

Trusting Your Trust Fund Part 6

OPEB: What Selectboards Need to Know

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Selectboard Essentials Workshop
November 13, 2014

Agenda

- Provide an update about establishing an OPEB trust fund
- Present an accountant's view of OPEB
Irrevocable trusts, not to be construed as legal, investment, or actuarial advice, nor opinions of the MSCPA's Governmental Auditing and Accounting Committee, PRIT, PRIM, DOR, GASB, or anyone else

Learning Objectives

To understand the Massachusetts' OPEB irrevocable trust

1. GASB Statements and the Actuary
 - GASBS 43
 - GASBS 45
2. 32B:20 Issues
3. Trust Document (Declaration of Trust)
4. Investments
5. Financial Reporting

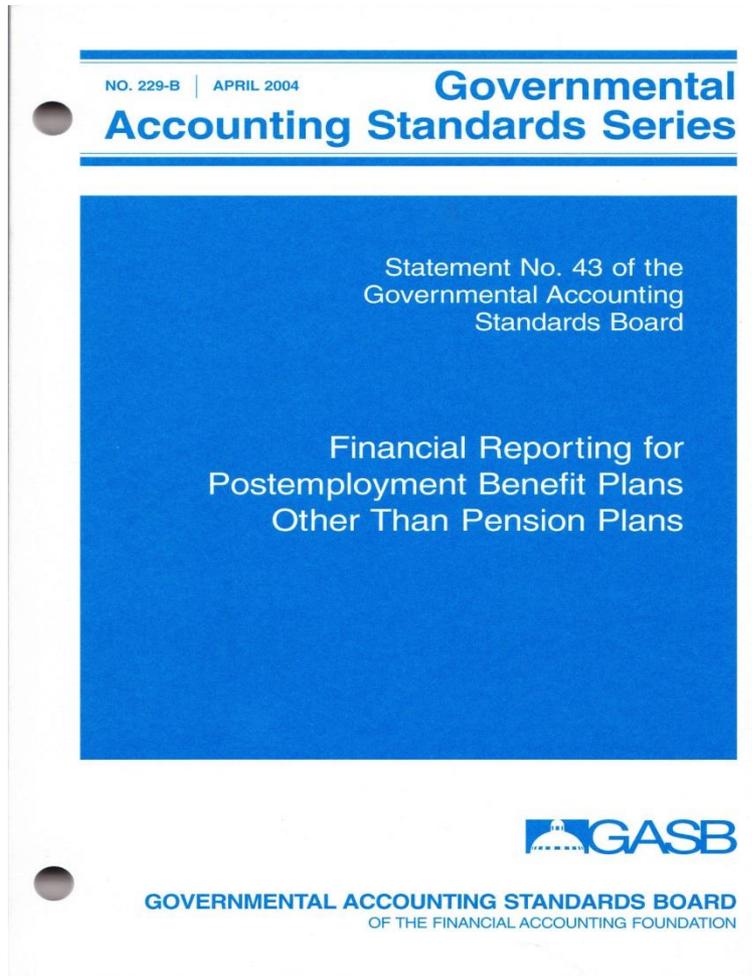
References

1. House 3611 – Improve Municipal OPEB Funds and Investments
2. House 59 – An Act Providing Retiree Healthcare Benefits Reform
3. Declaration of Trust – City of Newton
4. Survey

Section 1

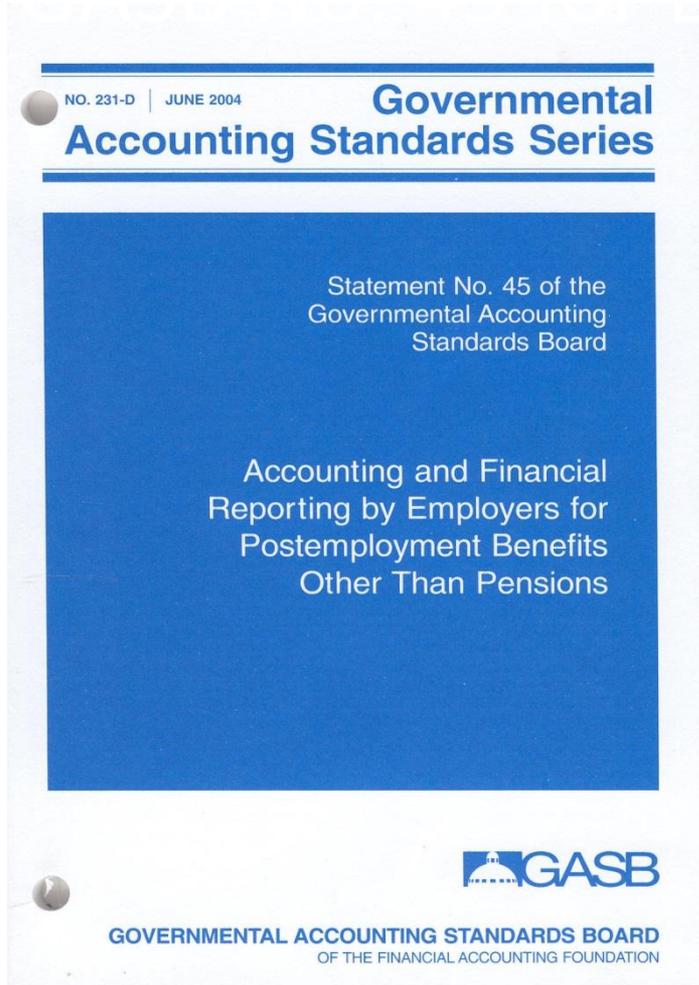
The GASBs and the Actuaries

GASBS 43



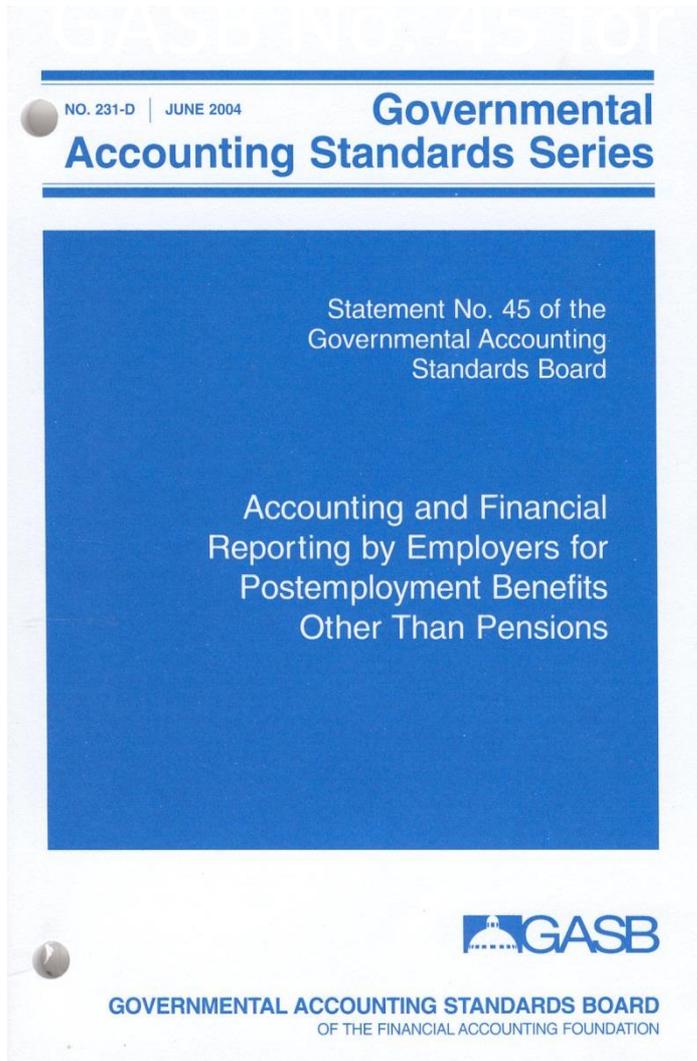
1. Administered as trusts, or equivalent arrangements
2. Employer contributions to the plan are irrevocable
3. Plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan
4. Plan assets are legally protected from creditors of the employer(s) or the plan administrator

GASBS 45



- Subject: accounting and reporting by employers for their OPEB expenses and obligations - most notably, for retiree healthcare benefits
- Applies to all employers that pay all or part of the cost of the benefits

GASBS 45



- Requires a change from PAYGO accounting (expense not recognized until obligation paid in years after retirement) to accrual-basis accounting (recognition of expense during years of active service)
- Requires measurement and disclosure of the total and unfunded actuarial accrued liabilities for normal and past service costs—and related information about the funded status of the benefits
- Does not require funding of OPEB costs being recognized

GASBS 43 and 45

GASB 43 applies to trusts that are established in order to prefund OPEB benefits and for trusts that are used as conduits to pay OPEB benefits. GASB 45 applies to the financial statements issued by employers that offer OPEB.

GASBS 43

1. Administered as trusts, or equivalent arrangements
2. Employer contributions to the plan are irrevocable
3. Plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan
4. Plan assets are legally protected from creditors of the employer(s) or the plan administrator

GASBS 45

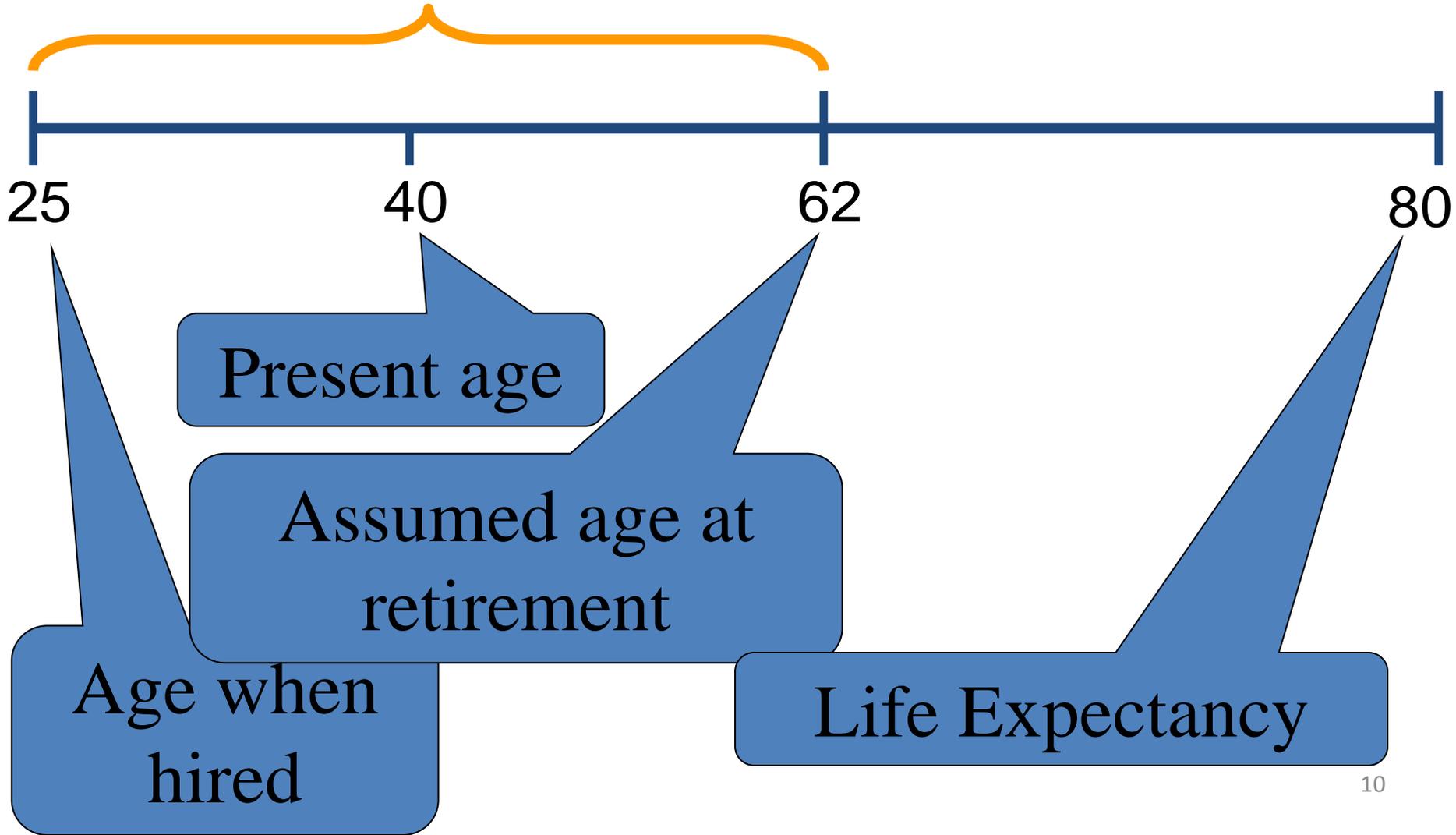
1. Establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets)
2. Consistent with GASB 27; Accounting for Pensions
3. Intended to improve financial reporting

Three Broad Steps to Develop OPEB Information

1. Project cash outflows for benefits
2. Discount projected benefits to present value (PV)
3. Allocate the PV of projected benefits to periods using an acceptable actuarial cost method

Employee Age Timeline

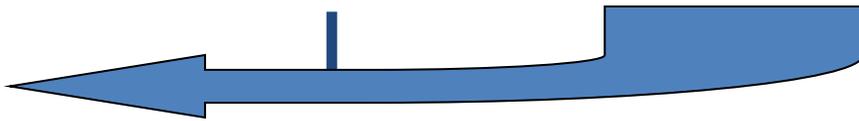
Service Period



1) Project Benefits



2) Discount



A.P.V.



3) Actuarial cost method

Normal Cost	\$ 1.6m
Prior Service	\$ 2.2m
ARC	\$ 3.8m
UAAL	\$37.2m
Discount Rate	4.0%

Section 2

The Issues

OPEB Trust Agreement

- There are a number of people who believe 32B:20 does not satisfy the irrevocable criteria of GASBS 43
- 32B:20 does not use the words “irrevocable” and “trustee”, thus is the OPEB Trust operating as a trust or trust equivalent
- Revised MA legislation was addressing this issue
- The OPEB Declaration of Trust combined with the acceptance of 32B:20 satisfy the irrevocable and other criteria of GASBS 43
- That then satisfies trusting your trust fund

Vehicles to Accumulate Funds to Meet OPEB Liabilities

Massachusetts

1. Establish an OPEB Liability Trust Fund - MGL 32B:20
2. Establish a Special Purpose Stabilization Fund –
MGL 40:5 or 71:16B
3. Special legislation

Trusting Your Trust Fund Update

What is Clear

- Adopt 32B:20 (MA)

What Is Becoming Clearer

- Accept a legally binding, OPEB Declaration of Trust that is irrevocable and provides for a trustee (clear but not understood and not codified)
- Changes to 32B:20 were filed as a supplemental budget item last year; no action taken – Section 4 of H3611
 - H3611 addressed many of the concerns
 - 32B:20 is to be revised, to be filed by ??
- Not to be confused with H59, the act to change OPEB benefits

32B:20 Planned Revisions

- Total replacement of 32B:20
- All inclusive - any political subdivision of the commonwealth
- The treasurer of the governmental unit shall be the custodian of the OPEB
- Establishes “OPEB Fund board of trustees”; an independent board of trustees selected by the governmental unit with investing authority for the OPEB Fund
- Complemented by a “declaration of trust to be adopted by the trustee or board”
- The assets of which shall be held solely to meet the current and future liabilities of the governmental unit for group health insurance benefits for retirees and their dependents
- All monies held in the fund ... shall not be subject to the claims of any general creditor of the governmental unit
- An actuarial valuation report shall be submitted no later than 90 days after receipt of such report
- See Section 4: House 3611

Survey Says

Did You Adopt MGL 32B:20

- Very few regions have adopted 32B:20 or are planning to at this or next year's town meeting
 - Municipalities 60%
 - Regions 30%
- Very, very few have established an OPEB Declaration of Trust

OPEB Legislative Reforms

House 3611

- Affects OPEB Trust fund structure
- Would not impact projected plan benefits
- Addresses GASB 43 requirements

NOT adopted.
To be refilled?

House 59

- Does not affect OPEB Trust fund structure
- Potential to greatly reduce projected plan benefits
- Does not address GASB 43 requirements

NOT adopted
To be refilled?

Steps to Establish OPEB Trust Fund

1. Establish an OPEB Liability Trust Fund - Adopt 32B:30
2. Accept OPEB Declaration of Trust
 - Irrevocable
 - Establish a board of trustees
 - 5 to 13 individuals
 - Treasurer is custodian
 - Duties of the board
3. Prudent investments

Section 3

OPEB Trust Agreement - The Declaration of Trust

Declaration of Trust

- Definitions
- Purpose
- Establishment
- Trust Funding
- Trustees
- Powers of Trustees
- Limitations of Trustees
- Actions by Trustees
- Liabilities of Trustees
- Meetings of Trustees
- Taxes, Expenses and Compensation
- Accounts
- Annual Reports
- Investment of Trust Funds
- Custody of Trust Funds
- Termination of Trust
- Amendments
- Merger
- Severability of Invalid Provisions
- Miscellaneous

Declaration of Trust

- The Trust shall be administered by a Board of Trustees consisting of five (5) members, who shall include the Town Accountant, Town Treasurer, one member of the Board of Selectmen and two (2) individuals appointed by the Board of Selectmen to terms of not more than two years.
 - Satisfies that the plan is effectively a legally separate entity under the stewardship of a board of trustees or the equivalent pursuant to GASBS 43
 - Operates as a trust or trust equivalent
- The Trust shall be irrevocable, and no Trust funds shall revert to the Town until all OPEB owed to retired Town employees have been satisfied or defeased.
 - Satisfies the irrevocable requirement of GASBS 43

Section 4

Investments

Investments

- MGL 44:55 – General Fund
- MGL 44:54 – Trust Funds
- MGL 203C – Prudent investor rule
 - MGL Monies in the fund shall be invested and reinvested by the custodian consistent with the prudent investor rule established in chapter 203C
- MGL 32A:24 - State Retiree Benefits Trust Fund
 - May, with the approval of the State Retiree Benefits Trust Fund board of trustees , be invested in the State Retiree Benefits Trust Fund established in section 24 of chapter 32A.
- Other Vehicles - PARS

MGL 32A:24 – State Retiree Benefits Trust Fund

- There shall be established and set up on the books of the commonwealth a fund to be known as the State Retiree Benefits Trust Fund. The State Retiree Benefits Trust Fund board of trustees shall be the trustee of and shall administer the fund in accordance with that section. The fund shall be an expendable trust not subject to appropriation.
- The purpose of said fund shall be for depositing, investing and disbursing amounts set aside solely to meet liabilities of the state employees' retirement system for health care and other non-pension benefits for retired members of the system and for depositing, investing and disbursing amounts transferred to it under subsection (d).
- The State Retiree Benefits Trust Board has adopted procedures to allow political sub-divisions of the Commonwealth to use the Trust (invested in PRIT as part of the core fund) to invest their assets
- Upon authorization by the board, any political subdivision, municipality, county or agency or authority of the commonwealth may participate in the fund using procedures and criteria to be adopted by the board.
- The fund shall be revocable only when all such health care and other non-pension benefits, current and future, payable pursuant to this chapter have been paid or defeased.

Participants in the SRBTF

- Town of Acton
- Town of Amherst
- Town of Bedford
- BiCounty Collaborative
- Town of Boxford
- Town of Brewster
- Town of Burlington
- CASE Collaborative
- Town of Chelmsford
- Town of Cohasset
- Town of Harvard
- Town of Hingham
- Town of Ipswich
- Town of Lancaster
- Lowell Regional Transit Authority
- Town of Manchester-By-The-Sea
- Town of Marblehead
- Massachusetts School Building Authority
- Town of Middletown
- Town of Needham
- City of Newton
- Pilgrim Area Collaborative
- Town of Provincetown
- Shawsheen Valley RSD
- Town of Tewksbury
- Town of Wakefield
- Wakefield Municipal Gas & Light Department
- Town of Wellesley
- Town of Westwood

Survey Says

- Most communities are investing in “safe” vehicles
- Discount rate ranged between 4% and 9%
- Many stated 4.25% for underfunded systems and 8% for funded systems
- Many of the respondents who reported an 8% discount rate in 2012 are reporting 4% in 2013/14

Section 5

Financial Reporting

- *Governmental Fund*
 - *General*
 - *Major or non major*
 - *Stabilization*
- *Fiduciary Fund*

Financial Statement Impact

Governmental Fund

General Fund

- No 32B:20 acceptance
- No declaration of trust
- Does not matter how much money is invested
- Assets not considered plan assets

Major or Non Major Fund

- 32B:20 acceptance
- No declaration of trust
- Other non major fund or major if satisfies 10% rule
- Assets not considered plan assets

Fiduciary Fund

- 32B:20 acceptance
- Declaration of trust
- Assets considered plan assets
- An immaterial amount of \$ invested may trigger a governmental fund presentation

What's Ahead



Exposure Draft

May 28, 2014

Comments Due: August 29, 2014

Proposed Statement
of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 34-1E

Governmental Accounting Standards Board

What's Ahead

GASB 67 and 68, Pensions for FY 2015 statements

- Separates funding from accounting
- Reporting the Pension UAAL on the balance sheet

OPEB GASB 67 and 68 Equivalent

- Forthcoming guidance for OPEB plans for FY 2017? statements
- Reporting the OPEB UAAL on the balance sheet

OPEB Summary

Requirements (GASB 43)

1. Administered as trusts, or equivalent arrangements
2. Employer contributions to the plan are irrevocable
3. Plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan
4. Plan assets are legally protected from creditors of the employer(s) or the plan administrator

Actions

1. Adopt 32B:30
2. Accept Declaration of Trust
 - Irrevocable
 - Trustee
3. Reasonably fund portion of ARC annually
4. Prudent investments

For Further Information

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