



GASB 74 (OPEB) and GASB 84 (Fiduciary Activities)

April 25, 2017

Webinar

Presented in association with



Presented by:



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Session Outline

- GASB 74 – OPEB Plans
 - Applies to plans
 - Effective 06/30/2017
 - GASB 75 (employers) will be effective 06/30/2018
- GASB 84 – Fiduciary Activities
 - Issued January 2017
 - Effective 12/31/2019

GASB 74

Other Postemployment Benefit (OPEB) Plans

GASB Statement 74/75

The New OPEB Standards

- GASB 74 (effective 06/30/2017)
 - Applies to the financial statements of **OPEB plans** (OPEB trust funds)
- GASB 75 (effective 06/30/2018)
 - Applies to the financial statements of **employers** providing other postemployment benefits

GASB Statement 74/75

The New OPEB Standards

- **OPEB Plans** *defined*

- Arrangements through which OPEB is determined, assets dedicated for OPEB (if any) are accumulated and managed, and benefits are paid as they come due.

GASB Statement 74/75

Defining Pension & OPEB

- Pensions
 - Retirement income and benefits (other than healthcare) provided through a pension plan

GASB Statement 74/75

Defining Pension & OPEB

- Other postemployment benefits (OPEB)
 - All postemployment healthcare benefits
 - Medical, dental, vision, hearing, etc.
 - Regardless of whether provided by a pension plan
 - Postemployment benefits other than retirement income not administered by a pension plan
 - Death benefits, life insurance, disability, long-term care
 - Excludes **termination benefits**

GASB Statement 74/75

Defining Pension & OPEB

- *Termination benefits* (GASB 47):
 - An inducement to hasten the termination of services (e.g., early retirement incentives)
 - May be voluntary or involuntary
 - Requires professional judgment to determine employer's intent and employee's understanding
 - Recorded at the NPV of the benefits to be paid when the agreement is made (*not* OPEB)

CPE Prompt 1 of 4

- Which of the following would qualify as an other postemployment benefit?
 - A. Disability benefits provided by a pension plan
 - B. Retiree healthcare provided by a pension plan
 - C. Death benefits provided by a pension plan
 - D. An early retirement incentive offered to employees with 25 years or more of experience

GASB Statement 74/75

Defining Pension & OPEB

- Two broad types of OPEB plans:
 - **Defined benefit (DB)**
 - Benefits are defined by plan terms
 - No individual accounts by plan member
 - Primary focus of GASB 74/75
 - **Defined contribution (DC)**
 - Contributions are defined
 - Individual account for each plan member
 - Little changed by GASB 74/75

GASB Statement 74/75

Defining Pension & OPEB

- Three types of defined benefit plans:
 - **Single-employer** OPEB plan
 - A primary government and its component units may be considered to be one employer
 - **Agent multiple-employer** OPEB plan
 - Assets are pooled, but each employer's share is legally available to pay the benefits of only its employees
 - **Cost-sharing multiple-employer** OPEB plan
 - Assets are pooled, and may be used to pay benefits of the employees of any participating employer

GASB Statement 74/75

Defining Pension & OPEB

- GASB has determined that OPEB plans are conceptually similar to pensions, and has largely replicated the guidance from GASB 67/68 in GASB 74/75
 - Retains requirement for actuaries to consider the **implicit rate subsidy**
 - Retains the option for small plans to use the **alternative measurement method**

GASB Statement 74/75

OPEB Plan Financial Statements

- Defined benefit or defined contribution plans administered through a qualifying trust or equivalent arrangement are reported in an OPEB trust fund
 - Resources accumulated for OPEB not in a qualifying trust are reported in governmental / proprietary funds of the employer (or an agency fund if held for other governments)

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OPEB Plan Financial Statements

- DB plans calculate and *disclose* the employer's **net OPEB liability**, but do not record it in the OPEB trust fund, itself
- GASB 74 does not apply if there is not an "OPEB plan"

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OPEB Plan Financial Statements

- Statement of Fiduciary Net Position
 - Major categories of assets held
 - Principal components of investments and receivables
 - Deferred outflows of resources, liabilities, and deferred inflows of resources typically small or non-existent
 - Balance is fiduciary net position

OPEB Plan Financial Statements

- Statement of Changes in Fiduciary Net Position
 - Additions (employer / employee contributions, investment income by component)
 - Deductions (benefits, plan administrative expenses)
 - Should report all benefits paid (even if initially paid directly by the employer)

GASB Statement 74/75

OPEB Plan Financial Statements

CITY EMPLOYEES RETIREMENT SYSTEM	
Sample City Retiree Benefits Plan	
Statement of Fiduciary Net Position	
June 30, 20X9	
(Dollar amounts in thousands)	
	20X9
Assets	
Cash and deposits	\$ 9,173
Receivables:	
Contributions	132
Due from broker for investments sold	5,322
Investment income	493
Total receivables	5,947
Investments:	
Domestic equities	196,836
Fixed income	165,103
Private equity	91,058
Real estate	15,368
Total investments	468,365
Total assets	483,485
Liabilities	
Payables:	
Investment management fees	245
Due to broker for investments purchased	6,394
Total liabilities	6,639
Net position restricted for postemployment benefits other than pensions	\$ 476,846

Statement of Changes in Fiduciary Net Position	
for the Year Ended June 30, 20X9	
(Dollar amounts in thousands)	
	20X9
Additions	
Employer contributions	\$ 22,424
Investment income:	
Net increase in fair value of investments	37,842
Interest and dividends	7,625
Less investment expense	(1,252)
Net investment income	44,215
Total additions	66,639
Deductions	
Benefit payments	7,899
Administrative expense	148
Total deductions	8,047
Net increase in net position	58,592
Net position restricted for postemployment benefits other than pensions	
Beginning of year	418,254
End of year	\$ 476,846

GASB Statement 74/75

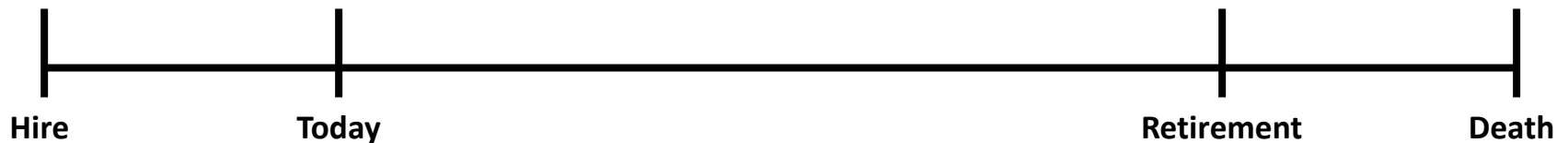
Net OPEB Liability

- Recorded by the employer (not the plan)
- Equal to the actuarially determined **total OPEB liability**, less the **net position** of the OPEB trust fund
- Recorded in full accrual financial statements (certain portions are offset by deferred inflows/outflows and amortized)

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Total OPEB Liability

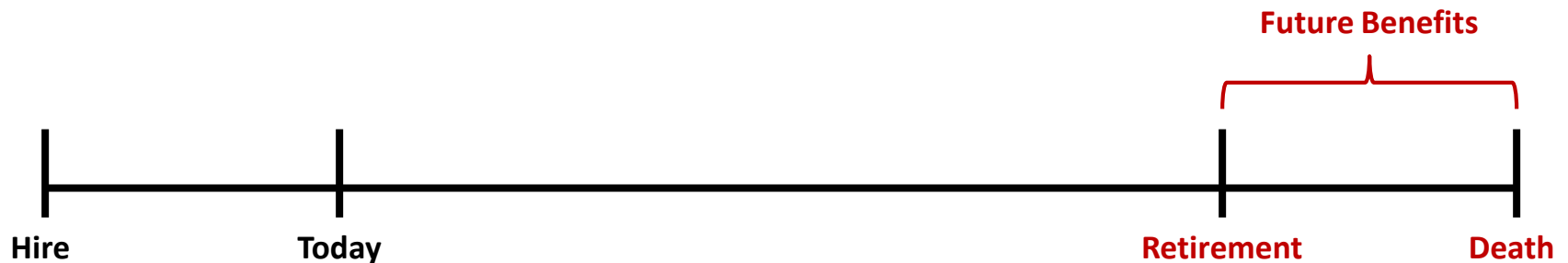
- Calculated by the actuary:
 - Project future benefits
 - Discount to present value
 - Attribute present value to specific periods



GASB Statement 74/75

Total OPEB Liability

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GASB Statement 74/75 Total OPEB Liability

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GASB Statement 74/75

Total OPEB Liability

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Key Actuarial Changes

- Actuarial cost method
 - Entry Age, Level Percent of Pay
 - Project future benefits using age-adjusted premiums (implicit rate subsidy)
- Small plans (fewer than 100 members) may use the alternative measurement method that does not require an actuary

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Key Actuarial Changes

- Expected return/discount rate
 - Single blended rate comprised of:
 - Expected rate of return (years w/ sufficient assets)
 - AA 20 year muni bond rate (years w/ insufficient assets)
 - A lower discount rate produces a higher liability and vice versa

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Key Actuarial Changes

- Amortization of unfunded liability
 - GASB 45 permitted wide latitude in amortization periods
 - GASB 75 requires:
 - Plan changes – immediately
 - Assets returns other than expected – 5 years
 - Other actuarial liability gains and losses – average future service

GASB Statement 74/75

Key Actuarial Changes

- Sensitivity analyses
 - Changes in the discount rate

	<u>1% Decrease (6.0%)</u>	<u>Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Net OPEB liability (asset)	\$ 64,687	\$ 6,366	\$ (41,620)

- Changes in the healthcare cost trend rate

	<u>1% Decrease (8.5% decreasing to 4.5%)</u>	<u>Healthcare Cost Trend Rates (9.5% decreasing to 5.5%)</u>	<u>1% Increase (10.5% decreasing to 6.5%)</u>
Net OPEB liability (asset)	\$ (61,284)	\$ 6,336	\$ 88,512

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Other Actuarial Considerations

- Significant challenges for OPEB valuations
 - OPEB plans are less likely to be well funded
 - Healthcare cost trend assumptions
 - Effect of the Affordable Care Act
 - Other

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Timing Implications

- In an ideal world, everything would be measured in real time at the employer's fiscal year end
- In reality, plans and employers don't always have the same year end, and actuarial valuations take time to complete

GASB Statement 74/75

Timing Implications

- Actuarial valuations
 - GASB 74 allows up to 24 months prior to the FYE of the OPEB plan
 - Use update procedures to roll forward to the OPEB plan's FYE
 - GASB 75 allows up to 30 months prior to the FYE of the employer
 - Use update procedures to roll forward to the measurement date

GASB Statement 74/75

Timing Implications

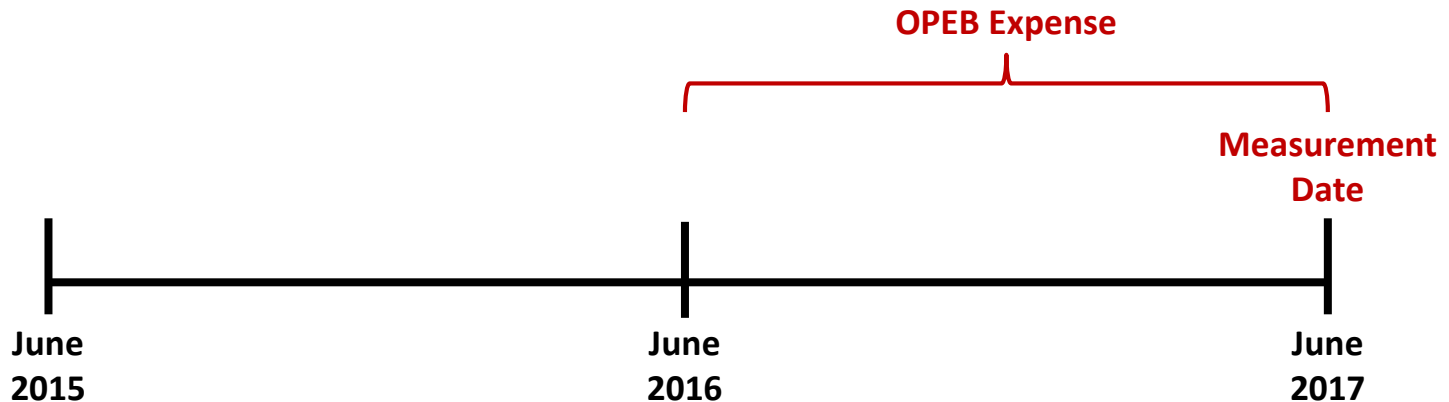
- “Measurement date”
 - Date at which the NOL is measured
 - May be up to one year prior to the employer’s FYE
 - OPEB contributions (including direct benefit payments) made after the measurement date are reported as deferred outflows of resources

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Timing Implications

- Examples

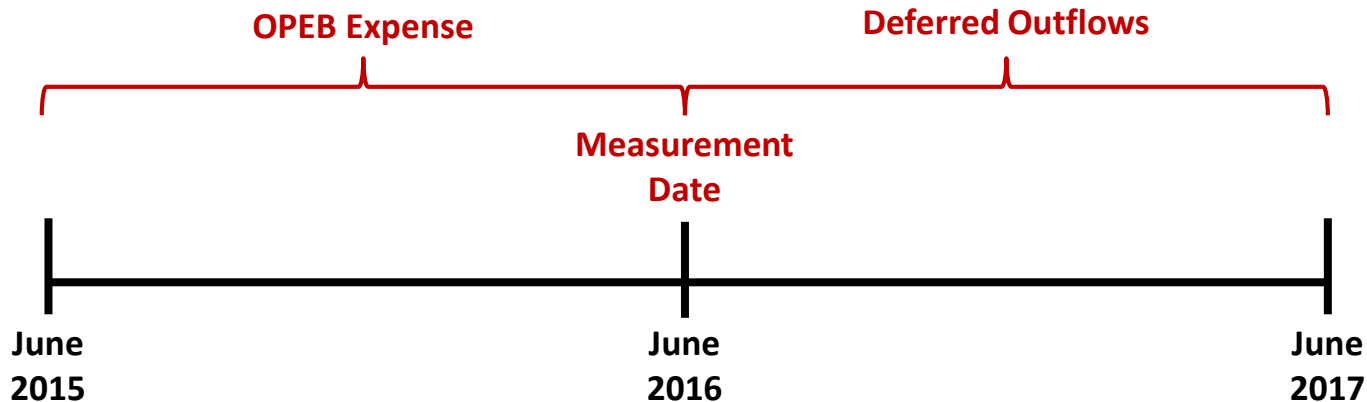
- Plan FYE = June 30
- Employer FYE = June 30
- Measurement date = June 30, 2017



GASB Statement 74/75 Timing Implications

- Examples

- Plan FYE = June 30
- Employer FYE = June 30
- Measurement date = June 30, 2016

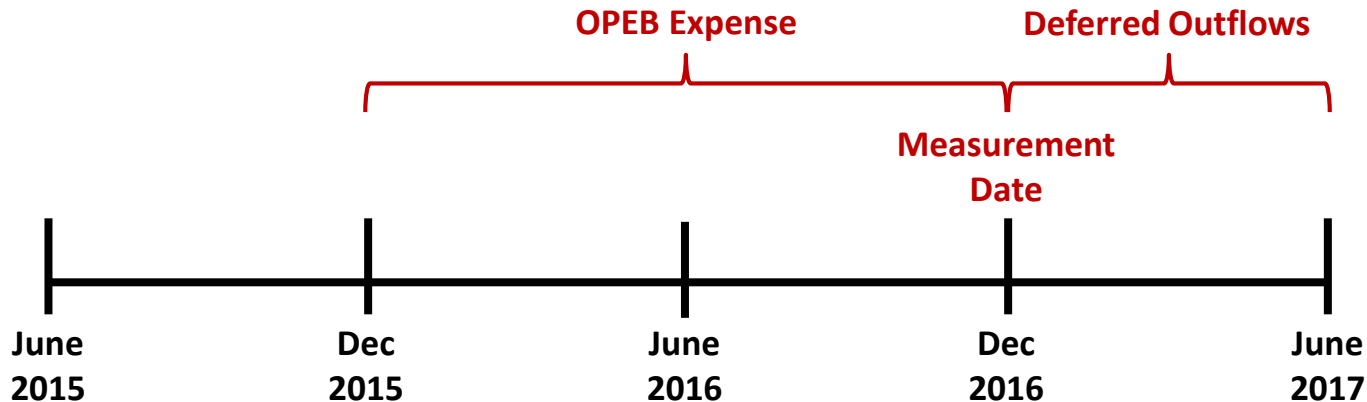


GASB Statement 74/75

Timing Implications

- Examples

- Plan FYE = December 31
- Employer FYE = June 30
- Measurement date = December 31, 2016



CPE Prompt 2 of 4

- What is the name of the date as of which the net OPEB liability is calculated?
 - A. Valuation date
 - B. Measurement date
 - C. Roll forward date
 - D. Reporting date

GASB Statement 74/75
Auditing Implications

- AICPA Audit Guide: State and Local Governments
 - Chapter 14: OPEB
 - Part I – OPEB plans
 - Part II – Single and agent employers
 - Part III – Cost-sharing employers
 - Part IV – Employer reporting in non-trusted plans

GASB 84

Fiduciary Activities

Session Outline

- Overview of GASB 84
- Identifying **fiduciary activities**
- Reporting **fiduciary funds**
 - Fund types
 - Financial statements
- Practical implications (Michigan examples)
- Next steps

GASB Statement 84

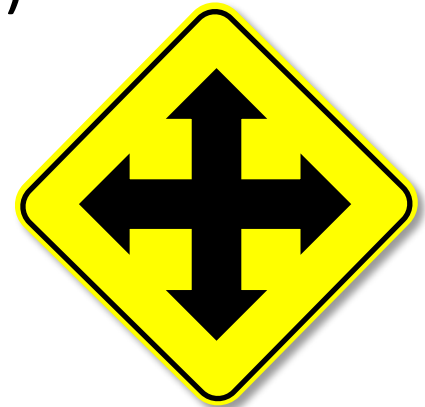
Fiduciary Activities

- Overview
 - Issued January 2017
 - Effective FYE 12/15/2019
 - Establishes criteria for identifying **fiduciary activities**
 - Modifies the financial statements of **fiduciary funds**

GASB Statement 84

Fiduciary Activities

- Four paths to identifying **fiduciary activities**
 1. Pension/OPEB plans that are component units
 2. Other fiduciary component units
 3. Other pension/OPEB plans (not CUs)
 4. Other fiduciary activities



GASB Statement 84 Fiduciary Activities



1. Pension/OPEB plans that are component units

- Pension/OPEB plans administered through trusts:
 - Contributions are irrevocable
 - Plan assets are dedicated to providing benefits
 - Plan assets are legally protected from creditors
- Resources accumulated for pension/OPEB benefits for *other governments* not in a trust

GASB Statement 84 Fiduciary Activities



1. Pension/OPEB plans that are component units

- Component unit status will *likely* come down to board appointment
 - Separate legal standing
 - Financial burden (making contributions)
 - Appointment of a voting majority of the pension/OPEB board

GASB Statement 84
Fiduciary Activities



2. Other fiduciary
component units

- Other component units are fiduciary activities if they have one of the following characteristics:
 - a. Assets are administered through a trust
 - Government itself is not the beneficiary
 - Assets are dedicated to providing benefits
 - Assets are legally protected from creditors

GASB Statement 84 Fiduciary Activities



2. Other fiduciary component units

- Other component units are fiduciary activities if they have one of the following characteristics:
 - b. Assets are for the benefit of individuals
 - Government does not have **administrative** or **direct financial** involvement with the assets
 - Assets are not derived from the government's provision of goods or services to those individuals

GASB Statement 84
Fiduciary Activities



2. Other fiduciary
component units

- Other component units are fiduciary activities if they have one of the following characteristics:
 - c. Assets are for the benefit of organizations or other governments
 - Beneficiary is not part of the reporting entity
 - Assets are not derived from the government's provision of goods or services to those organizations or other governments

GASB Statement 84 Fiduciary Activities



3. Other pension/OPEB plans (not CUs)

- If not a component unit, a pension/OPEB plan is a fiduciary activity if:
 - Administered through a trust (or accumulated for pension/OPEB benefits of *other governments*); and
 - The government **controls** the assets
 - Holds the assets; or
 - Has the ability to direct the use, exchange, or employment of the assets

GASB Statement 84 Fiduciary Activities



4. Other fiduciary activities

- All other activities are fiduciary activities if:
 - The government **controls** the assets; and
 - The assets are *not* derived from the government's **own-source revenues**, government-mandated or voluntary non-exchange transactions; and
 - The assets are either administered through a trust or held for individuals without any **administrative** or **direct financial** involvement

GASB Statement 84 Fiduciary Activities



4. Other fiduciary activities

- Terms:

- Own-source revenues

- Generated by the government itself.
- Includes: charges for services, interest earnings, income taxes, property taxes, etc.

GASB Statement 84 Fiduciary Activities



4. Other fiduciary activities

- Terms:
 - **Administrative** involvement
 - Monitoring recipients for compliance
 - Determining eligibility
 - Exercising discretion in the allocation of funds
 - **Direct financial** involvement
 - Matching requirements
 - Liable for disallowed costs

CPE Prompt 3 of 4

- The concept of “control” is relevant for evaluating which type of fiduciary activities?
 - A. Only fiduciary component units
 - B. Only non-component units
 - C. Only pension/OPEB benefits
 - D. Only non-pension/OPEB benefits

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Fiduciary Activities

- Reporting **fiduciary activities** in **fiduciary funds**
 1. Pension (and other employee benefit) trust funds
 2. Investment trust funds
 3. Private-purpose trust funds
 4. Custodial funds (replace agency)



GASB Statement 84

Fiduciary Activities

- Financial statements of fiduciary activities
 - Statement of Fiduciary Net Position
 - Statement of Changes in Fiduciary Net Position

GASB Statement 84

Fiduciary Activities

- Statement of Fiduciary Net Position
 - Reports the assets, deferred outflows, liabilities, deferred inflows, and fiduciary net position of fiduciary funds

GASB Statement 84

Fiduciary Activities

- Statement of Fiduciary Net Position
 - Pension (and other employee benefit) trust funds follow GASB 67/74
 - All others, recognize liability to beneficiaries when an event has occurred that **compels** the government to disburse fiduciary resources
 - A demand for the resources has been made; or
 - No further action, approval, or condition is required to be taken or met by the beneficiary to release the assets

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Fiduciary Activities

- Statement of Changes in Fiduciary Net Position
 - Reports additions to and deductions from fiduciary funds
 - Disaggregate and present by source:
 - Investment earnings
 - Investment costs (fees)
 - Net investment earnings

GASB Statement 84

Fiduciary Activities

- Statement of Changes in Fiduciary Net Position
 - Custodial funds may report a single aggregated amount for additions and a single aggregated amount for deductions if typically held for three months or less
 - Property taxes collected for other governments
 - Property taxes distributed to other governments

GASB Statement 84

Fiduciary Activities

- GASB's flowcharts

Chart 1—Flowchart for Evaluating and Reporting Potential Fiduciary Activities

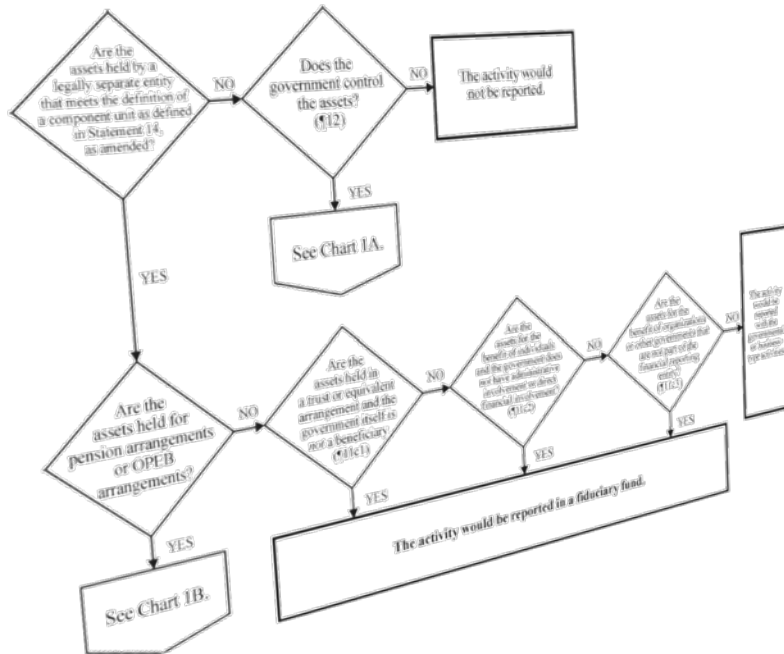
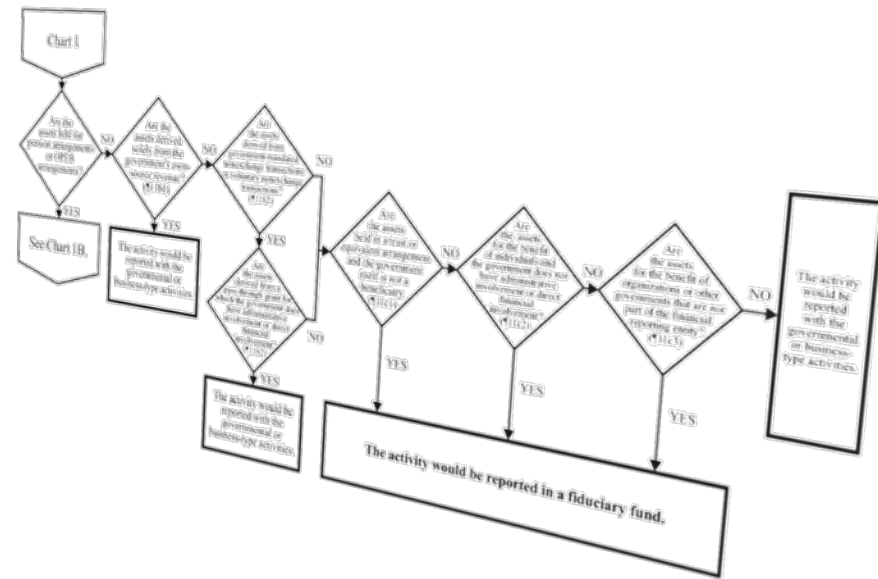


Chart 1A—Flowchart for Evaluating and Reporting Potential Fiduciary Activities



GASB Statement 84

Fiduciary Activities

- GASB's flowcharts
 - Many transactions previously reported in fiduciary funds may end up in governmental/proprietary funds
 - They may still be liabilities... but they may not be **fiduciary activities**, and therefore both the assets and liabilities should appear on the government-wide financial statements

CPE Prompt 4 of 4

- Under GASB 84, fiduciary funds will record a liability when:
 - A. Assets are first received in a fiduciary capacity
 - B. They become due and payable
 - C. An event has occurred that compels the government to disburse fiduciary resources
 - D. Actuarially determined

GASB Statement 84

Fiduciary Activities

- Practical implications (Michigan examples)
 - Tax collection funds
 - Deferred compensation plans
 - Bail bonds
 - Escrow funds
 - Resources held for component units
 - MERS Retiree Health Funding Vehicle

GASB Statement 84

Fiduciary Activities



- Next steps
 - This standard is still very new
 - There is still a lot of time between now and FYE 12/15/2019
 - We will continue to analyze the standard and provide guidance
 - Expect more training at future events!

Questions?



For more information...



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