# New Developments in GASB 45 Accounting

**Implications for Oregon Public Employers**
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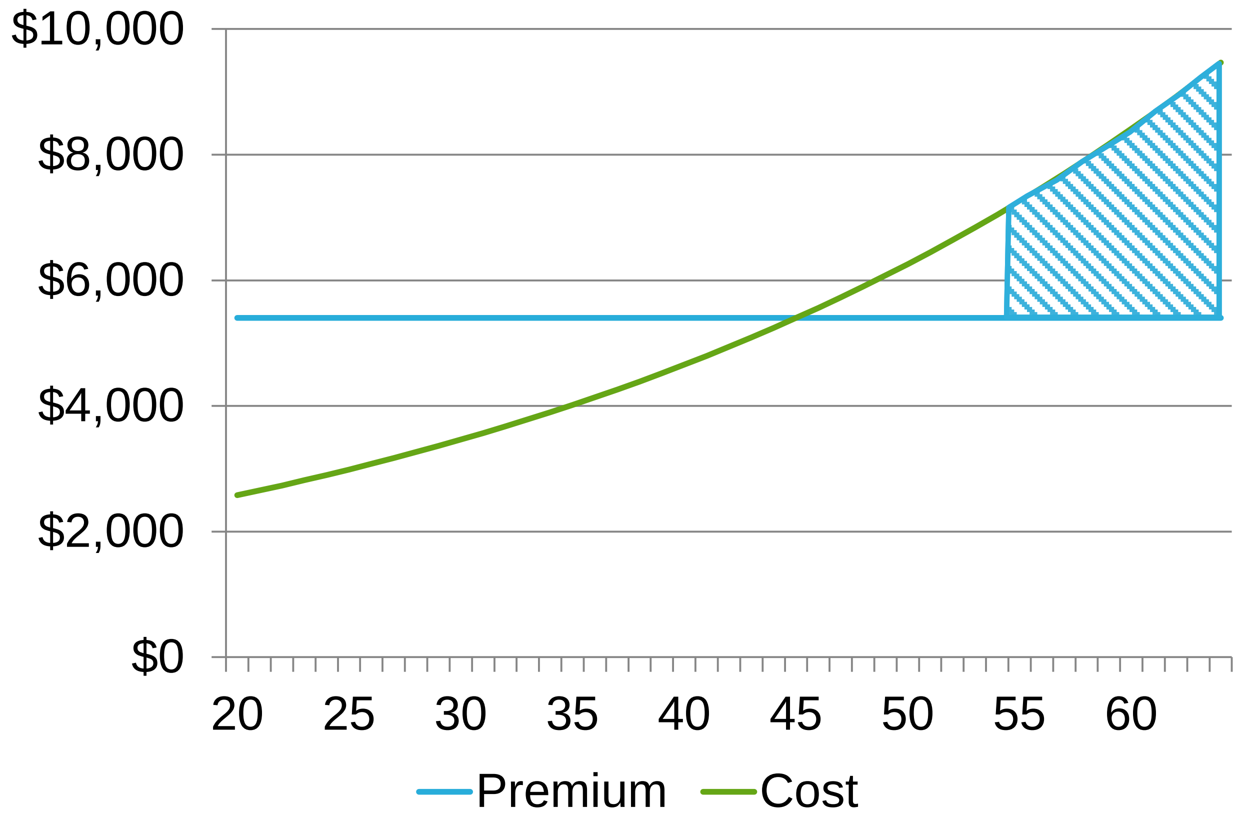
# Goals for Today

- Gain understanding of Implicit Rate Subsidy
- Learn what the Community Rating exception is (was)
- Learn about recent developments impacting public employers, particularly in Oregon
- Discuss what employers can do to prepare
- Finish within one hour

# Implicit Rate Subsidy – What Is It?

- Cost of allowing retirees to remain on the active health plan, even if the retiree pays 100% of the premium
  - Generally, retirees generate higher health care claims than active employees
  - A retiree couldn't independently purchase the same coverage at the same premium
- GASB Statement 45 applies to Other (than pension) Post-Employment Benefits (OPEBs)
  - Considers this to be a benefit, and requires valuation and recognition

# Implicit Rate Subsidy – What Is It?



# Implicit Rate Subsidy – What Is It?

- Under GASB 45, the present value of all future implicit rate subsidy “payments” is a footnote disclosure item
  - Often roughly $30-50k per covered retiree, plus $10-20k per covered active employee
- An amortized portion of this total amount is recognized as expense each year

# Implicit Rate Subsidy – What Is It?

- Why is this issue especially pertinent to Oregon employers?
  - ORS 243.303 requires that local governments allow pre-Medicare retirees and dependents to remain on the group health plans
  - Cannot charge retirees premiums higher than COBRA rates (102% of active rates)

# The Community Rating Exception

- Paragraph 13.a.(2) of GASB 45 (regarding benefits to be valued) states

  "…However, when an employer participates in a community-rated plan… it is appropriate to use the unadjusted premiums as the basis for projection of retiree benefits, *to the extent permitted by actuarial standards*." [emphasis added]

- Basically, if an employer participates in a pooled health plan and is "a small fish in a big pond", the exception has potentially applied

# The Community Rating Exception

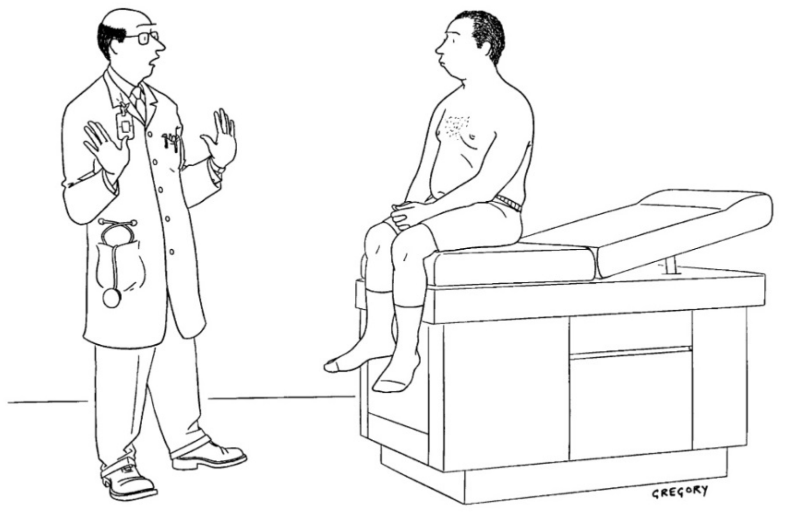
- Actuarial Standard of Practice No. 6 (ASOP 6) applies in these types of actuarial measurements
- Used to allow for the community rating exception if, in the actuary’s professional judgment, the health claims experience of the individual employer would have an immaterial impact on the premiums charged

# The Community Rating Exception

- ASOP 6 was revised in May 2014
- Paragraph 3.7.7 addresses age-specific healthcare costs
  - "In general… the actuary should use age-specific costs in the development of the initial per capita costs and in the projection of future benefit plan costs."
  - "…if the benefit plan comingles the experience of active and retired individuals, and the benefit plan's premium for non-Medicare retirees does not reflect their full age-specific cost, the benefit plan's active rates include an implicit subsidy for the non-Medicare retirees. The actuary should reflect the full age-specific costs, including the implicit subsidy."

# The Community Rating Exception

- Paragraph 3.7.7 does list exceptions to this rule that may apply in very rare cases
  - These exceptions are unlikely to apply for financial reporting purposes for any Oregon employers




*"Whoa—way too much information."*

# Timing

- GASB 45 calculations are required once every two or three years, depending on the size of the employer
  - Total membership of 200 or more – At least biennially
  - Total membership of fewer than 200 – At least triennially
- Further, different employers are on different valuation schedules

# Timing

- Revised ASOP 6 is first effective for Measurement Dates on or after March 31, 2015
  - Measurement Dates are typically the beginning of the fiscal year
  - The changes due to the  revised ASOP 6 will first impact many employers on the FYE 2016 financial statements

# What Employers Should Do

- Determine whether there is an implicit rate subsidy to value
  - Again, virtually all Oregon employers should have one
  - If in doubt, IAI can give a free assessment
- Decide how to value the implicit rate subsidy
  - Actuarial Valuation
  - Alternative Measurement Method

# What Employers Should Do

- Actuarial Valuation
  - A qualified Actuary is hired to perform the valuation
  - Cost likely $1,500 to $5,000
- Alternative Measurement Method
  - Only available if fewer than 100 Plan Members
  - Based on GASB-prescribed assumptions/methodology
  - Calculations can be done "in-house"
    - Online services also available (but little or no cost savings)
  - Calculations quite complex and time-consuming

# Other GASB 45 Changes on Horizon

- Recently effective GASB Statements 67/68 radically changed financial reporting of pension benefit
  - Total unfunded obligation now a Statement of Net Assets item
  - New rules about how benefits are valued
  - Expanded disclosures
- Similar reporting changes slated for OPEBs
- First effective for FYE beginning on or after June 15, 2017

# Final Questions?

# About IAI

- Independent Actuaries, Inc.
  - Largest independently-owned actuarial firm in the Pacific NW
  - 14 professional credentialed consultants on staff, including 9 credentialed actuaries
  - Unlike most independent retirement consulting firms, we specialize in defined benefit plans (both pension and retiree medical)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