



Issues Resolution Memo No. 74-1

Evaluation of GASB Statement No. 74 and GASB Statement No. 75 as they relate to UC Reporting Entities

BACKGROUND

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will be adopted by the University beginning July 1, 2016, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be adopted early by the University beginning July 1, 2016 to coincide with implementation of GASB Statement No. 74. These Statements establish new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits (OPEB), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts and those not administered through trusts that meet the three criteria in GASB Statement No. 74, paragraph 3. GASB Statement No. 74 follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. It also requires note disclosures and required supplementary information (RSI) related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments.

GASB Statement No. 75 revises existing standards for measuring and reporting retiree health benefits provided by the University to its employees. GASB Statement No. 75 requires recognition of a liability equal to the net retiree health benefit liability, which is measured as the total retiree health benefit liability, less the amount of the University of California Retiree Health Benefit Trust's (UCRHBT) fiduciary net position. The total retiree health benefit liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the UCRHBT's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. The Statement requires that most changes in the net OPEB liability be included in retiree health benefit expense, beginning in the period of change.



Evaluation of GASB Statement No. 74 and GASB Statement No. 75 as they relate to UC Reporting Entities

These Statements replace GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. Requirements are also included for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

DEFINE ISSUES

The University must determine how GASB Statement No. 74 and GASB Statement No. 75 change existing financial reporting and disclosure requirements for the University's and Medical Center audited financial statements.

AUTHORITATIVE GUIDANCE AND APPROACH

GASB Statement No. 74, paragraph 3, "establishes financial reporting standards for state and local governmental OPEB plans—defined benefit OPEB plans and defined contribution OPEB plans—that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

- a. Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- b. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- c. OPEB plan assets are legally protected from the creditors of employers, nonemployer 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 Statement No. 74, paragraph 10, defines OPEB and OPEB Plans as the following:

- a. "Postemployment healthcare benefits—including medical, dental, vision, hearing, and other health-related benefits—whether provided separately from or provided through a pension plan
- b. Other forms of postemployment benefits—for example, death benefits, life insurance, disability, and long-term care—when provided separately from a pension plan."

GASB Statement No. 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required



Evaluation of GASB Statement No. 74 and GASB Statement No. 75 as they relate to UC Reporting Entities

to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Disclosures and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans.

IMPLEMENTATION

Background on UCRHBT

UCRHBT meets the criteria in GASB Statement No. 74, paragraph 3 and paragraph 10.

UCRHBT was established on July 1, 2007 to allow certain University locations and affiliates – primarily campuses and medical centers – that share the risks, rewards and costs of providing for retiree health benefits, to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The Regents has fiduciary responsibility for UCRHBT: the Regents serve as Trustee of UCRHBT and has the authority to amend or terminate the Trust. Therefore, UCRHBT statements of trust’s fiduciary net position and changes in trust’s fiduciary net position are shown separately in the University’s financial statements.

UCRHBT receives the University’s contribution toward retiree health benefits from campuses, medical centers and University affiliates (e.g., Hastings, ASUCLA) that are deducted from their UCRP benefit payments. The University also remits these retiree contributions to UCRHBT.

The University contributes toward retiree medical and dental benefits, although it does not contribute toward the cost of other benefits available to retirees. The retiree health benefits provided under the University’s plan and any liabilities related to the future funding requirements for the retiree health benefits are reported by the University. The University funds the retiree health expense through UCRHBT based upon a projection of benefits on a pay-as-you-go basis. Pay-as-you-go financing for the campuses, medical centers, Hastings, ASUCLA, Agricultural and Natural Resources and Office of the President is accomplished via a common retiree health benefit assessment based on covered UCRP payroll. If pre-funding of retiree health benefits occurs in the future, the UCRHBT will be used as the vehicle for those assets.

The University acts as a third-party administrative agent on behalf of UCRHBT to pay health care insurers and administrators amounts currently due under the University’s retiree health benefit plans for retirees who previously worked at a campus or medical center. UCRHBT reimburses the University for these amounts.

Analysis

Each provision within both GASB Statement No. 74 and No. 75 were reviewed and considered by the University. As a result of a detailed analysis of the statements, the following key issues were identified and resolved as follows:



Evaluation of GASB Statement No. 74 and GASB Statement No. 75 as they relate to UC Reporting Entities

1. Type of defined benefit OPEB plan – Under the provisions of GASB Statement No. 74 and No. 75, UCRHBT would be defined as a cost-sharing multiple-employer defined benefit OPEB plan since assets of UCRHBT provides benefits to employees of more than one employer and the assets of the plan can be used to pay benefits of employees of both the University and Hastings College of Law. Employees of the University and Hastings College of Law participate in the plan, and Hastings College of Law is a separate legal entity and not a component unit of the University. Hastings has its own Board of Directors which has operated Hastings independently of the University of California’s Board of Regents since its founding. The Board of Regents possesses degree-granting authority, but all other aspects of Hastings are under the control of its own Board of Directors. However, (1) UC is the sole plan sponsor of UCRHBT, (2) employees of Hastings College of Law represent less than 1% of the UCRHBT’s participants, (3) Hastings College of Law is obligated to UC to make plan contributions, (4) if Hastings is unable to make plan contributions, the responsibility to fund future benefits for Hastings retirees would be the responsibility of UC and then UC would have to pursue reimbursement for the liabilities from Hastings, and (5) it’s not reasonable to assume that Hastings would or could accept any future responsibilities for UC’s UCRHBT liabilities. Therefore, for purposes of applying GASB Statement No. 74 and No. 75, the requirements of a single-employer defined benefit OPEB plan will be applied in accounting for UCRHBT by the University.
2. Timing of implementation of GASB Statement No. 75 – GASB Statement No. 75 is required to be implemented for the University’s fiscal year ending June 30, 2018. However, GASB Statement No. 74 is required to be implemented for UCRHBT’s fiscal year ending June 30, 2017. If GASB Statement No. 75 is not implemented at the same time as GASB Statement No. 74, OPEB disclosures under GASB Statement No. 45 will still be required for the University at the same time GASB Statement No. 74 disclosures are required for the UCRHBT financial statements. In order to present one set of OPEB disclosures and minimize confusion for the readers of the University’s financial statements, the University will implement GASB Statement No. 75 early to coincide with the implementation of GASB Statement No. 74.
3. Measurement date – The University will adopt a measurement date of June 30th. The actuarial valuation for July 1st will be rolled forward to June 30th each year. The methodology that will be used to roll forward the actuarial valuation is as follows:



Evaluation of GASB Statement No. 74 and GASB Statement No. 75 as they relate to UC Reporting Entities

Source data used to prepare the actuarial valuation	Considered significant?	Rationale
Discount rate	Yes	A slight change in the discount rate has a material impact on the net OPEB liability; therefore to the extent that the plan's fiduciary net OPEB, projected from its June 30th value, is not sufficient to make benefit payments, an index rate as of June 30th will be used in the measurement of the OPEB liability as of June 30th. Note as of 7/1/2015, the actuarial evaluation done by Deloitte Consulting LLP of the UCRHBT adjusted the discount rate used in preparation of the implementation of GASB Statement No. 74 and No. 75 which requires the use of a more conservative discount rate consistent with 20-year municipal bond indices.
Participant demographic data	No	Updating this data is not likely to have a significant impact on the net OPEB liability since the University has a very large workforce and does not experience significant changes in the workforce in a single year.
Experience study results	Yes	The assumptions in the actuarial valuation are updated based upon experience studies and since new assumptions could have a material impact on the net OPEB liability, the new assumptions will be used in the measurement of the OPEB liability as of June 30th.
Benefit changes and contribution rates	Yes	Changes to the benefits or contribution rates are the result of actions taken by the Regents and could be material, therefore, any benefit or contribution rate changes that are approved and likely to occur (i.e. not subject to collective bargaining) will be included in the measurement of the OPEB liability as of June 30th.
Plan's Fiduciary Net Position	Yes	The value of the plan's fiduciary net position as of June 30th will be used. Since the University currently does not pre-fund retiree health benefits and instead provides



Evaluation of GASB Statement No. 74 and GASB Statement No. 75 as they relate to UC Reporting Entities

		for benefits on a pay-as-you-go basis, the University will need to use a discount rate consistent with a yield or index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher indices when plan assets are not available.
--	--	--

4. Treatment of Department of Energy (DOE) laboratories – Lawrence Berkeley National Laboratory (LBNL) participates in the University’s retiree health plans. In the University’s contract with the Department of Energy (DOE) to manage LBNL, the DOE reimburses the University for the actual benefit costs paid by the University attributable to LBNL retirees. For this reason, the DOE laboratories do not participate in UCRHBT; therefore, the DOE has no interest in the trust’s assets.

The reimbursement from DOE is included as DOE laboratory revenue in the statements of revenues, expenses and changes in net position. The University records a receivable from the DOE for the DOE’s portion of the University’s obligation for retiree health benefits attributable to LBNL. The University does not have any obligation for Los Alamos National Laboratory or Lawrence Livermore National Laboratory retiree health benefit costs since they do not participate in the University’s retiree health plans.

5. Statement of cash flows – Campus and medical center contributions toward retiree health costs made to UCRHBT, the University’s LBNL-related payments made directly to health care insurers and administrators and the corresponding reimbursements from the DOE, are shown as operating activities in the statement of cash flows. Cash flows resulting from retirees as shown as noncapital financing activities in the statement of cash flows.
6. Treatment of the Medical Centers – Separate financial reports are issued for the medical centers to comply with debt covenants of the Medical Center Pooled Revenue Bonds. The medical centers are not separate legal entities or component units, but part of the University. However, for purposes of applying this statement to the stand-alone financial statements for the medical centers, they will report their participation in UCRHBT as if a cost-sharing multiple employer plan, and the requirements of GASB Statement No. 74 paragraph 35, 36, and GASB Statement No. 75 paragraphs 59-98 will be applied.
7. Treatment of changes in OPEB liability – In circumstances in which the net OPEB liability is determined based on the results of an actuarial valuation, the effects of certain other changes in the net OPEB liability are required to be included in OPEB expense over the current and future periods. The effects on the total OPEB liability of (1) changes of economic



Evaluation of GASB Statement No. 74 and GASB Statement No. 75 as they relate to UC Reporting Entities

and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan, beginning in the current period. Differences are expensed on a straight-line basis.

As a result of the above analysis and resolutions, the University plans to implement the following financial statement requirements for UCRHBT:

- Statement of fiduciary net position including liabilities, deferred outflows of resources, and deferred inflows of resources related to OPEB; GASB Statement No. 74, paragraph 20-27, and GASB Statement No. 75, paragraph 43-44, 54, 62-86, and 95
- Statement of changes in fiduciary net position; GASB Statement No. 74, paragraph 28-33, and GASB Statement No. 75, paragraph 55-56
- Plan description including the number of participating employees; GASB Statement No. 74, paragraph 34, and GASB Statement No. 75, paragraph 50, and 89-92
- 10-year schedule of changes; GASB Statement No. 74, paragraph 36, and GASB Statement No. 75, paragraph 57, and 97
- A description of significant methods and assumptions used in calculating the actuarially determined contributions; GASB Statement No. 74, paragraph 35 and 38, and GASB Statement No. 75, paragraph 51-53, 58, 92-94 and 98
- Net OPEB liability; GASB Statement No. 74, paragraph 39-57, and GASB Statement No. 75, paragraph 27-42, 4, and 59-61

CONCLUSION:

As a result of the implementation of GASB Statement No. 74 and GASB Statement No. 75, the aforementioned changes will be made to the Universities June 30, 2017 financial statements adhering to specific guidelines for each requirement. The University will consult with Deloitte Consulting LLP to ensure the UCRHBT actuarial evaluation is completed on the new measurement date of June 30 by the year 2017, and includes all information needed to implement those required changes.

Changes adopted to conform to the provisions of both GASB Statements No. 74 and 75 will be applied retroactively by restating financial statements, if practical, for all periods presented.