

ACBO Conference

GASB's 2012 Surprise:

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

Presented by:

Geoffrey Kischuk, President Total Compensation Systems, Inc.

&

Gema Ptasinski, Partner/CPA & Tina Henton, Partner/CPA

Vicenti, Lloyd and Stutzman LLP

&

Chuck Thompson, President/CEO RPM Consultant Group

GASB's 2012 Surprise:

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- ▶ **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

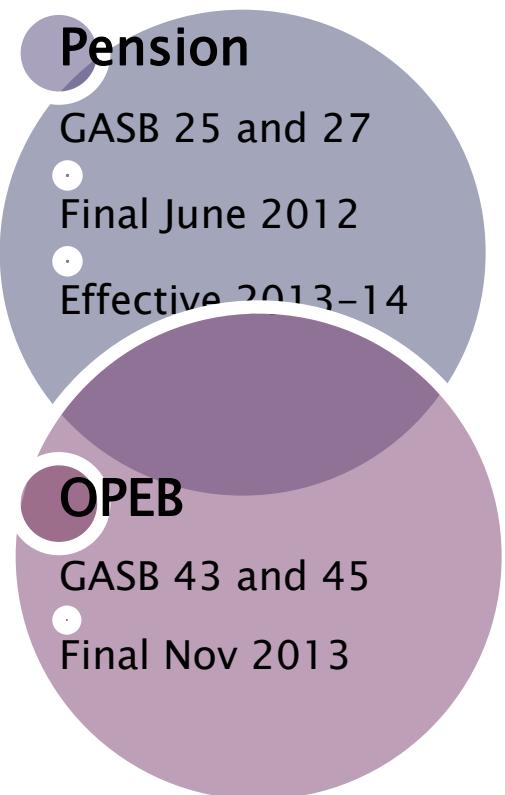
- ▶ Two phased GASB Project
 - Pensions
 - OPEB
- ▶ Phase 1: Currently addressing Pensions
 - Revisions to GASB 25 and 27
 - Comment period closed Oct. 14
 - Final statements anticipated for June 2012
- ▶ Phase 2: Will address OPEB
 - Revisions to GASB 43 and 45
 - Exposure drafts expected in December 2012
 - Final statements issued in November 2013

GASB's 2012 Surprise:

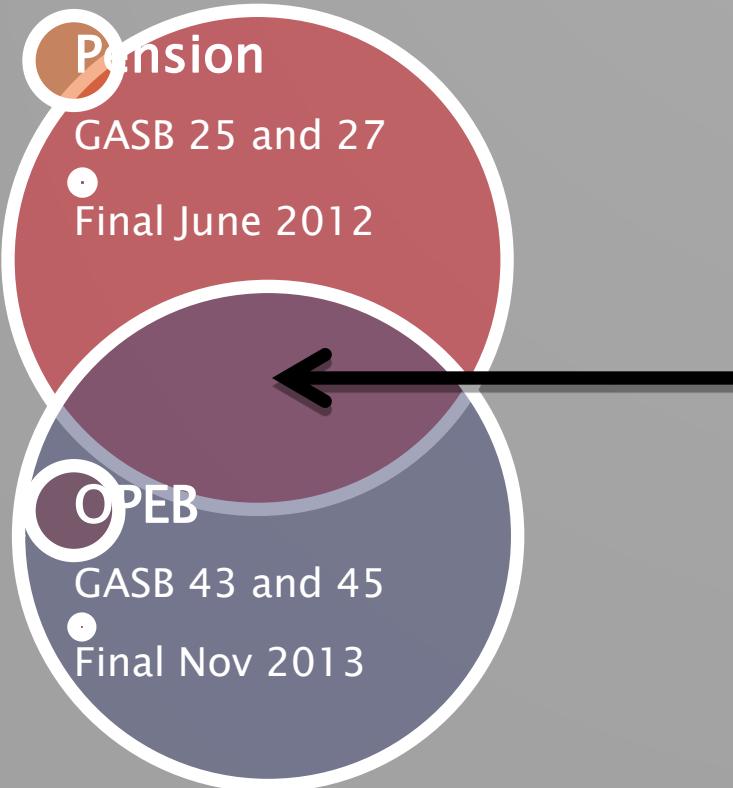
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Timeline

Timeline



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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Contact Information

Geoffrey Kischuk, President

Total Compensation Systems, Inc.

805-496-1700

Gema Ptasinski, Partner/CPA

Vicenti, Lloyd and Stutzman LLP

626-857-7300

Tina Henton, Partner/CPA

Vicenti, Lloyd and Stutzman

626-857-7300

Chuck Thompson, President/CEO

RPM Consultant Group

818-590-6553

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