

Requirements for Modifications to Annuitant Health/Dental and
Benefits Administration Assessments
Service Request 16945

March 3, 2005
University of California
Office of the President
Payroll Coordination and Tax Services

Requirements for Modification to Annuitant Health/Dental and Benefits Administration Assessments

Service Request 16945

Table of Contents

1.0	Overview	1
1.1	Background	
1.2	General Description of Required Changes	
2.0	Current Process	2
3.0	Proposed Process	2
4.0	Input Form, Reports, System Parameter Table	3
5.0	Implementation Concerns	3
6.0	Interfaces	4
7.0	Cross-Functional Impact	4

1.0 Overview

The Governmental Accounting Standards Board (GASB) requires the effect of Other Postemployment Benefits (OPEB) to be reported for any reporting segment or entity that has audited financial statements. Thus, the University must identify the annual OPEB costs and the outstanding obligations for the University as a whole and has developed a financial reporting approach for each campus, each medical center, the UC Press, the Continuing Education of the Bar (CEB), the Associated Students of UCLA (ASUCLA), the National Laboratories, and the Hastings College of the Law. OPEB includes postemployment healthcare as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. The University currently provides medical and dental benefits to its retirees.

These requirements detail the proposed modifications to the Payroll/Personnel System (PPS) that are required to support the University's approach to implementing the GASB financial reporting requirements in the University's consolidated financial statements.

1.1 Background¹

The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement outlines changes to the information that the University will be required to record in its financial statements and to report in its footnotes regarding postemployment benefits other than pensions. Other Postemployment Benefits generally includes medical, dental, and vision insurance, and other healthcare benefits. The reporting changes are required for the fiscal year 2007-08, with restatements for the fiscal year 2006-07, if appropriate. [Data collection will commence with July 2005 earnings.]

The GASB has taken the position that pension benefits including OPEB are a part of the total compensation earned by employees each year albeit the employees do not receive these benefits until retirement. The University currently provides medical and dental benefits to its retirees; therefore, the cost of these future benefits is a part of the cost of providing services today. Among other matters, the Statement requires the University to record as an operating expense the actuarially determined, accrued annual cost of providing OPEB to employees. It also requires the University to record the accrued liability of its OPEB program.

The University must formulate a basis and implement a process to identify the OPEB accumulated accrued liability at June 30, 2006 (transitional liability) and at each year-end thereafter, and to identify the annual OPEB expense at the desired level of detail to meet the requirements of the GASB and University management.

1.2 General Description of Required Changes

The changes needed to report the OPEB Assessment are:

- Uncouple the Annuitant Health/Dental Assessment from the Benefits Administration Assessment

¹ Background taken from the Issues Resolution Memo GASB 45.3

- Replace the Annuitant Health/Dental Assessment with OPEB Assessment, Liability Account 115586 and Object Code 8231
- Establish the Benefits Administration Assessment with Liability Account 115591 and Object Code 8995
- Change the label on the Payroll Expenditure Transfer, UPAY 646
- Change the Type 2 Record heading on the Payroll Processing, Input/Output Reconciliation Report, PPP5202
- Change the label on the Distribution of Payroll Expense Report, PPP5302

2.0 Current Process

The University funds its Annuitant Health and Dental Insurance programs by applying a dollar factor against each \$100 of all payroll salaries subject to retirement coverage. This dollar factor also includes a component to fund the cost of benefits administration and healthcare facilitators. As an example, the rate applied in fiscal year 2003-04 is as follows:

Annuitant Health/Dental Insurance Rate:	\$2.30
Benefits Administration Assessment	<u>.10</u>
Total	\$2.40

The existing algorithm for Annuitant Health/Dental and Benefits Administration Assessment is \$2.40 per \$100 of salary subject to retirement. The following example illustrates the calculation of this assessment:

$$\begin{aligned} \text{Salary Subject to Retirement} &= \$5000.00 \\ 5000/100 &= 50 \\ 50 * 2.40 &= \$120.00 \end{aligned}$$

The Distribution of Payroll Expense records Annuitant Health/Dental Assessment and Benefits Administration Assessment using a single Object Code 8990 and Liability Account 115449. The Expense Process then passes this information to the General Ledger and other month-end reporting processes. The campus Accounting Office manually allocates the amount assessed between the two rate components and transfers these amounts to the Office of the President.

3.0 Proposed Process

The GASB reporting requirements necessitate the separate tracking of the OPEB Assessment from that of the Benefits Administration Assessment. Therefore, the Annuitant Health/Dental Insurance rate, which will be replaced by a new OPEB rate, should be calculated and reported independently from the Benefits Administration Assessment in the Payroll Expense Distribution Process. Further, the Assessments should be recorded separately in the General Ledger of each location. The existing calculation routine currently used to calculate the Annuitant Health/Dental Assessment should be used to calculate the OPEB Assessment. Under this option, a single University-wide rate would be developed for all locations and fund sources and would be reviewed each fiscal year.

The algorithm used to calculate the Annuitant Health/Dental Assessment should be used to determine both the OPEB Assessment and the Benefits Administration Assessment.

Example:

Algorithm for OPEB Assessment
\$2.30 per \$100 of salary subject to retirement
Salary Subject to Retirement = \$5000.00
 $5000/100 = 50$
 $50 * 2.30 = \$115.00$

Example:

Algorithm for Benefits Administration Assessment
\$.10 per \$100 of salary subject to retirement
Salary Subject to Retirement = \$5000.00
 $5000/100 = 50$
 $50 * .10 = \$5.00$

4.0 Input Form, Reports, System Parameter Table

The label in columns 41-46 on the UPAY 646, Payroll Expenditure Transfer, should be changed

from:	to:
DNTL/MED/OPT	DNTL/MED/OPT
ANNUITANT	OPEB/BEN ADM

On the Payroll Processing, Input/Output Reconciliation Report, PPP5202, the Type 2 Record heading should be changed from Ann Health to OPEB. Additionally, a new Type 2 Record should be established for Benefits Administration Assessment.

The label on the Distribution of Payroll Expense Report, PPP5302, should be changed

from:	to:
DENT/HLTH	DENT/HLTH
VIS/ANNU	VIS/OPEB

The Description for Parameter Index Number 126 on the System Parameter Table, UPAY 559, should be changed to "OPEB Rate." A new Parameter Index Number should be established for the Benefits Administration Assessment (Benefits Admin). The values of the Parameter Numbers will be announced by Financial Management before the start of fiscal year 2005-2006.

5.0 Implementation Concerns

Whatever the method, consideration must be given to possible future changes in reporting OPEB assessments. That is, the University may be required to report the OPEB assessment at levels lower than location, such as at the department location level.

6.0 Interfaces

Future plans include the file transmission of the OPEB Assessment amount after each payroll, using a file such as the UCRS Control for Treasurers STIP (PPI730).

7.0 Cross-Functional Impact

None