L&E
Actuaries & Consultants

GASB 74 / 75

Illinois Community College Chief Financial Officers – 2024 Spring Conference

April 2024

Retiree Healthcare Costs

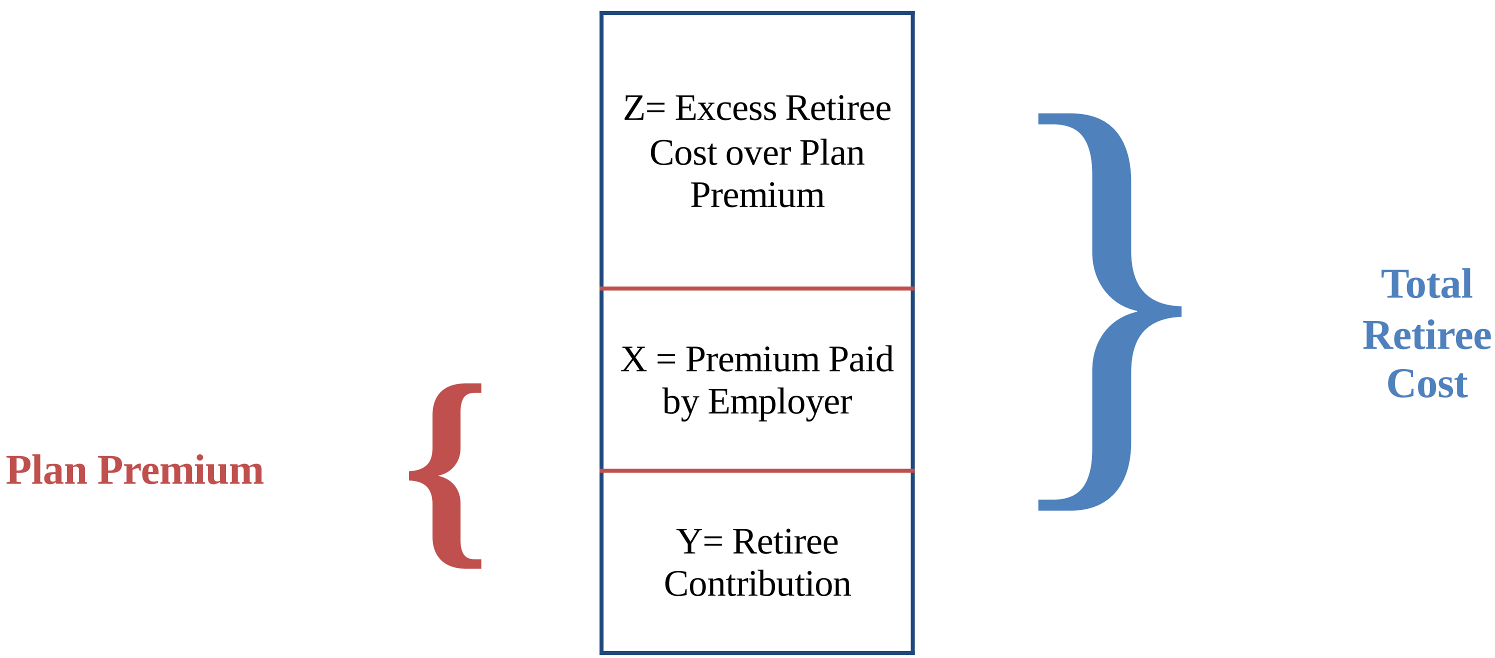
- Actuarial valuation is a modeling calculation process to estimate the present value costs associated with future retiree coverage. The scope of the valuation may involve funding and/or accounting standards compliance (i.e., GASB 74/75)
- *The employer cost is the "retiree benefit" or "employer contribution" or "employer cost" that forms the basis for the valuation.*
- For Self Funded = Claims + Admin Fees + Stop-loss Premiums – Retiree Contribution Premiums
- For Fully Insured = Age-Based Premiums – Retiree Contribution Premiums (Age-Based Premium →credible size group of like-age retirees rated/measured)
- On average costs increase as we age. (2% to 5% per year)
- A group at age 60 to 62 may cost on average 1.5 to 2.0 times the cost of a group at age 35 to 40.

Retiree Healthcare Costs

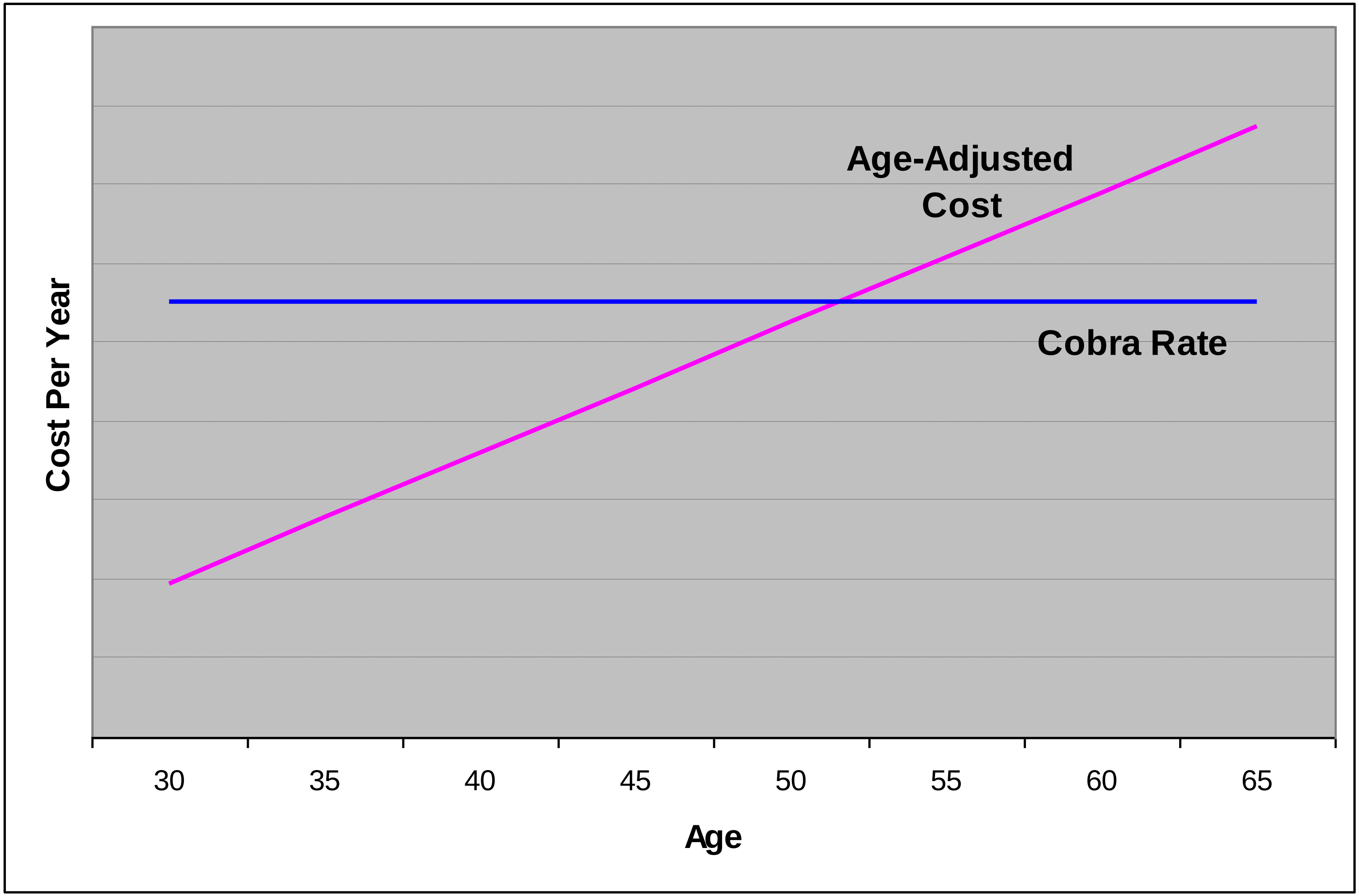
- ✓ Medicare retirees (no Part D)→ER plan costs are 70% to 80% Rx / 20% to 30% Medical (Medicare is primary for Medical)
- ✓ Pre-Medicare Retirees →ER Plan costs are 25% to 30% Rx / 70% to 75% Medical
- ✓ The employer cost may consist of direct and indirect components.
- ❑ The direct component is the portion of the plan premium directly paid by the employer.
- ❑ The indirect cost is the excess of the age-based cost over the plan premium. All else equal the plan premium will be lower over time if retirees are removed from the pool.

Retiree Healthcare Costs

- ✓ X + Y = Plan Premium and X is the direct ER cost component
- ✓ X + Y + Z = Total Age Based Cost and Z is the indirect ER cost component

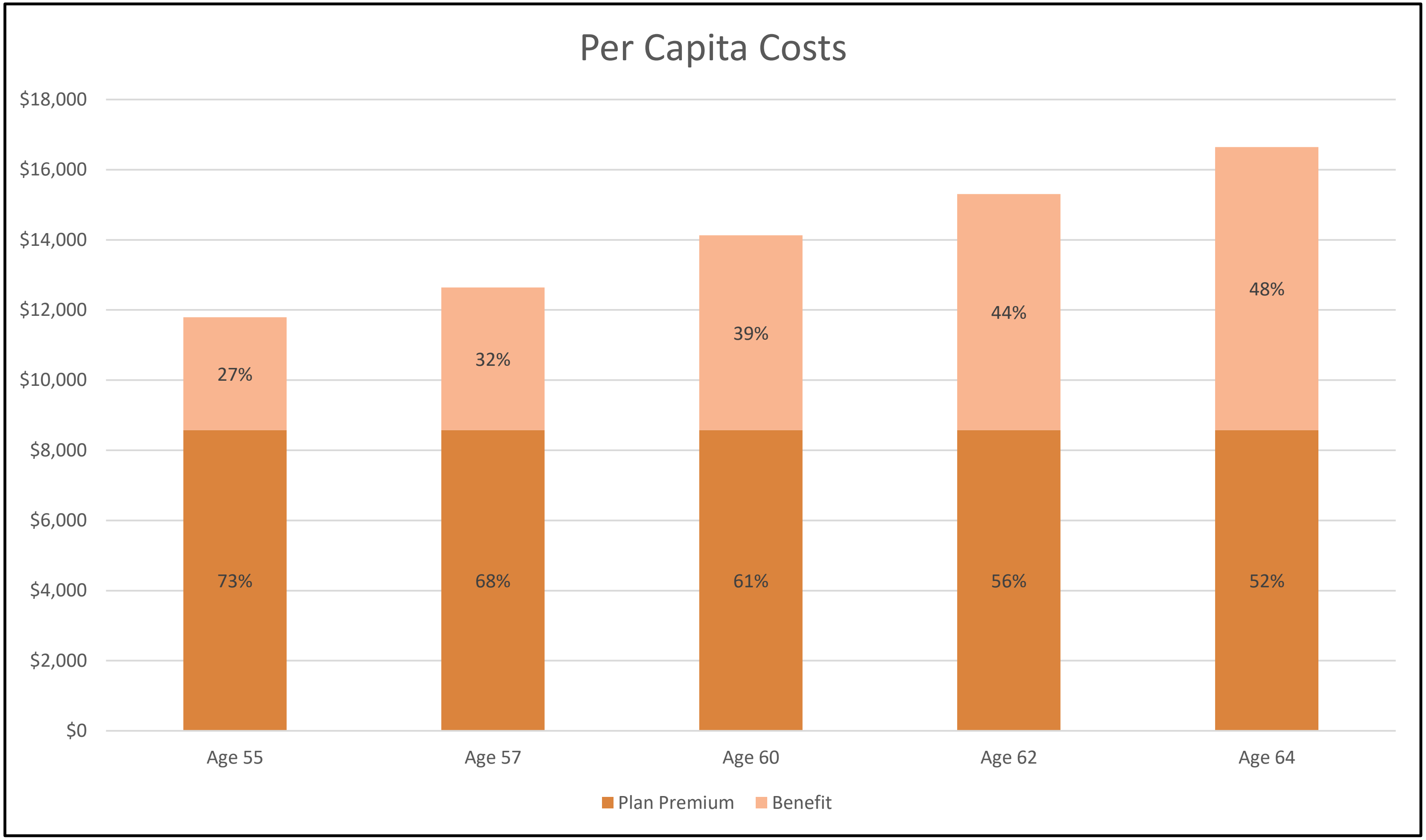


Cost Curve



Age-Adjusted Cost
Cobra Rate
Cost Per Year
30
35
40
45
50
55
60
65
Age

Client Example



GASB 74/75

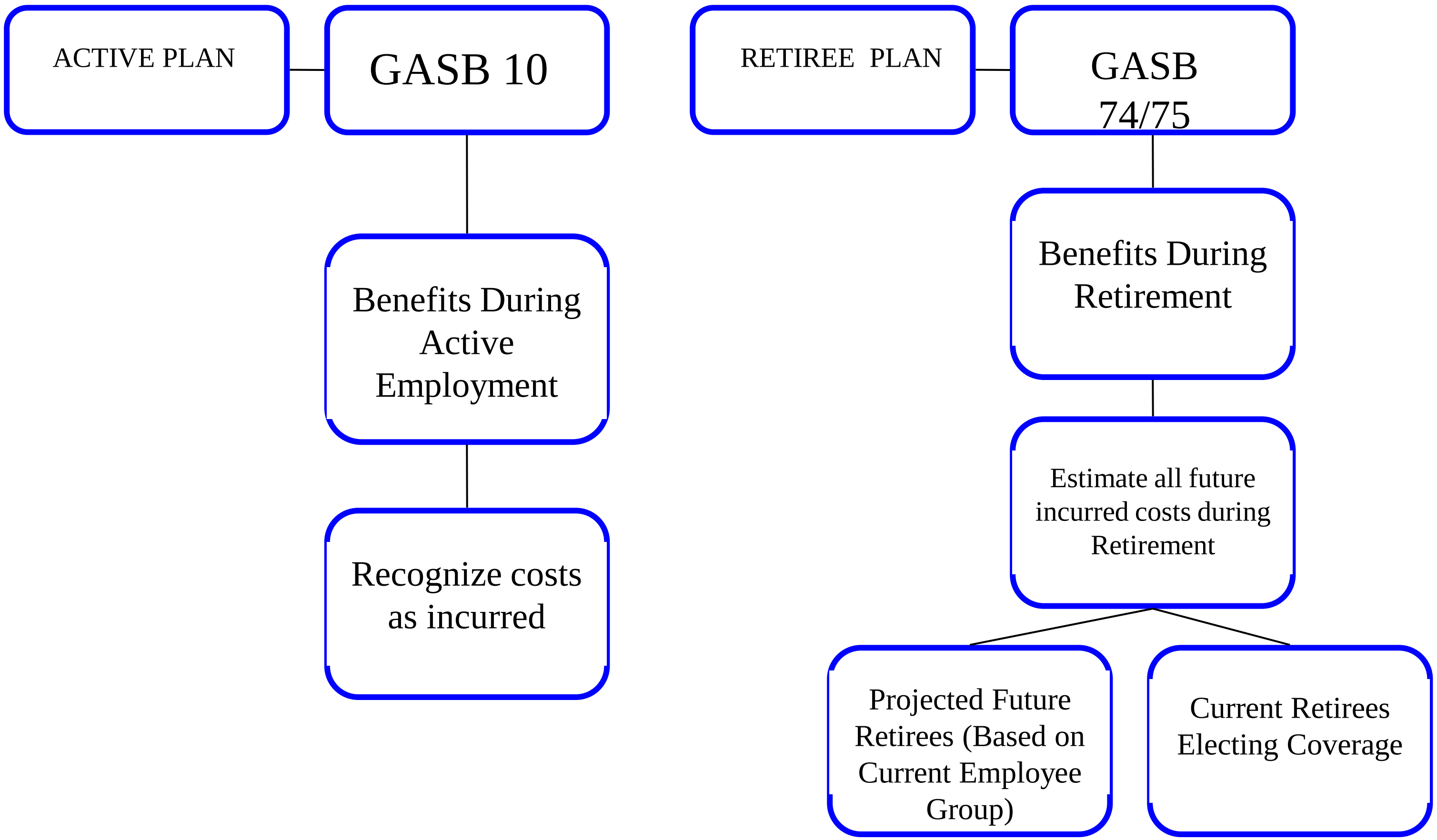
- Goal → Accrue for future retiree costs as benefits are earned instead of recognize on a pay-as-you go basis during retirement (similar to pension accounting)
- Consistency with pension accounting
- GASB 74 applies to plan (asset trust) reporting (replaced GASB 43) though no pre-funding is required
- GASB 75 applies to employer reporting (replaced GASB 45)
- OPEB or Other Post Employment benefits [Medical, Dental & Life]
- Present value of benefits is determined via an actuarial valuation

Who has to comply with GASB OPEB Standards?

- Offers more than COBRA coverage
- Does not charge retirees the full age-based cost
- Fully insured versus self-funded is not the issue. Are retirees charged a retiree only rate based on a credible size group of retirees?
- Follows Accrual accounting (not strictly required if cash basis though bond rating agencies could inquire)
- A benefit may also apply regarding retiree life insurance if retirees are not charged a separate “retiree” rate

Non-compliance may be an important factor for bond issuance and/or the audit.

Active Plan vs. Retiree Plan



Terms

- Actuarial Present Value (Past, Present, Future)
- Actuarial Accrued Liability (AAL) – Past
- Service Cost – Present
- Interest Cost (change in present value due to passage of time)
- Total OPEB Liability
- Fiduciary Net Position (but no funding required)
- Net OPEB Liability
- OPEB Expense
- Reporting Date
- Valuation Date
- Measurement Date

Terms

- GASB 75 – Total OPEB Liability = Actuarial Accrued Liability (AAL)
  Net OPEB Liability = Total OPEB Liability minus Plan Assets

- Detail of changes in Total OPEB Liability from one period to the next must be calculated and tracked
  - Changes in Benefit Provisions (fully recognized currently in expense)
  - Changes in Actuarial Assumptions
  - Differences between expected and actual experience

- OPEB Expense = Components of change in the AAL with deferral and amortization over average remaining service lives for certain items. (must track amortization bases until fully amortized)
  - Amortization over average remaining service life

Date Definitions

- ***Reporting Date*** equals the fiscal year end (FYE).
- ***Actuarial Valuation Date*** equals the census data collection date generally coinciding with the date as of which an actuarial valuation is performed. Must be performed as of a date no more than *30 months and one day prior to the employer's current FYE.*
- ***Measurement Date*** equals the date as of which the Net OPEB liability is measured. May be selected from a range *starting no earlier than the end of the employer's prior FYE and ending no later than the reporting date*. When the actuarial valuation date does not equal the measurement date actuarial calculations are used to project results to the measurement date.
- When measurement date does not equal valuation date, must report deferred outflows = employer contributions from measurement date to reporting date.

Other Items

- Full update valuations every 2 years regardless of size
- Interim years – No “full update” but re-measurement required
- Must complete a full valuation for an otherwise interim year if material changes in the census or benefit arrangement (Some examples are an early retirement offer, enrollment shift in medical options, significant layoffs, change in retiree contribution policy)
- For unfunded plans discount rate is based on published bond rate as of the measurement rate. Report can’t be completed until after the measurement date.
- Benefit changes enacted and made public as of the year-end measurement date are valued/projected even though changes may not come into effect until future periods.
- Spouse coverage provisions can have a material impact. What spouse coverage is available upon retiree death or retiree attainment of age 65?

Information for Valuation

- Census data (actives and covered retirees) as of the valuation date
- Retiree Benefit Eligibility and Spouse coverage provisions
- Plan premium rates and Retiree premium rates
- Schedule of Benefits for each plan option
- Admin Fee Rates and Stop-loss premium rates if self-funded
- Monthly paid claims experience and enrollment
- Plan renewal detail if fully insured
- Plan document and/or policy provision document
- Participation Experience (How many that retired elected coverage?)
- Projected average salary growth per employee (may be a flat number such as 3%, or differ by service or some other variable)

Assumptions for Actuarial Valuation

- Decrement (Retirement, Turnover, Disability, Mortality)
- Discount Rate – The expected yield on 20-year, tax-exempt, municipal bonds of quality rating AA or higher; otherwise, the expected return on assets in an irrevocable trust to the extent that benefits may be paid from such assets.
- We use S&P Municipal Bond 20 Year High Grade and Fidelity Municipal General Obligation (20 Year) Indexes
- Expected Costs by Age (involves claim analysis)
- Healthcare Cost Trends function of usage, technological developments and unit prices
- Participation Rates (retiree and dependent)
- Proportion of retirees dropping upon attaining age 65
- Salary Scale

An Example – Pre-65 Retiree Health Plan

- Plan Specifics
  - Actives pay 20% of the blended rate ($1,200 = $6,000 x 20%)
  - Retirees pay 100% of the blended rate ($6,000)
  - Plan has 500 Actives (age 40) and 40 Retirees (age 60)

Retiree rates based on blended premium rates:

	Actives	Retirees	Total
Blended Premiums-$6,000 PMPY	$3,00,000	$240,000	$3,240,000
Less: Participant Contributions	600,000	240,000	840,000
Employer Cost	$2,400,000	-0-	$2,400,000

An Example – Pre-65 Retiree Health Plan

- Projected average age-adjusted cost is split as follows:
  Retirees = $10,196   Actives = $5,664

Employer Contributions based on age-based costs:

	Actives	Retirees	Total
Age-adjusted Costs	$2,832,160	$407,840	$3,240,000
Less: Participant Premiums	600,000	240,000	840,000
Employer Contributions	$2,232,160	$167,840	$2,400,000

The expected cost (PMPY) of retiree coverage is $10,196 of which the retiree contributes $6,000. The difference of $4,196 equals the benefit that forms the basis for valuation.

An Example – Pre-65 Retiree Health Plan

- Accounting Entries for GASB 75:
  - OPEB Expense $xxx
    OPEB Liability $xxx
    To accrue for OPEB Expense
  - Change in Def Inflows/Outflows $xxx
    OPEB Liability $xxx
    To record Change in Def Inflows/Outflows
  - OPEB Liability $167,840
    Cash (or Group Health Expense) $167,840
    To record amount of Employer Contributions
- Key – Active and Retiree costs must be analyzed <u>separately</u> to comply with GASB

An Example – Pre-65 Retiree Health Plan

- An actuarial valuation is performed.

Present Value of Future <u>Retiree</u> Costs (future ER Contributions)

Period	Actives	Inactives	Total
Service Cost	300,000	0	300,000
Past-AAL	7,800,000	700,000	8,500,000
Future-All Other	6,000,000	0	6,000,000
	$14,100,000	$700,000	$14,800,000

Service Cost ($.3 million) is part of Expense.
The AAL is the Total OPEB Liability. ($8.5 million)
These are based on the PV of Benefits ($14.8 million)

Questions ? ?

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