

## **OEBB Member Entities – GASB 45 Group Project**

### **Questions and Answers**

#### **What is GASB 45?**

GASB 45 is a financial accounting standard which applies to public entities. It requires those entities to recognize the cost of postemployment benefits other than pensions (OPEB) over the course of an employee's career, rather than at retirement. Public entities that had more than \$10 million in revenue in fiscal year end (FYE) 1999 will generally begin reporting under GASB 45 in their June 30, 2009 Consolidated Annual Financial Reports (CAFRs).

#### **What do I need to do to satisfy these new accounting requirements?**

First, you need to determine whether or not your entity has any OPEB to account for under GASB 45. Many entities may not sponsor any such OPEB and therefore may not need anything more than a determination that they have no liability to report under GASB 45.

If your entity does sponsor OPEB which require measurement under GASB 45, you will need an actuarial valuation performed to measure the liability and costs associated with the OPEB.

#### **Can OEBB assist me with GASB 45 reporting?**

OEBB has identified an existing public contract to provide GASB 45 actuarial valuation services between City County Insurance Services (CIS) and the actuarial firm Milliman, Inc, which can be extended to OEBB members.

The goal of this arrangement is to provide an efficient "group" GASB 45 valuation process which saves time and money in the following ways:

- Using a single source and format for census data and benefits information
- Producing uniform reports for entities
- Utilizing Oregon PERS demographic actuarial assumptions (e.g. the age at which members retire) for the valuation work
- Avoiding dozens or hundreds of RFP processes.

#### **What does Milliman provide with this service?**

First, Milliman will provide an advisory recommendation as to whether a GASB 45 valuation is required. If your entity and your auditors agree that no GASB 45 reporting is needed, then your GASB 45 compliance is complete. You should keep a record of your recommendation and subsequent conclusions for future years. Unless or until your entity changes its OPEB, your conclusions should be reliable for the indefinite future.

It is important to note that Milliman is an actuarial firm, and its professionals are not accountants. Therefore, your entity and its auditors will be responsible for taking the advisory recommendation from Milliman and deciding whether to accept it or pursue a different approach.

If your entity and your auditors agree that a valuation is warranted, Milliman will produce a valuation report. The valuation reports will use an October 1, 2008 valuation date, and will provide projected GASB 45 accounting and disclosures for FYE June 30, 2009. The valuation reports are intended to be a basis for complete GASB 45 reporting for benefits sponsored by the employer and OEBB. Entities should note that PERS benefits can be accounted for separately based upon information provided by PERS.

### **What about GASB 45 compliance in future years?**

Milliman is planning a successor valuation as of October 1, 2009. This report will contain projected GASB 45 accounting for FYE 2010 and 2011. The FYE 2010 results will be based upon the results of the October 1, 2008 valuation and any initial accounting decisions made by your entity.

### **Please explain the proposed valuation timing in detail.**

Many OEBB members need GASB 45 results for FYE June 30, 2009. Typically, a valuation date will precede the fiscal year end by at least 12 months. However, since OEBB began coverage effective October 1, 2008, and since there were many previous carriers, the only practical alternative appears to be to use an October 1, 2008 valuation date.

Since entities can have GASB 45 valuations performed on a biennial basis, Milliman proposes to use the October 1, 2008 valuation for FYE 2009 and 2010 financial reporting.

Going forward, Milliman proposes to perform a second valuation as of October 1, 2009 for FYE 2011 and 2012. Implementing this second valuation one year "earlier" will allow for more lead time between the valuation date and the fiscal years, which is a more common practice under GASB standards.

GASB 45 generally requires the use of consistent valuation date timing. The initial October 1, 2008 valuation date is essentially one year behind schedule. However, it appears to be a best fit response under the constraints of reasonably available data. Moreover, the results of an October 1, 2008 valuation as opposed to an October 1, 2007 valuation (had one been performed) can be made comparable by adjusting the October 1, 2008 results with one year's less interest. The point here is that a one-time adjustment in the initial valuation date (based upon exigent circumstances) does not necessarily impact the integrity of the resulting long-term GASB 45 reporting.

**IMPORTANT:** If you have concerns about the valuation timing, please contact your auditors as soon as possible to confirm that the proposed valuation timing is acceptable. Once the project is established, it will be difficult to change valuation dates. If there is

significant feedback that the proposed valuation dates is unacceptable, Milliman can work to propose an alternative before the project is fully underway.

**I already received GASB 45 valuation results from OSBA. Can I use those instead?**

Perhaps. The OSBA valuations generally cover implicit subsidies arising from offering health care coverage to retired members under ORS 243.303. They do not, however, assess whether or not an entity's health care benefits are "community rated" for purposes of GASB 45, and therefore whether the entity might be effectively "exempt" from reporting the implicit subsidy liability.

The OSBA valuations also do not cover any employer-paid OPEB, and therefore may not be a complete basis for GASB 45 compliance. The Milliman valuation project is designed to provide a complete basis for GASB 45 compliance, with the exception of any benefits sponsored by (and therefore reported by) Oregon PERS.

If you use the October 1, 2007 OSBA valuation, you will also need to resolve how to implement GASB 45 reporting in future years. Milliman can help assist in a transition to OEGB valuations, but the additional work will presumably be billed to the entity based upon Milliman's time and expense.

**I already received GASB 45 valuation results from another source. Can I use those instead?**

You may of course choose to use existing valuations from another source for GASB 45 compliance.

If you use a valuation outside of this Milliman-coordinated project for financial reporting for FYE 2008 or 2009, you will need to resolve how to implement GASB 45 reporting in future years. Milliman can help assist in a transition to OEGB valuations, but the additional work will presumably be billed to the entity based upon Milliman's time and expense.

**I understand that OEGB health care coverages are community rated. Doesn't that affect whether I need to report under GASB 45?**

Again, perhaps. The GASB 45 Implementation Guide offers some benchmarks for assessing whether an entity comprises a large enough portion of a community rated pool such that a change in the entity's demographics would affect the premiums for the whole pool. Part of Milliman's engagement will be to determine an advisory threshold for the covered population of each entity above which implicit subsidy valuations are recommendable, and below which implicit subsidy valuations may be unnecessary.

**What about financial reporting for the early retirement stipends we offer to certain retirees?**

If your entity offers stipends to early retirees, those may be accounted for under GASB 25/27/50 or under GASB 47. Milliman's emerging experience in Oregon indicates a preference for reporting under GASB 47, which is a non-actuarial standard.

The GASB 45 project for interested OEGB entities can include separate GASB 25/27/50 valuations under the “additional work” portion of the Actuarial Services Agreement between the OEGB entities and Milliman. Milliman can provide a quote for such services upon request. Since Milliman will be preparing census data and actuarial assumptions for the GASB 45 valuations, there will presumably be significant efficiencies in producing GASB 25/27/50 valuations which are based upon the same data and assumptions.

**I understand that it is possible to “fund” a GASB 45 liability and thereby reduce its cost. How will this project cover that possibility?**

The valuation report your entity receives will include a measurement of the GASB 45 liability on a “funded” and an “unfunded” basis. However, based upon experience with dozens of Oregon public entities, the report will concentrate on the unfunded basis. If your entity decides to fund all or a part of its GASB 45 obligation, your entity will have additional work to implement a trust and appropriate accounting.

**By when can we get this done?**

All involved understand that time is short for this project. The goal will be to complete all valuation reports by October or early November. Given the size of the project and the number of entities involved, this seems a realistic goal. While not ideal timing, this should be sufficient for entities to produce numbers for their CAFRs. Even meeting this goal will require prompt responses from the entities involved!

In future years, Milliman anticipates significantly more lead time between valuations and fiscal year ends.

**And what about the costs?**

The cost for an advisory recommendation letter which does not result in a valuation through this arrangement will range from \$200 for entities with up to 200 covered members, up to \$400 for entities with 400 or more covered members.

The cost for a valuation through this arrangement will depend upon the size of the entity and the complexity of OPEB it provides.

**IMPORTANT:** Entities that have fewer than 100 covered members and need a valuation may be eligible to use an online service – [GASB45Help.com](http://GASB45Help.com) – which was developed by Milliman. This online service is an alternative to receiving a full valuation report through this arrangement. When Milliman issues its advisory recommendation letter, you will receive further information about this option if it appears that your entity might be eligible. *The advisory recommendation letter will also provide a code for discounted service through [GASB45Help.com](http://GASB45Help.com).*

**What else will you need from me?**

Milliman will require census data sufficient to complete a reasonable valuation of your entity’s OPEB. Much of the census data can come from OEGB. However, some census data, such as eligibility for certain benefits, employer-paid premiums for actives and retirees, and PERS tier information will presumably need to come from the entities and

be collated together with OEGB data. As the project progresses, Milliman will contact entities with these supplemental census data requests.

**How do I find out more?**

On Tuesday July 28 and Wednesday August 5<sup>th</sup> Milliman will host a webinar to introduce entities to this project both are scheduled for 10 am PT. If you wish to sign up for either webinar, please reply to [GASB45OEGBMembers@milliman.com](mailto:GASB45OEGBMembers@milliman.com).

If you have questions about the engagement itself or OEGB's role, please contact at OEGB: Ali Hassoun--OEGB Financial Coordinator at 503-378-4741 or via E-mail: [ali.hassoun@das.state.or.us](mailto:ali.hassoun@das.state.or.us)