BARTEL ASSOCIATES, LLC

October 28, 2013

Paul A. Melikian
Director of Finance & Administrative Services
City of Reedley
1717 Ninth Street
Reedley, CA 93654

Re: June 30, 2013 GASB 45 OPEB Actuarial Valuation Proposal

Dear Mr. Melikian:

Bartel Associates would be pleased to provide actuarial consulting services to the City of Reedley. This letter summarizes the project scope and our fee estimate for a June 30, 2013 actuarial valuation for the City's retiree healthcare plan.

Retiree Healthcare Benefits

Effective January 1, 2014 the City will provide healthcare benefits through 2 HMOs and one PPO sponsored by the San Joaquin Valley Insurance Authority (SJVIA). Subsidies will be provided to retirees as follows:

Tier/City Service	**Retiree**	**Dependent**	**Retiree and Dependent (Each)**
	Pre-Medicare	**Pre-Medicare**	**Post-Medicare**
Tier 1 – Current Retirees and Current Actives age 50 @ 9/24/13, ret. < 2017	Same as for Unrepresented active employees	Up to $500/month	100% of City Medicare Supplement premium or $251.76/month
Tier 2 – Current Employees – 10 years City service	Smaller of 50% of retiree single premium or Unrepresented active employee amount	Up to $250/month	Smaller of 50% of City Medicare Supplement premium or Unrepresented active employee amount
Tier 2 – Current Employees – 20 years City service	Same, but 80%	Up to $250/mo	Same, but 80%
Tier 3 – Future Employees hired>1/1/14	None	None	None

The City does not provide a contribution for retiree dental, vision, or life insurance benefits. The City does not currently pre-fund the benefits. The City has fewer than 200 active employees plus retirees. Pension benefits are provided under CalPERS 3.0%@55 for Safety and 2%@55 for

Miscellaneous with the required PEPRA formulas for New Members after 1/1/2013.

Bartel Associates

Bartel Associates was established to provide quality and cost effective actuarial consulting services to California public agencies. Our services include retiree medical and other postemployment benefit actuarial valuations, pension plan valuations and administration, retiree medical plan and pension plan design, actuarial audits, and CalPERS retirement plan consulting.

As a member of the special task force which is assisting GASB in drafting the update to Statement No. 45, as well as the original Statement, I have consulted with many counties, cities, districts, and other public agencies on OPEB issues. I am currently a member of the California Actuarial Advisory Panel and have also served as a consultant to the former governor's Public Employee Post-Employment Benefits Commission. With approximately 250 GASB 45 clients, including over 150 California cities and counties, we are experts in this field. Our presentations are clear, concise, and understandable to non-actuaries.

Our Approach

We believe there are two levels to a GASB 45 actuarial valuation. The first level is a "basic valuation" for technical compliance with GASB 45. Some public employers may hire an actuary to assist only with technical compliance with GASB 45, limiting the scope of services to preparing a compliance-only valuation that provides the required financial reporting and disclosure. The second level, our "full consulting" valuation, goes beyond reporting and disclosure issues and assists the City with an understanding of GASB 45, the actuarial assumptions and methods, valuation results, financial statement impact, funding policies and trust options, and a review of the plan design.

Our full consulting approach to an actuarial valuation is a four-step process consisting of:

- Requesting and reviewing participant data and plan information
- Selecting valuation methods and assumptions
- Valuation processing
- Meeting with the City to discuss valuation results, including:
  - Plan provisions, census data, methods and assumptions
  - Benefit Obligations
  - Annual Required Contributions
  - Annual OPEB Costs
  - Expected Net OPEB Obligations
  - Benefit payments and Annual OPEB Cost projection
  - Comparison with other agencies
  - Implied subsidy

Scope of Work

The "full consulting" valuation includes:

- Costs and liabilities on one funding method and one set of assumptions
- Sensitivity analysis for pre-funding vs not pre-funding the liability
- Costs and liabilities for the plan as a whole with breakdowns for:
  - Safety vs. Miscellaneous
  - Cash and Implied Subsidy
- One meeting with the City to review the valuation results
  - Preliminary valuation results discussion outline for the meeting
- Finalized discussion outline containing an actuarial certification, as our final report.

Estimated Fees

Full Consulting Valuation fee. We recommend a "full consulting" valuation for the City, since this will be the first GASB OPEB valuation. It will provide more detail and more discussion to clarify the valuation results and the City's options.

Our fee to prepare a "full consulting" valuation will be approximately $11,000 for the Scope of Work outlined above. While our fee estimate represents the likely cost of the valuation, it is possible the valuation may require additional time. We understand the City's budgeting needs and agree not to bill more than $12,500 unless the project scope changes.

Basic Valuation fee. The "Basic Valuation" includes a concise written report including a summary of plan provisions, census data, actuarial methods and assumptions, and valuation results. It will not include any discussion of options for funding the liability or otherwise managing the obligation. It will not include a meeting with the City, but does include a brief phone call to discuss the results. Our fee to prepare a Basic valuation will be $6,500.

Additional Work

Should the City request additional work outside the scope of the valuation, we will bill the City at the following hourly rates:

	2013 Rates
Partner	$250 - $300
Assistant Vice President	$200 - $225
Senior Actuarial Analyst	$150
Actuarial Analyst	$125
Administrative Support	$75

Our fee estimate assumes:

- Participant census data requested will be provided completely and accurately in an Excel workbook with one record per participant.
- All plan and financial information requested will be provided and is internally consistent.
- All travel charges for the results meeting and other expenses are included in the fee quoted above, for the full consulting valuation.

Data Requirements
In order for us to begin the GASB 45 valuation, please provide:

- General Information
  - ☐ Written summary of the City's retiree healthcare plan provisions, including a description of the City's contributions for active and retired employees. This will be used as the basis of retiree healthcare benefits provided by the City for the June 30, 2013 actuarial valuation.
  - ☐ Copies of the most recent MOUs for bargained employee groups and agreements for unrepresented groups if that information is not available on the City's website.
  - ☐ Monthly medical premium rates for active employees, retirees eligible for Medicare, and retirees not eligible for Medicare for 2014 for single, 2-party, and family coverage for all healthcare plans offered to retirees.
  - ☐ Total City pay-as-you-go costs for retiree healthcare benefits for 2010/11, 2011/12, and 2012/13. Also, provide an estimate for 2013/14 if the City has prepared one for budgetary purposes.

- Active and retired participant data as of the June 30, 2013 valuation date in an Excel workbook format. Active and retired participant information can be provided on separate worksheets.

  <u>Active Employee Data</u>
  - ☐ Name
  - ☐ Employee number (not Social Security number)
  - ☐ Gender
  - ☐ Birth date
  - ☐ Hire date
  - ☐ CalPERS service if available
  - ☐ Healthcare plan, single/2-party/family coverage
  - ☐ CalPERS pension plan (Miscellaneous, Safety), and Tier
  - ☐ Bargaining unit or employee group if applicable
  - ☐ Annual PERSable compensation. Indicate the pay period for the compensation reported.
  - ☐ Include any active employees who have waived healthcare coverage.

  <u>Retiree Data</u>
  - ☐ Name
  - ☐ Employee number (not Social Security number)
  - ☐ Gender
  - ☐ Birth date

- ☐ Retirement type (service retirement, disability retirement, surviving spouse),
- ☐ Healthcare plans, single/2-party/family coverage
- ☐ CalPERS pension plan (Miscellaneous, Safety), and Tier
- ☐ Portion of premium paid by the City, and portion of premium paid by the retiree
- ☐ Include any retirees or surviving spouses of retirees who have waived coverage if they can join the plan at a later date.

Retiree Data if available or applicable

- ☐ Hire date if available
- ☐ Bargaining or employee group
- ☐ Retirement date if available
- ☐ Spouse's birth date (if available)
- ☐ Medicare eligibility for service retirees under age 65 (if available)

- In order to maintain confidentiality, please do not provide Social Security numbers on any of the information provided. We will delete any files that include Social Security numbers and request revised files.
- We may need additional data depending on our review of the City's retiree medical plan design.

Timing

Normally, the valuation results meeting is set about 4 to 6 weeks after we receive all the requested information and the City replies to any questions we may have after our initial review of the requested data.

We look forward to working with you and the City. Please call me at 650-377-1601 or Mary Beth Redding at 650-377-1617 with any questions.

Sincerely,

John E. Bartel
President

Enclosure

c: Mary Beth Redding, Bartel Associates, LLC
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BARTEL ASSOCIATES, LLC
COMPANY PROFILE

Bartel Associates, LLC is an actuarial consulting firm specializing in providing states, counties, cities, and other public agencies with actuarial consulting service. Our clients range from small special districts to small and large cities and states with tens of thousands of employees.

Our services include:

- OPEB Plans - We have prepared "Other Postemployment Benefit" actuarial studies and valuations for over 250 California counties, cities, districts, and special purpose agencies to assist with compliance with GASB Statements Nos. 43 and 45. We also prepare valuations for compensated absence plans for compliance with GASB 16.
- Pension Plans - We prepare actuarial valuations and assist with the administration of defined benefit pension plans for California governments and agencies.
- Plan Design - We assist public agencies redesign existing retirement plans and implement new retirement benefit programs including retiree medical plans and pension plans.
- Retirement System Audits - We review actuarial valuations, experience studies, actuarial assumptions, and actuarial methods for state, county, and other agency retirement systems.
- CalPERS - We provide CalPERS pension consulting services and have made presentations to county boards of supervisors, city councils, district boards of directors, employee bargaining groups, and agency staff on CalPERS contribution rates and benefit design issues.

Bartel Associates was established in July 2003 and is organized as a Limited Liability Corporation. Our office is located in San Mateo, California. We currently have 19 employees, including 8 senior actuaries, 8 actuarial analysts, and 3 administrative staff members. Ten of our actuaries are Fellows or Associates of the Society of Actuaries, 10 are Members of the American Academy of Actuaries, 7 are Enrolled Actuaries, and 5 are Fellows of the Conference of Consulting Actuaries.

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The firm's founder, John Bartel, has over 30 years of experience as a retirement consultant and practice leader with major consulting firms. John founded Bartel Associates to provide public sector clients high quality actuarial services at reasonable fees, focusing on personal attention and clear results.

John Bartel is a member of the special task force currently assisting the Governmental Accounting Standards Board (GASB) in drafting the Update to Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." He was directly involved in the original statement's development and has assisted numerous public agencies quantify and understand the impact of this new accounting standard.

John was appointed in January 2010 by former Governor Schwarzenegger to the California Actuarial Advisory Panel (CAAP) formed under recent legislation (SB 1123). CAAP is charged with providing impartial and independent information on pensions, other postemployment benefits, and best practices to California public agencies.

John has spoken at an array of organizational meetings including those for Enrolled Actuaries, Conference of Consulting Actuaries, League of California Cities, California Society of CPAs, California Public Employee Labor Relations Association, California Society of Municipal Finance Officers, and the National Conference of State Legislatures.

For more information on our services, staff, and benefits news, please see our website: www.bartel-associates.com.

REEDLEY CITY COUNCIL

☒ Consent
☐ Regular Item
☐ Workshop
☐ ClosedSession
☐ Public Hearing
☐ Receive/Review

ITEM NO: ________

DATE: 11/26/2013

TITLE:
A) AUTHORIZE THE CITY MANAGER TO CONTRACT WITH BARTEL ASSOCIATES, LLC TO PROVIDE ACTUARIAL CONSULTING SERVICES FOR THE CITY'S OTHER POST EMPLOYMENT BENEFITS (OPEB)

B) ADOPT RESOLUTION 2013-096 AMENDING THE 2013-14 ADOPTED BUDGET APPROPRIATING $12,500 FOR AN OPEB ACTUARIAL VALUATION AS REQUIRED BY GASB STATEMENT NO. 45

SUBMITTED: Paul A. Melikian, Director of Finance & Administrative Services PM

APPROVED: Nicole R. Zieba, City Manager

RECOMMENDATION

That the City Council authorize the City Manager to engage Bartel Associates, LLC to provide actuarial consulting services for the City's "*other post employment benefits*" (OPEB) and adopt resolution 2013-096 appropriating $12,500 for an OPEB actuarial valuation as required by the Governmental Accounting Standards Board (GASB), Statement No. 45.

EXECUTIVE SUMMARY

In addition to pensions, many state and local governmental employers provide *other post employment benefits* (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (e.g. life insurance) when provided separately from a pension plan. GASB Statement No. 45, *Accounting and Financial Reporting By Employers For Post employment Benefits Other Than Pensions*, adopted June 2004, establishes standards for the measurement, recognition, and display of OPEB expenditures and related liabilities, and disclosures in the financial reports of state and local governmental employers. The approach followed in this Statement No. 45 generally is consistent with the approach the City already follows as required in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. All local governments, regardless of size, were required to be in compliance with GASB No. 45 after December 15, 2008.

An actuarial valuation is required every three years for an OPEB plan the size of Reedley's, and the actuarial methods and assumptions must be acceptable for financial reporting. (The actuarial valuation process is essentially the same exercise used by CalPERS for the City's pension plan, albeit on a larger scale.) Most governments use an actuary consultant to complete their OPEB valuation, because of the specialized skill set required of the methods and assumptions acceptable for financial reporting. Bartel Associates, LLC was established to provide actuarial consulting services to California public agencies. They currently have approximately 250 GASB 45 clients, including over 150 California cities and counties. Bartell Associates was the overwhelming recommendation of peer cities contacted about actuary consulting services.

The proposal from Bartel Associates included two options, a basic valuation for $6,500 and a full valuation not to exceed $12,500. The basic valuation only includes the actuarial valuation report;

however does not include any discussion of options for funding the OPEB liability, reporting the OPEB information on the financial statements, or otherwise managing the obligation. Bartel Associates recommends a full valuation, since this will be the first GASB OPEB valuation. It will provide more detail and discussion to clarify the valuation results and the City's options. Since the valuation is required every three years, it is probable that only a basic valuation will be required going forward once the management and reporting of the plan is initially setup and meets all requirements.

Funding for the valuation and consulting services is proposed as not to exceed $12,500, and funded equally from the General Fund, Public Safety Sales Tax, Water, Sewer, and Solid Waste enterprise funds for $2,500 each. The valuation will not be required again until the year 2016. The results of the valuation report and options available to the City will be presented to the Council in the next 120 days.

BACKGROUND

Postemployment benefits (OPEB as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including postemployment healthcare and other OPEB, are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services.

From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a *pay-as-you-go* basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:

- Recognize the cost of benefits in periods when the related services are received by the employer;
- Provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and
- Provide information useful in assessing potential demands on the employer's future cash flows.

GASB 45 improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Summary of Standards

The City provides a defined benefit OPEB plan, therefore is required to measure and disclose an amount for annual OPEB cost in its financial statements. Annual OPEB cost is equal to the employer's "annual required contribution" to the plan (ARC), with certain adjustments if the employer has a net OPEB obligation for past "under" or "over" contributions. The ARC is defined as the employer's required contributions for the year, calculated in accordance with certain parameters, and includes (a) the normal cost for the year and (b) a component for amortization of the total unfunded actuarial accrued liabilities of the plan over a period not to exceed 30 years. The parameters include requirements for the frequency and timing of actuarial valuations as well as for the actuarial methods and assumptions that are acceptable for financial reporting.

For financial reporting purposes, an actuarial valuation is required at least triennially for plans with a total membership of fewer than 200. The City of Reedley's plan membership is less than 200, therefore is required to complete an actuarial valuation every three years. The projection of benefits should include all benefits covered by the current *substantive plan* (the plan as understood by the employer and plan members) at the time of each valuation, and take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. In the City's case, these 'caps' on benefits are now defined in the resolution adopted by the Council on September 24, 2013 establishing tiered retiree and dependent medical benefits. The parameters in the valuation require that the selection of actuarial assumptions, including the healthcare cost trend rate for postemployment healthcare plans, be guided by applicable actuarial standards.

The City is required to disclose descriptive information about their defined benefit OPEB plan including:

- The funding policy followed contributions made in comparison to annual OPEB cost;
- Changes in the net OPEB obligation;
- The funded status of the plan as of the most recent actuarial valuation date;
- The nature of the actuarial valuation process and significant methods and assumptions used, and;
- A schedule of funding progress for the most recent valuation and the two preceding valuations, accompanied by notes regarding factors that significantly affect the identification of trends in the amounts reported.

FISCAL IMPACT

The fee for the initial valuation and consulting services is not to exceed $12,500, and is proposed in the attached resolution to be funded equally from the General Fund, Public Safety Sales Tax, Water, Sewer, and Solid Waste enterprise funds for $2,500 each. Depending upon the fund, there is either sufficient higher than budgeted year to date revenue or fund balance available to cover its proportionate share of the cost. The valuation will not be required again until the year 2016. The results of the valuation report and options available to the City will be presented to the Council in the next 120 days.

ATTACHMENTS

- Actuarial Valuation Proposal from Bartel Associates, LLC
- Resolution 2013-096 Amending the 2013-14 Adopted Budget
- Summary of GASB Statement No. 45

BUDGET AMENDMENT
RESOLUTION 2013-096

The City Council of the City of Reedley does hereby amend the 2013-14 Budget as follows:

Section I - Additions:

FUND-DEPT.OBJECT	AMOUNT
001-4140.3000	$2,500
003-4307.3000	$1,800
003-4308.3000	$ 700
050-4150.3000	$2,500
052-4153.3000	$2,500
053-4155.3000	$2,500

Purpose: To fully fund the cost of an actuarial valuation study and related consulting services as required by GASB Statement No. 45 for the City's OPEB plan.

Section II – Source of Funding:

FUND BALANCE	AMOUNT
001-3201 Business License Tax	$ 1,300
001-3690 Business License Application Fee	$ 1,200
003- 2710 Public Safety Sales Tax Fund Balance	$ 2,500
050-2710 Water Enterprise Fund Balance	$ 2,500
052-2710 Sewer Enterprise Fund Balance	$ 2,500
053-2710 Solid Waste Enterprise Fund Balance	$ 2,500

Impact: The funding for the valuation and consulting services will be split equally between five operating funds: 1) General Fund, specifically from higher than budgeted business license revenue received this year as a result of increased compliance efforts of the City; 2) Public Safety Sales Tax, specifically higher than anticipated FY 2013-14 carryover fund balance; 3) Water available fund balance, 4) Sewer available fund balance; & 5) Solid Waste available fund balance.

Reviewed:

Director of Finance & Administrative Services

Recommended:

City Manager

The foregoing resolution was approved by the City Council of the City of Reedley on November 26, 2013, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

APPROVED:

Robert O. Beck, Mayor

ATTEST:

Sylvia Plata, City Clerk

Technical Issues

SUMMARY OF STATEMENT NO. 45

SUMMARIES / STATUS

SUMMARY OF STATEMENT NO. 45
ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
(ISSUED 6/04)

In addition to pensions, many state and local governmental employers provide *other postemployment benefits* (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes *postemployment healthcare*, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

How This Statement Improves Financial Reporting

Postemployment benefits (OPEB as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including postemployment healthcare and other OPEB, are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services.

From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:

- Recognize the *cost* of benefits in periods when the related services are received by the employer
- Provide information about the *actuarial accrued liabilities* for promised benefits associated with past services and whether and to what extent those benefits have been funded
- Provide information useful in assessing potential demands on the employer's future cash flows.

This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Summary of Standards

Measurement (the Parameters)

Employers that participate in *single-employer* or *agent multiple-employer defined benefit* OPEB plans (sole and agent employers) are required to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting. Annual OPEB cost is equal to the employer's annual required contribution to the plan (ARC), with certain adjustments if the employer has a net OPEB obligation for past under- or overcontributions.

The ARC is defined as the employer's required contributions for the year, calculated in accordance with certain parameters, and includes (a) the normal cost for the year and (b) a component for amortization of the total unfunded actuarial accrued liabilities (or funding excess) of the plan over a period not to exceed thirty years. The parameters include requirements for the frequency and timing of actuarial valuations as well as for the actuarial methods and assumptions that are acceptable for financial reporting. If the methods and assumptions used in determining a plan's funding requirements meet the parameters, the same methods and assumptions are required for financial reporting by both a plan and its participating employer(s). However, if a plan's method of financing does not meet the parameters (for example, the plan is financed on a pay-as-you-go basis), the parameters nevertheless apply for financial reporting purposes.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current *substantive plan* (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The parameters require that the selection of actuarial assumptions, including the *healthcare cost trend rate* for postemployment healthcare plans, be guided by applicable actuarial standards.

Alternative Measurement Method

A sole employer in a plan with fewer than one hundred total plan members (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retirees and beneficiaries currently receiving benefits) has the option to apply a simplified *alternative measurement method* instead of obtaining actuarial valuations. The option also is available to an agent employer with fewer than one hundred plan members, in circumstances in which the *employer's* use of the alternative measurement method would not conflict with a requirement that the *agent multiple-employer plan* obtain an actuarial valuation for plan reporting purposes. Those circumstances are:

- The plan issues a financial report prepared in conformity with the requirements of Statement 43 but is not required to obtain an actuarial valuation because (a) the plan has fewer than one hundred total plan members (all employers) and is eligible to use the alternative measurement method, or (b) the plan is not administered as a qualifying trust, or equivalent arrangement, for which Statement 43 requires the presentation of actuarial information.

- The plan does not issue a financial report prepared in conformity with the requirements of Statement 43.

This alternative method includes the same broad measurement steps as an actuarial valuation (projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of benefits to periods using an actuarial cost method). However, it permits simplification of certain assumptions to make the method potentially usable by nonspecialists.

Net OPEB Obligation—Measurement

An employer's net OPEB obligation is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. (Because retroactive application of the measurement requirements of this Statement is not required, for most employers the OPEB liability at the beginning of the transition year will be zero.) An employer with a net OPEB obligation is required to measure annual OPEB cost equal to (a) the ARC, (b) one year's interest on the net OPEB obligation, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or overcontributions.

Financial Statement Recognition and Disclosure

Sole and agent employers should recognize OPEB expense in an amount equal to annual OPEB cost in government-wide financial statements and in the financial statements of proprietary funds and fiduciary funds from which OPEB contributions are made. OPEB expenditures should be recognized on a modified accrual basis in governmental fund financial statements. Net OPEB obligations, if any, including amounts associated with under- or overcontributions from governmental funds, should be displayed as liabilities (or assets) in government-wide financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made should be displayed as liabilities (or assets) in the financial statements of those funds.

Employers are required to disclose descriptive information about each defined benefit OPEB plan in which they participate, including the funding policy followed. In addition, sole and agent employers are required to disclose information about contributions made in comparison to annual OPEB cost, changes in the net OPEB obligation, the funded status of each plan as of the most recent actuarial valuation date, and the nature of the actuarial valuation process and significant methods and assumptions used. Sole and agent employers also are required to present *as RSI* a schedule of funding progress for the most recent valuation and the two preceding valuations, accompanied by notes regarding factors that significantly affect the identification of trends in the amounts reported.

Cost-Sharing Employers

Employers participating in *cost-sharing multiple-employer* plans that are administered as trusts, or equivalent arrangements, in which (a) employer contributions to the plan are irrevocable, (b) plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan, and (c) plan assets are legally protected from creditors of the employers or plan administrator, should report as cost-sharing employers. Employers participating in multiple-employer plans that do not meet those criteria instead are required to apply the requirements of this Statement that are applicable to agent employers.

Cost-sharing employers are required to recognize OPEB expense/expenditures for their *contractually required contributions* to the plan on the accrual or modified accrual basis, as applicable. Required disclosures include identification of the way that the contractually required contribution rate is determined (for example, by statute or contract or on an actuarially determined basis). Employers participating in a cost-sharing plan are required to present as RSI schedules of funding progress and employer contributions for the plan as a whole if a plan financial report, prepared in accordance with Statement 43, is not issued and made publicly available and the plan is not included in the financial report of a public employee retirement system or another entity.

Other Guidance

Employers that participate in *defined contribution* OPEB plans are required to recognize OPEB expense/expenditures for their required contributions to the plan and a liability for unpaid required contributions on the accrual or modified accrual basis, as applicable.

This Statement also includes guidance for employers that finance OPEB as insured benefits (as defined by this Statement) and for special funding situations.

Effective Dates and Transition

This Statement generally provides for prospective implementation—that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Implementation is required in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. The definitions and cutoff points for that purpose are the same as those in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This Statement is effective for periods beginning after December 15, 2006, for *phase 1 governments* (those with total annual revenues of $100 million or more); after December 15, 2007, for *phase 2 governments* (those with total annual revenues of $10 million or more but less than $100 million); and after December 15, 2008, for *phase 3 governments* (those with total annual revenues of less than $10 million). Earlier implementation is encouraged.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 4 and 6 discuss the applicability of this Statement.