TAB 6

Point Paper
GASB 45: Other Post Employment Benefits Study
January 22, 2007

Problem: Effective FY 2008, the City of Palmetto will be required to implement accounting changes as outlined in Government Accounting Standards Board (GASB) 45. All cities throughout the United Sates are required to implement GASB 45; however, the implementation schedule varies depending on the annual revenues of the City.

Background: In 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions," which requires public agencies to report their costs and obligations pertaining to health and other benefits of current and future retired employees, much like they now report pension plan obligations. These other post-employment benefits (OPEBs) — including such benefits as medical, dental, vision, hearing, life insurance, long-term care and long-term disability — must be recognized as a current cost during the working years of an employee. Thus, cities must identify and disclose OPEBs as an expense and, to the extent not pre-funded, a liability on its financial statements.

Staff obtained two quotes associated with performing the GASB 45 study. The two quotes were as follows:

Florida League of Cities-$3,750
Miliman Consultants and Actuaries- $9,000

A copy of the Florida League of Cities quote and scope of work is attached (Exhibit A). If the City chooses to have the actuary attend a meeting to discuss the results of the study, there is an additional $2,500 fee. Staff will come back to Commission if we choose to have the consultant attend a meeting and present the results of the study. Staff has also included an FAQ document and OPEB overview as (Exhibit B).

Alternatives:

1. Approve and authorize staff to grant the Florida League of Cities permission to perform our GASB 45 actuarial calculation for a fixed fee of $3,750.
2. Seek additional quotes to complete the GASB 45 evaluation

Recommendation:

Staff recommends alternative #1

Budget Impact: The FY 2007/08 budget includes $9,000 in the Finance consulting line item 0015153101 to perform the GASB 45 study

Exhibit 4

FLORIDA LEAGUE OF CITIES, INC.

301 South Bronough Street, Suite 300 ◆ Post Office Box 1757 ◆ Tallahassee, FL 32302-1757
(850) 222-9684 ◆ Suncom 278-5331 ◆ Fax (850) 222-3806 ◆ Web site: www.flcities.com

December 21, 2007

Karen Simpson
Deputy Clerk of Finance
City of Palmetto
516 8th Ave. W.
PO Box 1209

Re: Preparation of GASB 45 Disclosures for the City of Palmetto

Dear Ms. Simpson:

Pursuant to your request, I have set forth below our fee to provide the actuarial calculations required by Governmental Accounting Standards Board Statement No. 45 (GASB 45), along with a detailed listing of the services covered by the fee.

It is my understanding that the City currently: (i) has approximately 144 active employees who potentially may become eligible for post-employment benefits; (ii) has approximately 6 individuals who are receiving post-employment healthcare coverage, and 35 covered by life insurance; and (iii) provides partially self-insured post-employment healthcare benefits with re-insurance for claims over $40,000 per covered individual. Based on our email conversation and my understanding of the number of employees and retirees entitled to post-employment benefits, as well as the type of post-employment benefits currently offered by the City of Palmetto, I have prepared the following fee quotation.

Our fixed retainer fee will be **$3,750.00** for the following services:

1. Preparation of an annual actuarial valuation report as of July 1, 2007 which will be used to develop the GASB 45 liabilities and expense for the fiscal years ending September 30, 2007 and September 30, 2008, complete with all necessary calculations, information, and disclosures as required by GASB 45 and other applicable actuarial professional standards, including the following:

   a. A summary of current plan provisions;
   b. A summary of all assumptions and methods applied in developing the plan expense and liabilities;
   c. Liabilities and expenses by employee group based on covered medical benefits;
   d. Liabilities by active, deferred vested, retiree, and beneficiary status; and
   e. A projection of the cash flows to provide a forward-looking estimate of the financial impact to the City of Palmetto of retiree health care costs, liabilities, and contributions.

2. Up to 25 bound copies of the final valuation report prepared as described in item 1.

3. Miscellaneous telephone calls between our actuary, Charles Carr at Southern Actuarial Services and any City employees or other professionals connected with the cited work, including conference telephone calls as needed to discuss the assumptions used in the calculations and to explain the results of the valuation to City officials.

The report will be provided no later than 10 weeks of the date on which we receive all necessary information, including but not limited to employee and retiree data, claims experience (if applicable), retiree premiums, City contributions and/or premiums, and other information set forth in our standard data request letter.

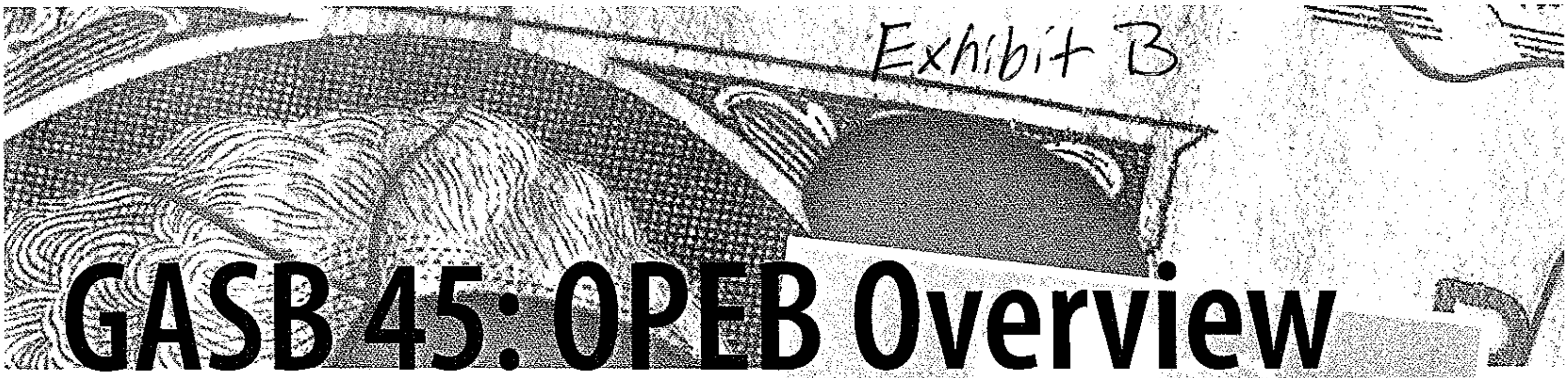
In addition, if you would like for the actuary to attend a meeting in person to discuss the results of the valuation, the fee will be **$2,500.00**. The cited meeting attendance fee includes all associated travel expenses.

If you have any questions concerning the above, please do not hesitate to call me.

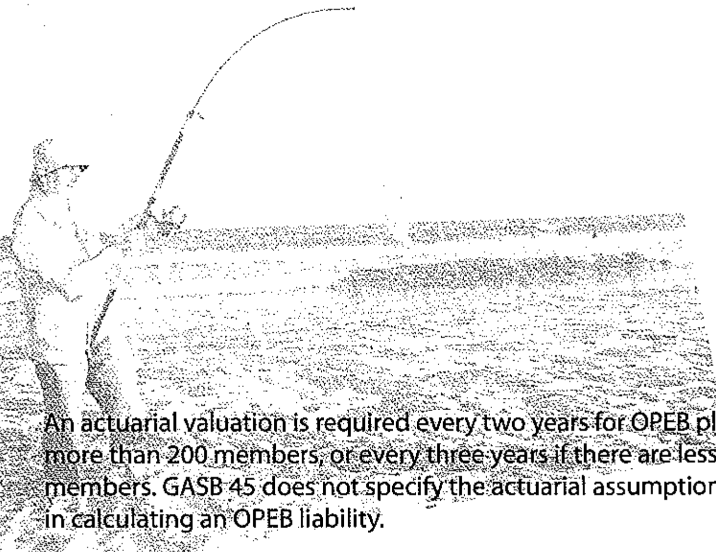
Sincerely,

Paul Shamoun
Retirement Services Manager
Florida League of Cities, Inc.
P.O. Box 1757
Tallahassee, FL 32302
800-616-1513 x 278

Exhibit B



GASB 45: OPEB Overview



OPEB OVERVIEW

OPEB refers to "other post-employment benefits," or benefits other than pension benefits. OPEB typically consists of health-care benefits, but might include other benefits such as life insurance, long-term care and similar benefits. Historically, these benefits have been administered on a pay-as-you-go basis and have not been reported as a liability on municipal financial statements. In Florida, state statutes require that the employer make health coverage available to retirees at the employer's group rate. This creates an implicit cost that must be accounted for, potentially making this a financial issue for every city in Florida.

GASB 45 requires municipalities to start accounting for OPEB liabilities much like they already account for pension liabilities. The process will be similar to accounting for pensions, generally adopting similar actuarial methodologies while making adjustments for the different characteristics of OPEB. A key difference is that most municipalities have not set aside funds against this liability. GASB 45 does not require municipalities to report a net OPEB obligation at the beginning, which differs from GASB 27 concerning pensions.

Under GASB 45, an annual required contribution (ARC) is determined for each municipality by taking the sum of the current year normal cost of OPEB benefits plus the amortization of benefits earned by current and former employees but not yet provided for (unfunded actuarial accrued liability or UAAL), using an amortization period of not more than 30 years. A net OPEB obligation (NOO) will result if a municipality contributes an amount less than the ARC, which is required to be recorded as a liability on financial statements. The UAAL is not required to be treated as a liability on financial statements, but will likely appear in any related footnotes and disclosures.

Current pay-as-you-go expenses might be significantly higher than the ARC. After a period of time, however, it is estimated that pay-as-you-go costs are expected to far exceed the ARC. This is largely because of factors such as increasing number of retirees and inflation in health-care costs.

An actuarial valuation is required every two years for OPEB plans with more than 200 members, or every three years if there are less than 200 members. GASB 45 does not specify the actuarial assumptions to be used in calculating an OPEB liability.

Although GASB 45 encourages earlier adoption, implementation is required in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. These phases use the same guidelines from GASB 34 as follows:

Implementation	Annual Revenue	Effective for Fiscal Year beginning after:
Phase 1	>$100M	December 15, 2006
Phase 2	>$10M, <$100M	December 15, 2007
Phase 3	<$10M	December 15, 2008

OPEB OPTIONS

One of the first steps should be a review of current policies, with the goal of finding ways to help reduce future OPEB obligations. Approaches to reducing the municipality's OPEB liability include reducing explicit subsidized premiums to retirees, increasing the length of time employees must work to be eligible, offering new employees less favorable benefits than existing and prior employees, and/or changing to a defined-contribution instead of defined-benefit plan.

GASB

GASB STATEMENT 45 ON OPEB ACCOUNTING BY GOVERNMENTS A FEW BASIC QUESTIONS AND ANSWERS

1. Why was Statement 45 on OPEB accounting by governments necessary?

Statement 45 was issued to provide more complete, reliable, and decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide postemployment benefits other than pensions (OPEB) as part of the compensation for services rendered by their employees. *Postemployment healthcare benefits,* the most common form of OPEB, are a very significant financial commitment for many governments.

2. How was OPEB accounting and financial reporting done prior to Statement 45?

Prior to Statement 45, governments typically followed a "pay-as-you-go" accounting approach in which the cost of benefits is not reported until after employees retire. However, this approach is not comprehensive—only revealing a limited amount of data and failing to account for costs and obligations incurred as governments receive employee services each year for which they have promised future benefit payments in exchange.

3. What does Statement 45 accomplish?

- When they implement Statement 45, many governments will report, for the first time, annual OPEB cost and their unfunded actuarial accrued liabilities for past service costs. This will foster improved accountability and a better foundation for informed policy decisions about, for example, the level and types of benefits provided and potential methods of financing those benefits.

The Standard also:

- Results in reporting the estimated cost of the benefits as expense each year *during the years that employees are providing services* to the government and its constituents in exchange for those benefits.
- Provides, to the diverse users of a government's financial reports, more accurate information about the *total cost of the services* that a government provides to its constituents.
- Clarifies whether the amount a government has paid or contributed for OPEB during the report year has covered its annual OPEB cost. Generally, the more of its annual OPEB cost that a government chooses to defer, the higher will be (a) its unfunded actuarial accrued liability and (b) the cash flow demands on the government and its tax or rate payers in future years.
- Provides better information to report users about a government's *unfunded actuarial accrued liabilities* (the difference between a government's total obligation for OPEB and any assets it has set aside for financing the benefits) and changes in the *funded status of the benefits* over time.

4. **What are the most common misconceptions about Statement 45?**

   a. **That it requires governments to fund OPEB.** Statement 45 establishes standards for *accounting and financial reporting.* How a government actually finances benefits is a policy decision made by government officials. The objective of Statement 45 is to more accurately reflect the financial effects of OPEB transactions, including the amounts paid or contributed by the government, whatever those amounts may be.

   b. **That it requires immediate reporting of a financial-statement liability for the entire unfunded actuarial accrued liability.** Statement 45 does not require immediate recognition of the unfunded actuarial accrued liability (UAAL) as a financial-statement liability. The requirements regarding the reporting of an OPEB liability on the face of the financial statements work as follows:

      - Governments may apply Statement 45 prospectively. At the beginning of the year of implementation, nearly all governments will start with zero financial-statement liability.
      - From that point forward, a government will accumulate a liability called the *net OPEB obligation,* if and to the extent its actual OPEB contributions are less than its annual OPEB cost, or expense.
      - The net OPEB obligation (not the same as the UAAL) will increase rapidly over time if, for example, a government's OPEB financing policy is pay-as-you-go, and the amounts paid for current premiums are much less than the annual OPEB cost.

      Statement 45 does, however, also require the *disclosure* of information about the *funded status* of the plan, including the UAAL, in the notes to the financial statements—and the presentation of multi-year funding progress trend information as a required supplementary schedule.

   c. **That it requires governments to report "future costs" for OPEB.** It is misleading and incorrect to describe accrual accounting for OPEB as requiring the expensing of "future costs." From an accrual accounting standpoint (the basis of accounting required for all transactions in the government-wide financial statements), the reported expenses relate entirely to transactions (exchanges of employee services for the promised future benefits) that *already have occurred.* Statement 45 requires governments to report costs and obligations incurred as a consequence of receiving employee services, for which benefits are owed in exchange. The *normal cost* component of annual expense is the portion of the present value of estimated total benefits that is attributed to services received in the current year. The annual expense also includes an amortization component representing a portion of the UAAL, which relates to past service costs. Estimated benefit costs associated with *projected future years of service* are *not reported.*