June 2017

Milliman

PERiScope

Public Employee Retirement Systems

New accounting rules in the United States for postemployment benefits other than pensions (OPEB) were implemented in 2016, and others take effect this year. Successful implementation of the new rules will require an understanding of a variety of technical concepts regarding the various newly required calculations. In this multipart PERiScope series, we explore these technical topics in detail. See the sidebar for more information on upcoming technical articles in this series.

GASB 75: Proportionate Share Allocations for Cost-sharing Employers

Tim Herman, FSA, EA, MAAA

This PERiScope article in the Governmental Accounting Standards Board (GASB) Statements No. 73, 74, and 75 miniseries discusses the allocation of financial reporting liabilities and expenses for cost-sharing multiple-employer other postemployment benefit (OPEB) plans. In many respects, the accounting requirements for OPEB plans mirror the requirements for pension plans mandated by GASB Statements No. 67 and 68. As Yogi Berra once said, “It feels like déjà vu all over again.” This article follows the same structure as the Milliman PERiScope article on GASB 67/68 - Proportionate Share Allocation. We also provide informal survey results of the implementation approaches used in the proportionate share allocations of cost-sharing multiple-employer pension plans.

Under GASB Statements No. 73, 74, and 75 rules, a cost-sharing multiple-employer OPEB plan is a plan that is used to provide OPEB to employees of more than one employer. If the OPEB plan is funded, plan assets may be used to pay benefits of any employee.[1] Other plan types defined under the new GASB statements for OPEB plans include single-employer plans (where a plan involves only one employer) and agent-employer plans (where assets of one employer may not be used to pay the benefits of the employees of any other employer.) For cost-sharing plans, a “proportionate share” for each employer must be developed to distribute the aggregate plan liability, deferred items, and expense among the employers’ financial statements. Note that under GASB 75,[2] the component government units of a single-employer plan may be required to provide a similar division of accounting metrics using the rules for cost-sharing plans.

Cost-sharing multiple-employer OPEB plans

For plans that meet the GASB Statements No. 73, 74, and 75 definition of a cost-sharing multiple-employer plan, an aggregate plan total OPEB liability (TOL) and net OPEB liability (NOL) will be developed for the purposes of GASB 74 (GASB 75 if the OPEB plan is not funded), while an aggregate-plan OPEB expense will be developed for purposes of GASB 75. These accounting metrics must then be allocated to the participating employers. The allocation method relies on a determination of a “proportion” attributable to each employer. This proportion is then applied to the relevant aggregate plan figures to determine the “proportionate share” of liability and OPEB expense that each employer must recognize. Generally, the cost-sharing allocation process will involve three major steps, as discussed below.

1 See GASB Statement No. 75, paragraph 14.
2 See GASB Statement No. 75, paragraph 24.

Did you know? Milliman’s GASB 73/74/75 Task Force is releasing a miniseries on technical and implementation issues surrounding GASB 73, 74, and 75.

Each article will be released through PERiScope. Look for the following articles in coming months:

- **Balance sheet items and projections from valuation date to measurement date**
- **Calculation of OPEB expense**
- **Revised ASOP 6 and Community Rated Plans**

Visit milliman.com/GASB-73-74-75 for the latest resources on the new statements.

Step 1: Identify the employer for financial reporting purposes

The first step is to determine which employers require a proportionate share allocation. In particular, the involved parties should be aware that the employers identified for GASB reporting purposes may be different from the employers that have separate liability calculations or contribution rate information prepared in the funding valuation, if any.

Typically, the identification of employers who require a cost-sharing allocation will be performed by plan staff or plan/employer accountants. As a best practice, the actuary should review the list for reasonableness if enough information is available.

Step 2: Determine who will perform the allocation calculations

One key consideration in the proportionate share determination is how each employer's auditor will gain confidence in the calculation of the employer's proportionate share. As GASB made clear in the GASB 68 implementation guide for pension accounting purposes, the proportionate share percentages attributable to the individual employers need not add up to 100%. This is because each employer is permitted to use a different method for the proportionate share calculations, so long as the method is reasonable. The key is to ensure that each employer's auditor has sufficient access to and understanding of the proportionate share calculation.

An informal survey of Milliman pension clients indicates that in most cases the plan staff identifies the employers who need an allocation, and the fund actuary calculates the proportionate share based on contributions. In a small number of cases, the plan calculates the proportionate share. We do not have information on how the individual employers use the information provided by the fund. For example, under GASB 68, an individual employer could determine a proportionate share based on a different method from what was used at the fund level.

Step 3: Determine the basis for allocation

The party responsible for the determination of the proportionate share must determine the basis for the proportionate share calculation. GASB 75 requires that the proportion for each employer be consistent with the employer's "contribution effort" to the OPEB plan. The standard encourages the use of the "projected long-term contribution effort" of each employer to the plan. However, such a projection is not mandated, and in many cases, a proportion that meets the "spirit of the law" may be reasonably approximated by simpler measures.

For example, alternative allocation bases may include the following:

- Payroll for each employer in the most recent fiscal year
  - If the amounts that employers contribute are determined as a percentage of payroll
- Actual contributions made by each employer in the most recent fiscal year
- Actual benefits paid by each employer in the most recent fiscal year (if the plan is unfunded)
- Any other reasonable method

If possible, the employers' auditor should be consulted during the process of the determination of proportionate share to ensure that the auditor has sufficient access to the details of the calculations.

Changes in proportionate share and employer contributions

An individual employer's proportionate share will likely change from one measurement to the next. The financial impact of this change must be quantified and reported in the financial statements. To the extent that an employer makes actual contributions during the year that are different from its allocated proportionate share of contributions, this difference must also be tracked and accounted for.

First, if an employer's proportion has changed since the prior measurement date, this change in proportion should be multiplied by the employer's share of the net OPEB liability, deferred inflows, and deferred outflows as of the beginning of the measurement period. The resulting changes in the net OPEB liability, deferred inflows, and deferred outflows must then be amortized over the expected remaining service life of all plan members (both active and inactive), calculated as of the beginning of the measurement period. Note that the amortization period takes into account all plan members, as opposed to the members of an individual employer. The first year of amortization related to these changes is included in the current reporting period employer OPEB expense. The remaining amount is treated as a deferred inflow or outflow.

Similarly, each employer must calculate the difference between the actual amount contributed by the employer (and by a non-employer contributing entity on behalf of the employer, when not in a special funding situation), and the proportionate share allocated to the employer of all such contributions by all employers and applicable non-employer contributing entities during the period. As with the change in proportionate share, this difference in contributions must be amortized over the expected remaining service life of all plan members, calculated as of the beginning of the measurement period. Again, note that the amortization period takes into account all plan members, as opposed to the members of an individual employer. The first year of amortization related to these charges is included in the current reporting period employer OPEB expense. The remaining amount is treated as a deferred inflow or outflow.

Note that for GASB 75 purposes, the total net deferred inflow or outflow due to the change in proportionate share and the difference between actual and allocated contributions may be treated as a single deferred inflow or outflow and amortized on a net basis for simplification.

Special funding situations

A special funding situation is when a non-employer contributing entity has a legal responsibility to contribute directly to the plan and either of the following criteria hold:

- The amount of the non-employer contributing entity's required contributions does not depend on a factor unrelated to OPEB.
- The non-employer contributing entity is the only entity legally required to make contributions to the plan.

The most well-known special funding situation exists for pension plans. In this situation, a state-wide retirement system covers public school teachers, but the state (which does not directly employ the teachers) has a legal obligation to pay part or all of the contributions to the retirement system and meets the criteria outlined above. In this case, the state is a non-employer contributing entity that gives rise to a special funding situation. When a plan involves a special funding situation, the recognition of proportionate share for any contributing employers will be affected. Special funding situations are beyond the scope of this article.

CONTACT:

Tim Herman
tim.herman@milliman.com