PUBLIC AGENCY RETIREMENT SERVICES PARS

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funding Rising opeb liabilities

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Gasb 45 & 75

- **GASB 45 is a national standard that every public agency with a retiree health care obligation must follow**

- **It is an accounting and financial reporting rule related to Other (than pension) Post-Employment Benefits (OPEB), but can also include pharmaceutical costs, dental, vision, life, long-term disability and long-term care benefits**

- **For the first time, GASB 45 made it a requirement that public agencies with OPEB benefits:**
  1. ***Quantify*** **their liabilities by preparing actuarial valuations**
  2. ***Account*** **for and disclose OPEB liabilities on public financial statements**

- **In 2015, GASB released a revision for GASB 45, known as GASB 75. Starting with fiscal years beginning June 15, 2017, *GASB 75 will require public agencies to account for and report their total OPEB liabilities on the face of their financial statements* - Similar to GASB 68 for pensions, this will create substantial increases in liabilities for agencies nationwide**

The problem with pay-as-you-go

"….relying on paygo to meet obligations has serious consequences. As annual spending on retiree health care grows, the fiscal squeeze already pressuring municipalities tightens further and forces cuts in basic services. Even if municipalities ignore their long-term obligations and do not pay down their retiree health care liabilities, they cannot escape the fact that those costs are rising and eroding the resources available for important services like education and public safety."

- Massachusetts Taxpayers Association Report, 2012

Reasons for prefunding

1. **Investing assets can result in a greater rate of return which in turn lowers liabilities**

2. Contributions into the trust are **“assets” which offset liabilities** on financial statements, per GASB 45

3. **GASB 75** will require agencies to report OPEB liabilities on their balance sheet from 2017 onwards (similar to GASB 68 with pensions)

4. **Credit rating companies** look more favorably on districts who adopt an irrevocable trust and pre-fund

5. Stabilizes costs so that increases in retiree healthcare rates do not take resources from classroom in the future

Impact of prefunding

Sample Massachusetts Regional School District

Valuation Date: June 30, 2014	Pay-As-You-Go Discount Rate: 4.50%	% Change	Pre-funding Discount Rate 7.50%
Actuarial Accrued Liability	$33,618,848	- ***38.21%***	$20,774,565
Actuarial Value of Assets	$0		$0
Unfunded Actuarial Accrued Liability (UAAL)	$33,618,848	***38.21%***	$20,774,565
Annual Required Contribution (ARC)	$3,325,710	***31.02%***	$2,293,966

Gasb 45 trust requirements

Under GASB 45, for a contribution to be considered an asset and offset a liability, it must:

1. Be in an irrevocable trust
2. Be for retiree healthcare benefits only such as medical, dental, vision etc
3. Not be accessible by creditors

What does irrevocable mean?

Trust must be established for the sole purpose of prefunding OPEB and all assets must remain in the trust until benefits have been exhausted.

But there is flexibility with an irrevocable trust:

- Assets can be used for any OPEB related costs, including the cost of actuarial studies
- Reimbursements can be made directly to the district, to healthcare providers, or directly to retirees (if OPEB policy allows)
- Employer has control of contribution amounts and when they are made
- Timing of distributions is flexible
- Once benefits have been exhausted, any remaining funds can revert back to employer

Trust compliance

In order for an OPEB Trust to be compliant with IRS and GASB and IRS rules, as well as state and federal law, it must be:

- **Structured as an IRC Section 115 Trust** – An IRS vehicle designed specifically to be used for retiree health care funding

- **IRS approved** – So that each participating agency, its employees, retirees, and beneficiaries are covered with critical **IRS tax-qualified status meaning that income earned on trust is non-taxable**

- **GASB 45 compliant** – Developed to comply with three requirements of GASB 45, the trust is **irrevocable, protected from creditors, and solely for payment of OPEB benefits**

New Massachusetts law

- An act to Modernize Municipal Finance and Government: Chapter 218 of the Acts of 2016
- Change necessary to clarify existing language of Chapter 32B section 20
- Calls for the establishment of OPEB trust funds to comply with legal requirements set by GASB and the IRS
- Regional School Districts are empowered to adopt Chapter 32B section and establish an OPEB Trust. However, now funding for the OPEB trust must be included in the District's proposed budget and approved by member towns

Trust compliance

- **Trustee and Trust Agreement/Documents** must legally validate the trust
- **Assets must be held separately -** Contributions must be irrevocable to comply with GASB 45, and considered "assets" that offset liabilities on financial statements
- **Provided for the exclusive benefit** of employees, retirees, and beneficiaries
- **Funds can revert back only** to district when no beneficiaries of the plan remain
- **Assets are permanently safeguarded** – increases security
- **Diversified investment options available** – Massachusetts Prudent Investor Law allows for higher actuarial discount rate

How is a trust adopted in Massachusetts?

1. **Adopt M.G.L. 32B:20 Other Post Employment Benefits Liability Trust Fund**
2. **Accept legally binding trust documents or Declaration of Trust** designating a trustee and establishing the trust as irrevocable and free from creditors
3. **Invest assets utilizing Prudent Investment Law** clarified in M.G.L. 203C
4. **Report District's OPEB assets and liabilities to PERAC** annually by December 31
5. Invest assets in accordance with the **Massachusetts Prudent Investor Law under M.G.L. c. 203C**

Pars retirement/separation incentives

- Since 1984, leading specialist nationally in the analysis, design, implementation, and administration of retirement/separation incentive plans for public agencies

- Tool to help agencies meet their fiscal and operational objectives by reducing labor costs and cash flow, restructuring departments, avoiding layoffs, and reducing top of the salary schedule employees

- PARS experience includes:

  ✓ ***700 plan implementations***
  ✓ ***30,000 retirements***
  ✓ ***Over 4,000 analysis/consulting reports***

- Utilizes unique 401(a) or 403(b) plan structure which brings advantages over simple cash payout option with regard to tax deferrals and the ability maximize the dollar for dollar benefit

Questions?