



Reflecting Upon the Adoption of GASB 74 & 75 – Lessons Learned & Emerging Trends

By: Sarah F. Rothenberg, ASA, MAAA

Now that we have begun to see the implementation of GASB 74 & GASB 75, let's reflect on what we have learned and what emerging trends we have seen.

Valuation Date, Measurement Date, & Reporting Date

Valuation Date – Date census data is collected

What valuation dates are clients using?

Most clients are using a valuation date one year prior to the reporting date (two years prior for interim year or roll-forward valuations)

What are the pros of using valuation date which is prior to the reporting date?

Allows plenty of time to compile census data.

What are the cons of using valuation date which is prior to the reporting date?

Some municipalities may prefer to use data that is more up to date.

Measurement Date – Liability is rolled forward from the valuation date to the measurement date

What measurement dates are our clients selecting?

Most clients are using an end of year measurement date (i.e. measurement date = reporting date)

What are the pros of an end of year measurement date?

Allows the GASB 75 liability to match the GASB 74 (applicable for all plans with assets) liability which does not allow for a beginning of year measurement date.

We have found that there is a lot of confusion when GASB 74 & 75 are not in alignment.

I am not funding so do I need to worry about GASB 74 & 75 being aligned?

While you are not currently subject to GASB 74, you will be if you decide to fund in the future. If you do not use an end of year measurement date now, you may wish to consider transitioning to an end of year measurement date if you decide to fund in the future.

What are the cons of an end of year measurement date?

Your report will not be finalized until after the fiscal year end. However, we can provide drafts prior to the fiscal year end upon request.

Reporting Date – Date liabilities are reported on the financial statement

Same as the Fiscal year end

Interim Valuations

Under GASB 74 & 75, Valuations are performed biennially. However, some clients may receive reports yearly. The reasons for this are:

1. If the discount rate were to change materially between valuations, an updated report is needed – your auditor is the ultimate arbiter of materiality.
2. Clients who are prefunding will receive yearly reports to reflect updated asset balances.

The good news is that these interim reports do not require a whole new valuation and they need very little additional effort on your part.



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Addressing Your Liability

GASB 75 brings increased visibility to your liabilities. Ratings agencies have stated that they are placing a greater emphasis on municipal debt, which would include your OPEB and pension plans. This increased emphasis, coupled with the fact that the discount rate is now impacted by the level of funding and investment policy, have led some of our clients to take new steps to address their OPEB Liabilities.

Prefunding

- Level of prefunding or lack thereof helps drive discount rate
- **Increase in the percentage of clients who are prefunding**
79% of clients were prefunding their liabilities as of January 2019 v. 63% as of November 2016.
- **Most clients are far from fully funded, but the average funding level is increasing**
Of those who are funding, the average town was 8.5% funded as of January 2019 compared to 6.5% as of November 2016.
- **Emerging Trend – Many of our Massachusetts clients are adopting a funding policy that utilizes the funds which are currently being used to fund the Town's pension liability, but will be free once the Town's pension liability is fully funded.**
Great way to address the OPEB liability.
May allow us the use of a higher discount rate today
- **While funding is important, very few municipalities are in a position where they can fund their way out of their OPEB debt.**
May wish to consider other measures to help manage this liability.

Plan Design Changes

There are many ways to alter your OPEB Plan. Before you do so make sure that you comply with any applicable state laws. We have seen clients do the following:

- **Change Medicare Prescription Drug Benefit**
For municipalities that offer Medicare Supplement plans, these plans typically account for 75% - 85% of the OPEB liability.
Most impactful place to make changes.
We've seen plan sponsors modify their drug formulary which can reduce current medical payments by 20% to 25% and OPEB liabilities by 15% to 20%.
- **Make your Plan secondary to Medicare**
We have seen clients mandate that retirees who are eligible for Medicare enroll in it, making the Plan the secondary payor.
- For retirees who are not eligible for Medicare, some towns have opted to "buy into" Medicare. While this may be costly, removing older participants from your Active or Non-Medicare plans may lead to lower premiums, ultimately saving you money. Talk to your medical plan provider prior to making any of these changes.



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- **Change Cost Sharing**

Increasing the portion of premiums that your retirees pay ultimately lowers costs & liabilities. We have seen town's increase the percent of premiums all retirees pay or increase retiree cost sharing for a group of current or future retirees (such as new hires).

- **Change Eligibility**

Similarly, to changing cost sharing, making it harder for employees to become eligible for benefits and/or making employees eligible for benefits for limited periods will decrease costs and liabilities. Clients have closed the Plan to new members, discontinued benefits upon the attainment of age 65, or simply increased the number of years of service and the attained age necessary for eligibility.

Alternative Measurement Method (AMM)

- Still allowable for municipalities with less than 100 covered participants (active and inactive)
- We have noticed a shift away from the AMM.
- May make the audit more time consuming.
- Some auditors are no longer allowing clients to use the AMM, so make sure you talk to your auditor if you plan to use this method.

Main Takeaways

To conclude, we have learned the following lessons from the implementation of GASB 74 & 75:

- It is usually easiest for all parties to use a beginning of year Valuation date.
- While a beginning of year Measurement date provides more time to complete your valuation, it may cause confusion.
- Full valuations are completed biennially, but reports may be issued annually. This requires very little extra work on your part.

We are also seeing the following trends:

- Many municipalities are beginning to prefund their OPEB liability, although funding levels are still relatively low.
- Municipalities are taking steps beyond funding to lower their liability.
- While the AMM is still valid, there has been a noticeable shift away from this method.

If you have any further questions, please visit our website at www.odysseyadvisors.com or contact an Odyssey Advisors representative.