What are Postemployment Benefits?

- If districts offer benefits to employees after they retire, these benefits are called postemployment benefits.
- Postemployment benefits include health, dental, and vision insurance as well as items such as life insurance.

What are Postemployment Benefits?

- Postemployment benefits are part of the employee’s total compensation.
- Postemployment benefits are offered to attract and retain qualified employees.
- Postemployment benefits are typically negotiated as part of the union contracts.

CSEA Contract Language:

- The Board will provide medical benefits and dental benefits as described in the benefits handbook available in the Office of Human Resources for an eligible retired member of the unit, and spouse/domestic partner, continuing during the life of the retired member of the unit and, following the death of the retired member, the un-remarried surviving spouse/domestic partner.
What are Postemployment Benefits?

- CSEA Contract Language

9.4.1 To be eligible for District-paid retiree medical benefits, the retiree must have ten (10) full years of service with the District, and the age at retirement of the retiree (in full years) when added to the number of completed full years of service must total 75 or more. For a year of service to be counted, the assignment must have been such that the employee was eligible for medical insurance benefits if such benefits were available to employees. Retirees with five (5) full years of service with the District who do not qualify as stated above, shall have the option of participating, at their own expense, in the PERS Health Plan System as described in the benefits handbook available in the Office of Human Resources.

The Postemployment Liability

- The calculated amount (total estimated cost) of the postemployment benefits earned (based on the contract language) as of a certain date is the postemployment benefit liability.
- The services of an actuary are needed to calculate the postemployment liability.

The Postemployment Liability

- The actuary estimates the amount of the postemployment liability based on the district’s contract language, the number of employees (retired and active), other information about the district employees and its health benefits, and assumptions based on the industry standards.

The Postemployment Liability

- The actuarial report provides the information needed to determine the postemployment liability and manage the liability.

Funding the Liability

- Historically, school districts have operated on the pay-as-you-go method of accounting and funding postemployment health benefits.

Funding the Liability

- The pay-as-you-go method means that you pay the amount due each year, but have not accumulated the funds necessary to fund the liability based on an actuarial method. This is similar to paying the minimum due on your credit card.
Funding the Liability

- Some districts have established a fund to accumulate resources to pay for these postemployment benefits, but in most instances the accumulated resources do not equal the actuarial amount needed to fund the liability.

GASB Statement 45

- This statement establishes standards for the measurement, recognition, and display (in financial statements) of other postemployment expense/expenditures and the related liabilities (assets), note disclosures, and if applicable, require supplementary information in the financial reports of state and local government employers.

GASB Statement 45

- GASB Statement 45 requires:
  - Actuarial studies to measure the amount of the postemployment liability.
  - Accounting for the postemployment liability.
  - Disclosures in the annual audit report on the liability, the funded status, and the funding progress.
  - The statement does not require funding the postemployment liability or address funding methodologies.

GASB Statement 45

- Other Post Employment Benefits (OPEB) Plans
  - There are 2 types of OPEB Plans
    - Defined Benefit Plans
    - Defined Contribution Plans
  - SMCCCD has a defined benefit plan

GASB Statement 45

- The term plan refers to an employer’s commitment or agreement to provide OPEB including provisions or understandings regarding
  - The plan membership
  - Eligibility for benefits
  - The types of benefits to be provided
  - The time when payment of the benefits will begin and end
  - The method of financing the benefits

GASB Statement 45

- In school districts, the plan is usually defined in contract language or understandings between the district’s employees and management.
  - The implementation of GASB Statement Number 45 will likely result in more formal plan documents.
  - As employees gain a better understanding of OPEB, they will also be interested in how the plan is funded.
GASB Statement Number 45 requires employers to report their OPEB costs and obligations using the accrual method of accounting.

- Employers are not required to fund the liability.
- Employers may stay on the pay-as-you-go method for making payments, but the accounting entry is on the accrual basis of accounting.

Accounting for GASB 45

Remember in governmental accounting, only the proprietary and trust funds (bookstore, cafeteria, student body and financial aid) are accounted for on full accrual at the fund level. The government-wide statement is also prepared on full accrual.

From an accrual accounting perspective, the cost of other postemployment benefits, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs, rather than the periods (often many years later) when benefits are paid or provided.

In current practice, SMCCCD’s OPEB are financed on a pay-as-you-go basis, and our financial statements do not report the financial effects of OPEB until the promised benefits are paid.

We are making payments for OPEB on a pay-as-you-go basis; the district is paying the premiums for retirees as they come due for payment.

The retirees receiving the OPEB benefits rendered the service that earned the benefit while they were employed -- which may have been many years ago.

On the pay-as-you-go method of accounting, the district is not reporting the liability for the benefits earned by current employees.

On the pay-as-you-go method of accounting, the district does not make any payments for the liability until the employee retirees and begins receiving the benefits.
Accounting for GASB 45

- Compare this to PERS or STRS (accrual accounting)
  - For PERS and STRS, the district makes a payment to PERS and STRS each month.
  - The monthly payments to PERS and STRS represent the actuarial value of the benefit earned each month.
  - For PERS and STRS, the district is paying the liability for the benefit earned each month as it occurs each month.

Accounting for GASB 45

- The payments to PERS and STRS are made many years before the employee will actually retire. These payments accumulate and earn interest in advance of the employee’s retirement.
- Once the employee retires, the district does not have any additional liability for the PERS or STRS pension benefits and makes no further payments on their behalf.

Measuring OPEB

- The OPEB liability is composed of the following:
  - The cost of the total remaining payments due for everyone currently retired. That is, how much the district is required to pay each year for the district’s retirees until the district no longer has an obligation (based on contract language) to the retirees.

Measuring OPEB

- Plus
  - An estimated cost for everyone who is currently working and meets the criteria to earn the benefit.
- But
  - No estimated cost for anyone who has not yet been employed by the district (future hires/employees).

Measuring OPEB

- Project our future cash flows for benefits. That is, how much are we going to pay in each of the next 30 years.
- Discount the projected benefits to determine the present value of the benefits. This is done to determine the necessary accounting entries.
- Allocate the present value of benefits for past, present, and future periods. This is done as part of the accounting entries.

Annual OPEB Cost

- This is the amount of the accounting entry the district will need to make in its books.
- The employer’s net OPEB obligation (or asset) is the cumulative difference between the annual OPEB cost and the employer’s contribution to the plan, including the OPEB liability or asset at the beginning of the year, if any.
Annual OPEB Cost

- The employer’s net OPEB obligation (or asset) is the liability (or asset) recognized in the employer’s government-wide statement of net assets, and in the financial statements of proprietary or fiduciary funds.

Annual OPEB Cost

- There is no requirement to apply this statement retroactively; therefore, the net OPEB cost in the year the district implements GASB Statement 45 is zero.

Annual OPEB Cost

- The OPEB cost is equal to the employer’s annual required contribution to the plan (ARC) with certain adjustments if the employer has a net OPEB obligation for past under or over contributions.
  - Although the ARC is called the “employer’s annual required contribution”, it is actually the required accounting entry, not the required funding.

Annual OPEB Cost

- The annual OPEB cost should be included in the notes to the financial statements as a benchmark against which the amount actually contributed by the employer is compared.
  - The annual OPEB cost is the amount that should be recognized as an expense in relation to the ARC in accrual basis financial statements.

ARC

- The OPEB liability is composed of the amount the district will need to pay for people currently employed (normal cost) and the amount the district will need to pay for people already retired.
  - The normal cost is the cost of the benefits earned each year if benefits are accrued during the working lifetime of employees.

ARC

- The normal cost is also the increase in the liability each year for employees currently working.
  - The district will always have a normal cost as long as there are covered active employees providing services to the district.
The component for amortization of the total unfunded actuarial accrued liabilities of the plan over a period of 30 years is the present value of the total liabilities for retirees amortized over 30 years (divided by 30).

Two parts:
- What we are accruing each year for current employees who are continuing to earn OPEB
- What we owe for past earnings of both current and retired employees, amortized over 30 years

A district can deduct from its total liability and thus its amortized ARC contributions made to the plan:
- Benefit payments made directly to or on behalf of a retiree or beneficiary
- Premium payments made to an insurer
- Assets transferred irrevocably to a trust, or equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer or plan administrator

SMCCCD has set aside $24M for OPEB
In calculating the ARC, because these funds are not in an irrevocable trust, they cannot reduce our liability
However, we can use them to count as part of our ARC every year
We are making payments every year
The fund continues to earn interest

Completed at least every 2 years
The ARC reported for the employer’s current fiscal year should be based on the results of the most recent actuarial valuation.

The projection of benefits in the actuarial report should include all benefits covered by the current substantive plan (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided.
Implementation
- Phase II
- Fiscal year 2008-2009
- Governments with total annual revenues of $10 million or more, but less than $100 million in 1999-2000.

Summary
- What is OPEB?
- Why do we care?
- What are we going to do about it?

Questions?

Glossary of Acronyms
- ARC: Annual Required Contribution
- GASB: Governmental Accounting Standards Board
- OPEB: Other Postemployment Benefits