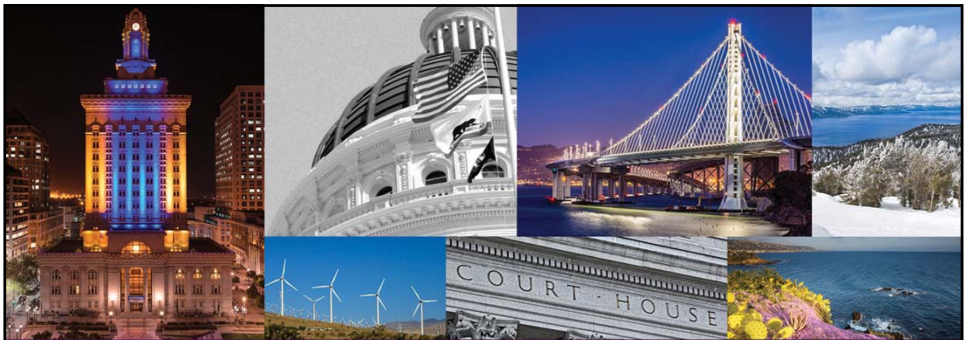


Mayors & Council Members Executive Forum

# GASB 74/75 and the Cadillac Tax

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## GASB 75 Basics

- Employer accounting for OPEB
  - Other Post-Employment Benefits (other than pensions)
    - Medical, dental, vision and other healthcare
  - Not Included:
    - Termination benefits or sick leave cash outs
- Effective for FY beginning after 6/15/17
- Plan accounting in GASB 74
  - Effective 1 year earlier

## What Does GASB 74 & 75 Mean to You?

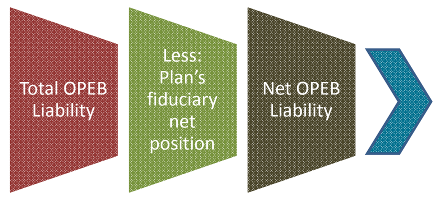
- Government Accounting Standards Board (GASB) has revised how you report Retiree Health previously handled by GASB 43 & 45
- Primary Changes
  - Length of time to amortize your unfunded liability
  - Discount Rate
  - Implied Subsidy for PERS cases

## Reporting OPEB Liability

- Plan administered as a GASB trust:
  - Employer reports a ***net OPEB obligation (NOO) in their financial*** statements
- Plan NOT administered as a GASB trust:
  - Employer reports a ***total OPEB obligation in their financial*** statements

## Reporting OPEB Liability

- Net OPEB liability on the balance sheet
  - Difference between:
    - Total OPEB liability (=AAL) and
    - Plan assets (FNP) at market value




- Very much like GASB 68 pension accounting

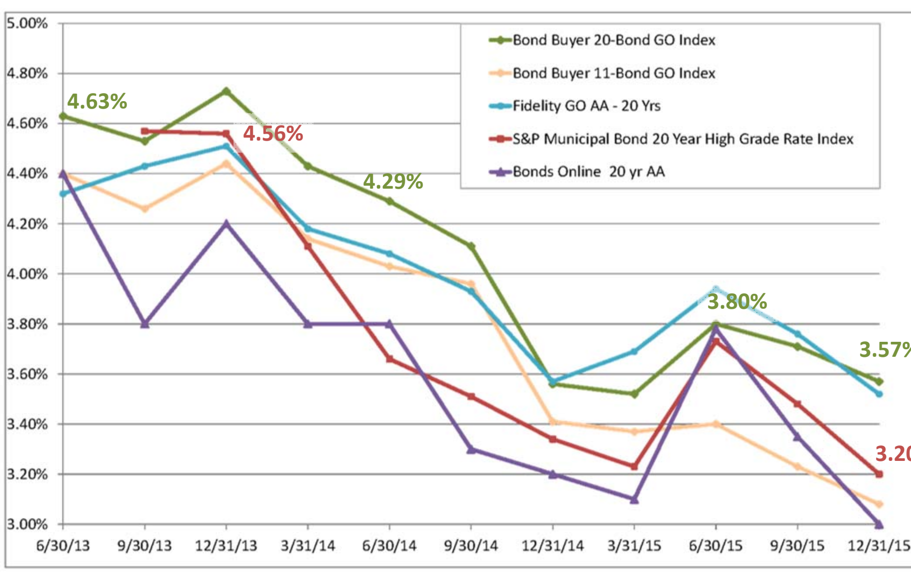
## Discount Rate

- Rate used to determine present value of benefits to be paid in the future
- Well-funded plans use expected rate of return on assets
- Unfunded plans use 20 year AA Municipal Bond rate
- In-between plans use in-between rate
- "Funded" means:
  - Irrevocable Trust
  - Used only for OPEB benefits for plan members
  - Protected from creditors

## Discount Rate - Impact

- No prefunding of OPEB obligation
  - Liability could increase by as much as 30%
- Plans with OPEB trusts
  - Fully funded- no impact
  - Partially funded- some impact

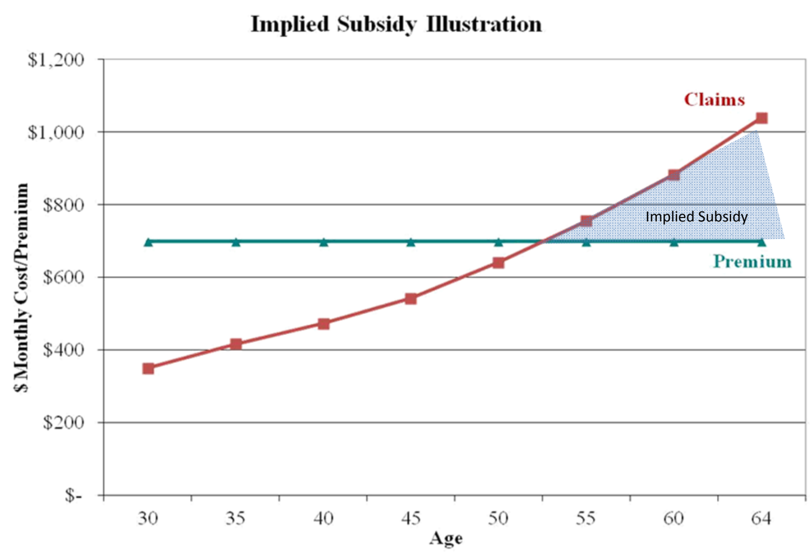
## Discount Rate – Municipal Bond Rates



## What’s Included in Total OPEB Liability

- Implied subsidy
  - Required for large pooled plans (like CalPERS PEMHCA) for valuations after 3/31/15
  - GASB 75 requires age-adjusted premiums or claims
    - Means implied subsidy is included
    - No “deviations” allowed in Actuarial Standards of Practice
  - Depending on negotiated benefits could increase current liability by 100% if in PEMCHA

## What’s Included in Total OPEB Liability



# No Prefunding

| | 4.5% Rate | 3.2% Rate* | Liability Increase | Percentage Increase | Increases as a % of Payroll |
|---|---|---|---|---|---|
| | | | | | |
| Actuarial Accrued Liability | $12,500,000 | $17,500,000 | $5,000,000 | 40% | 20% |
| | | | | | |
| Annual Required Contribution (ARC) | $875,000 | $1,146,250 | $271,250 | 31% | 1% |
| | | | | | |

**Assumptions**
- Payroll is $25,000,000
- Agency not prefunding in a trust
- S&P Municipal Bond 20 Year High Grade Rate Index (As of 12/31/15)

Your agency's liability may vary based on your own circumstances

# No Prefunding & in PEMCHA

| | 4.5% Rate | 3.2% Rate* | Liability Increase | Percentage Increase | Increases as a % of Payroll |
|---|---|---|---|---|---|
| Actuarial Accrued Liability | $12,500,000 | $17,500,000 | $5,000,000 | 40% | 20% |
| Estimated PERS Implied Subsidy | | $5,250,000 | $5,250,000 | 42% | 21% |
| Total | $12,500,000 | $22,750,000 | $10,250,000 | 82% | 41% |
| Annual Required Contribution (ARC) | $875,000 | $1,146,250 | $271,250 | 31% | 1% |
| Estimated PERS Implied Subsidy | $340,000 | $445,400 | $445,400 | 51% | 2% |
| Total | $1,215,000 | $1,591,650 | $716,650 | 82% | 3% |

**Assumptions**
- Payroll is $25,000,000
- Agency not prefunding in a trust
- S&P Municipal Bond 20 Year High Grade Rate Index (As of 12/31/15)

Your agency's liability may vary based on your own circumstances

# Create a Prefunding Policy

| | 4.5% Rate | 6.5% Rate | Liability Decrease | Percentage Decrease | Decreases as a % of Payroll |
|---|---|---|---|---|---|
| | | | | | |
| Actuarial Accrued Liability | $12,500,000 | $8,650,000 | $3,850,000 | 31% | 13% |
| | | | | | |
| Annual Required Contribution (ARC) | $875,000 | $605,000 | $270,000 | 25% | 1% |
| | | | | | |

**Assumptions**
- Payroll is $25,000,000
- Creating an irrevocable trust

Your agency's liability may vary based on your own circumstances

# Results of Creating a Trust*

- Fund a Trust
  – ARC drops 25%
  – NOO drops 53% if in PEMCHA
  – NOO drops 31% if not in PEMCHA

**Assumption**
- Deposit is equal to the ARC

Your agency's liability may vary based on your own circumstances

CADILLAC TAX

Keenan & Associates
Innovative Solutions. Enduring Principles.

## Cadillac Tax Update

- What are the politics?

- Beginning 2018 now deferred to 2020,  ACA imposes a tax on high-cost health insurance plans
- In 2018,15% of active employee plans for U.S. employers are projected to incur the tax; in 2020 it is projected to increase to 19% and **most public sector plans**

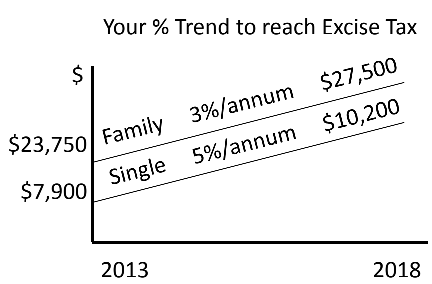
# Cadillac Tax Update

- Beginning 2018, ACA imposes a tax on high-cost health insurance plans
  - Tax estimated to average $364 (per member) annually or 2.9% of plan costs
    - "Truvan Report" indicates tax will be higher for plans covering older workers. 8.1% of early retiree plans for U.S. employers are projected to incur the Cadillac tax; the rate is projected to increase to 84% by 2020
    - For early retiree plans projected to incur the tax in 2018, it is estimated the average annual PEPY tax amount will be $1,069

# Cadillac Tax

*"An excise tax will be levied on 'rich' or 'Cadillac' employer sponsored medical benefit programs."*

- A 40% excise tax will be imposed on "rich" plans starting 2020.
- "Rich plans" are defined as exceeding $10,200 (single) or $27,500 (family) in 2010 dollars, with a limited inflation adjustment factor.



## Cadillac Tax Update

- Regulations clarifying calculation
  - Inclusion of FSA (Section 125) contributions
  - Waivers

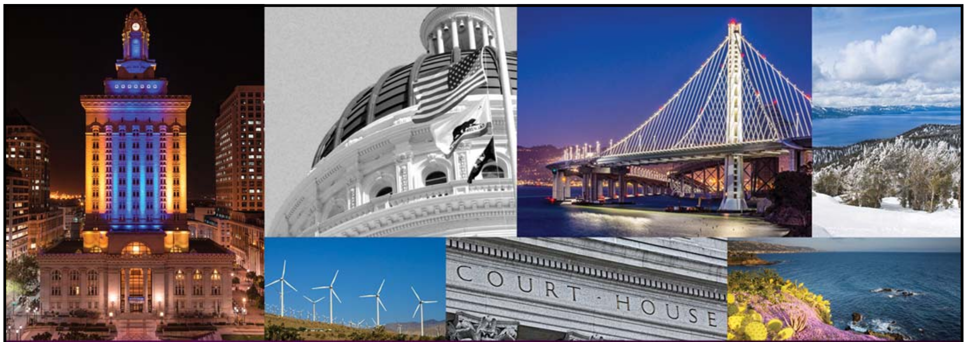

*Thank You!*


# Strategies for GASB 74 & 75

Yes, there are things you can and should do…

## OPEB obligation may be subject to negotiation

- Analyze OPEB obligation
- Determine correct strategy
  - Bargain to eliminate (Yes, this may be possible)
  - Bargain to reduce
    - Change level of benefit
    - Change duration of benefit
    - Change eligibility for benefit
  - Bargain employee contribution
  - Bargain alternative medical plans
    - Explore JPA or other pool options
    - Explore self-insurance options
  - Implement




# Strategies for CADILLAC TAX

Better safe than sorry…

## Negotiate Alternative Plans

- Analyze medical plan offerings
- Determine correct strategy
  - – Bargain to gain control of medical offerings
    - Explore leaving CalPERS PEMHCA
    - Explore JPA options
    - Explore self-insurance options
  - – Bargain MOU Reopener to address Cadillac Tax
  - – Implement

## Summary

- Determine how much your agency pays each year for employee medical care and for retiree medical care
- Is the retiree medical benefit a vested benefit at your agency?
- Ask for an actuarial study to estimate the total retiree medical liability
- If desired, determine if opportunities exist to reduce/eliminate liability through negotiations