Georgia Department of Education

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"Educating Georgia's Future"

FISCAL YEAR 2018

GADOE – FINANCIAL REVIEW SECTION

Implementation of GASB 75 for School Districts

HOW THE IMPLEMENTATION OF GASB 75 AFFECTS THE SCHOOL DISTRICTS

Background Information

In June 2015, the Governmental Accounting Standards Board (GASB), issued two new standards that have a significant impact on the accounting and reporting of public employee postemployment benefit plans (OPEB) and the state and local governments (including Local Education Agencies, or LEAs) that participate in these plans. The most significant of these statements for all the LEAs is GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement requires the LEAs to recognize and disclose the district's proportionate share of the collective net OPEB liability for each cost sharing benefit plan in which the LEA participates. It is anticipated that this liability will increase the deficit of Net Position in the Government-wide Statement of Net Position. (Please note that the implementation of GASB 68 in FY 2015 resulted in all LEAs reporting Net Position deficits.)

This position paper will discuss the implementation of GASB 75 as it relates to the most common OPEB plan that affects the Georgia LEAs, the State Health Benefit Plan. LEAs may have individual OPEB plans that require financial reporting per GASB Statements 74 and 75.

Why the difference now between OPEB funding principles and the accounting for the OPEB?

Previous accounting for the State Health Benefit Plan only reported a liability in the financial statements if the government's contributions were less than the amount billed to the plan. The contributions to the OPEB plan are determined by the SHBP and are included in the overall billing to the LEA. Basically, an LEA (employer member) previously only recorded a liability if the LEA did not make a payment for the entire amount of required billings to the State Health Benefit plan for the year. That method does not fully represent the School OPEB liability at the LEA level.

Using the new methodology set forth in GASB 75, the accounting approach will report a liability for the OPEB benefits that have yet to be financed as of a specific point in time, as well as report the actual OPEB expense that was incurred by the OPEB plan during the reporting period. It should be noted that GASB 75 distinguishes between the expense incurred for the OPEB plan and the expense incurred for current expenses related to the offering of the plan to active employees, as well as the expense incurred for administrative costs. The entire contribution an LEA makes during a fiscal year to the plan provider is not entirely to fund the School OPEB plan, but to also cover those current costs of administering the State Health Benefit Plan for active employees.

Why did the implementation of GASB 75 create a liability?

The OPEB liability is not created by GASB 75. The OPEB liability is the result of the LEA's promise to provide postemployment benefits to its employees. The accounting standards establish a consistent methodology for accounting for that liability.

If GASB did not create the liability, where did the liability come from?

The postemployment benefit liability is the obligation of the LEA to make a payment in the future. LEAs have OPEB liabilities because of the promise to provide postemployment benefits to the employees in the future when those employees retire. For cost-sharing multiple-employer postemployment benefit plans (defined below), the LEA's contributions to the plan ensure that sufficient resources are available to make postemployment benefit payments. This relationship constitutes a liability.

About the State Health Benefit Plan (as provided in the Actuary Report, prepared as of June 30, 2016)

The State Health Benefit Plan is comprised of three health insurance plans: a plan primarily for State employees, established by O.C.G.A. § 45-18-2, a plan for teachers, established by O.C.G.A. § 20-2-881, and a plan for non-certificated public school employees, established by O.C.G.A. § 20-2-911. These health insurance plans are operated as one plan, and together they are referred to as the State Health Benefit Plan (SHBP). The statutes establishing the plans are referred to as "The Acts." The State Health Benefit Plan covers active employees, retirees, and their eligible dependents under The Acts for health insurance. Legislation was enacted in 2009 creating two separate OPEB funds, the Georgia State Employees Post-Employment Health Benefit Fund (the "State Employee OPEB Fund"), which provides for the payment of current and future retiree health benefits for State employees, and the Georgia School Personnel Post-Employment Health Benefit Fund (the "School Personnel OPEB Fund"), which provides for the payment of current and future retiree health benefits for teachers and non-certificated public school employees. The Georgia Department of Community Health (DCH) is the State agency responsible for obtaining the valuation of the two OPEB Funds.

The School OPEB Fund provides healthcare benefits for retirees and their dependents due under the group health plan for public school teachers, including librarians, other certified employees of public schools, regional educational service agencies and non-certified public school employees. Retiree medical eligibility is attained when an employee retires and is immediately eligible to draw a retirement annuity from any one of the three state retirement plans. The contribution into the OPEB is based on where the employee works, not the retirement plan the employee is a member of at the time of retirement. If elected, dependent coverage starts on the same day as retiree coverage. It also pays administrative expenses of the fund. By law, no other use of the assets of the School OPEB Fund is permitted.

Contributions to the State Health Benefit Plan

Contribution requirements of plan members and participating employers are established by the Board in accordance with each Appropriations Act and may be amended by the Board. The School OPEB Fund is substantially funded on a pay-as-you-go basis; that is, the annual cost of providing benefits will be financed in the same year as claims occur. However, additional contributions above the pay-as-you-go basis may be made at the discretion of the board.

Contributions to the OPEB plan are not the employer contributions for members to the SHBP. The employer contribution on a monthly basis funds current expenditures of the plan for active employees, current administrative fees, and a contribution into the OPEB plan for retirees. The contribution into the OPEB fund is determined by the State Health Benefit Plan administrators. The amount of the contribution cannot be determined by the LEAs. ***This is important to note that contributions during the measurement period and subsequent will have to be provided by the State Health Benefit Plan to the LEAs.***

Defined Benefit OPEB plan

A defined benefit OPEB is an OPEB for which the benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The OPEB may be stated as (a) a specified dollar amount; (b) an amount that is calculated based on one or more factors such as age, years of service, and compensation; or (c) a type of level of coverage such as prescription drug coverage or a percentage of health insurance premiums.

GASB Statement No. 75 established standards for defined benefit OPEB plans that are administered through trusts or equivalent arrangements in which:

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

Cost-sharing multiple-employer defined benefit OPEB plan

A multiple-employer plan whereas the OPEB obligations to the employees are pooled and the OPEB plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

The State Health Benefit Plan is a cost-sharing, multiple-employer defined benefit OPEB plan that is reported as an employee benefit trust fund in the Statewide Comprehensive Annual Financial Report.

Measurement date (measurement period) of the OPEB plan

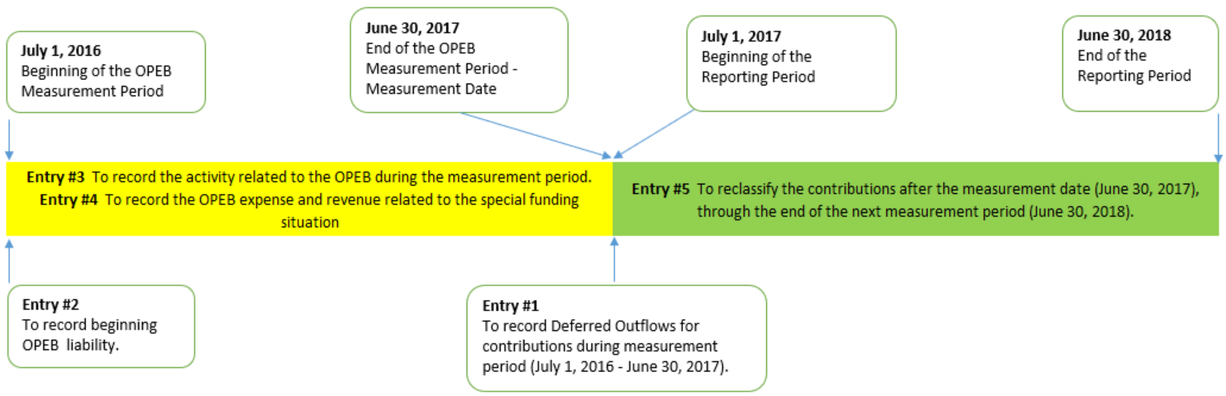
As with the treatment of the pension plan reporting, SHBP has agreed to provide the actuarial information for each LEA. One important item to note is that the plan information that will be used to record the liability is one year earlier than the reporting date. For June 30, 2018, the amount that is included is the amount actuarially determined as of June 30, 2017. The current OPEB activity posted by the LEA will also be one year earlier than the reporting period of July 1, 2017 through June 30, 2018. GASB 75 provides for this one-year lag in paragraph 147. The total OPEB liability must be determined using an actuarial valuation as of either: Option 1. the measurement date, or Option 2. Not more than 30 months and one day before the employer's most recent fiscal year end.

The SHBP OPEB plan has set June 30, 2017 as the measurement date for the first year of implementation. Using Option 2 above, the measurement date (June 30, 2017) is 12 months before the most recent fiscal year end (June 30, 2018).

Now that the measurement date is set, it is important to note that the LEAs are not only going to be required to post the liability as of June 30, 2017, but the LEAs will post the activity during the measurement period (July 1, 2016 through June 30, 2017). The measurement period includes all changes after the prior-year measurement date and through the current year measurement date. For our purposes during the initial implementation year, the measurement period is July 1, 2016 through June 30, 2017. Therefore, the LEAs will have to record a **restatement to beginning net position** (based on the liability at June 30, 2016), the current year OPEB plan activity (July 1, 2016 through June 30, 2017), and the ending OPEB liability (June 30, 2017).

Why restate beginning net position?

In the first year of implementing the new standards, the net position of the LEAs will decrease because the LEAs did not report an OPEB liability of any type in the financial statements. Because the liability has existed since the LEA began participation in the retirement plan, the restatement serves to record the liability that existed at that point in time, instead of booking the entire previous history as current year activity in the initial year the liability is recorded.



Contributions after the measurement date

Based on GASB Statement No. 75, contributions made to the OPEB plan after the measurement date (June 30, 2017) are considered Deferred Outflows of Resources (expenditures related to a future period) and should not be recorded as an expense at the government-wide level. The expenditures will remain at the fund level with no changes to current practice.

One thing to consider is that the LEAs record the contributions for employees on the accrual basis.

Additionally, the contributions to the State Health Benefit Plan (SHBP) by the employer includes the following costs: payment for current expenses for active employees; payment for administrative costs; and payment for the OPEB fund. Therefore, the contributions made by an LEA to the SHBP are not all for the funding of the OPEB. This is a change in concept as to how the contributions were addressed for pensions, as the entire monthly contribution by employers for the active employees was placed into a trust for the pension benefit for retired employees.

How does this change affect the way the adjustment will be made to the financial statements for contributions after the measurement date? DCH will provide the employers with the amounts of contributions, by employer, made to the OPEB plan for the reporting period of July 1, 2017 through June 30, 2018. The contributions for those months will be based on the contributions billed for those months by the OPEB, not by SHBP.

Additionally, DCH will provide the employers with the amounts of contributions during the measurement period, to restate beginning net position for the amount of contributions deferred as of July 1, 2016.

Expenditures reported on the general ledger for the school districts are, in most cases, for the months of September through August. The contributions reported for the OPEB plan measurement period are expenditures recorded July through June. The question becomes, should the actual expenditures on the general ledger be adjusted for the amount of contributions billed and distributed to the OPEB plan during the fiscal year, July through June?

The answer to the question above is NO. The contributions to the plan are based on the amounts billed July through June by the OPEB plan to the SHBP. The contributions by the LEAs at the fund level are based on the billings of the SHBP. The two situations are not identical, in that the payments to the SHBP include payment for current expenditures, administrative fees, and contributions to the OPEB. Therefore, there is no correlation for the timing difference between amount billed for July through June and the amount paid by the LEA into the plan for the contract periods of the employees.

The LEAs will reclassify the expenses that SHBP provides as contributions based on the billing period of July through June of the reporting period to Deferred Outflows of Resources. The difference between that amount and the amount of expenses paid to the SHBP will remain as expenses on the government-wide level and are considered to be a reasonable representation of the current period expenses and administrative fees of the State Health Benefit Plan.

Why the difference between what is recorded on the Governmental Fund Statements and the District-wide Statements?

The governmental fund statements and the government-wide statements report the OPEB related activities from two different perspectives.

The governmental fund statements report the annual contributions to the state health benefit plan that are billed for current expenditures of active employees, administrative fees, and funding of the OPEB trust plan. The Required Supplementary Information will report the 10-year trend information of the annual contractually required contributions. These contribution amounts reported will not tie to the financial statements, as the contributions to the OPEB plan are only part of the SHBP expense incurred annually by the LEAs.

The government-wide statements report the amount of liabilities that represent the benefits that employees have earned and, therefore, that the government has a present obligation to pay in the future. The total OPEB liability is the school district’s promise of benefits for work already performed. The net OPEB liability is the amount of the total OPEB liability in excess of the plan’s net position (fund balance).

What will be provided to record the journal entries and prepare the note disclosures?

The Department of Community Health has agreed to provide the detailed actuarial plan information. The information that DCH will provide is as follows:

- Required Disclosures and Supplementary Information – this packet will include all the journal entries and actuarial information required for the note disclosures and the supplementary information specific to each district. The following are examples of items provided:
  - Beginning Proportionate Share of Collective Net OPEB Liability as of June 30, 2016
  - Difference between expected and actual experience
  - Net difference between projected and actual investment earnings on OPEB plan investments
  - Changes in assumptions
  - Changes in proportion and differences between employer contributions and proportionate share of contributions
  - Total Employer Contributions to the School OPEB Fund
  - Schedule of Deferred Outflows of Resources and Deferred Inflows of Resources related to the OPEB plan.
  - Actuarial assumptions that were applied to the OPEB liability during the measurement period.
  - Schedule of the long-term expected rate of return on investments.
  - The district's proportionate share of the net OPEB liability to changes in the discount rate.
  - The district's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.

The items related to the actuarial assumptions are either Deferred Outflows of Resources (if the activity increases the liability) or Deferred Inflows of Resources (if the activity decreases the liability). It becomes confusing, but basically Deferred Outflows and Inflows are used because the changes in the OPEB plan are actuarially determined and represent a consumption of resources (Deferred Outflow) or an acquisition of resources (Deferred Inflow) that applies to a future period(s) and therefore will not be recognized as an expenditure or revenue until the future period in which it applies.

The items related to the actuarial determination of total employer OPEB expense represent the amount of expense that was actuarially determined. It is important to note that at the government-wide level, the actuarially determined expense is the expense that is required to be posted. The school districts currently record the contributions to the State Health Benefit Plan, which includes current expenditures, administrative costs, and contributions as an expense. In considering the OPEB liability at a specific measurement date, the plan is calculating the expense that is required by the school districts to fund their portion of the plan. The cash contributions to the plan are just that, cash contributions.

- Also provided is the OPEB GASB 75 Sample Note Disclosures – this packet will include all the general plan information that will be needed for each district's note disclosure. The school districts will have to complete using the information in the school district's packet described above.

What items will the school district provide?

- Total amount of SHBP amounts billed but not paid as of June 30, 2017 and June 30, 2018.

What items will GaDOE provide?

- An allocation worksheet that provides the percentage of benefit contributions by functional category for the SHBP for each school district.

It will be the responsibility of the LEAs to properly record the OPEB activity in the financial statements, the notes to the financial statements, and the required supplementary information. Please see instructions provided in a separate document.

What is the result of the change in accounting principles? Two sets of numbers

Both sets of numbers serve an important role in the financial statement representation.

- Government-wide Statements – follows GASB 75 to establish the standards for reporting the OPEB obligation. The numbers are intended to provide information about a government's financial status as of the end of the fiscal year (including OPEB liabilities) and the financial results of the current period's activities (including OPEB contribution expense).
- Governmental Fund Statements – follows the funding of the plan. Intended to address the approach for State Health Benefit Plan funding – the policy or statue regarding how much money the government will contribute to the State Health Benefit Plan each year.

How does this liability affect net position?

The net position of an LEA indicates whether the LEA currently has sufficient resources to satisfy its liabilities. It does not provide information about the amount of resources available to meet the LEA's immediate operational needs. Net position is affected by capital assets and the balance of long term debt obligations that are not recorded at the fund level. In the year of implementation, the OPEB liability will significantly reduce the net position of many governments, including LEAs.

A negative balance in net position essentially means that the LEA does not currently have all the resources needed to satisfy its liabilities. However, it is not necessarily an indication that the LEA is in dire financial difficulties. This negative balance is only on the government-wide financial statements. The General Fund - fund balance is not affected by the implementation of GASB 75.

Resources for preparation of guidance

- Governmental Accounting Standards Board Statement No. 75
- Governmental Accounting Standards Board Comprehensive Implementation Guide – Chapter 8 – Postemployment Benefits Other Than Pensions-Employer and Plan Accounting and Reporting Q&A
- www.dch.ga.gov