City of Memphis

Impact of GASB 43 and 45 on the Health Insurance Fund and the OPEB Trust Fund

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- **Agenda**
  - OPEB Trust Fund: GASB 43 and 45 requirements
  - Allocation of contributions and expenses between funds
  - FY09 Financial Review

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What is OPEB?

- OPEB (Other Post Employment Benefits) consists of non-pension postemployment benefits (primarily healthcare), and may include dental, vision, long-term care, disability, life insurance and other costs that are borne in any part by the employer.

Postemployment Benefits: Substance of the Accounting

- Postemployment benefits are part of the compensation for services rendered by employees.
- Benefits are "earned," and obligations accrue or accumulate during employment, but benefits are not taken until after employment.

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GASB 45 – Summary

- Sets forth accounting for employers that participate in OPEB plans
- Requires that employers:
  - measure and disclose their total obligation for OPEB.
  - measure and disclose the unfunded actuarially accrued liability (UAAL) – the difference between the OPEB obligation and any assets set aside for financing the benefits.
  - record an amount of annual OPEB cost on the accrual basis of accounting.
  - accrue a net OPEB obligation liability (OPEB cost to date less amounts contributed by the employer).
  - disclose various plan information, including description of plan, funded status, valuation methods, among others.

GASB 43 - Summary

- Sets forth accounting for the OPEB plan and establishes the requirements of reporting the stewardship of assets used to finance the payment of benefits.
- Provides standards for accounting for the plan assets, liabilities, net assets, and changes in net assets and requires certain disclosures in the City's financial statements.

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Unfunded Actuarially Accrued Liability (UAAL)

- Actuarially determined OPEB obligation less any assets contributed to the plan for the purpose of financing the obligation.
- GASB 45 does not require recognition of this liability in the financial statements; however, it must be disclosed in the footnotes.
- City of Memphis UAAL at 7/1/08 (valuation date) is $934,240,000
- Contributions consist of direct payments of benefits, paid insurance premiums, or assets irrevocably transferred to a qualifying trust.
- The City has established an OPEB trust fund to hold assets set aside for payment of future obligations.

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Annual OPEB Cost (actuarially determined)

- The employers Annual Required Contribution (ARC) to the plan includes.
  - the normal cost of benefits earned during the year, and
  - a component for amortization of the UAAL (amortized over a period up to 30 years).
- City of Memphis ARC at 6/30/09 (in $ thousands)

FY09 normal cost	$31,188
FY09 amortization of UAAL	33,334
Interest on above	1,751
ARC	$66,273

Net OPEB Obligation (NOO)

- Represents the accumulated OPEB costs recorded to date less the accumulated contributions made by the employer.
- End of year NOO = beginning NOO, plus current year OPEB cost, minus current year contributions.

Beginning of Year NOO	$19,675
Current Year OPEB cost	66,614
Current Year Contributions	(38,159)
End of Year NOO	$48,130

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Allocation of Contributions and Expenses

- Background
- Actual healthcare contributions and claims are recorded in the Health Insurance Fund for actives and the OPEB Trust Fund for retirees
- The percentage of claims expense for active and retiree to the total is used to allocate administrative expenses in both funds
- Medicare Part D subsidy payments are recorded in the OPEB Trust Fund

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Health Insurance and OPEB Funds Comparison Analysis

For the Fiscal Year Ending June 30, 2009

	Health Insurance Fund	OPEB Trust Fund	Total
REVENUES			
Contributions:			
Employer	$ 43,119,310	$ 22,314,295	$ 65,433,605
Employee	15,765,758	8,618,739	24,384,497
Total Contributions:	58,885,068	30,933,034	89,818,102
Investment Income:			
Interest and Dividend	305,989	84,863	390,851
Net Income/Investors	123,843	(429,742)	(305,899)
Total Investment Earnings:	429,831	(344,879)	84,952
Other Revenue			
Medicare D Reimbursements	0	866,954	866,954
Total Other Revenue	0	866,954	866,954
Total Net Revenues	59,314,899	31,455,109	90,770,009
EXPENSES			
Health Claims Expense	43,904,002	44,446,300	88,350,301
Material and Supplies	2,291,003	1,852,465	4,143,468
Personnel	299,720	240,316	540,036
Other Expenses		678	678
Total Expenses	46,494,725	46,539,759	93,034,483
Change in Net Assets	12,820,175	(15,084,649)	(2,264,474)
Transfers in/(out)	(15,084,649)	15,084,649	0
Contribution to Fund	0	6,000,000	6,000,000
Net Assets - beginning of year	3,899,884	2,911,133	6,811,017
Total Net Assets - end of year	$ 1,635,410	$ 8,911,133	$ 10,546,543

Expense allocation method based on historical data - 55% active, 45% retiree