

Milliman Presentation to:

# Wisconsin Group Insurance Board

## Overview of Governmental Accounting Standards Board (GASB) Statements 74/75 and Their Impact to Retiree Life Insurance Programs

*Presented by:*

***Timothy J. Herman, FSA, EA, MAAA***

August 22, 2018



# Limitations of Analysis

- We relied on information provided by ETF and Securian. If it is inaccurate or incomplete, our results may be affected.
- The valuation uses actuarial assumptions we believe are reasonable.
- To the extent that actual experience varies from the assumptions, the emerging costs of the plan will vary from the projections we have prepared.
- The calculations in this presentation are consistent with our understanding of ETF accounting requirements and goals. Additional determinations may be needed for other purposes.
- Milliman's work product was prepared exclusively for ETF for a specific and limited purpose. It is not for the use or benefit of any third party for any purpose.

# Objective of Discussion

- Inform Group Insurance Board members of new GASB standards applicable to Retiree Life Insurance programs
  - Informational only
    - Calculation of plan net OPEB (Other Post Employment Benefit) liability
    - Allocation of plan net OPEB liability to participating employers to record on employer financial statements.
  - No decisions required at this time

# New GASB Standards

- GASB 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (supersedes GASB 43)
  - Defines requirements to measure net Other Post Employment Benefit (OPEB) liability
  - Requires certain note disclosures and required supplementary information in plan's financial reporting
- GASB 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (supersedes GASB 45)
  - Establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB
- Does not set funding requirements

# Who, What, When of New GASB Standards

**GASB Statement:**

**GASB 74**

**GASB 75**

**Who:** Plan Reporting

**Employer Reporting**

- What:**
- OPEB administered through qualifying trust
  - Net OPEB liability calculated for plan

- OPEB provided to employees of state and local government employers
- Each employer reports proportionate share of net OPEB liability in multiple-employer, cost sharing plan

**When:** Plan's fiscal year beginning after June 15, 2016

Employer's fiscal year beginning after June 15, 2017

*NOTE: Since 2006, retiree life insurance valuation followed GASB 43/45, and used by ETF for CAFR/financial reporting purposes.*

# Key Differences between GASB 43/45 and 74/75

## GASB 43/45

## GASB 74/75

<b>Balance Sheet:</b>	Accumulated difference between “Annual Required Contributions” and Employer Contributions disclosed in notes to financial statements	<b>Plan:</b> Net OPEB liability calculated for plan and disclosed in notes <b>Employer:</b> Record proportionate share of net OPEB liability in financial statements
<b>Discount Rate:</b>	Blended rate based on funded status	Blended rate based on depletion date projection
<b>Cost Method:</b>	Choose from six options	Entry age normal as level percentage of pay

NOTE: GASB 43/45 “Annual Required Contributions” are not funding requirements.

# 12/31/2017 GASB 74/75 Results for Retiree Life Insurance Programs

## Unaudited Results

### Step 1: Calculate Plan Results

(\$ in Millions)

12/31/2017 Plan Results – Unaudited Results		
Discount Rate	3.60%	3.63%
	<u>State</u>	<u>Local</u>
Total OPEB Liability	\$859	\$564
Fiduciary Net Position	<u>352</u>	<u>244</u>
Net OPEB Liability	\$508	\$320
Funded Ratio	41%	43%

(Numbers may not foot due to rounding.)

### Step 2: Allocate Plan Results to Participating Employers

(\$ in Millions)

Allocation of 12/31/2017 State Plan Net OPEB Liability - Unaudited Results		
Largest Three Employers	Proportionate Share	Employer's Share of Net OPEB Liability
State of Wisconsin	48.3%	\$245
UW System	42.5%	\$215
UW Hospital & Clinics	8.9%	\$45

(Numbers may not foot due to rounding.)

NOTE: Milliman performs the GASB valuation working closely with Securian to obtain information such as the census data, asset allocation, investment return assumption and other data needed for the valuation