insurance subsidy provided as an additional monthly cash payment to retirees and beneficiaries is effectively not restricted to payment of health insurance and, therefore, the subsidy should be considered retirement income. It should be accounted for as part of the pension benefits provided by the defined benefit pension plan. (Also see questions 8.6.4–8.6.7).

STATEMENT 45—EMPLOYER REPORTING

Statement 45 supersedes or amends all previous authoritative guidance.

Defined Benefit Plans

For employers with single-employer or agent multiple-employer plans annual OPEB cost (AOC) equals the annual required contribution (ARC) plus or minus an adjustment for the cumulative difference between the employer's actual plan contributions and the ARC. The cumulative difference is called the Net OPEB Obligation (NOO). [1]

The AOC equals the ARC:
- Plus one year's interest on the NOO,
- Minus an amortization of past contribution deficiencies (or plus an amortization of past excess contributions) already included in the ARC – the amortization equals the beginning of year NOO divided by a present value factor (provided by the actuary).

[1] NOO also refers to Net OPEB Assets.

The GASB requires that, prospectively, the plan's actuary should provide plan sponsors a single ARC and that contributions different from the ARC generate a NOO.

The following example illustrates the NOO calculation:

FYE Ending	ARC	AOC	Contributions	NOO Change**	NOO EOY	NOO BOY	Amortization Factor*	Interest Rate*
6/30/XO	$ 10,000	$ 10,000	$ 8,000	$ -	$ 2,000	$ -	-	5.00%
6/30/X1	10,200	10,100 [2]	10,200	(100)	1,900	2,000	10.00	5.00%
6/30/X2	10,194	10,095 [3]	10,200	(99)	1,795	1,900	9.80	5.00%

*The amortization factor and interest rate should be provided by the plan's actuary each year.
** Change after year XO = AOC – Contributions

Parameters (also included in Statement 43)

The ARC must be calculated with certain parameters. The most notable parameters are:

- Valuations:
  - Frequency (as follows unless significant changes in benefits, population or other factors – then a new valuation should be performed):
    - Must be prepared at least every two years (total plan membership 200 or more)
    - Must be prepared at least every three years (total plan membership fewer than 200)
    - The valuations should be actuarial valuations; however, an "alternative measurement method" is permitted if an employer plan has less than 100 total plan members. The alternative method includes the same step as the required actuarial valuations; however, certain assumptions are permitted to be simplified. The requirements and methodology of an alternative measurement method are described fully in Statements 43 and 45.
  - Current year's ARC calculated using data within 24 months of the beginning of the fiscal year of the valuation.

[2] AOC $_{XXX1}$ = ARC+ (NOO @ Beginning of Year * Interest Rate) – (NOO @ Beginning of Year / Amortization Factor) = 10,200 + (2,000 * .05) – (2,000 / 10) = 10,200 + 100 – 200

[3] AOC $_{XXX2}$ = ARC+ (NOO @ Beginning of Year * Interest Rate) – (NOO @ Beginning of Year / Amortization Factor) = 10,194 + (1,900 / .05) – (1,900 / 9.8) = 10,194 + 95 – 194

- Actuarial methods and significant assumptions, including economic assumptions, used in financial reporting should be the same as those used in determining the plans' funding requirements.

- The ARC calculation should include all benefits provided in the substantive plan in force at the valuation date when the employer provides benefits to both active employees and retirees through the same plan. The benefits to retirees should be segregated for actuarial measurement (including consideration of any implicit rate subsidy).

- The ARC is the sum of normal cost [4] and amortization of unfunded actuarial accrued liability, provided:

    - Maximum amortization period – 30 years

- Contribution deficiencies or excess contributions amortized beginning with the next valuation.

- Actuarial assumptions should be:

    - Selected using actuarial Standard of Practice – essentially this standard requires assumptions be explicit (each assumption stands by itself)
    - Based on a covered group's actual experience
    - Consistent with each other

One of six actuarial cost methods should be used: (1) entry age[5], (2) frozen entry age, (3) attained age, (4) frozen attained age, (5) projected unit credit, or (6) aggregate.

Initial NOO Calculation

When Statement 45 is first adopted the initial NOO should be set at zero as of the beginning of the transaction year thus, NOO measurement and recognition requirements should be applied on a prospective basis.

Financial Statement Recognition

OPEB expense / expenditures, liabilities and assets should be presented in accordance with generally accepted accounting principles for the type of fund utilized for reporting. (Governmental funds – modified accrual basis; proprietary and fiduciary funds and government-wide financial statements – accrual basis. Allocation based on membership should be a consideration - the actuary may be able to assist.)

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4 Normal cost – actuarial value of benefits being "earned" during the year.

5 If trust fund is administered by CalPERS, Entry Age must be used.

Required Notes to the Financial Statements

The following items are required financial statement note disclosure:

- Basic plan information:
  - Plan type
  - Benefits provided
  - Authority under which benefits were established
  - Whether the OPEB plan issues a separate financial report

- Plan funding / contribution policy information:
  - Required contribution rates for active members and employers shown in dollars or as a percent of payroll

- Plan Funded Status information:
  - AOC and the dollar contributions actually made
  - If the employer has a NOO, also
    - Components of the AOC
    - NOO increase or decrease during the year
    - End of year NOO
  - 3-year history of
    - AOC
    - Percent of AOC contributed during the year
    - End of year NOO
  - Most recent year's plan Funded Status
  - Actuarial methods and assumptions used to determine the ARC, AOC, and Funded Status
    - The actuarial cost method
    - The method(s) used to determine the actuarial value of assets
    - The assumptions with respect to the inflation rate, investment return, and, for postemployment healthcare plans, the healthcare cost trend rate.
    - The amortization method for the most recent actuarial valuation and whether the period is closed or open

Required Supplementary Information (most recent valuation and 2 preceding valuations)

The following items are financial statement required supplementary information:

- Valuation dates
- Actuarial asset values
- Actuarial liability
- Unfunded actuarial liability (excess Plan Assets)
- Plan unfunded ratio
- Annual covered payroll
- Ratio of unfunded actuarial liability (excess Plan Assets) to annual covered payroll
- Factors that significantly affect comparing the above information across the years

Defined Contribution Plans

Employers with defined contribution plans should recognize annual OPEB expense / expenditures equal to their required contributions, in accordance with the terms of the plan. An OPEB liability or asset results from the difference between contributions required and contributions made to a plan.

The Notes to the financial statements should include the following information:

- Plan name, plan administrator, and identification of the plan as a defined contribution plan
- Brief description of plan provisions and authority under which they were established and/or may be amended
- Contribution requirements
- Contributions actually made by plan members and the employer

Considerations in Distinguishing Defined Contribution Plans From Defined Benefit Plans

If certain strict criteria is met, a local government's OPEB benefit can be viewed to be in the form of a *defined contribution* plan. In these very limited situations, an actuarial valuation is not required.

Generally, if the local government is tracking on an employee-by-employee basis what has been contributed and if the local government has limited benefit payments to what has been contributed for that specific employee (plus any investment earnings, etc.), then the program would be considered to be a *defined contribution postemployment benefit plan* and would **not** be subject to the actuarial disclosures required for other forms of retiree healthcare programs. Retiree healthcare arrangements that do not meet these strict requirements, are by default classified as *defined benefit postemployment benefit plans* subject to all of the requirements of GASB No. 45.

Some local governments have what might appear to be a defined contribution postemployment plan, but is **not**, in fact, such a plan. Consider the situation where the total amount paid out in benefits is limited to the <u>total</u> amount contributed by the local government (plus investment earnings) <u>**as a whole**</u>. In this situation, the contributions are contributed <u>for a **pool** of employees</u> and then allocated in some fashion to the employees covered by the pool. There is **not** a separate tracking in this case for *specific contributions* for *specific employees*.

Since the local government has not limited retiree benefits to specific contributed amounts tracked by employee, this form of employee would be classified for purposes of GASB No. 45 as a *defined benefit postemployment plan* and would (if material) be subject to all of the actuarial and other reporting requirements of GASB No. 45.

This is emphasized in the answer to Question 8.7.2 of the 2007-2008 *GASB Comprehensive Implementation Guide* which states in part: "Paragraph 30 of Statement 45 provides that if a benefit arrangement does not have the characteristics of a defined contribution plan, an employer should apply the requirements of that Statement for defined benefit plans. A defined contribution plan is discussed in paragraph 5 of Statement 45 as an arrangement that provides an individual account for each plan member and specifies how contributions to an active plan member's account are to be determined. Further, in a defined contribution plan, the benefits received by a member depend only on the amounts contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account. In the circumstance described in this question, the plan terms do not meet the characteristics of a defined contribution plan because individual accounts are not maintained, the plan terms do not specify how contributions to individual active employees' accounts are to be determined, and benefits do not depend only on the amounts contributed or credited to individual accounts. Therefore, the arrangement should be accounted for as a defined benefit plan."

STATEMENT 43—TRUST FUND REPORTING

Applicability of GASB Statement No. 43—Accounting For Trust Fund Assets

GASB Statement No. 43 provides accounting and financial reporting guidance for OPEB-related trust funds **that meet certain criteria** and whose assets are considered to be "held by" (managed by) the reporting government. GASB No. 43 relates to the accounting requirements for the trust fund itself, rather than the accounting requirements of the reporting local government. [GASB No. 45 provides the accounting requirements for the financial statements of the reporting local government.]

The GASB Model for **OPEB reporting** mirrors the GASB model for **pension reporting**. This means that the employer's government-wide financial statements report no liability for either pensions or OPEB as long as the employer pays into an irrevocable trust the actuarially-determined Annual Required Contribution (ARC).

In order for a trust to qualify for this accounting treatment (i.e., contributions to the trust are deemed to be a reduction of the employer's Net OPEB Obligation), all three of the following criteria must be met:

1. Employer contributions to the plan are irrevocable
2. Plan assets are dedicated to providing benefits to plan retirees and their beneficiaries in accordance with the terms of the plan
3. Plan assets are legally protected from creditors of the employer(s) or the plan administrator

For purposes of this white paper, we will use the term "OPEB Trust" to refer to OPEB-related trust funds that meet all three of the aforementioned requirements.

Other funds can be used to hold assets set aside by an employer for the payment of its OPEB obligations. Examples of these funds might be trust funds that do not meet the above criteria, special revenue funds, internal service funds, designations of the General Fund, etc. Accumulations in these funds must be included in the assets of the primary government (rather than excluded as fiduciary funds) and these accumulations would not reduce the employer's Net OPEB Obligation reported in the statement of net assets.

It should be noted that local governments only report in the *fiduciary funds* of their financial statements those assets of other parties that are **held by that reporting local government**. If the assets of the OPEB Trust are held by a party **other** than the reporting local government, then that OPEB trust would be **excluded** from the fiduciary funds reported in the basic financial statements issued by the employer (the reporting local government).

When to Report a Fiduciary Fund in the Financial Statements of the Employer

GASB Cod. Sec. 1300.102 provides the following guidance on when to report fiduciary activity in the financial statements of a reporting local government:

> Fiduciary funds should be used to report assets **held in a trustee or agency capacity for others** and therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The three types of trust funds **should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments**. These funds are distinguished from agency funds generally by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Paragraph 19 of GASB Statement No. 14 provides the following guidance on when to report fiduciary activity in the financial statements of a reporting local government.

> The financial data of the primary government (and its blended component units as discussed in paragraphs 52-54) should be reported in accordance with the provisions of Codification Section 2200, "Comprehensive Annual Financial Report." This Statement does not modify fund reporting requirements referred to in that section. Regardless of entity considerations, a primary government should report its fiduciary funds according to Cod. Sec. 2200 [.172-.179]. For example, there may be organizations that do not meet the definition for inclusion in the financial reporting entity. They should, nevertheless, be reported as a fiduciary fund of the primary government **if the primary government has a fiduciary responsibility for them**.

Paragraph 18 of GASB Statement No. 32 provides additional valuable insight on the criteria to be used in determining whether or not there is sufficient fiduciary responsibility for including the trust activity in the financial statements of the reporting local government. Although this guidance was provided in the context of IRC Section 457 plan reporting, the general principles articulated here may be helpful in determining the applicability of employer trust fund reporting in other contexts as well.

> "Research conducted by the Board indicates that, currently, most sponsors of Section 457 plans **have little administrative involvement** and do not perform the **investing function** for those plans. The Board acknowledges that governments will need to **exercise judgment** in determining whether they have **fiduciary accountability** for Section 457 plans and whether they **hold the assets in a trustee capacity**. "

Question 8.69.3 of the 2007-2008 *GASB Comprehensive Implementation Guide* provides the following guidance regarding how to determine whether or not a government has fiduciary responsibility over an OPEB trust:

> As the term generally is used in Statement 43, an OPEB plan is a trust or other fund through which assets are accumulated and benefits are paid. For an OPEB plan that is administered as a qualifying trust, or equivalent arrangement, additions to the trust, and to plan net assets, generally will include contributions from the employer(s), plan members, and other entities. Also, trust, or plan, assets accumulated in excess of pay-as-you-go requirements generally will be invested, and income from the investment of plan assets will be added to the trust. Deductions from the trust, and from plan net assets, generally will include benefits paid, or currently due and payable, to or on behalf of plan members or their beneficiaries and plan administrative expenses.
>
> Statements 43 and 45 do not specify how an OPEB plan should be structured administratively. That is, those Statements do not prescribe the precise workings of the trust, or equivalent arrangement, or the responsibilities of the trustee(s) in relation to the responsibilities of the employer, employer officials, or other entities or persons that may be involved in administering the preceding financial activities associated with the functions of financing and paying benefits. A variety of plan structures may arise in practice to fit specific circumstances.
>
> Notwithstanding the possibility of individual variations in plan structure, for an OPEB plan to be considered a qualifying trust, or equivalent arrangement, it is essential that the plan structure and the manner in which assets are held, invested, and disbursed be compatible with (a) holding and managing plan assets, not as assets of the employer, but in trust for the exclusive benefit of plan members and their beneficiaries and (b) the specific criteria of irrevocability of contributions, dedication of the plan assets (including income from the investment of plan assets) to paying benefits in accordance with the substantive plan, and legal protection of the plan assets from creditors stated in paragraph 4 of Statement 43. Moreover, for this purpose it is essential that any and all entities or persons involved in the functions of the OPEB plan carry out their respective fiduciary roles and responsibilities accordingly.

> In some cases, **all plan functions may be carried out by the personnel of a single administrative entity**, subject to the oversight of plan trustees—similar to the manner in which many state and local governmental pension plans are administered. **In other cases, more than one entity or person may be significantly involved in carrying out plan functions**. For example, the **trustees** of a particular OPEB plan trust may be principally responsible for **holding and investing** plan assets, but their responsibility with regard to **paying benefits** may be limited to disbursing assets at a time, to parties, and in amounts **designated by another entity**—for example, the health benefits department of the employer—upon receipt of a properly presented request. In the latter circumstance, the following characteristics should be evident for purposes of applying Statements 43 and 45:
>
> - The manner in which payments are disbursed is not inconsistent with the purpose of the trust or with the criteria of irrevocability of contributions, dedicated purpose, and protection of trust assets from creditors, and
> - All entities or persons involved in the disbursement and application of plan assets act in a manner consistent with their fiduciary responsibility with regard to their respective involvements.
>
> A payment arrangement or an action by an entity or person involved in accumulating assets or paying benefits that is inconsistent with the purposes of an OPEB plan trust or with the criteria stated in paragraph 4 of Statement 43 (for example, any application of plan assets to a purpose *other than* paying benefits to retirees or their beneficiaries or paying necessary plan administrative expenses) would be evidence that the plan is not being administered as a qualifying trust, or equivalent arrangement. In that event, assets accumulated in excess of pay-as-you-go requirements should not be reported as plan assets, and the employer(s) should not report payments to the fund as OPEB contributions.
>
> In addition, in view of the different potential plan structures, an employer should consider the guidance in paragraph 19 of Statement 14 in regard to potential inclusion of the OPEB plan(s) in which the employer participates as a fiduciary fund(s) in its annual financial report.

GFOA’s GAAFR provides additional guidance to determine when a local government should include a trust fund as a part of its financial statements. Page 114 of the 2005 edition of GAAFR states:

> Not all fiduciary arrangements are properly reported as fiduciary funds. Rather, GAAP explicitly state that trust and agency funds are to be used solely to account for resources that are **held by the government**. For example, a local governmental employer participating in a statewide, multiple-employer pension plan would **not** report a pension trust fund to account for its share of assets accumulated by the statewide plan, even though that employer has fiduciary responsibilities to its employees in connection with its participation in the statewide pension plan. Instead, the state agency, which actually holds the assets, would report a pension trust fund.

> **Two criteria** may be used to determine whether a government is, in fact, holding assets in connection with its fiduciary responsibilities to individuals, private organizations, or other governments. A government is considered to be holding any assets: (1) for which it performs the *investment function,* or (2) with which the government has *significant* administrative involvement (for example, involvement that goes beyond the remittance of predetermined amounts to a third party).

The 2005 edition of GAAFR (page 114) goes on to give an example of how these two criteria could be interpreted by discussing how these two criteria might be applied to Section 457 plans:

> In many cases, the governments that sponsor such plans remit the amounts withheld from employees directly to a third-party administrator (such as an investment firm or insurance company). In most situations involving third-party administrators, the sponsoring government's practical involvement in administrating the plan is essentially limited to remitting the amounts collected from employees to the plan administrator. In that case the use of a fiduciary fund to account for the assets of the deferred compensation plan would not be appropriate, because the government is not properly considered to be holding the assets.
>
> There are instances, however, where state and local governments do, in fact, hold the assets of IRC Section 457 plans. For example, the state treasurer may directly invest the assets of the state's own IRC Section 457 plan on behalf of employees; or a government may hire investment managers to perform the investment function *while the government maintains significant oversight of the manager's activities* [emphasis added]. In that case, the sponsoring government is considered to be holding the plan's assets and would need to report its stewardship of those assets in a pension (and other employee benefit) trust fund.

Recommendations of CCMA

Professional judgment is required in determining when a local government has enough significant administrative involvement to result in the inclusion of an OPEB Trust in the fiduciary funds reported by a local government in its basic financial statements. CCMA has offered the following scenarios to help illustrate how such professional judgment might be applied under various circumstances:

Scenario One—The reporting local government manages the assets of the OPEB trust and determines the amount of trust disbursements

In this scenario, the reporting local government holds, manages, and invests trust assets on behalf of the employees. This might occur, for example, if the trust assets are managed by the same individuals that manage the investment portfolio of the reporting local government. In this scenario, the local government also determines the amount of disbursements to be made from the OPEB Trust for the payment of health insurance and other health related benefits. In this scenario, the local government retains significant administrative responsibility regarding the trust assets. CCMA recommends that in this situation the OPEB Trust be **included** in the fiduciary funds reported in the local government's basic financial statements.

Scenario Two—Another agency holds the assets of the OPEB trust

Some local government's may choose to contribute the assets of their OPEB Trust to an investment pool managed by CalPERS for OPEB Trusts. Under this arrangement, fiduciary responsibilities for the OPEB Trust will be shared between two units of government. **CalPERS** will be performing the investment management function for the OPEB Trust assets of participating agencies. The **participating agency** will be determining the amount of eligible trust disbursements to be reimbursed by CalPERS.

CalPERS has agreed to accept responsibility for presenting in its financial statements the aggregate disclosures that are required to be made by public employee retirement systems that administer one or more agent multiple-employer plans pursuant to paragraph 13 of GASB No. 43.

CCMA believes that acceptance of responsibility by CalPERS to make the required GASB No. 43 disclosures is a strong consideration in identifying which unit of government should be identified as the "holder" for financial reporting purposes. CalPERS acceptance of this responsibility, along with its investment management responsibilities, mitigate the local government's less significant administrative involvement in determining the amount of eligible trust fund disbursements.

CCMA recommends that OPEB Trust assets held by CalPERS be **excluded** from the fiduciary funds reported in the local government's basic financial statements.

Scenario Three—A commercial third party administrator manages the assets of the OPEB trust, but the local government determines the amount of trust disbursements. Consider the following scenario:

1. The local government selects a commercial third party administrator to hold the assets on behalf of the eligible employees.
2. The local government selects one of the investment programs offered by the administrator.
3. The third party administrator reimburses the local government for qualifying plan disbursements (for example, for the payment of medical insurance premiums for retirees) upon presentation by the local government of documentation supporting the amount to be disbursed.

Professional judgment would need to be applied as to whether or not the duties performed above would constitute sufficient administrative involvement for the local government to be considered to be "holding" the assets on behalf of the eligible employees (with a resultant reporting of a fiduciary fund in the basic financial statements of the local government).

In view of the local government's involvement in determining the amounts of trust disbursements **and** in the absence of other significant fiduciary responsibilities assumed by the contracted third party administrator (such as accepting responsibility for GASB 43 reporting requirements) beyond its management of trust assets, the local government may conclude that it has enough administrative involvement with the OPEB Trust in this situation to **include** the assets of the OPEB Trust in a fiduciary fund in the basic financial statements of that local government (even though a contracted third party is managing the accounts holding the assets of the OPEB Trust).

Scenario Four—A commercial third party administrator both manages the assets of the OPEB trust and determines the amount of trust disbursements

Assume the same facts as Scenario Three, but the third party administrator, rather than the local government, is responsible for determining the amount of qualifying disbursements from the trust. In that situation, the local government may not have enough administrative involvement to be considered to be "holding" the plan assets.

If the contracted third party administrator has assumed these significant disbursement responsibilities, then the local government may have so little administrative involvement with respect to plan assets that it may be proper to conclude that the local government is not "holding the assets". In that situation, the OPEB Trust would be **excluded** from the fiduciary funds reported in the local government's basic financial statements.

In evaluating circumstances of each situation, the preparer should evaluate the substance of the relationships and duties of the parties (i.e., which party is, in fact, the "holder" of the trust assets), rather than the legal designation of the "trustee" in the trust documents.

Entities Engaged Only in Business-type Activities

Paragraph 138 of GASB Statement No. 34 states:

Governments engaged only in business-type activities should present only the financial statements required for enterprise funds.

Some preparers have interpreted this language to mean that "enterprise fund only" entities have the **option** of **excluding** certain fiduciary funds (pension fund, OPEB fund, etc.) from their basic financial statements and instead report those fiduciary funds only in separate financial statements issued for those trusts (even if the reporting entity qualifies as "holding" the trust assets). CCMA acknowledges this presentation as an **option** for "enterprise fund only" entities.

This **optional** reporting is **not** available for other types of government entities (those with more fund types than just enterprise funds). Entities whose activities are not limited solely to business-type activities are **required** to include their fiduciary funds in their basic financial statements if they are, in fact, "holding" the assets of the funds, as described above.

Other Positions

The authoritative literature allows a certain amount of preparer's judgment in applying the basic principles cited above. The recommendations provided in the four scenarios above represent the recommendations of CCMA. Other preparers might apply these principles in a manner different than has been recommended above leading to legitimate conclusions and forms of presentation different than has been recommended in this white paper.

For those borderline situations where it is not absolutely clear whether or not the OPEB trust should be included in the fiduciary funds of the reporting government, inclusion is generally advisable. However, this is a professional judgment for which different governments might reach different conclusions.

Required Notes to Financial Statements and Required Supplementary Information

The required disclosures required by Statement 43 are similar to those prescribed by Statement 45 for defined benefit plans. Additional disclosure requirements of Statement 43 include:

- Classes of employees covered
- Accounting policies for reporting contributions, benefits paid and refunds paid

GASB 45
Example of Fund Level Allocations
Sample City

[Scenario:
(1) Benefit levels - Safety and miscellaneous
(2) Gov't Enterprise (ENT) Employees
(3) Partial Prefunding]

	Gov't Funds		ENT Funds	
	Safety Programs	Misc. Programs	Water	Total
ARC (annual expense)	$ 500	$ 200	$ 300	$ 1,000
Pay as you go (amount cash flow)	250	100	150	500
Start phase-in of pre-funding (additional cash flow deposit to irrevocable trust)	50	20	30	100
Net OPEB liability	$ 200	$ 80	$ 120	$ 400
Reported in financial statements:	Government-wide		Fund and Government-wide	

Sample OPEB Note to Financial Statements
OPEB Plan Administered by a City
(Statement 43)

Confirmation Reference Post Employment Healthcare Plan

A1 *Plan Description*: The City administers a single-employer defined benefit healthcare plan which provides medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. The City reports the financial activity of the plan as a trust fund, and no separate financial report is prepared.

A3 *Eligibility*: Employees are eligible for retiree health benefits if they retire from the City on or after age 50 with at least 5 years of service, and are eligible for a PERS pension. Membership of the plan consisted of the following at June 30, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	30
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	150
Total	180

A4 *Funding Policy:* The contribution requirements of plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. For fiscal year 2005-06, the City contributed $215,000 to the plan, including $215,000 for current premiums (100% of total premiums). Plan members receiving benefits contributed $21,000 (approximately 9.8% of total premiums) through their required contribution. The City pays up to the entire cost of health benefits for eligible retirees and their spouses until age 65 subject to the City's vesting schedule. After age 65, the City pays up to $290 per month for any health coverage, also subject to the vesting schedule.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Sample OPEB Note to Financial Statements
OPEB Plan Administered by a City (Continued)
(Statement 43)

B1

	June 30, 2XXX
Annual required contribution	$ 650,000
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost (expense)	650,000
Contributions made	(215,000)
Increase in net OPEB obligation	435,000
Net OPEB obligation - beginning of year	0
Net OPEB obligation - end of year	$ 435,000

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2006 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/04	N / A	N / A	N / A
6/30/05	N / A	N / A	N / A
6/30/06	$650,000	33.1%	$435,000

B2 *Funded Status and Progress.* As of July 1, 2005, the most recent valuation date, the plan was 52.9 percent funded. The actuarial accrued liability for benefits was $5.7 million, and the actuarial value of assets was $3.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $2.7 million and a funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) of 52.9%. The covered payroll (annual payroll of active employees covered by plan) was $12.6 million, and the ratio of the UAAL to the covered payroll was 21.2 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

B4 *Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. The actuarial assumptions included a 7.75 percent investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements of 1% per year to an ultimate rate of 5 percent after the sixth year. Both rates included a 3.0 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over 30 years. It is assumed the City's payroll will increase 3% per year.

Sample Required Supplementary Information

OPEB Schedule of Funding Progress and
Schedule of Employer Contributions
June 30, 2XXX

SCHEDULE OF FUNDING PROGRESS

C

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
6/30/03	N / A	N / A	N / A	N / A	N / A	N / A
6/30/04	N / A	N / A	N / A	N / A	N / A	N / A
6/30/05	$3,000,000	$5,670,000	$2,670,000	52.9%	$12,600,000	21.2%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2004	N / A	N / A
2005	N / A	N / A
2006	$650,000	33.1%

GUIDANCE ON OPEB

1. *Guide to Implementation of GASB Statements No. 43 and 45 on Other Postemployment Benefits*, issued in 2005, includes 258 questions addressing implementation and ongoing application issues, various plan and employer situations, and frequently asked questions. This publication also includes illustrations of disclosures and certain calculations. (The information in this publication plus new questions and answers has been included in the 2007-2008 *GASB Comprehensive Implementation Guide*, *Guides Issued through June 30, 2007.)*

2. *GASB Technical Bulletin No. 2006-1*: Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D.

3. Website references that may have pertinent information:

   a. American Academy of Actuaries – www.actuary.org
   b. American Institute of Certified Public Accountants – www.aicpa.org
   c. California Municipal Finance Officers Association – www.csmfo.org
   d. CalPERS – www.calpers.ca.gov
   e. California Society of Certified Public Accountants – www.calcpa.org
   f. California State Teachers Retirement System – www.calstrs.com
   g. Governmental Accounting Standards Board – www.gasb.org
   h. Government Finance Officers Association – www.gfoa.org
   i. League of California Cities – www.cacities.org

Sample Actuarial Confirmation Letter for Postemployment Benefits Other than Pensions – GASB Statements No. 43 and 45

Request for information, from the actuary of a single-employer or agent-multiple-employer OPEB Plan for disclosure in the financial reports of a contributing governmental employer. This letter may be edited and used for confirming disclosure information required by GASB Statements No. 43 and 45.

Prepared on contributing governmental employer letterhead.

(Date)

(Name of Actuary)
(Address)

Dear ______________:

In connection with our auditor's annual audit of our financial statements, we request you furnish them the information described below as it pertains to the (*Name of governmental employer*) participation in the Example OPEB Plan.

If the requested information is included in the actuarial valuation report, you may refer to the location of the information in your report rather than repeating such information.

Your response should be sent to (*auditor address*). An addressed envelope is enclosed for your convenience. A copy of the most recent actuarial valuation report should accompany your response.

A. Please provide a brief description of the following:

   1. Identification of the OPEB Plan to which contributions are made.

   2. (*Name of governmental employer*) current-year covered payroll.

   3. The types of employees covered, benefit provisions, employee eligibility requirements (including eligibility for vesting), and the authority under which benefit provisions are established. Please identify any such benefit provisions that had not taken effect in the year. Please also provide the date of the most recent plan amendment included in your calculation and identify any participants or benefits excluded from the calculation.

   4. *(Name* of governmental employer), employee, and any nonemployer contributor obligations to contribute and the authority under which those obligations are established.

B. Please indicate, for the fiscal year ending June 30, 20XX, the following items used to determine the annual required contribution (ARC):

1. ARC.

2. Actuarial valuation date.

3. Does the ARC include all OPEB benefits (included in the plan document and/or any statutory or contractual agreements) provided through the plan as of the valuation date? (*if not, please explain*.)

4. Summarize the actuarial methods and assumptions.

C. Historical Trend Information:

Please indicate, for each of the last three years:

1. Actuarial valuation date;

2. Actuarial value of plan assets;

3. Actuarial accrued liabilities;

4. Total unfunded actuarial liabilities;

5. Actuarial assets as a percent of actuarial accrued liabilities;

6. Annual covered payroll;

7. Ratio of unfunded liability to annual covered payroll; and

8. Factors significantly affecting trends in items 1-7.

D. Please indicate whether or not the information you provide has been determined in accordance with the provisions of Statements No. 43 and 45, *Accounting for Pensions by State and Local Government Employers*, of the Governmental Accounting Standards Board. Explain any exceptions.

E. Please describe the nature of any relationship you have with the (*name of agent*) or (*name of contributing governmental employer*) that may impair, or appear to impair, the independence and objectivity of your work.

F. Please provide any additional information which you feel is appropriate.

In order for (auditor) to complete their audit on a timely basis, it is necessary that your letter reach them before (date).

Yours very truly,

(Signature and Title of Client Official)

Notes:

(1) This illustrative letter is intended for use in obtaining information, from the actuary of a sole employer an agent multiple-employer OPEB Plan for disclosure in the financial reports of a contributing governmental employer. Disclosures required including supplementary information are specified in paragraphs 30 and 31 of GASB Statement No. 43 and paragraphs 24-27 of GASB Statement No. 45, (GASB Codification sections _____________, respectively).

(2) This example is a comprehensive request letter that should be tailored for the circumstances. Information available from a copy of an actuarial valuation report that has been provided to the Firm should be deleted from the request.

(3) Once prior-year data has been confirmed, reconfirmation in subsequent audit periods is not necessary. For each subsequent period, the letter should be tailored to request information only for the current period.

CalPERS - California Employer's Retiree Benefit Trust Fund

All California local public agencies may contract with CalPERS to participate in the California Employers' Retiree Benefit Trust Fund (CERBT). CalPERS has established an assumption model to be used in actuarial valuations for employers participating in the CERBT. The "Methods" CalPERS requires are:

1. Actuarial Cost Method
2. Asset Valuation Method
3. Amortization Period (including assumed payroll increases)
4. Rate of Investment Return Assumption
5. Demographic Assumptions
6. Economic Assumptions
7. Health Assumptions

In addition CalPERS reporting will include the following:

1. CalPERS will ask all contracting employers to update their ARC and OPEB payment disclosures at the end of each fiscal year. For example, employers may pay OPEB premiums directly to insurance providers without seeking disbursement from CERBT. In that case, CalPERS will capture that information at year end and disclose it as part of the Schedule of Employer Contributions.

2. For the Schedule of Employer Contributions, CalPERS will aggregate the ARC reports of contracting employers in accordance with the 2007-2008 *GASB Comprehensive Implementation Guide* question 8.86.1. That is, CalPERS will pro-rate ARCs of those employers with fiscal years different from that of CalPERS.

3. CERBT participating employers should rely on the membership size of the CERBT (>=200) rather than that of their own membership size in order to determine the required frequency of actuarial valuations. In effect, all CERBT participating employers should get an OPEB valuation at least every two years.