

12th Annual
EMERGING
ISSUES
FORUM



Other Post-Employment Benefits (OPEB)

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Hogan Conference Center

College of the Holy Cross, Worcester, MA

September 15, 2016



COMMONWEALTH OF MASSACHUSETTS

Public Employee Retirement Administration Commission

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Trusting Your Trust Fund

Mark D. Abrahams, CPA
President, The Abrahams Group
President, AFS Associates
OPEB Emerging Issues
September 15, 2016

Agenda

- Provide an update about establishing an OPEB trust fund
- Present an accountant's view of OPEB Irrevocable trusts, not to be construed as legal, investment, or actuarial advice, nor opinions of the MSCPA's Governmental Auditing and Accounting Committee, PRIT, PRIM, DOR, GASB, or anyone else

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Learning Objectives

To understand the Massachusetts' OPEB irrevocable trust

1. GASB Statements and the Actuary
 - GASB 43
 - GASB 45
2. 32B:20 Issues
3. Trust Document (Declaration of Trust)
4. Investments
5. What's Ahead

References

1. House 3611 – Improve Municipal OPEB Funds and Investments
2. Survey

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NOTES:

The Problem

Unfunded OPEB actuarial accrued liability
Massachusetts \$46.7B, rough estimate

- Commonwealth \$16.7B
- Cities/towns/districts \$30.0B

Jim will be discussing more current figures

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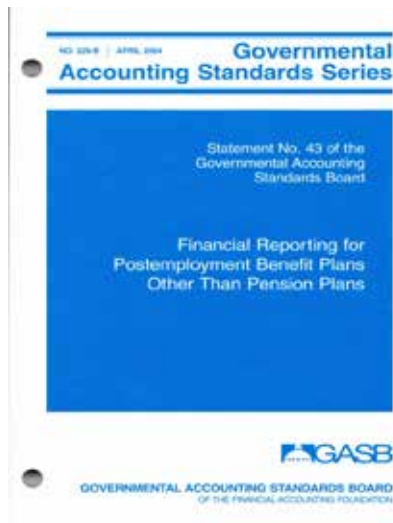
NOTES:

Section 1

The GASBs and the Actuaries

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GASB 43

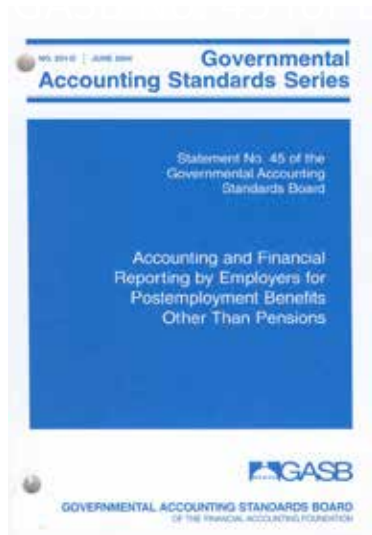


1. Administered as trusts, or equivalent arrangements
2. Employer contributions to the plan are irrevocable
3. Plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan
4. Plan assets are legally protected from creditors of the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

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NOTES:

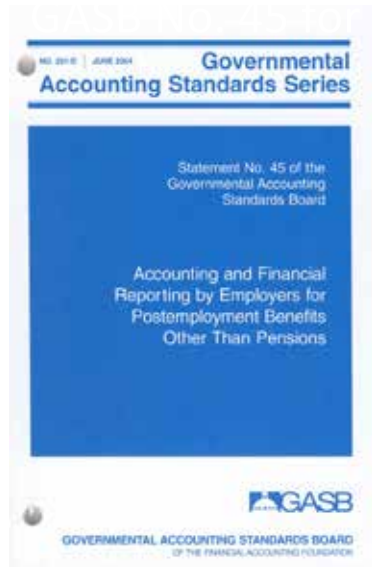
GASB 45



- Subject: accounting and reporting by employers for their OPEB expenses and obligations - most notably, for retiree healthcare benefits
- Applies to all employers that pay all or part of the cost of the benefits

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GASB 45



- Requires a change from PAYGO accounting (expense not recognized until obligation paid in years after retirement) to accrual-basis accounting (recognition of expense during years of active service)
- Requires measurement and disclosure of the total and unfunded actuarial accrued liabilities for normal and past service costs—and related information about the funded status of the benefits
- Does not require funding of OPEB costs being recognized

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NOTES:

GASB 43 and 45

GASB 43 applies to trusts that are established in order to prefund OPEB benefits and for trusts that are used as conduits to pay OPEB benefits. GASB 45 applies to the financial statements issued by employers that offer OPEB.

GASB 43

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

GASB 45

1. Establishes standards for the measurement, recognition, and display of OPEB expense/ expenditures and related liabilities (assets)
2. Consistent with GASB 27; Accounting for Pensions
3. Intended to improve financial reporting

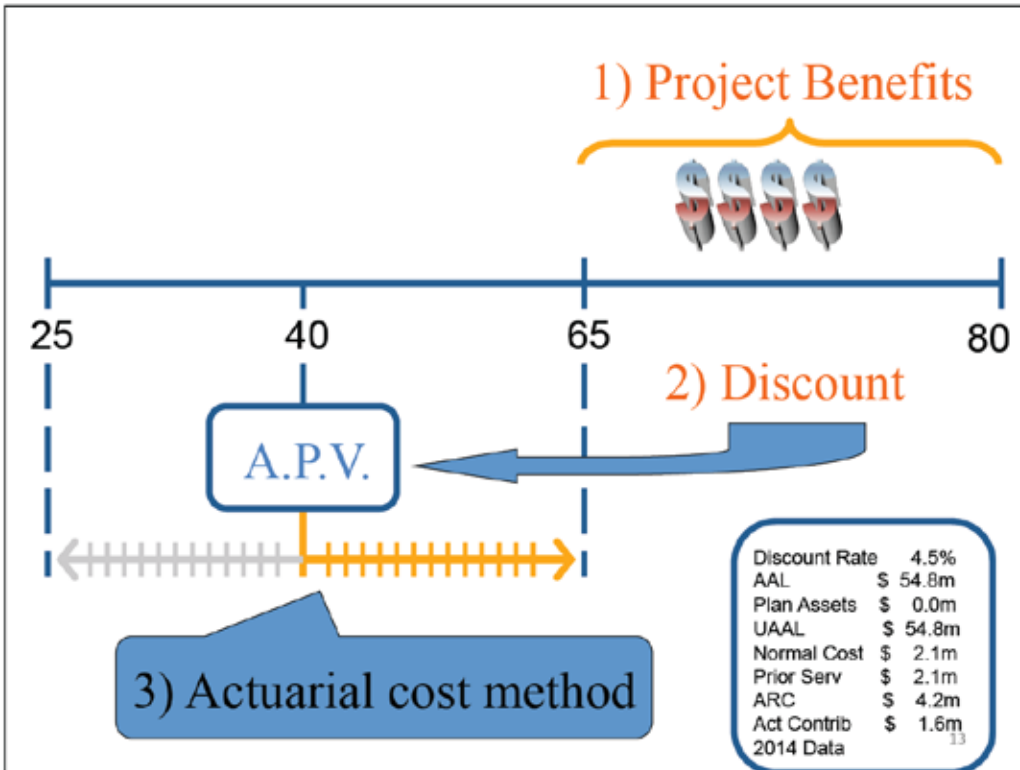
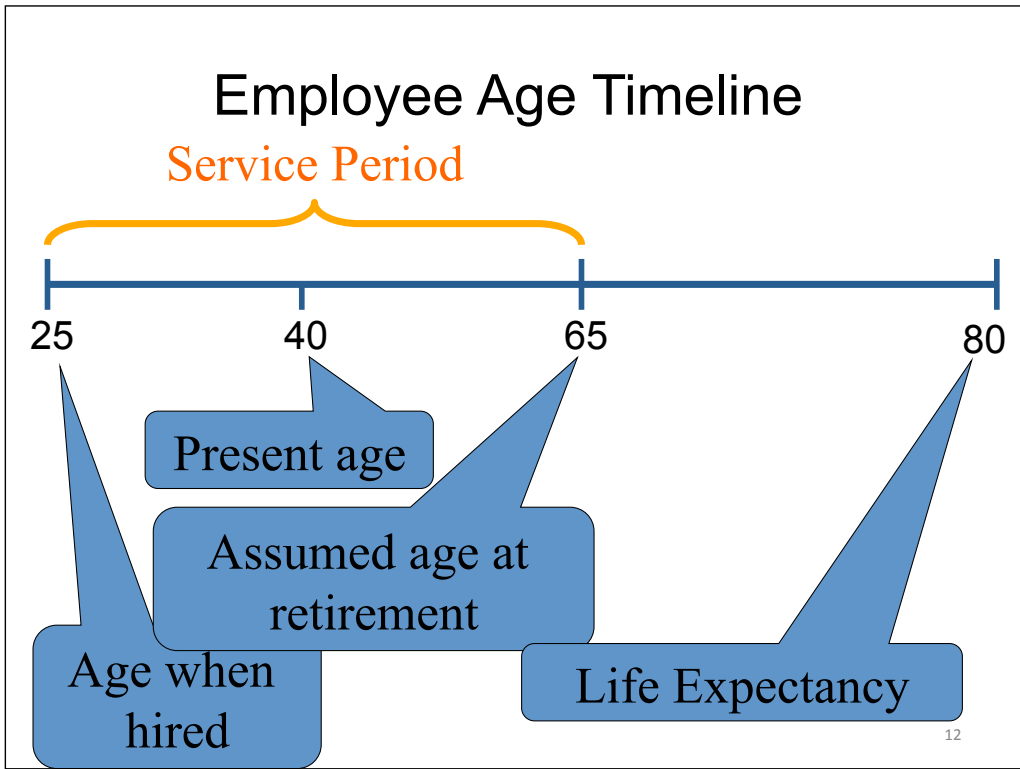
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Three Broad Steps to Develop OPEB Information

1. Project cash outflows for benefits
2. Discount projected benefits to present value (PV)
3. Allocate the PV of projected benefits to periods using an acceptable actuarial cost method

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NOTES:



NOTES:

OPEB Summary

Requirements (GASB 43)

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

Actions

1. Adopt 32B:20
2. Accept Declaration of Trust
 - Irrevocable
 - Trustee
3. Prudent investments
4. Fiduciary presentation on your financials

NOTES:

Section 2

The Issues

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Vehicles to Accumulate Funds to Meet OPEB Liabilities

Massachusetts

1. Establish an OPEB Liability Trust Fund - MGL 32B:20
2. Establish a Special Purpose Stabilization Fund –
MGL 40:5 or 71:16B
3. Special legislation

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NOTES:

Trusting Your Trust Fund Update

What is Clear

- Adopt 32B:20
- Accept a legally binding, OPEB Declaration of Trust that is irrevocable and provides for a trustee (clear but not understood)

What Is Becoming Clearer

- Changes to 32B:20 were filed as a supplemental budget item last year; no action taken – Section 4 of H3611
- Refiled and passed as part of Municipal Modernization Bill (Section 15)
- Not to be confused with H59, the act to change OPEB benefits

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32B:20 Revisions – Modernization Bill

Section 15 of the Municipal Modernization Bill

- Total replacement of 32B:20 with 32B:20A added
- All inclusive - any political subdivision of the commonwealth
- The treasurer of the governmental unit shall be the custodian of the OPEB
- Establishes “OPEB Fund board of trustees”; an independent board of trustees selected by the governmental unit with investing authority for the OPEB Fund
- Complemented by a “declaration of trust to be adopted by the trustee or board” where the trust is irrevocable
- The assets of which shall be held solely to meet the current and future liabilities of the governmental unit for group health insurance benefits for retirees and their dependents
- All monies held in the fund ... shall not be subject to the claims of any general creditor of the governmental unit
- An actuarial valuation report shall be submitted no later than 90 days after receipt of such report (MGL 32B:20A)

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NOTES:

32B:20 Revisions – Modernization Bill

Section 15 of the Municipal Modernization Bill

- May be accepted in a city or town in the manner provided in section 4 of chapter 4 (by the legislative body); in a county, by vote of the county commissioners; in a regional school district, by vote of the regional school committee; and in a district or other governmental unit, by vote of the district meeting or other appropriating body.
- Any city, town, district, municipal lighting plant or county that established an OPEB Fund under section 20 of chapter 32B of the General Laws before the effective date of this act shall continue it under the terms originally established unless it reaccepts section 20 of chapter 32B after the effective date of this act.

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Survey Says

Did You Adopt MGL 32B:20

- Very few regions have adopted 32B:20 or are planning to adopt
 - Municipalities 60%
 - Regions 30%
- Very, very few have established an OPEB Declaration of Trust

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NOTES:

Section 3

OPEB Trust Agreement - The Declaration of Trust

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Declaration of Trust

Newton Example

- Definitions
- Purpose
- Establishment
- Trust Funding
- Trustees
- Powers of Trustees
- Limitations of Trustees
- Actions by Trustees
- Liabilities of Trustees
- Meetings of Trustees
- Taxes, Expenses and Compensation
- Accounts
- Annual Reports
- Investment of Trust Funds
- Custody of Trust Funds
- Termination of Trust
- Amendments
- Merger
- Severability of Invalid Provisions
- Miscellaneous

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NOTES:

Declaration of Trust

- The Trust shall be administered by a Board of Trustees consisting of five (5) members, who shall include Mayor or designee, Comptroller, HR Director, Member of the Board of Alderman (one-year term), and a registered voter (two-year term). Treasurer is custodian and a non voting member of the BOT
 - Satisfies that the plan is effectively a legally separate entity under the stewardship of a board of trustees or the equivalent pursuant to GASB 43
 - Operates as a trust or trust equivalent
- The Trust shall be irrevocable, and no Trust funds shall revert to the Town until all OPEB owed to retired Town employees have been satisfied or defeased.
 - Satisfies the irrevocable requirement of GASB 43

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NOTES:

Section 4

Investments

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Investments

- MGL 44:55 – General Fund
- MGL 44:54 – Trust Funds
- MGL 203C – Prudent investor rule
 - MGL Monies in the fund shall be invested and reinvested by the custodian consistent with the prudent investor rule established in chapter 203C
- MGL 32A:24 - State Retiree Benefits Trust Fund
 - May, with the approval of the Health Care Security Trust board of trustees, be invested in the State Retiree Benefits Trust Fund established in section 24 of chapter 32A.
- Others (PARS, Bartholomew)

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NOTES:

Participants in the SRBTF

- \$250,000 minimum contribution
- Currently 56 jurisdictions
- One regional school district (Shawsheen)
- Four collaboratives
- Rest municipal governments

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Survey Says

- Most communities are investing in “safe” vehicles
- Discount rate ranged between 4% and 9%
- Many stated 4.25% for underfunded systems and 8% for funded systems
- Many of the respondents who reported an 8% discount rate in 2012 are reporting 4% in 2015/16

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NOTES:

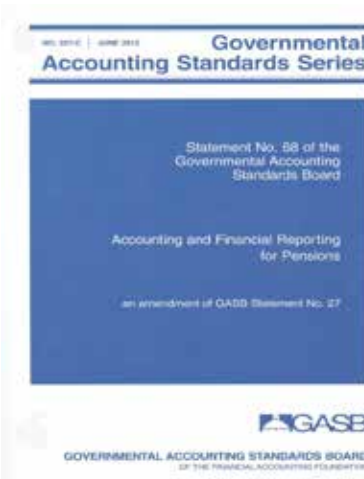
Section 5

*What's Ahead -
Is this GASB 67 and 68 for OPEB?*

What's Now for Pensions



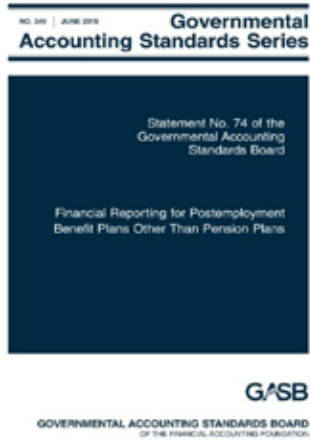
Effective for fiscal years beginning after June 15, 2013 (FY 2015 Statements)



Effective for fiscal years beginning after June 15, 2014 (FY 2016 Statements)

NOTES:

What's Ahead for OPEB?



Effective for fiscal years beginning after June 15, 2016 (FY 2017 Statements)



Effective for fiscal years beginning after June 15, 2017 (FY 2018 Statements)

What's Ahead

GASB 67 and 68, Pensions for FY 2015 statements

- Separates funding from accounting
- Reporting the UAAL on the statement of net position (balance sheet)

OPEB GASB 74 and 75

- GASB 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (FY 2017)
- GASB 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (FY 2018)

NOTES:

Key Changes Ahead for OPEB

- Employer liability
- Employer expense
- Discount rate
- Actuarial method
- Amortization

These were covered at the last forum

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Statement No. 75

Reaffirms GASB 43 that OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

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NOTES:

Statement No. 75

What About the AMM?

- Reaffirms the total OPEB liability generally is required to be determined through an actuarial valuation.
- Reaffirms, if fewer than 100 employees (active and inactive) are provided with OPEB through the plan, the use of a specified alternative measurement method in place of an actuarial valuation is permitted.
- An actuarial valuation or a calculation using the specified alternative measurement method of the total OPEB liability is required to be performed *at least every two years*, with more frequent valuations or calculations encouraged; the previous requirement *was every three years*.

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Statement No. 75

Funding Vs. Accounting

- Current accounting standards focuses on the Annual Required Contribution (ARC) – the ARC is determined based on the adopted actuarial methods to fund the plan
- The ARC is then used to drive amounts reported on the financial statements – if 100% of ARC is contributed, no liability is recorded on financial statements – the difference between the ARC and what was funded was the liability
- The new standards do not use the ARC as the basis for financial reporting amounts
- This will be different from adopted funding methodologies

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NOTES:

Employer Expense

Current guidance

- Calculation tied to funding
- ARC adjusted for the cumulative effect of prior differences between required contributions and actual contributions

New guidance

- Calculation tied to cost
- Changes in the net pension liability (NPL)

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Employer Liability

What's Ahead

Total OPEB Liability (TPL)	\$ 54.8m
Less Fiduciary Net Position (FNP)	<u>0</u>
Net OPEB Liability (NPL)	\$ 54.8m

Current

Annual Required Contribution	\$ 4.2m
Actual Contribution	<u>1.6m</u>
Net Pension Obligation	\$ 2.6m

Liability Reported

Current Guidance	\$ 2.6m
New Guidance	\$ 54.8m

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NOTES:

Statement No. 75

How Will this Affect the Statement of Net Position?

Impact on the Statement of Net Position

<i>Net Position:</i>	
Net Investment in capital assets	73,242,220
Restricted for:	
Capital	6,215
Education programs	6,255,829
Public safety programs	45,238
Historical records preservation	221,962
Community service programs	458,748
Parks and recreation programs	103,351
Other programs	60,328
Unrestricted	(35,628,525)
Total net position	\$ 44,765,366

For governmental activities, the deficit in the Town's unrestricted net position increased, due principally to the recording of a liability for other postemployment benefits (OPEB).

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GASB 43, 45, 74 & 75 Summary

GASB 43, 74

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

GASB 45

1. Establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets)
2. Consistent with GASB 27; Accounting for Pensions

GASB 75

1. Consistent with GASB 68; Accounting for Pensions
2. Separates funding from accounting; changes require accounting and reporting on the liability
3. Presents the unfunded actuarial accrued liability on the face of the statement of net position (government wide balance sheet)

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NOTES:

Trusting Your Trust Fund

1. Establish an OPEB Liability Trust Fund - Adopt 32B:20
2. Accept OPEB Declaration of Trust
 - Irrevocable
3. Prudent investments

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For Further Information

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NOTES:

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**PERAC Oversight of Other
Post-Employment Benefits
(OPEB)**

James Lamenzo | Actuary
PERAC



September 15, 2016

Paragraph (d) of Section 20 of Chapter 32B inserted by Chapter 68 reads as follows:

- 20(d) “Every city, town, district, county, and municipal lighting plant shall annually submit to PERAC on or before December 31, a summary of its other post-employment benefits costs and obligations and all related information required under Governmental Accounting Standards Board standard 45, in this subsection called “GASB 45”, covering the last fiscal or calendar year for which this information is available. On or before June 30 of the following year, **PERAC shall notify any entity submitting this summary of any concerns that the commission may have or any areas in which the summary does not conform to the requirements of GASB 45** or other standards the commission may establish. **PERAC shall file a summary report of the information received under this subsection** with the chairs of the house and senate committees on way and means, the secretary of the administration and finance and the board of trustees of the Health Care Security Trust.”

2

PERAC Responsibilities

- Notify entities of concerns
 - PERAC actuary qualifications with respect to reviewing report
- Prepare a summary report
 - No mention of timing or what to include
 - Lack of receipt in first few years

3

NOTES:

OPEB Process

- Request OPEB reports from cities, towns and districts
 - 6 letter mailings 2011-2016
 - Follow-up e-mails
- Data entered into Excel spreadsheet
 - Constantly updated

4

Overall Submissions

- Received over 1,000 valuations
 - Almost 450 entities
- 18 towns did not provide a valuation report
- 26 towns and 10 districts indicate no plan
- 249 plans have no assets
- Reports completed by 26 actuarial (or other) firms

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NOTES:

Overall Submissions *(continued)*

- Valuation dates range from 2007-2015
- Might not be most recent valuation
 - 35 entities have valuation dates prior to 2012
- Many reports show more than one discount rate

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Summary Report

- Cutoff date August 1, 2016
- All dollars shown in thousands (000s)
- Towns, cities and districts generally listed alphabetically
 - Exceptions
 - Commonwealth report shown first
 - Counties next
 - Barnstable, Berkshire, Dukes
 - » performed by same actuary in batch
 - Bristol and Plymouth county employees

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NOTES:

Summary Report Items

- Entity
- No plan, if applicable
- Valuation date
- Funding (or Partial Funding) Discount Rate
 - Total Actuarial Liability (AL)
 - Assets
 - Unfunded Actuarial Liability (UAL= AL- Assets)
 - Funded Ratio (Assets / AL)
- Pay-As-You-Go (or Partial Funding) Discount Rate
 - Total Actuarial Liability (AL)
 - Assets
 - Unfunded Actuarial Liability (UAL= AL- Assets)
 - Funded Ratio (Assets / AL)

8

Summary Report

- Totals for liabilities and assets not shown
 - Different discount rates used
 - Results not shown for each entity for both discount rates
- Funding discount rate range (6.0%-8.25%)
- Pay-as-you-go discount rate range (0-7.0%)
 - Always lower than the funding discount rate

9

NOTES:

Funding Discount Rate Results

- Does not necessarily mean actually fully funding
 - Often provided for comparison
- About 20 entities fully funding the ARC
 - 10 are towns

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Summary Report

- Numerous other tracking items included in spreadsheet
 - Normal cost, ARC, assumptions, etc.
- Most interest in assets and funded ratios
 - Who is funding?
- Future reports may include more detailed information
- Expect reports to be issued every 3-5 years

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NOTES:

OPEB Summary Results

Commonwealth					
Valuation Date	Discount Rate	Actuarial Liability (AL)	Assets	Unfunded Actuarial Liability (UAL)	Funded Ratio
1/1/15	7.75%	\$10.07B	\$610.0M	\$9.46B	6.1%
1/1/15	4.50%	16.50B	610.0M	15.89B	3.7%

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OPEB Summary Results *(continued)*

Highest Funded Ratios (Dollars in Thousands)						
	Val. Date	Discount Rate - Funded Basis	AL	Assets	UAL	Funded Ratio
West Newbury	7/1/13	7.00%	\$1,551	\$1,410	\$141	90.9%
Middleborough Gas and Electric	7/1/14	7.00%	5,152	4,263	889	82.7%
Hudson Light and Power	1/1/14	7.00%	1,608	1,055	553	65.6%
Massport	1/1/15	7.50%	237,133	148,501	88,632	62.6%
N. Chelmsford Water District	7/1/15	7.00%	164	102	62	62.2%

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NOTES:

OPEB Summary Results *(continued)*

Highest Funded Ratios - Towns (Dollars in Thousands)						
	Val. Date	Discount Rate - Funded Basis	AL	Assets	UAL	Funded Ratio
West Newbury	7/1/13	7.00%	\$1,551	\$1,410	\$141	90.9%
Dover	7/1/13	7.00%	6,435	2,896	3,539	45.0%
Wayland	12/31/14	7.00%	29,560	12,089	17,471	40.9%
Wellesley (includes MLP)	6/30/14	7.00%	111,075	32,806	78,269	29.5%
Erving	7/1/12	7.00%	2,746	777	1,969	28.3%

OPEB Summary Results *(continued)*

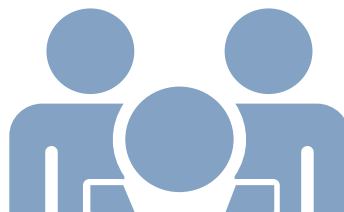
Largest Unfunded Actuarial Liability* (Dollars in Thousands)							
	Val. Date	Discount Rate - Funded Basis	UAL	Funded Ratio	Discount Rate - Pay As You Go	UAL	Funded Ratio
Boston	6/30/15	7.00%	\$2,262,557	12.9%			
Worcester	7/1/13	7.50%	431,531	0.0%	4.00%	\$727,823	0.0%
Waltham	6/30/14	8.00%	352,822	0.0%	4.00%	600,636	0.0%
Lynn	6/30/14	8.00%	323,198	0.0%	3.50%	649,600	0.0%
Quincy	12/31/13	7.50%	322,793	0.4%	3.50%	655,435	0.2%
Newton	7/1/14	7.04%	319,115	0.7%	2.04%	701,511	0.3%
Plymouth	1/1/15	7.50%	309,757	0.3%	4.00%	566,845	0.2%
Cambridge	7/1/14	8.00%	303,478	1.8%	4.00%	532,816	1.0%
Brockton	6/30/14	7.50%	254,208	0.0%	4.00%	416,954	0.0%
New Bedford	6/30/14	8.00%	252,907	0.0%	4.00%	424,774	0.0%
Springfield	7/1/13				3.50%	873,436	0.0%
Fall River	7/1/15				4.50%	569,826	0.0%
Lowell	7/1/14				3.50%	496,237	0.0%
Lawrence	7/1/14				4.00%	327,149	0.0%

*sorted by Funded Basis first then Pay As You Go Basis



NOTES:

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