CITY OF BELVEDERE

FINANCE SUB-COMMITTEE:
Taskforce on Pensions & OPEBs

AGENDA

January 26, 2021
Via Zoom
12:00 p.m.

Join Zoom Meeting
https://us02web.zoom.us/j/4136417003?pwd=TXB1T1pERy8rcG5Hbkdjd1Y2NFVBUT09

Meeting ID: 413 641 7003
Passcode: Belvedere

Dial by your location
833 548 0282 US Toll-free
877 853 5247 US Toll-free
888 788 0099 US Toll-free
833 548 0276 US Toll-free

Meeting ID: 413 641 7003
Passcode: 310801

1. Approve minutes from January 21, 2021 meeting
2. Briefings/Discussion of the City's OPEB position and potential strategies for managing OPEB liabilities
3. Adjourn

Attachments:

1. OPEB White Paper
2. Website link to the City's OPEB valuation reports

NOTICE: WHERE TO VIEW AGENDA MATERIALS
Staff reports and other writings distributed to the Committee, including those distributed after the posting date of this agenda, are available for public inspection at Belvedere City Hall, 450 San Rafael Avenue, Belvedere. *(Writings distributed to the City Council after the posting date of this agenda are available for public inspection at this location only.)* To request automatic mailing of agenda materials, please contact the City Clerk at 415/435-8908.

NOTICE: AMERICANS WITH DISABILITIES ACT
The following accommodations will be provided, upon request, to persons with a disability: agendas and/or agenda packet materials in alternate formats and special assistance needed to attend or participate in this meeting. Please make your request at the Office of the Finance Officer or by calling 415/435-3838. Whenever possible, please make your request four working days in advance.

Date posted: January 20, 2021.

A Sustainable OPEB Strategy for Belvedere

Introduction

The City of Belvedere maintains a robust fiscal standing but rising pension and OPEB costs pose concerns. It is important that the trajectory of these costs is understood, and that a strategy is developed to budget appropriately and proactively for them. This is the second of two papers intended as background for the *Taskforce on Pensions and OPEBs* to begin its work. The first paper discussed the City's pension position. This paper examines the City's OPEB commitments.

PART 1: The OPEB Problem

What are OPEBs?

Other Post-Employment Benefits (OPEBs) refer to all non-pension benefits offered to retirees. Examples include life insurance, disability insurance, legal services and, most importantly, retiree medical benefits (OPEBs and retiree medical benefits will be used interchangeably hereon). Retiree medical benefits are rarely offered in the private sector but are still commonplace in the public sector. In California, many public agencies offer retirees access to continued medical coverage and pay a share of their health care premiums (in some cases, the entire premium). Employees retiring before the age of 65 can therefore remain on their employer's plan and, upon turning 65, can purchase subsidized supplemental insurance to fill the gaps in their Medicare coverage.

Who do agencies contract with to offer retiree medical benefits?

Under California's Public Employees' Medical & Hospital Care Act (PEMHCA), state employees and retirees must be offered health care through CalPERS Health Program. Local agencies have the option of contracting with CalPERS for health care and, if they do, must offer benefits to retirees. CalPERS acts both as the insurer, offering three of its own plans (PERS Choice, PERS Select and PERS Care), and as the health benefits purchaser, offering a variety of HMO, PPO, and other-type plans through Kaiser, United, Blue Shield etc. Active employees and retirees choose from the various plans (see 2021 plan offerings here) and are subject to the same rates. Agencies decide what cost-share arrangement to offer employees and retirees, and this can differ by class of employee/retiree. Employers must at least pay the PEMHCA minimum, which stands at $143.00 per month for 2021, adjusted annually for health care inflation. CalPERS deducts the retiree's share of the monthly medical premium from his or her pension check.

To qualify for CalPERS retiree medical benefits, employees must retiree at age 50 years or older directly from a CalPERS-contracting agency, after a minimum of five service years with CalPERS. Eligible retirees can waive cover initially and enroll in any later year during open enrollment. Employees with 20 or more service years with an agency do not need to retire directly from that agency to receive the benefit. Most agencies in California contract with CalPERS for medical. Those that do not, typically do not offer retiree medical benefits. Agencies can exit CalPERS Health Program without penalty.

How do you calculate the cost of retiree medical benefits?

The cost of retiree medical benefits comprises two components: the direct cost of subsidizing retirees' premiums and the "implied subsidy" that comes from having older members in the insurance pool.

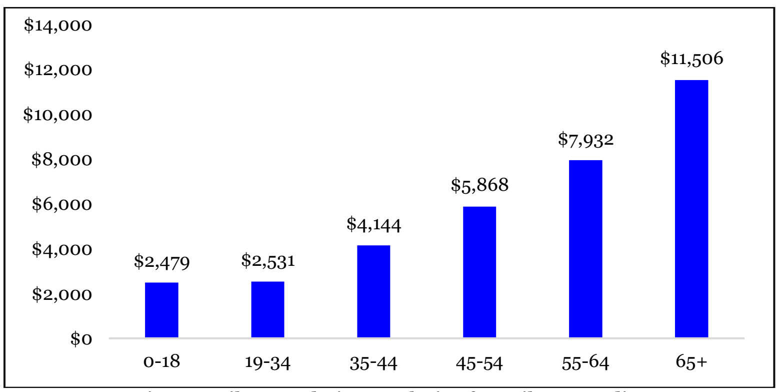
Retiree Medical Benefit = Cash Subsidy + Implied Subsidy

An implied subsidy exists when an agency contracts with a community-rated health insurance plan, like the ones offered through CalPERS Health Program, which blends active employees and pre-Medicare retirees and charges the same insurance premium irrespective of age. On average, retirees have higher utilization of health care benefits than active employees, so unless premiums for retirees are set to fully recover their health costs, the premium for active employees is implicitly overstated and the premium for retirees is understated. This difference creates an implied subsidy.

Because retiree medical benefits are a deferred benefit i.e., a future promise based on past service, in this instance payable until death, the present value of this benefit must be recognized as a liability today, creating the OPEB liability. To be exact, the liability captures the portion of the present value of the expected future cost of retiree medical benefits – both direct premium subsidy plus implied subsidy – attributable to past service (retirees and active employees).

It is important to recognize that there are implied subsidies throughout any community-rated health insurance pool, with younger members, on average, subsidizing older members. Thus, within the CalPERS network, agencies with mature workforces are being subsidized by agencies with younger ones. While not directly relevant to the OPEB calculation, this point is key in determining the hard savings that an agency might capture in terminating retiree medical benefits altogether and joining a new non-CalPERS health plan for their active employees (see later discussion). The agency's OPEB liability would disappear, but with the wrong demographics, it might find itself in a health plan paying higher, not lower, premiums for its active workforce for the same quality of benefits. This is particularly true given CalPERS' enormous buying power, as the second largest health benefits purchaser in the nation.

Chart 1: Average U.S. Healthcare Spending by Age, 2017



Source: Kaiser Family Foundation Analysis of Family Expenditure Survey

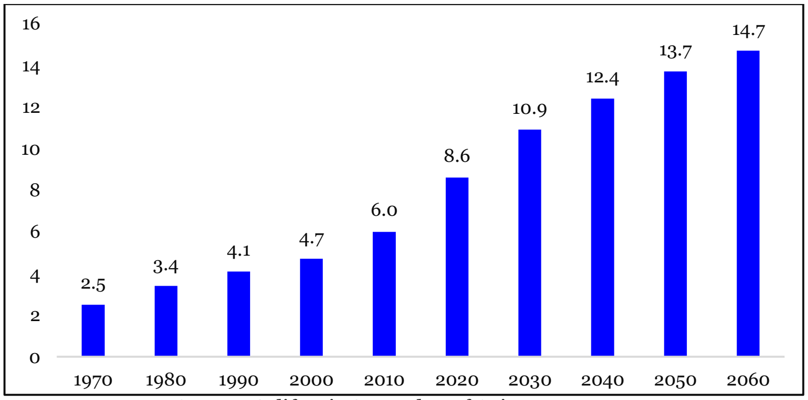
Are agencies required to prefund their OPEB commitments?

No, they are not. About three-quarters of agencies in California use a pay-as-you-go model to fund retiree medical benefits, deferring contributions until the moment benefits are due. Unlike pensions, there are no fines associated with failing to prefund OPEBs (CalPERS fines agencies that fail to pay their pension annual required contribution). This pay-go model exposes agencies to rapidly rising annual retiree medical expenses, driven by high medical cost inflation, increased life expectancy, and a large cohort of baby boomers moving into retirement. These rising costs crowd out other budget spending.

Is the OPEB liability reported in agencies' financial statements?

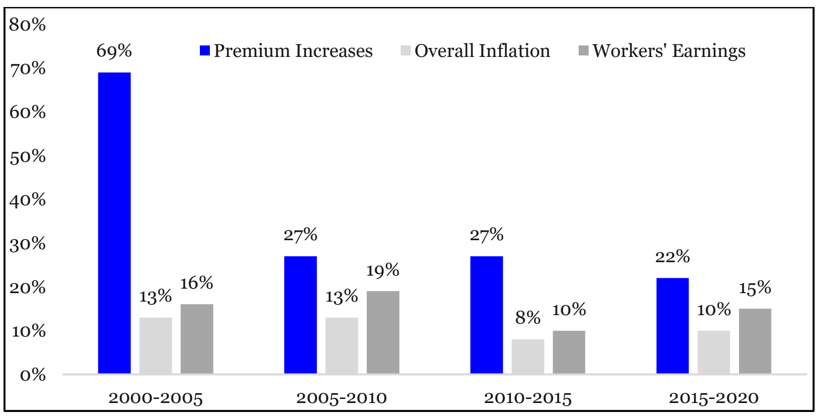
Yes. The Government Accounting Standards Board (GASB) lays out the ground rules for measuring and reporting agencies' OPEB liability, as outlined in GASB Statements 74 and 75, which took effect in FY2016-17 and FY 2017-18 respectively. Agencies are now required to book their net OPEB liability – total OPEB liability minus plan assets, if any – on the face of their balance sheets, instead of in the notes to their financial statements (or not at all in some cases), devastating many agencies' balance sheets. For a fuller discussion of the accounting rules governing OPEBs, see Part 3 on page 10.

Chart 2: California Population Age 60+ Growth Trends (Millions)



Source: California State Plan of Aging 2017-2021

Chart 3: Cumulative Health Premium* Increases, Inflation and Earnings



*Refers to family coverage for covered workers.
Source: Kaiser Family Foundation Employer Health Benefits 2020 Annual Survey

How big is the problem?

There is no recent study showing the aggregate net OPEB liability of all government agencies in California. However, the size of the State of California's OPEB position is instructive. As of June 30, 2019, its net OPEB liability stood at $92 billion, equal to more than $7,000 per California household. This compares with unfunded pension debt of all CalPERS contracting agencies of $160 billion for the same period, although the discount rate used to present value the State's total OPEB liability (3.13% to 3.85%) was much lower than the 7% rate used by CalPERS to present value accrued pension liabilities, inflating the relative value of the net OPEB liability. The state typically offers more generous retiree medical benefits than local public agencies, so this also needs to be borne in mind. Nevertheless, the scale of the problem is clear.

Table 1: State of California OPEB Liability

US$ billion	June 30, 2019	June 30, 2018
Total OPEB Liability	93.51	86.47
Net Fiduciary Position (Plan Assets)	1.58	0.88
Net OPEB Liability	91.93	85.59

Source: California State Controller's Office

Is retiree medical coverage guaranteed?

In some states, OPEBs are constitutionally protected, but not in California. In most circumstances, coverage can be reduced or eliminated, provided the agency does not contract with CalPERS for health benefits, in which case it needs to exit CalPERS Health Plan first (which is permitted without penalty). Legal protection is only provided if there is a clear contract binding the employer to providing the benefit for life, in which case the right vests. If the benefit is provided through a collective bargaining agreement, and the language is silent about the duration of the right, the benefit terminates when the bargaining agreement ends and renews only if the new agreement includes the benefit. Ultimately, the determination of whether a retiree medical benefit has vested depends on the facts and circumstances of a case, but California courts have not been sympathetic to retirees if the contract language is silent.

If the benefit can be cancelled, why is the future cost booked as a liability?

GASB takes the view that if the benefit is promised as of the time of financial reporting, the future cost of that benefit attributed to past service must be recognized as a debt today.

How do we fix the problem?

State and local agencies across America are grappling with how to tackle the OPEB problem. According to Standard and Poor's, California has the second largest state OPEB debt per capita in the nation (New Jersey ranks first). A few small states have eliminated retiree medical benefits entirely (Kansas, South Dakota, and Nebraska), and one larger state, North Carolina, has gradually moved to reduce the burden by raising the number of service years to qualify from 5 to 20 years, increasing employee cost-sharing, and eliminating coverage entirely for employees hired after January 1, 2021. Others have worked hard to fund their OPEB liability. There is no indication that state reform will be forthcoming anytime soon in California, leaving local agencies to devise their own solutions.

Fixes essentially take two forms: increased funding and cost containment. Agencies worry that cutting benefits (cost containment) will hinder their ability to attract and retain talent. In truth, given the huge variation in retiree medical benefits offered by state and local employers, and the high degree of uncertainty surrounding the longevity of these benefits, this assumption needs to be carefully explored.

Below are various strategies that agencies can deploy to reduce their net OPEB liability (list is not exhaustive):

1. Budget for a systematic pay down of the net OPEB liability and use the proceeds to fund a Section 115 trust. This is an irrevocable trust that offers more investment flexibility and higher returns than general fund investments. Assets in the trust can be used to offset OPEB liabilities for reporting purposes and can also be withdrawn to fund current year OPEB expenses in difficult years. CalPERS offers its own Section 115 trust, The California Employers' Retiree Benefit Trust (CERBT), but there are also various other providers.
2. Reduce the generosity of benefits, for example by increasing employee cost sharing, limiting the duration of benefits (e.g., until Medicare age), increasing the number of service years to qualify, and eliminating coverage for retiree dependents.
3. Decouple active employee and retiree insurance plans, eliminating the implied subsidy. The unfortunate consequence of this is that retiree' medical insurance rates will increase, in some cases dramatically.
4. Eliminate retiree medical benefits. Consider defined-contribution alternatives for active employees and a buyout for retirees.

Options 3 and 4, and elements of option 2, are not permitted under PEMHCA, thus agencies would have to exit CalPERS Health Program to implement these strategies.

As with pensions, none of these solutions are particularly palatable, but the drain on public finances from unwieldy retiree medical benefits will only grow, crowding out other forms of spending. In contrast to pensions, there is scope within the law to both increase funding *and* contain costs. Striking the right balance is the challenge, but responsible agencies need to find equitable solutions.

PART 2: Belvedere's OPEB Status

What does Belvedere's OPEB plan look like?

The City of Belvedere's OPEB plan is simple. It offers retirees medical benefits only, through its contract with CalPERS Health Plan (since 1990). It pays the PEMHCA minimum for all classes of retiree, except city manager retirees, who receive a more generous benefit equal to a maximum of 60% of the pre-Medicare Kaiser 2-party rate ($922.19 per month in 2020). The city manager class came about by accident. In 2004, the City Council amended the employment contract of Ed San Diego, the outgoing city manager, providing him with lifelong medical benefits (member + 1) to reward him for more than 20 years of service to the City. This inadvertently created a city manager class within the City's CalPERS Health Plan. No city manager subsequently retired directly from the City until 2017, when Mary Neilan retired after 4 years' service and began claiming the benefit. Discovering the error, the City restructured its CalPERS contract effective September 2020 downgrading the city manager retiree medical benefit to the PEMHCA minimum, thus preventing further retiring city managers from claiming the benefit (the incumbent city manager, Craig Middleton, is eligible for generous retiree medical coverage through his prior employment with the federal government, so is unaffected). To make the two existing city manager beneficiaries whole, the City set up health reimbursement accounts (HRAs) which reimburse their medical premiums up to a maximum of 60% of the pre-Medicare Kaiser 2-party rate minus the PEHMCA minimum. Both beneficiaries are of Medicare age and subscribe to different Medicare Supplemental plans through CalPERS, for which they receive full reimbursement.

Table 2: City of Belvedere Retiree Medical Benefits Plan Summary

Terms & Conditions	Detail
Eligibility	Retire directly from the City under CalPERS, age 50+, 5 years' service, or disability
Retiree medical benefit	PEMHCA minimum ($139.00 per month for 2020) except for two retired City Managers who receive a maximum of 60% of pre-Medicare Kaiser region 1, 2-party rate ($922.19 per month for 2020)
Surviving spouse coverage	Yes
Other	No dental, vision, life, or Medicare Part B
Implied subsidy	Yes, participating retirees pay active rate

Source: City of Belvedere Finance Department

Table 3: City Manager Class Healthcare Reimbursement Arrangement (2020)

Retiree	Current Health Plan	Plan Cost	Funding Method
City Manager 1	PERS Care Medicare Supplement	$769.56 p/m	$139.00 PEMHCA minimum paid directly by City. $630.56 reimbursed through HRA.
City Manager 2	PERS Choice Medicare Supplement	$702.78 p/m	$139.00 PEHMCA minimum paid directly by City. $563.78 reimbursed through HRA.

Source: City of Belvedere Finance Department

Does Belvedere have a net OPEB liability?

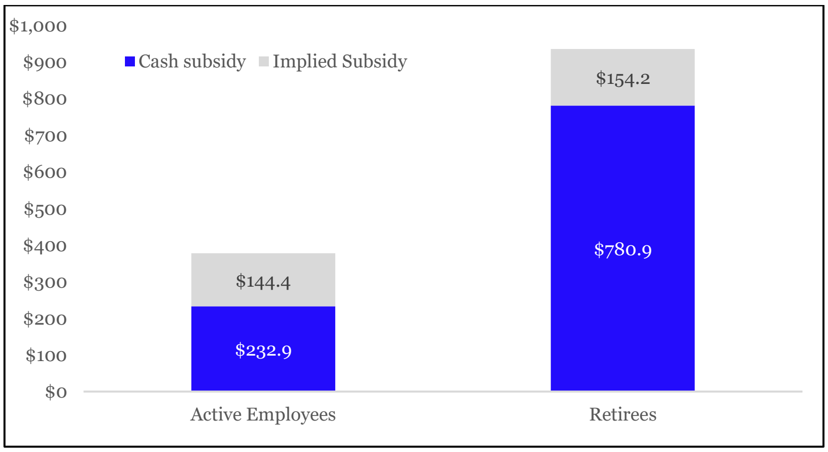
Yes, it does. Belvedere uses a pay-go approach to funding retiree medical benefits i.e., it does not prefund any of the future costs associated with past service. Over time, its net OPEB liability has grown, rising to $1.31 million as of June 30, 2019 (see Table 4). Various factors have driven the debt higher, including an increasing number of retirees, a second member joining the city manager class, higher short-term medical cost inflation, a lower discount rate (3.50% for the June 30, 2019 valuation), increased life expectancy, a new actuarial methodology and interest on the OPEB liability.

Table 4: City of Belvedere OPEB Liability

CAFR Date	Measurement Date	Actuarial Valuation Date	Total OPEB Liability	Fund Assets	Net OPEB Liability
June 30, 2010	7/1/2009	7/1/2009	$374,116	$0	$374,116
June 30, 2013	7/1/2012	7/1/2012	$656,924	$0	$656,924
June 30, 2016	7/1/2015	7/1/2015	$1,036,193	$0	$1,036,193
June 30, 2018	6/30/2017	6/30/2017	$1,229,000	$0	$1,229,000
June 30, 2019	6/30/2018	6/30/2017	$1,254,000	$0	$1,254,000
June 30, 2020	6/30/2019	6/30/2019	$1,312,304	$0	$1,312,304

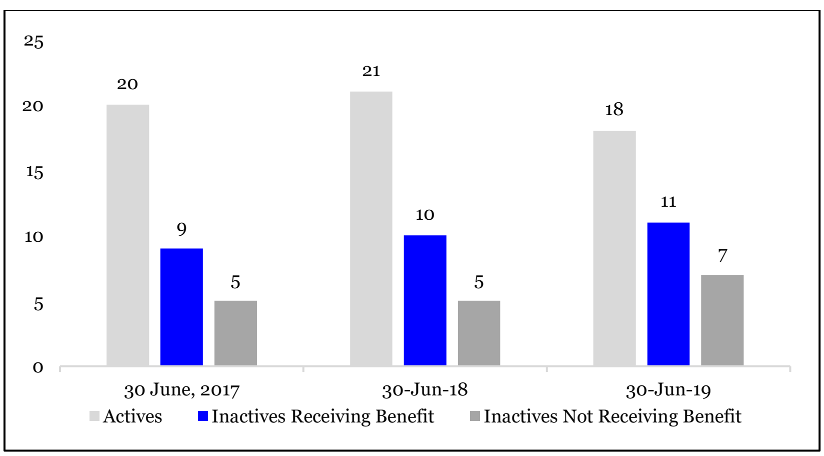
June 2010 to June 2016 valuations based on simplified alternative measurement method. June 2018 to June 2020 valuations derived using entry-age cost attribution actuarial method as recommended by GASB. Source: City of Belvedere Finance Department

Chart 4: Components of OPEB Liability as of June 30, 2019 ($000s)



Source: City of Belvedere Finance Department

Chart 5: OPEB Covered Participants

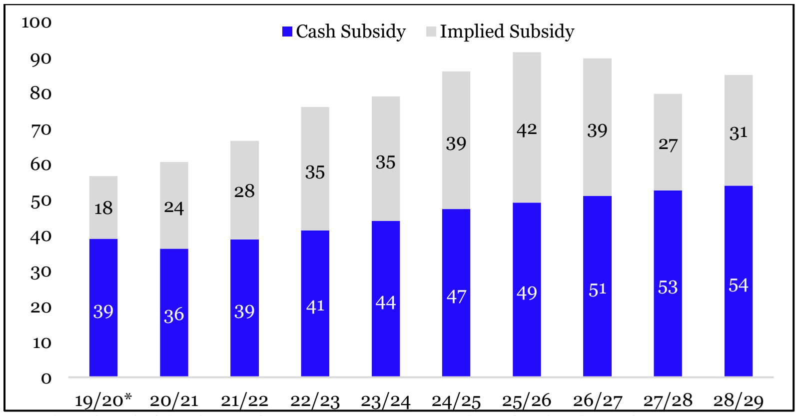


Source: City of Belvedere Finance Department

How much are retiree medical benefit payments expected to grow?

Quite a bit. According to the June 30, 2019 actuarial valuation, the cost of subsidizing retiree premiums is projected to rise from $38,000 in 2019-20 to $54,000 in 2028-29 and the implied subsidy is expected to increase from $18,000 to $31,000 over the same period. About half of the cash subsidy is associated with the city manager class, but because both beneficiaries are of Medicare age, there is no associated implied subsidy. Over time, costs are expected to steadily push higher as health insurance premiums and the PEMHCA minimum rise, and new, younger retirees join the pool. Still, the overall cost is modest compared with the $337,000 in health care premiums the City paid on behalf of active employees in 2019-20.

Chart 6: Projected Retiree Medical Benefits ($000s)



*Actual cash subsidy shown for FY19-20. Source: City of Belvedere Finance Department

Is Belvedere's OPEB position better than other cities in Marin?

Yes, it is. Most cities in Marin are carrying a higher net OPEB liability than Belvedere, largely because they offer more generous benefits. The table below shows each city's relative position as of the latest available reporting date (typically June 30, 2018). Measured as a percentage of covered payroll, Belvedere has the third lowest reported net OPEB liability in Marin County.

In contrast to Belvedere, most cities in Marin maintain OPEB trusts with accumulated OPEB assets. A number require active employees to make mandatory contributions to these trusts. Under GASB rules, cities with trust assets are permitted to use a higher "blended" discount rate to calculate the present value of their OPEB liabilities, flattering their relative position. Discount rates across Marin cities varied between 5% and 6.75% for funded plans, whereas Belvedere used a market discount rate of 3.50% for its 2019 valuation.

Table 5: Net OPEB Liability by City

US$ million	Measurement Date	Total OPEB Liability	Fund Assets	Net OPEB Liability	Net OPEB Liability (as % of Covered Payroll)
Belvedere	June 30, 2019	1.31	0.00	1.31	66%
Corte Madera	June 30, 2018	11.76	2.42	9.34	153%
Fairfax	June 30, 2018	2.40	0.96	1.44	71%
Larkspur	June 30, 2018	18.86	0.59	18.27	301%
Mill Valley	June 30, 2018	35.07	11.53	23.54	197%
Novato	-------------------- Not available for June 30, 2018 or later ----------------------				
Ross	June 30, 2018	0.34	0.52	-0.18	-10%
San Anselmo	June 30, 2018	2.96	0.00	2.96	105%
San Rafael	June 30, 2019	48.28	21.68	26.61	67%
Sausalito	June 30, 2019	7.30	1.09	6.21	95%
Tiburon	June 30, 2018	3.73	1.51	2.23	59%

Source: 2018-19 or 2019-20 Comprehensive Annual Financial Reports retrieved from municipality websites.

What can Belvedere do to bring down its net OPEB liability?

Within the scheme of things, it is important to recognize that the City's net OPEB liability is small compared with its unfunded pension commitments. As of June 30, 2019, its net OPEB liability stood at $1.31 million using a 3.5% discount rate. According to CalPERS, the City's pension UAL stood at $17.5 million as of the same measurement date, if a 3.25% discount rate were applied (instead of the 7% officially used). Furthermore, the scope for dramatic escalation in the City's OPEB debt is limited given the shuttering of the city manager enhanced benefit program to new members and the low discount rate already used. Nevertheless, the City's OPEB debt represents a future cost associated with past service and over time it should be funded or contained. The following options should be considered:

1. Establish a Section 115 trust

First, the City could establish a Section 115 trust to prefund its OPEBs and commit to a regular funding schedule. Apart from gradually paying down the debt, this would allow the City to apply a higher discount rate to present value its OPEB liabilities, quickly lowering its reported net OPEB liability. Of course, this is purely window dressing for financial reporting purposes, but it can affect perceived credit quality. Section 115 trusts also typically offer higher investment returns than general fund investments given their softer investment restrictions. However, Section 115 trusts are irrevocable (unless the liability is extinguished) and it is not clear that funding a commitment that is soft in nature makes sense when the City faces larger and more tangible unfunded pension commitments. If the City does decide to establish an OPEB trust, it should investigate the merits of requiring active employees to make contributions.

2. Exit CalPERS Health Program and restructure the City's OPEB plan

Second, the City should explore the costs and benefits of exiting CalPERS Health Program. It is already offering the minimum benefit permitted by PEMHCA, so further benefit cuts would only be allowed if the City moved to a new health plan outside of CalPERS. Benefit changes could include increasing the number of service years to qualify, limiting the duration of benefits to Medicare age, eliminating dependents, making the policy secondary, decoupling active employees and retirees' insurance rates, or eliminating the benefit altogether. Retiree medical benefits are not mentioned in the City's collective bargaining agreement with the Belvedere Police Officers Association or in the City's handbook for non-safety workers, so there appears to be no legal basis for the benefit other than the fact that the City participates in CalPERS Health Plan. The legal status of the city manager benefit needs to be fleshed out.

However, a critical consideration in any discussion around OPEB reform is whether the City could secure high-quality, low-cost medical insurance for its active employees outside of the CalPERS system. The average age of the City's active workforce was 50.0 years as of June 30, 2019. According to the U.S. Bureau of Labor Statistics, the median age of the national labor force was 41.9 years in 2019 (no recent data are available for California). It is therefore possible that the additional cost of purchasing a non-CalPERS' health plan for active employees would outweigh the savings from eliminating retiree medical benefits. Any cost-benefit analysis should start here.

3. Blue Skies option

Finally, the City could consider hiring new employees through a new entity outside of the City of Belvedere and not offer them retiree medical benefits (or defined-benefit pensions – see Pensions paper). Existing City employees and retirees would stay in CalPERS Health Plan. This option would remove any OPEB liability associated with new hires, but the new entity might see higher health insurance costs for its active employees outside of CalPERS Health Plan, depending on the demographics of the pool. It is also not clear what legal hurdles this option would face, or whether it would create problems attracting talent.

PART 3: Policy Wonk Stuff (Optional)

Are there different types of OPEB plans?

Yes, there are essentially three types of plan:

- A **single-employer plan** is a plan established by and for a single agency. Assets are managed exclusively for that agency. All pay-as-you-go plans are considered single-employer plans.
- A **cost-sharing multiple-employer plan** includes more than one agency. OPEB obligations are pooled, as are assets accumulated to pay those benefits. Agencies share the costs of administering the plan.
- An **agent multiple-employer plan** also includes more than one agency, but there is no pooling of benefits. Separate accounts are maintained to ensure that each employer's contributions are used to provide benefits only for the employees of that agency. The cost of administering the plan is still shared by the participating agencies.

Explain the accounting rules governing OPEBs

The rules regarding the measurement and reporting of OPEBs are laid out in GASB 74 (plan assets, if any) and 75 (plan liabilities), which took effect in FY2016-17 and FY 2017-18 respectively. The new standards parallel GASB's new pension measurement and reporting standards, as outlined in GASB 67 and 68. They attempt to address concerns about cherry picking from a selection of permitted methodologies to value OPEB liabilities, inappropriate discount rate selection, smoothing of plan assets, and the fact that agencies did not report their net OPEB liability on the face of their balance sheets, but rather in the notes to their financial statements, or not at all in the case of cost-sharing multiple-employer plans. For balance sheet purposes, agencies were simply required to report the cumulative deficiency in their annual required contributions since 2008 (see next). Agencies are now required to use a single "entry-age cost attribution" method to measure the total OPEB liability, use a more realistic discount rate, mark-to-market plan assets, and report the full net OPEB liability on the face of the balance sheet, including agencies that participate in cost sharing multiple-employer plans. Because of reporting delays, agencies can use the net OPEB liability from the end of the prior fiscal year in their annual statements. Agencies are required to get an actuarial valuation every two years (agencies with fewer than 100 members eligible for benefits can use a simplified actuarial approach). Although the new standards improved transparency, many agencies continue to find workarounds to use a higher discount rate than GASB75 intended, thus understating their net OPEB liability.

Table 6: Comparison of Old and New OPEB Accounting Standards (Part 1)

	Old Standard (GASB 43 & 45)	New Standard (GASB 74 & 75)
Recording the Liability	Single-employer and agent multiple-employer plans must disclose net OPEB liability in financial statement notes. Cost-sharing multiple-employer plans not required to disclose net OPEB liability.	Single-employer and agent multiple-employer plans must disclose net OPEB liability in statement of net position. Cost-sharing multiple-employer plans must report proportionate share of net OPEB liability in statement of net position.
Measurement of Liability	Use one of six actuarial cost-attribution methods.	Use single actuarial entry-age cost-attribution method.
Discount Rate	Use employer's general funds rate for unfunded plans, weighted with the long-term investment return to the extent the plan was funded.	Use long-term expected rate of return if OPEB plan assets are projected to be sufficient to make projected benefit payments, otherwise use yield on 20-year, AA municipal bonds, or a combination of the two.
Measurement of Assets	Use est. long-term investment return.	Use fair market value.

Source: Journal of Tax Accounting

How is the annual OPEB expense calculated?

Under the prior accounting rules, the annual OPEB expense was equal to the annual required contribution (ARC) i.e., the annual cost of service accrual (service cost) plus a payment towards the net OPEB liability, typically amortized over 30 years. There was no obligation to pay the ARC. The cumulative deficiency (since 2008) in ARC payments was simply reported as a “net OPEB obligation” on the agency’s balance sheet.

Under the new GASB 75 rules, most changes in the net OPEB liability are recorded in the annual OPEB expense in the period of change. This includes changes attributable to the current period service cost, interest on the total OPEB liability, administrative expenses, and changes in benefit terms. Changes in the net OPEB liability created by changes in assumptions, and differences between expected and actual experience, and between projected and actual earnings must be expensed in a systematic manner over time (see Table 7), creating deferred outflows/inflows on the balance sheet.

Table 7: Comparison of Old and New OPEB Accounting Standards (Part 2)

	Old Standard (GASB 43 & 45)	New Standard (GASB 74 & 75)
Periodic OPEB Expense	Based on annual required contribution.	Based on change in net OPEB liability, adjusted for current-period amortization of deferred outflows and inflows of resources.
Deferred Inflows/Outflows	Not applicable.	Assumption changes & experience differences amortized systematically over average remaining service lives of all plan participants. Investment earning differences amortized over closed five-year period.

Source: Journal of Tax Accounting