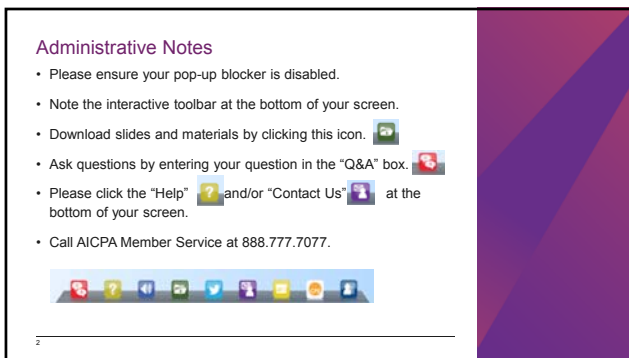






**OPEB - GASB 75:
Special Emphasis and Considerations
for Nontrusted Plans**


A Governmental Audit Quality Center Web Event

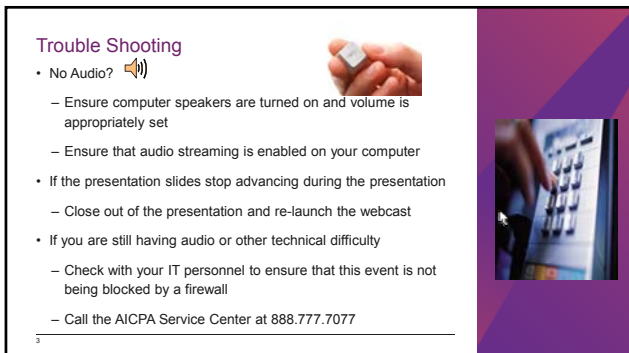
October 10, 2017




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4




Presenters

Joel Black, CPA
Mauldin & Jenkins CPAs, LLC

Stephen W. Blann, CPA, CGFM, CGMA
Rehmann, LLC


5

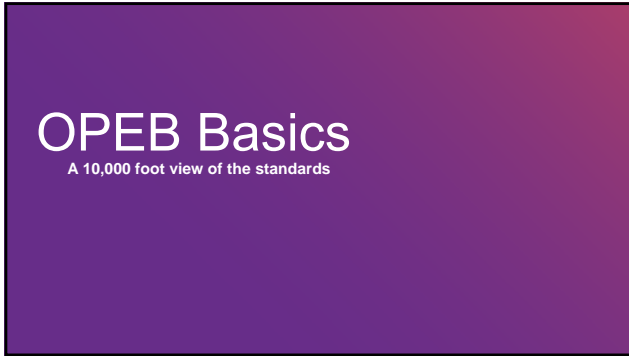


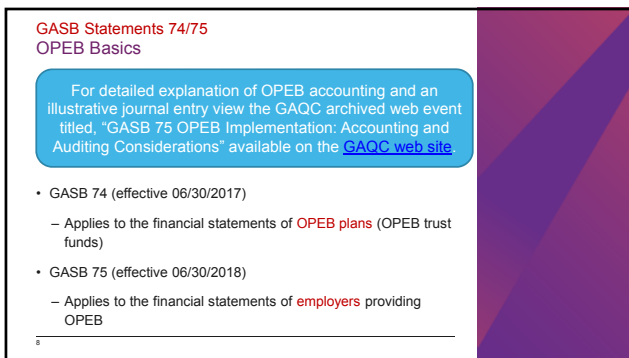
What We Will Cover

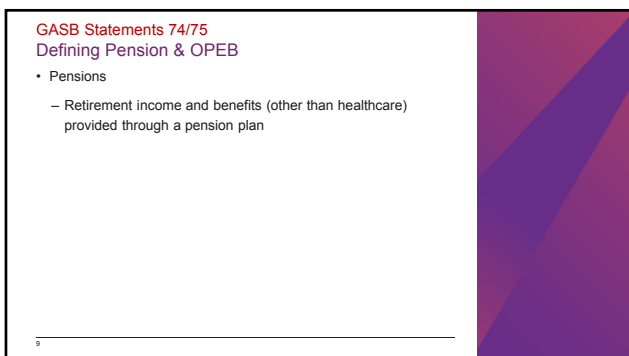
- How the new other postemployment benefits (OPEB) requirements differ from GASB's requirements for pensions
- The differences in accounting treatment when OPEB is administered through a trust versus when it is not administered through a trust
- The significant inputs and assumptions to OPEB elements
- Auditing considerations from the employer auditor's perspective with an emphasis on audit evidence relevant to OPEB not administered through a qualifying trust (nontrusted plans)

6









GASB Statements 74/75
Defining Pension & OPEB

- OPEB
 - All postemployment healthcare benefits
 - Medical, dental, vision, hearing, etc.
 - Regardless of whether provided by a pension plan
 - Postemployment benefits other than retirement income not administered by a pension plan
 - Death benefits, life insurance, disability, long-term care
 - Excludes **termination benefits**

10

GASB Statements 74/75
Defining Pension & OPEB

- **Termination benefits** (GASB 47):
 - An inducement to hasten the termination of services (e.g., early retirement incentives)
 - May be voluntary or involuntary
 - Requires professional judgment to determine employer's intent and employee's understanding
 - Recorded at the NPV of the benefits to be paid when the agreement is made (*not* OPEB)

11

GASB Statements 74/75
Defining Pension & OPEB

Pensions = OPEB

- GASB has determined that OPEB plans are conceptually similar to pensions, and has largely replicated the guidance from GASB 67/68 in GASB 74/75
 - Incorporates amendments from GASB 71 and 73
 - Retains requirement for actuaries to consider the **implicit rate subsidy**
 - Retains the option for small plans to use the **alternative measurement method**

12

GASB Statements 74/75
Net OPEB Liability (NOL)

Pensions = OPEB

- Recorded by the employer (not the plan)
- Equal to the actuarially determined total OPEB liability (TOL), less the **net position** of the OPEB trust fund
 - Nontrusted plans just report the TOL
- Recorded in full accrual financial statements [certain portions are offset by deferred outflows/inflows of resources (deferred O/I) and amortized]

13

GASB Statements 74/75
TOL

Pensions = OPEB

- Calculated by the actuary:
 - Project future benefits
 - Discount to present value
 - Attribute present value to specific periods

Hire Today Retirement Death

14

GASB Statements 74/75
TOL

Pensions = OPEB

- Calculated by the actuary:
 - Project future benefits**
 - Discount to present value
 - Attribute present value to specific periods

Hire Today Retirement Death

Future Benefits

15

GASB Statements 74/75
TOL

Pensions = OPEB

- Calculated by the actuary:
 - Project future benefits
 - Discount to present value
 - Attribute present value to specific periods

16

GASB Statement 74/75
TOL

Pensions = OPEB

- Calculated by the actuary:
 - Project future benefits
 - Discount to present value
 - Attribute present value to specific periods

17

GASB Statements 74/75
Key Actuarial Changes

Pensions = OPEB

- Actuarial cost method
 - Entry Age, Level Percent of Pay
 - Project future benefits using age-adjusted premiums (implicit rate subsidy)
- Small plans (fewer than 100 members) may use the alternative measurement method that does not require an actuary

18

GASB Statements 74/75
Key Actuarial Changes

Pensions = OPEB

- Expected return/discount rate
 - Single blended rate comprised of:
 - Expected rate of return (years w/ sufficient assets)
 - AA 20 year muni bond rate (years w/ insufficient assets)
 - A lower discount rate produces a higher liability and vice versa

19

GASB Statements 74/75
Key Actuarial Changes

Pensions = OPEB

- Amortization of unfunded liability
 - GASB 45 permitted wide latitude in amortization periods
 - GASB 75 requires:
 - Plan changes – immediately
 - Assets returns other than expected – 5 years
 - Other actuarial liability gains and losses – average future service life of *all* plan members (including inactive)

20

GASB Statements 74/75
Key Actuarial Changes

Sensitivity analyses

- Changes in the discount rate

	1% Decrease (6.6%)	Discount Rate (7.6%)	1% Increase (8.6%)
Net OPEB liability (asset)	\$ 64,687	\$ 6,366	\$ (41,620)

- Changes in the healthcare cost trend rate

	1% Decrease (8.8% decreasing to 4.8%)	Healthcare Cost Trend Rates (9.5% decreasing to 8.5%)	1% Increase (10.5% decreasing to 8.5%)
Net OPEB liability (asset)	\$ (61,284)	\$ 6,336	\$ 66,512

21

GASB Statements 74/75
Measurement Date (MD)
 If not already as of MD, actuarial valuation must be rolled forward to MD

GASB 74 - Employer Standard
 Measurement of the TOL in employer's financial statements must be as of a date no earlier than the end of the employer's prior fiscal year.
 Measurement must be based on an actuarial valuation performed within 30 months plus 1 day of the employer's year-end. If actuarial valuation not performed as of MD, update procedures must be performed to roll forward amounts to MD.

GASB 75 - Plan Standard
 Measurement of the TOL in plan's financial statements must be as of the plan's fiscal year end.
 Measurement must be based on an actuarial valuation performed with 24 months of the plan's year-end. If actuarial valuation not performed as of the MD, update procedures must be performed to roll forward amounts to MD.

22

GASB Statements 74/75
MD Considerations

- A good MD should:
 - Facilitate timely financial reporting
 - Minimize the need for roll-forwards from the valuation date
 - Facilitate a quality actuarial valuation by:
 - Allowing ample time for the gathering of related census and claims data
 - Coincide adequately with the plan year to be able to incorporate the most recent changes in plan provisions.
 - Avoid different MDs for plan and employer when plan financial statements are included in the employer's financial statements.

23

Determining OPEB Expense

- GASB defines OPEB expense almost identically to that of pensions:
 - Begin with the change in liability from beginning to ending MD
 - Defer any amounts specifically required by GASB 75
 - Actuarial gains (inflows) and losses (outflows)
 - Difference between expected and actual investment return Not for contract
 - Defer an outflow for contributions (trust) or employer OPEB payments (non-trust) made subsequent to the MD
 - Amortize and recognize into expense deferred O/I from previous years

24

Recap of GASB 75 Reporting

	Description	Trust meeting par. 4	Non-Trust
1	Recognize in Statement of Net Position	NOL	TOL
2	Present Value for TOL determined using:	Long term rate of return (LTROR) or single blended rate of LTROR and AA 20 year Municipal Bond Index	AA 20 year municipal bond index
3	Recognize in Statement of Net Position	Deferred O/I for both TOL and Investments	Deferred O/I for TOL only
4	Recognize in Statement of Net Position	Deferred outflow for contributions after MD	Deferred outflow for OPEB payments after MD
5	OPEB related assets	Recorded in Plan FS and used to determine Plan Fiduciary Net Position	Recorded in appropriate governmental or proprietary fund
6	OPEB expense	Change in the NOL with appropriate deferrals and amortization	Change in TOL with appropriate deferrals and amortization

25

Employer Note Disclosures – Descriptions

Plan Description	A	B	C	D
Name of plan, administrator of plan, and type of plan	✓	✓	✓	✓
Benefit terms, including (1) classes of employees covered, (2) types of benefits, (3) key elements of OPEB formula, (4) terms or policies with respect to automatic benefit changes, including ad hoc cost of living adjustments (COLAs), (5) legal authority	✓	✓	✓	✓
Number of employees covered	✓	✓		
Fact that no assets accumulated in a trust			✓	✓
Contribution requirements, including (1) authority under which contributions made, (2) legal or maximum contributions rates, (3) contribution rates, and (4) contributions made	✓	✓		
Authority under which to pay OPEB benefits as they come due and amount				✓
Availability of audited plan financial statements	✓	✓		

A = Trusted: Single/Agent

B = Trusted: Cost-sharing

C = Non-Trusted Single

D = Non-Trusted Primary Govt (PG) + Component Unit (CU)
(stand-alone reports only)

26

Employer Note Disclosures – Assumptions

Assumptions and Other Inputs	A	B	C	D
Significant assumptions, including inflation, healthcare cost trend rates, salary changes, postemployment benefit changes	✓	✓	✓	✓
Source of mortality assumptions	✓	✓	✓	✓
Dates of experience studies	✓	✓	✓	✓
Fact that projections of sharing of benefit costs based on established pattern of practice	✓	✓	✓	✓
NOL sensitivity to healthcare cost trend rate (±1%)	✓	✓		
TOL sensitivity to healthcare cost trend rate (±1%)			✓	✓

A = Trusted: Single/Agent

B = Trusted: Cost-sharing

C = Non-Trusted Single

D = Non-Trusted PG + CU
(stand-alone reports only)

27

Employer Note Disclosures – Discount Rates

Discount Rate	A	B	C	D
Discount rate used	✓	✓	✓	✓
Assumptions about projected cash flows	✓	✓		
Long-term expected rate of return on plan investments and how determined	✓	✓		
Municipal bond rate used	✓	✓	✓	✓
Periods of projected benefit payments applied to long-term rate of return and municipal bond rate, if applicable	✓	✓		
Assumed asset allocation and long-term expected real rate of return for each major asset class	✓	✓		
NOL sensitivity to discount rate (±1%)	✓	✓		
TOL sensitivity to municipal bond rate (±1%)			✓	✓

A = Trusted: Single/Agent

B = Trusted: Cost-sharing

C = Non-Trusted Single

D = Non-Trusted PG + CU (stand-alone reports only)

Employer Note Disclosures – Additional Items

Additional Disclosures	A	B	C	D
Information about plan's fiduciary net position if report not publicly available	✓	✓		
Schedule of changes in NOL	✓			
Schedule of changes in TOL			✓	
MD	✓	✓	✓	✓
Actuarial valuation date	✓	✓	✓	✓
Employers proportionate share of net (total) OPEB liability and basis for allocation	✓	✓		✓
Changes in assumptions and benefit terms	✓	✓	✓	✓
Changes subsequent to MD	✓	✓	✓	✓
OPEB expense in current period	✓	✓	✓	✓
Balance of deferred OI by source and aggregate impact on OPEB expense in each of next 5 years and thereafter	✓	✓	✓	✓

A = Trusted: Single/Agent

B = Trusted: Cost-sharing

C = Non-Trusted Single

D = Non-Trusted PG + CU (stand-alone reports only)

Employer Required Supplementary Information

10-Year Schedules	A	B	C	D
Changes in NOL by source	✓			
Components of NOL and related ratios	✓			
Proportionate share of NOL		✓		
Employer contributions	✓	✓		
Changes in TOL by source			✓	
TOL as a percentage of covered employee payroll				✓
Proportionate share of TOL				✓

A = Trusted: Single/Agent

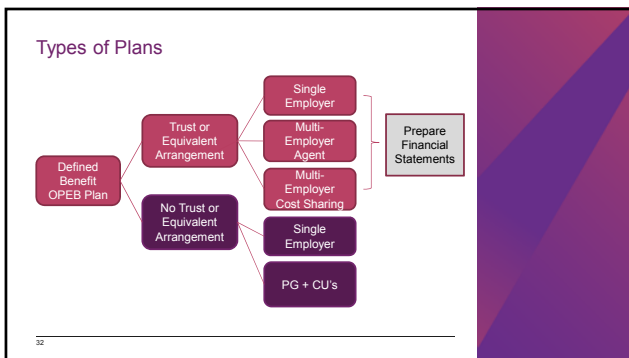
B = Trusted: Cost-sharing

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D = Non-Trusted PG + CU (stand-alone reports only)

To Trust or Not to Trust

That is the question...



GASB Definition of a Qualifying Trust

Pensions - OPEB

- Paragraph 4 of GASB 75 creates three "substance over form criteria" for determining whether the plan qualifies as a trust
 - Contributions from employers and non-employer 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, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

GASB Definition of a Qualifying Trust

- If a government is funding its OPEB through a non-qualifying trust, the assets should be reported in a governmental or proprietary fund
 - This way the assets will be reported on the financial statements to offset the TOL
 - Use an agency fund only if holding OPEB assets in a non-qualifying trust for another government

34

GASB Definition of a Qualifying Trust

- GASB Implementation Guide (Exposure Draft)
 - Trust agreement calls for a return of amounts remaining in trust once all obligations have been fulfilled
 - *Qualifying trust*
 - Trust agreement calls for a return of trust assets to an employer if funded status reaches a specified level
 - *Not a qualifying trust*

35

GASB Definition of a Qualifying Trust

- GASB Implementation Guide (Exposure Draft)
 - Trust reimburses employer for OPEB benefits paid as they come due
 - *Qualifying trust*
 - A single trust is used for both OPEB and some other benefit that is not OPEB (e.g., pensions or active employee healthcare)
 - *Not a qualifying trust, unless the "OPEB partition" of the trust is dedicated solely to providing OPEB*

36

GASB Definition of a Qualifying Trust

- GASB Implementation Guide (Exposure Draft)
 - Trust A is a qualifying OPEB Trust, that pays benefits. A second trust (Trust B) is established for the sole purpose of making payments to Trust A.
 - Trust A is a qualifying OPEB trust
 - Trust B is not a qualifying OPEB trust, as it does not make benefit payments; it is reported as employer assets

37

Debits and Credits
Non-Trusted OPEB Plans

Transition

- Beginning deferred outflow of resources for contributions/OPEB payments if any, subsequent to the MD of the beginning OPEB liability
- All other deferred O/I balances—all or nothing at initial implementation
- RSI schedules are prospective if information not initially available. Information on contributions will generally be available for all periods in which the trusted plan was in existence

39

Required Journal Entries

- Similar to pensions, the initial journal entries will require:
 - A prior period adjustment to reverse the previously recorded OPEB obligation and record the beginning MD TOL with the resulting restatement of beginning Net Position.
- Unlike pensions that always have contributions as the starting point, OPEB will not be so uniform:
 - Turnkey trust that collects, invests and pays benefits vs. employer contributions to the trust

40

Required Journal Entries (continued)

- Reimbursement Trusts
 - Self-insured: Actual OPEB payments including retiree claims, stop loss and administrative expense less retiree premium contributions and employer contributions to trust
 - Insured: Premiums paid for retirees less retiree premium contributions plus the implicit subsidy portion of active premiums and employer contributions to the trust
- Non-Trusted
 - Same as Reimbursement Trust but no employer contributions

41

Allocations

- Requirements for allocation of the OPEB amounts between funds and activities should be similar to that of pensions
 - Allocate if material and if the liability is expected to be liquidated through the resources of that fund or activity
 - Utilize cost-sharing methodology
- However actuarially determined contributions may not be calculated:
 - Other possible allocation bases include premiums paid on behalf of the fund/activities employees, or entity specific experience including participation rates and retirement ages by employee groups

42

Reporting Requirements - Key Takeaways

- The basic accounting and reporting including recording of liabilities and expense determination will be similar to pensions
- Non-trusted or reimbursement trusts will be much more common
- With the lack of independently governed plans the employers will need to be much more involved in:
 - Selecting the actuary
 - Approving the assumptions
 - Documenting the Plan
 - Providing the census data

43

Auditing of Employer OPEB Amounts –
Overview of Audit Guide Chapter

**AICPA Accounting and Audit Guide:
State and Local Governments**

- New Chapter for OPEB (Chapter 14)
 - Part I—Plan Accounting, Financial Reporting, and Auditing Considerations for Defined Benefit OPEB Plans Administered Through a Qualifying Trust
 - Part II—Employer Accounting, Financial Reporting, and Auditing Considerations: Single and Agent Employers Administered Through a Qualifying Trust
 - Part III—Employer Accounting, Financial Reporting, and Auditing Considerations: Cost-Sharing Employers Administered Through a Qualifying Trust
 - Part IV—Employer Accounting, Financial Reporting, and Auditing Considerations for Defined Benefit OPEB plans that are Not Administered Through a Qualifying Trust

45

New Chapter for OPEB (Chapter 14): Overview

- Follows same format of the pension chapter (chapter 13)
 - Pension chapter newly revised in 2014 – much more detail
- Many emphasis points throughout chapter, which provide additional guidance
- Audit strategy
- Broken into main audit “areas” or financial statement elements
- For each “area” the chapter provides:
 - Relevant assertions for financial statement elements
 - Example of identified risks of “What Can Go Wrong” at relevant assertion level
 - Example audit procedures for financial statement elements
 - Tailored to type of defined benefit OPEB plan
- Extensive guidance on testing census data

46

Part I - OPEB Chapter

- “Areas” or Financial Statement Elements
 - Plan Investments and Related Income
 - Contributions and Contributions Receivable
 - Contributions should include amounts for benefits paid directly by employer from its own resources
 - Contributions should include amounts for the current period interest rate subsidy (excess of age-adjusted premium over blended rate premium)
 - Deposits With, and Receivables From, Insurance Companies and Other Service Providers
 - Insurance entities or self-insured plans may require a deposit to be maintained that can be applied against possible future losses or claims

47

Part I - OPEB Chapter (continued)


- “Areas” or Financial Statement Elements
 - Benefit Payments and Benefits Payable
 - See more discussion later in presentation
 - Administrative Expenses
 - TOL, NOL, and Related Disclosures
 - Census Data
 - See more discussion later in the presentation

48

Part II - OPEB Chapter

- "Areas" or Financial Statement Elements
 - NOL
 - Deferred O/I
 - OPEB Expense
 - TOL
 - Fiduciary Net Position
 - Census Data


40




Part III - OPEB Chapter

- "Areas" or Financial Statement Elements
 - NOL
 - Deferred O/I
 - OPEB Expense
 - Census Data


50



Part IV - OPEB Chapter

- Section for Non-Trusted Plans 
- "Areas" or Financial Statement Elements
 - TOL
 - Deferred O/I
 - OPEB Expense
 - Census Data

51



Auditing of Employer-OPEB Amounts -

Significant Area Audit Issues

- ### Possible Audit Approach for OPEB
- Determine the whether auditor will rely solely on management's specialist or also utilize their own auditor specialist
 - Obtain the plan documents used by the actuary for the valuation and perform test and interviews to ensure that the plan as documented is the plan as administered
 - Obtain census data that was provided to actuary and perform appropriate tests based on internal control assessment and determination of which data is most significant
 - Review/discuss actuarial assumptions and methodology for reasonableness
- 53

- ### Possible Audit Approach for OPEB (cont.)
- Review employer's processes and internal controls regarding tracking of retiree healthcare expenses separately from active healthcare expenses, including the allocation to specific months, test as appropriate
 - Review GAAP conversion journal entries to ensure that:
 - Prior period adjustment to reverse off any GASB 45 net OPEB obligation and to record initial beginning net or total OPEB liability are correct
 - OPEB related expenditures/expenses as tested above are properly identified and included in the journal entry
 - OPEB related expenditures/expenses occurring after the MD have been recorded as a deferred outflow
 - The change in the net or total OPEB liability is properly reflected
 - Current period deferred O/I are properly recorded
 - Amortization of prior year deferred O/I are correct and tie to previous year's schedules
- 54

Common Audit Issues of Significance

- Evaluate Actuary's Qualifications
- Management or Auditor Specialist
- Actuarial Communications/Certification
- Census Data
- Benefit Payments
- Assumptions
- Discount Rate
- Multi-employer Issues

55

Evaluate Actuary's Qualifications

- Discussed in Part 1 of OPEB Chapter
- Appropriately Credentialed – Associate (ASA) or Fellow (FSA) of the Society of Actuaries
- Also needs appropriate experience with health care (OPEB) plans
 - The issues are different than pensions – just because an actuary can perform a pension valuation does not mean they have the experience to perform an OPEB valuation
- Actuary should be objective

56

Save the Date!
December 19,
2017

GAQC Web
Event:
Understanding
the Actuary's
Role and
Relevant
Assumptions in
Governmental
Audit
Engagements

Use of Specialists

- What is the difference between an auditor specialist and a management specialist?
- Do we need to use an auditor specialist?
- What is the auditor required to do when there is a management specialist?

57

Use of Specialists & Impact on Audit

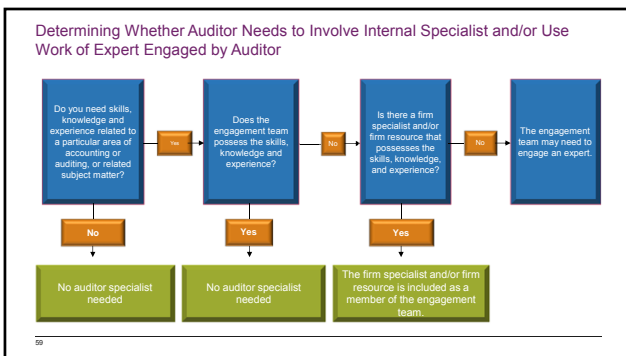
Auditor's Specialist

- Individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the **auditor** in obtaining sufficient appropriate audit evidence. An auditor's specialist may be either an auditor's internal specialist or an auditor's external specialist.

Management's Specialist

- An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the **entity** in preparing the financial statements.

58



Management and Auditor Specialists—Recommendations

- Employers participating in single and agent multiple-employer plans should directly receive actuarial valuation reports from plan actuary to rely on as management specialist
- Both employers and plans are responsible for evaluating appropriateness of actuarial assumptions
- Involve auditors in discussion of actuarial assumptions prior to completing actuarial valuations
 - Reconsider long-term investment return assumptions
- Plans should engage their auditors in dialogue on the use of auditor specialists as it relates to actuarial information
- Auditors should carefully evaluate engagement team skills, knowledge, and experience as it relates to actuarial information
 - Auditors of plans should consider periodic use (engagement) of actuarial specialist

60

Actuarial Communications / Certification

- Discussed in Part 1 of OPEB Chapter
- Actuarial Valuation for Funding Purposes versus a Valuation for Accounting Purposes
 - We primarily only care about the Report which provided the accounting data. It often is an update from a funding valuation rolled forward to the MD for accounting purposes.
- Ensure the actuary fully understands the substantive plan
- Any deviations from Actuarial Standards of Practice (ASOPs)
- Assumptions discussed later in this presentation

61

Two Different Actuarial Valuations

Accounting Valuation	Funding Valuation
<ul style="list-style-type: none">• Used to calculate the TOL of the plan• Assumptions driven by GASB 74/75• Designed to measure a TOL as of the MD• Plan Net Position is used to determine the NOL	<ul style="list-style-type: none">• Used to calculate the actuarially determined contribution• Assumptions driven by the plan's board and/or State law• Designed to fully fund the plan by a certain date• Actuarial value of assets are used to determine the unfunded actuarial accrued liability

62

Actuarial Certification Letter

- Addressed to Employer (Single and agent only)
- Statement that measurements and disclosures were prepared in accordance with GASB 74 or 75
- Statement indicating that the report utilizes generally accepted actuarial principles
- Statement indicating who is responsible for the actuarial assumptions
- An opinion that the actuarial assumptions are reasonable
- The results fully and fairly disclose the information required by GASB 74 or 75
- Statement about the actuary's credentials and that the actuary meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion

Needs to accompany the accounting actuarial valuation/report

63

Census Data

- Focus of substantive procedures over census data is ordinarily based on a roll forward concept that focuses the testing on incremental changes to the census data file since the prior actuarial valuation:
 - Actives;
 - New hires;
 - Status changes
- Approach assumes prior year financial statements were audited, no modifications to auditor's report, no significant risk of material misstatement from incomplete or inaccurate data from prior years.
- Testwork should cover the year that the actuarial valuation was based on – either the year of the MD, or, if a roll forward, the prior year of the comprehensive actuarial valuation.

64


Census Data Testing - Example

If an employer has a year-end of June 30, 2018 and uses an MD of June 30, 2017 based on an actuarial valuation that was performed as of July 1, 2016 and rolled forward to the MD of June 30, 2017:

Focus of the test work would ordinarily be over the changes to the census data that occurred during the year ended June 30, 2016.
(census data at July 1, 2016).

65

Census Data Testing by Employer Auditors

- ALL Plans
 - Test significant elements of census data for active plan members reported to the plan during 12 month period immediately preceding valuation
- Additional for Cost-Sharing Plans
 - Test census data for active employees depending on risk of material misstatement. Will be able to rely on opinion by plan auditor on elements of collective pension amounts for plan maintained census data
- Additional for Agent Plans
 - Obtain and review either SOC1 Type 2 report or AT-C 205 examination report related to census data maintained by the plan
- Single-Employer 
 - Test remaining incremental changes to census data for active and inactive plan members

66

Census Data – Significant Differences for OPEB

- Many of the significant elements of census data for OPEB plans may be the same as those for pension plans, but the following are often different:
 - Contributions from members is usually only from inactive OPEB members receiving benefits
 - For pension - active members often contribute to their pension
 - For OPEB – active members typically don't contribute to the post-retirement healthcare – only to their current healthcare
 - Dependents (if part of the plan)
 - Payroll – this is often not part of the OPEB calculation and thus is not a significant element of census data

67

Benefit Payments

- While the basic actuarial and accounting methodology is similar, there are key differences:
 - Pensions are salary and time based projections vs. OPEB is claims based projections
 - In pensions, the longer you work and the more your salary, the higher your pension
 - In OPEB, years of service and amount of pay do not typically impact the value of the retirement benefit


68

Benefit Payments

- The nature of OPEB arrangements and the related audit approach depends on how the risk associated with benefits are paid by either the plan or employer.
 - Risks are Self-Insured
 - Plan or Employer has retained the risk
 - Claims usually paid by a third-party administrator
 - Audit focus for benefit payments will be on claims
 - Risks Transferred to a Third Party
 - Insurance company
 - Plan or employer generally has no obligation for benefits covered other than the payment of premiums (unless it is an experience rated, minimum premium, or stop-loss insurance)
 - Audit focus for benefit payments will be on premiums
 - Implicit Rate Subsidy – audit focus on calculation

69

Benefit Payments

- Who is making the benefit payment (and thus reducing the TOL)
 - For Trusted Plan
 - Plan (trust fund itself) may make the benefit payments
 - Employer may make the benefit payment but be reimbursed by the Trust
 - Employer may make the benefit payment (from its own resources) and not be reimbursed by the Trust – ensure these are reported as both contributions and benefit payments for the Plan (Trust)
 - For Non-Trusted Plan 
 - Employer is making any payments of benefits (pay as you go) but these are still reductions of the TOL
 - Ensure proper separation between benefits for actives

70

Benefit Payments

- Auditing Claims (Self-Insured)
 - Some Possible Audit Procedures
 - Obtaining and testing a reconciliation of claims data file for the period to wire transfer information evidencing payment
 - Sampling Claims Paid:
 - Determining if participant was eligible
 - Verifying claim submission for type and amount, as well as any approvals required
 - Verifying accuracy of claim payment based on plan
 - Verifying that claim was for retired member (and not active member)
 - Verifying an appropriate segregation of claims between active and retiree and ensuring proper accounting in the appropriate fund
 - Retiree portion of self-insurance should not be in an internal service fund (like active employee activity often is)

71

Benefit Payments

- Auditing Premiums (Transferred Risk)
 - Some Possible Audit Procedures
 - Confirming (or vouching) total premiums paid with insurance company
 - Sampling Premiums Paid on Behalf of Beneficiary:
 - Determining if participant was eligible
 - Verifying that premium was for retired member (and not active member)
 - Recalculating premiums by multiplying number of eligible participants by the premium rate in insurance contract
 - Verifying an appropriate segregation of premiums between active and retiree and ensuring proper accounting in the appropriate fund

72

Assumptions

- A proper and appropriate actuarial valuation and resulting TOL or NOL will rely heavily on assumptions
 - While numerous assumptions are used, there are usually a few that are the main drivers in the valuation
 - Testing/evaluating the wrong assumptions can waste resources and lead to the wrong conclusions
- The assumptions are primarily tested as we evaluate the actuarial valuation, but another part of evaluating the actuarial valuation is to evaluate the reasonableness of significant assumptions

73

Reasonableness of Assumptions

- Questions to ask:
 - Qualifications of the individual(s), including experience of the firm with healthcare specific assumptions?
 - Did their client (i.e. the government) overrule or specify any assumptions?
 - Condition/robustness of the population data?
 - When or was an Actuarial Experience Investigation Study performed? If yes, is it available for review?
 - Have any of the assumptions produced large actuarial gains or losses? If yes, is this random volatility or is it indicative of a pattern?
 - Are there any new plan changes that require specific assumptions (i.e., you had to develop an assumption without benefit of plan specific historic experience)?

74

Reasonableness of Assumptions

- Questions to ask:
 - Are there any particularly complex plan provisions that are difficult to develop assumptions for and if yes what was your approach?
 - Is there consistency in the approach used to develop the various assumptions?
 - How do these assumptions compare to similar (benchmark) plans?
 - Did the actuary comply with ASOP 35 regarding disclosure of significant assumptions and underlying rationale?
 - Does the frequency of COLAs (if any) trigger the substantively automatic provisions of GASB?

75

Assumptions-Pension vs. OPEB

Pensions	OPEB	Difference
Long-Term Rate of Return		Pensions: Usually the main driver OPEB: Often immaterial for OPEB due to limited funding or non-trusted plans
Mortality Rate		Pensions: Crucial because it determines the payment period OPEB: less so because all or much of the liability is pre-65
Inflation/Salary Progression		Pensions: Usually the basis for the benefit OPEB: Rarely tied to salary
Retirement Age/Rates		Pensions: Can be an age point if payment forms are actuarially equivalent OPEB: Retirement rates are crucial to determine cash-flows and liabilities. State-wide plans offering reciprocity also complicate matters as the employer may not know how many years of service participants have with the plan.

76

Assumptions-Pension vs. OPEB

Pensions	OPEB	Difference
Inflation-COLAs	Health Care Trend Rate	Pensions: Only matters if the Plan has a post-retirement COLA OPEB: This is <u>one of the most significant driver for liabilities</u>
Retirement Options- Retiree only. Beneficiary receives 100%, 75%, 50% of annuity after death of retiree	Retiree Options- Plan Choice. Number of dependents / beneficiaries	Pensions: Options offered are often actuarially equivalent and do not impact plan liability. OPEB: There are <u>multiple choices all of which significantly impact plan liabilities</u>

77

Assumptions-Pension vs. OPEB

Pensions	OPEB	Difference
None	Utilization by Age	OPEB: Individuals require more health care as they age. Actuarial tables exist showing the expected healthcare utilization of plan participants at various ages
None	Participation Rate	OPEB: Unlike pension in which the payments flow only one way (to the retiree), retirees are most commonly expected to pay sometimes significant monthly premiums to continue receiving health benefits. As expected, higher premiums typically result in lower participation as retirees may find less expensive options. Post 65 provisions also greatly impact participation rate.
None	Cadillac Tax	OPEB: This tax for "luxury" level of benefits is likely to affect many plans and will significantly add to the costs. Note this is maybe not as much of an assumption as something to ensure is included in future costs, if expected to be paid.

78

Discount Rate

- Discount Rate Determination
 - Method of rate determination is the same as GASB 68 (pension):
 - Single blended rate based on cash flow projections.
 - Expectation is with OPEB Plan's funded percentages being far lower than pension (and in many cases "pay as you go" funded with a Non-Trusted Plan):
 - The Long-term rate of return on investments will likely not be the discount rate for liability determination
 - Use of blended rate (LTROR with 20 year Muni bond rate) determination will be much more prevalent
 - If "Pay As You Go" funded / Using a Non-Trusted Plan, then discount rate should equal the yield or index rate for 20-year, tax-exempt general obligation municipal bond rated AA/Aa or higher

79

Discount Rate

- Possible Municipal Bond Index Rates
 - Fidelity GO AA 20 year index
 - S&P Municipal Bond 20 year High Grade index
 - Bond Buyer 20 year GO index
- Possible Audit Procedures
 - Test accuracy of single rate calculation
 - Test reasonableness of the net position projection
 - Test appropriateness of municipal bond rate utilized

80

Multi-Employer Issues

- When auditing agent and cost-sharing multiple employer plans, we will probably have the same issues auditing these (from an employer audit perspective) as we did with the pensions.
- Guidance (as noted in a couple of places in this presentation) is the same as for pensions). Will still need to obtain plan auditor (in all likelihood) reports on various data needed such as:
 - Audit Report on Fiduciary Net Position of Agent Plans by Employer
 - AT-C 205 or Type 2 SOC 1 report related to census data maintained by the Agent Plan
 - Audit Report on Schedule of Employer Allocations and Schedule of Allocation of OPEB Amounts for cost-sharing plan

81

Potential Audit Issues

- What if the multi-employer plan doesn't provide the recommended information?
 - Auditor judgment; but the starting point is generally a disclaimer of opinion
- What if there are problems with the Census data being tested?
 - This is going to happen; we need to use our auditor judgment to determine whether there is a low risk of a material misstatement in the financial statements. So we need to extrapolate to the likely total error and determine its materiality.
 - In a cost-sharing plan, most errors will be immaterial to the plan in total – but we need to focus on the likely error to the net pension liability of the employer we are opining on.

82

Reporting Requirements - Key Takeaways

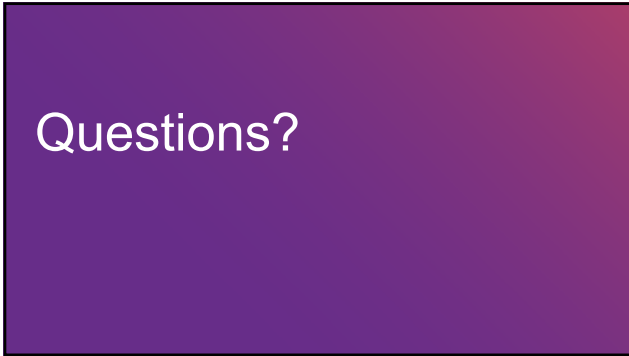
- The basic accounting and reporting including recording of liabilities and expense determination will be similar to pensions
- Non-trusted or reimbursement trusts will be much more common
- With the lack of independently governed plans the employers will need to be much more involved in:
 - Selecting the actuary
 - Approving the assumptions
 - Documenting the plan
 - Providing the census data

83

Audit Procedures - Key Takeaways


- **Use Chapter 14 in AICPA 2017 AAG-SLG**
- Understanding the plan provisions and how they affect specific assumptions and specific pieces of census data is the key to designing effective audit procedures
- Understanding the actuarial profession and the specific requirements contained in the ASOPs is also critical to designing effective audit procedures
- Auditing OPEB will be different and should be a key area of focus

84




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88



Thank you

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