Governmental Accounting Standards Board (GASB) 45 and Implementation Approach

City of Dallas
May 8, 2006
Purpose of Presentation

• Summary of Governmental Accounting Standards Board (GASB) 45

• Approach for the City of Dallas

• Process to analyze Plan Costs Under GASB 45
  – First effective for fiscal year 10/1/07 – 9/30/08
A Brief Summary of GASB Statement No. 45

• Covers certain post-retirement benefits programs (e.g., retiree medical and life benefits), also called “Other Post Employment Benefits” or “OPEBs”

• Requires the use of accrual accounting for expenses and liabilities in financial statements rather than current practice of “pay as you go” expensing or cash basis accounting

• May have significant impact on the City’s financial statements

• City will need actuarial and accounting analyses to evaluate impact of GASB 45

• Initial actuarial liability for past services will be amortized and expensed over a period of years to be determined by the City, up to 30 years

• Effective for the City’s fiscal year beginning October 1, 2007
Current Practice

• Very few governmental OPEB plans have ever had an actuarial valuation because it has never been required

• Most OPEB plans (like the City of Dallas) are financed on a *pay-as-you-go basis (cash basis)* and only record (recognize) a portion of the total liability

• This means financial reporting practices generally focus on reporting outflows of current financial resources (cash basis)

• Therefore, current financial reporting generally fails to:
  – Recognize the cost of retirement benefits in periods when services are received
  – Provide information about the current value of future promised benefits and associated liabilities
  – Provide information useful in assessing potential demands on future cash flows
Approach for the City of Dallas

• Hired Deloitte Consulting to guide us through the GASB 45 implementation
  – Perform an actuarial study of OPEB plan costs (“baseline valuation”) required under GASB 45
  – Analyze whether to fund the OPEB obligation or not. This decision could affect the discount rate assumption which directly impacts the amount of expense recorded or recognized.
    - Evaluation of impact on City’s financial statements

• Assuming no significant health plan or participant demographic changes occur in the interim, this study or valuation can be used for expense and liability calculation for year beginning October 1, 2007
Approach for the City of Dallas

**Analyze Plan Costs**

**Step 1**
- Discovery/Planning
  - Engagement scope
  - OPEB program goals
  - Project goals
  - Project timeframe

**Step 2**
- Collect Census, Claims, and Financial Information
  - Information gathered jointly by Deloitte and the City. This allows for continuous dialogue.

**Step 3**
- Determine Plan Costs
  - Select actuarial methods and assumptions
  - The census, claims and plan design is used to determine claims cost, GASB OPEB plan costs and projected cash flow.

**Step 4**
- Report
  - Analyze actuarial status of plan
  - GASB OPEB ARC and expense
  - Cash flow projection
  - Summarize major plan provisions and demographics
  - Discuss report and possible future action

**Status:** Steps 1 and 2 complete, Step 3 in initial stages
Changes to City’s Financial Statements Beginning 10/1/07

• Accrual accounting of OPEB costs recognized over the working lifetime of active employees

• Annual Required Contribution ("ARC") OPEB Expense (similar to GASB 27 for Pensions)
  – Normal current year costs
  – Amortization of the unfunded OPEB liability
  – Interest cost of prior years Net OPEB Obligation

• The cumulative difference between amounts expensed and "contributions" to the plan will create a liability* on the City’s balance sheet called the **Net OPEB Obligation**

• Prospective implementation: the initial Net OPEB Obligation for past service liability on balance sheet at 10/1/07 will be set equal to $0, regardless of funded status of plan

• Additional footnote disclosure and supplementary information is required (similar to GASB 27) beginning 9/30/08

* Or asset if cumulative contributions exceed expense
Current Reporting Practice versus GASB 45 Requirement
(for illustration only)

- Prior to GASB 45, (A) was the only cost recognized annually
- GASB 45 requires recognition of (c) plus amortization of (B) and (D)
Future Related City Decisions

• Period to amortize initial unfunded actuarial accrued liability

• Pre-funding vs. not pre-funding
  – Impact on financial statements
  – Impact on current budgets
  – Potential impact on debt ratings
  – Potential impact on tax rates
Summary

• Key points
  – GASB 45 is effective for fiscal year beginning 10/1/07
  – Accrual accounting of costs vs. current “pay-as-you-go” basis
    • ARC, OPEB Expense and Net OPEB Obligation
  – Increased financial statement expense (and likely liability on balance sheet)
  – Actuarial valuation currently being performed to determine OPEB costs
  – Whether to fund plan is significant decision for City to make

• Key project deliverables
  – Calculation of projected ARC and OPEB Liability for year ending 9/30/08
  – Cash flow projections of OPEB plan
  – Report summarizing findings and basis for actuarial valuation
Questions