

Government Industry Alert
By CalCPA Governmental Accounting & Auditing Committee and
California Committee on Municipal Accounting

Implementation of GASB Statement No. 75

For the fiscal year ended June 30, 2018, governments are required to implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The underlying concept of GASB 75, which simply mirrors GASB Statement No. 68, *Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68), is to record the Net or Total OPEB Liability using the accrual basis of accounting instead of the “funding” basis.

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 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.

In February 2018, the California Committee on Municipal Accounting (CCMA) published a white paper on GASB 75 to assist California local governments and their auditors with the implementation of the new OPEB reporting requirements. The Governmental Accounting and Auditing Committee (GAA) of the California Society of Certified Public Accountants (CalCPA), a senior technical group comprised of over forty members from international to local public accounting firms and state and local governments, continuously discusses and monitors issues/concerns that are raised during the implementation process.

At the October 2018 CalCPA GAA Committee meeting, there were questions/issues raised by practitioners regarding GASB 75 Valuation Reports issued by actuaries.

Issue 1: Actuarial Valuation Report does not include Actuarial Certification

Because the actuarial valuation report is important audit evidence to support the calculation of the Net OPEB Liability and the related deferrals, an Actuarial Certification on the Actuarial Valuation Report is required.

The AICPA has provided the following guidance as to the criteria to be included in the Actuarial Certification in the Actuary’s Report:

- The certification should be addressed to the Employer (Single and Agent Plans only)
- A statement that measurements and disclosures were prepared in accordance with GASB 74 (OPEB plan reporting) or 75 (employer reporting)
- A statement indicating that the report utilizes generally accepted actuarial principles
- A statement indicating who is responsible for the actuarial assumptions
- An opinion that the actuarial assumptions are reasonable
- The results fully and fairly disclose the information required by GASB 74 or 75
- A statement about the actuary’s credentials and that the actuary meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion

Issue 2: Implicit Rate Subsidy Calculation was not factored into the calculation of the Total OPEB Liability for a Community Rated Plan, such as CalPERS PEMHCA Plan (statewide healthcare insurance plan)

Many California local governments provide OPEB to both retirees and active employees through CalPERS statewide healthcare insurance plan. The CalPERS PEMHCA Plan, blends active employees with pre-Medicare retirees and charges them the same medical premium. The premium is set so that total premiums paid will equal total medical claims. However, younger employees on average have lower claims but are charged a premium higher than their claims – subsidizing older employees who, on average, have higher claims than premiums. The Implicit Rate Subsidy is the difference between average retiree claims and premiums charged by the insurer or by CalPERS.

GASB 75 requires the projections of benefit payments to be based on claims costs, or age-adjusted premiums approximating claims costs, and the benefit terms and legal agreements existing at the measurement date. The actuary should reflect the Full Age-Specific cost, including the Implicit Rate Subsidy regardless of the size of the group being valued. GASB believes the difference in premiums, if there is an Implicit Rate Subsidy, might be significant. However, Actuarial Standard of Practice (ASOP) No. 6 describes limited circumstances as listed below in which the use of unadjusted premiums by actuaries is appropriate.

ASOP No. 6 Section 3.7.7(c) states:

Possible Exceptions—In some very limited cases, the use of the pooled health plan’s premium may be appropriate without regard to adjustments for age. The factors that an actuary should evaluate in determining whether the premium may be appropriate without regard to adjustments for age include:

- 1. the purpose of the measurement (for example, for a projection of short-term cash flow needs the use of the premium may be appropriate);*
- 2. whether for the type of benefit plan being valued (for example, certain dental plans) the impact of using age-specific costs would not be material;*
- 3. the extent to which there are no age-related implicit subsidies between actives and retirees that occur within the pooled health plan; and*
- 4. whether the pooled health plan and its premium structure are sustainable over the measurement period, even if other groups or active participants cease to participate. The use of a premium without regard to adjustment for age is generally inappropriate if the pooled health plan and its premium structure are not sustainable over the measurement period if other groups or active participants cease to participate.*

There are actuaries that may have taken the position that the concept of Implicit Rate Subsidy in determining the Total OPEB liability is not applicable for the CalPERS PEMCHA Plan, but other actuaries (with government clients that are in the same CalPERS PEMHCA Plan) have taken the position that it should be taken into consideration in determining the Total OPEB liability. This is a matter of the auditor’s professional judgment to determine whether reliance can be placed on the actuary’s work based on the criteria for the reliability of information produced by a management specialist as set forth in paragraph .A46 of AU-C Section 500, *Audit Evidence*.

Suggestion:

The Governmental Accounting and Auditing Committee suggests that the auditor considers the following Emphasis of Matter paragraph when an actuary uses an exception under ASOP No. 6 Section 3.7.7(c) in calculating the Total OPEB Liability and the auditor concludes that they can rely on the work of a management specialist:

Independent Auditors' Report

An Emphasis of Matter paragraph may be included in the independent auditors' report if the actuary used an exception under ASOP No. 6 Section 3.7.7(c). Example is as follows:

As discussed in Note XX to the financial statements, the [Government Agency] implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The adoption of the standard required retrospective application and a restatement of the previously reported net position as of July 1, 2017. In addition, the Net [or Total] OPEB Liability is reported in the Statement of Net Position in the amount of \$XXX,XXX as of the measurement date. The [Government Agency] retained a qualified actuary to determine the Total OPEB Liability as of the measurement date as required by GASB Statement No. 75. The Total OPEB Liability is calculated by the actuary using estimates and actuarial techniques under actuarial standards of practice in the actuarial valuation as of June 30, XXXX [actuarial valuation date used for the measurement date]. **The actuary applied Section 3.7.7(c)4 of Actuarial Standard of Practice No. 6, as revised, and determined age-adjusted rates are not necessary and therefore, the Implicit Rate Subsidy is not applicable in calculating the total projection of benefits payments.** Our opinion is not modified with respect to this matter.

Notes to Basic Financial Statements

When the auditor decides to include an Emphasis of Matter paragraph, the OPEB note disclosures should include a disclosure in the actuarial assumptions section about the application of ASOP No. 6 Section 3.7.7(c)(4).

AU-C Section 260, *The Auditor's Communication with Those Charged with Governance*

Consider disclosing the actuary's application of ASOP No. 6 Section 3.7.7(c)(4) under the disclosures for Accounting Estimates related to the Net [Total] OPEB Liability.

Disclaimer:

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