

ACBO Conference

GASB's 2012 Surprise:

New OPEB 25, 27, 43 and 45 Standards. Can You Trust Your Trust?

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GASB's 2012 Surprise:

New OPEB 25, 27, 43 and 45 Standards. Can You Trust Your Trust?

- ▶ Background**
- ▶ Overview**
 - **Timeline**
 - **Potential impact**
- ▶ Actuarial changes**
- ▶ Accounting and financial reporting impact**
- ▶ Impact of New Standards on Setting Up A GASB Independent Investment Trust**

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Background

Background

GASB Pension and OPEB Project

- ▶ **Two phased GASB Project**
 - Pensions
 - OPEB

- ▶ **Phase 1: Currently addressing Pensions**
 - Revisions to GASB 25 and 27
 - Comment period closed Oct. 14
 - Final statements anticipated for June 2012

- ▶ **Phase 2: Will address OPEB**
 - Revisions to GASB 43 and 45
 - Exposure drafts expected in December 2012
 - Final statements issued in November 2013

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Timeline

Timeline

Pension

GASB 25 and 27

- Final June 2012

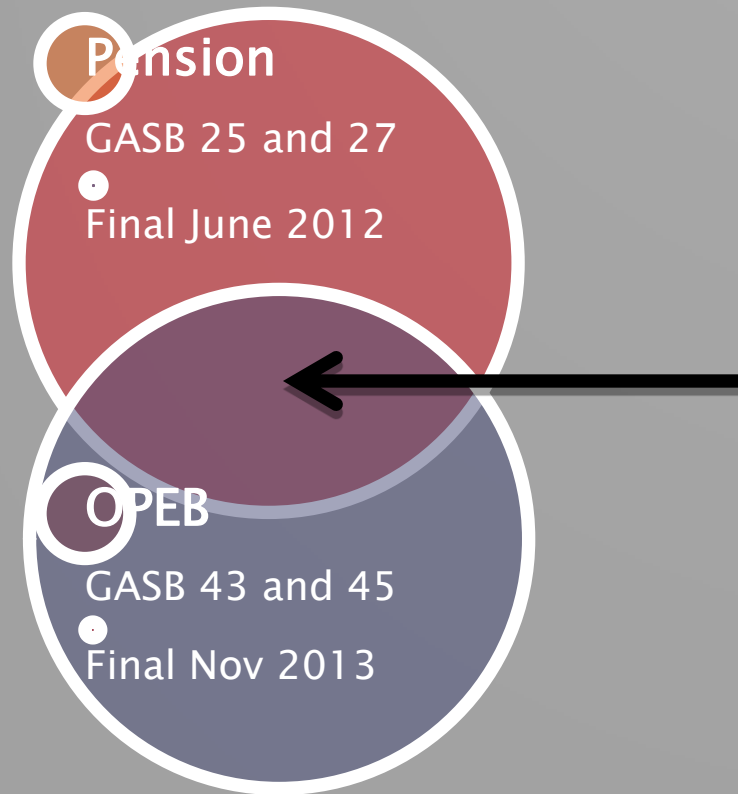
- Effective 2013-14

OPEB

GASB 43 and 45

- Final Nov 2013

Consistent Approach



- ▶ Consistent approach applied to all employers
- ▶ Intended to recognize liabilities and expenses
- ▶ Actuarial valuation
- ▶ Employer accounting and reporting
- ▶ Plan accounting and reporting

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Actuarial Changes

Actuarial Changes

Cost Method

- ▶ **Current GASB standards allow 6 methods, but in practice only two used: Entry Age and Projected Unit Credit (PUC)**
- ▶ **New standard likely to mandate Entry Age**
- ▶ **If PUC used, moving to Entry Age likely to increase normal cost (NC)**
- ▶ **Employers may want to consider moving to Entry Age sooner than required**

Actuarial Changes

Cost Method

- ▶ Current standards allow NC on either level \$ or level % of payroll basis
- ▶ New standard likely to require level % of payroll
- ▶ Moving from level \$ to level % of payroll would decrease NC
- ▶ Employers can move to level % sooner, if desired

Actuarial Changes

Interest Assumption

- ▶ Likely to use a municipal bond index for the unfunded portion of the liability
- ▶ Likely to specify a better defined method of determining the mix of funded vs. unfunded liability
- ▶ Likely to be limitation on smoothing of investment gains and losses
- ▶ Likely to require disclosure of impact of 1% interest rate difference

Actuarial Changes

Actuarial Basis and Accounting Basis

- ▶ Actuarial Basis and Accounting Basis can be different, but using different bases will be confusing
- ▶ Most employers likely to choose to align actuarial basis with accounting basis

Actuarial Changes

Amortization Period

- ▶ Shorter period likely for actuarial gains and losses
- ▶ Could increase or decrease expense depending on whether there are gains or losses
- ▶ No amortization of plan changes

Actuarial Changes

Conclusions

- ▶ OPEB changes likely to follow pension changes
- ▶ Some changes allowable under GASB 43/45 and can be implemented sooner
- ▶ Some changes must wait until new standards adopted and implemented

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Accounting, Financial and Reporting Impact

Accounting Impact

Adjustments

- ▶ **May require prior period adjustment**
 - Recognition would be retroactive

Financial Impact

Effect on Net Assets

- ▶ **May decrease period of amortization of liability**
 - Would increase the expense recognized each year
 - More consistent with when benefits are earned
- ▶ **Addition/acceleration of this long term liability to the statement of net assets will reduce unrestricted net assets**
- ▶ **Rather than diminishing a district's financial position, this is a more accurate representation of its actual financial standing**

Reporting Impact

Disclosures

- ▶ **Descriptions of benefits**
- ▶ **Assumptions**
- ▶ **Effect on liability using discount rate of $+/-1\%$**
- ▶ **Information about plan net position (if applicable)**
- ▶ **Changes in components of liability by source**
- ▶ **Components of OPEB expense**

Reporting Impact

Required Supplementary Information

- ▶ Changes in components of OPEB liability by source
- ▶ 10 years of information
- ▶ Liability components and ratios
- ▶ Contribution information
- ▶ 10 year schedule of annual investment rate of return (for plans)

Accounting, Financial and Reporting Impact

Outcomes

- ▶ Significant improvement to usefulness of disclosures for decision making and assessing accountability and inter-period equity
- ▶ Comparability improves because all employers would present basically the same disclosures

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Impacts of New Standards on Setting Up A GASB Independent Investment Trust

What is a GASB Independent Investment Trust?

What is an Independent Investment Trust?

- ▶ IRC SEC 115
- ▶ Irrevocable
- ▶ Trust Structure
 - Single Employer
 - Multi-Employer
 - Joint Power
- ▶ Trust Formation
 - Discretionary versus Directed
- ▶ Assets Held in Public Entities Name
- ▶ No Proprietary Funds
- ▶ Selects Registered Investment Advisor (RIA)

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**Impacts of New Standards on
Setting Up A GASB Independent Investment Trust**

What is an Independent Register Investment Advisor (RIA) ?

What is an Independent Register Investment Advisor (RIA)?

- ▶ Investment Policy Statement (IPS)
- ▶ Comprehensive Choice of Investment Portfolios
- ▶ Risk Tolerance Support Provided
- ▶ RIA Formation
 - Discretionary versus Directed
- ▶ Institutional Shares
- ▶ No Proprietary Funds
- ▶ Is Selected by Independent Investment Trust

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**Impacts of New Standards on
Setting Up A GASB Independent Investment Trust**

**Why Do I Need an Independent Investment Trust and a
Independent Registered Investment Advisor (RIA)?**

Why Do I Need an Independent Investment Trust and a Independent Registered Investment Manager (RIA)?

- ▶ California Constitution: Article 16: Public Finance Section 17
- ▶ Employee Retirement Income Security Act
- ▶ Private Letter Ruling
- ▶ Protection of Assets From Creditors
- ▶ No Conflict of Interest
- ▶ Fiduciary Liability Mitigation
- ▶ Both Discretionary not Directed
- ▶ Coordination of Administration

What's Next?

- ▶ **Precedent has been set**
 - However, GASB comments on all proposed standards that can the final outcome
- ▶ **Be aware and be prepared**
 - The GASB exposure draft for OPEB is expected to be released in December 2012
 - There is usually a short window to respond (Expected to be January–March 2013)

Responding to GASB Exposure Draft

- ▶ Letters can be emailed to director@gasb.org
- ▶ Letters should be on District stationary and addressed to:

Director of Research and Technical Activities, (Include Project # When Known)

Governmental Accounting Standards Board

401 Merritt 7

PO Box 5116

Norwalk, CT 06856-5116

Questions ?

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