

TEXAS MUNICIPAL RETIREMENT SYSTEM

GASB 75

**Employer
Reporting Guide**

Table of Contents

- I. Introduction 3
- II. Timeline and Measurement Date 4
- III. OPEB Accounting and Disclosure Requirements 5
- IV. GRS – GASB 75 Employer Reporting Package 7

I. Introduction

TMRS has prepared this GASB 75 Employer Reporting Guide (“Guide”) to assist participating municipalities (referred to in this Guide as “cities,” “municipalities,” or “employers,” all with the same meaning) in making their postemployment benefit (OPEB) disclosures in accordance with requirements of the Governmental Accounting Standards Board (GASB).

In June 2015, GASB made major changes to its OPEB accounting standards with the issuance of GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan with retiree coverage and is effective for fiscal years beginning after June 2017. GASB 75 significantly changed what cities must report in their financial statements and OPEB disclosures. The first TMRS cities required to comply with this standard are those with fiscal years ending June 30, 2018.

As the TMRS Supplemental Death Benefits plan includes coverage for both active and retired members with assets that are commingled for the payment of such benefits, the SDB plan does not qualify as an OPEB Trust in accordance with paragraph 4 of GASB 75. Therefore, as noted in paragraph 16 of GASB 75, the employer should apply the requirements of paragraphs 21, 22, 143–202, and 222 of GASB 75, as applicable.

The new requirements called for these major changes:

- A “Total OPEB Liability” is calculated by TMRS’ actuary and is put on the face of each employer’s Statement of Net Position (“Balance Sheet”) in the government-wide financial statements.
- OPEB expense is calculated by the actuary, and is no longer tied to the amount of contributions submitted to TMRS each year; rather, it is tied to the change in total OPEB liability from year to year. OPEB expense is put in each employer’s Statement of Changes in Net Position (“Operating Statement”) in the government-wide financial statements.
- Some of each year’s OPEB costs may be deferred (deferred inflows and deferred outflows of resources, recorded in the Statement of Net Position) and amortized over a number of years.

It is important to note that these GASB rules apply only to accounting and financial reporting. They are not applicable to funding, and are not used to determine contribution requirements. The actual cost of providing OPEB benefits has not changed – the only thing that changed with this standard is where and how OPEB costs are accounted for in the financial statements.

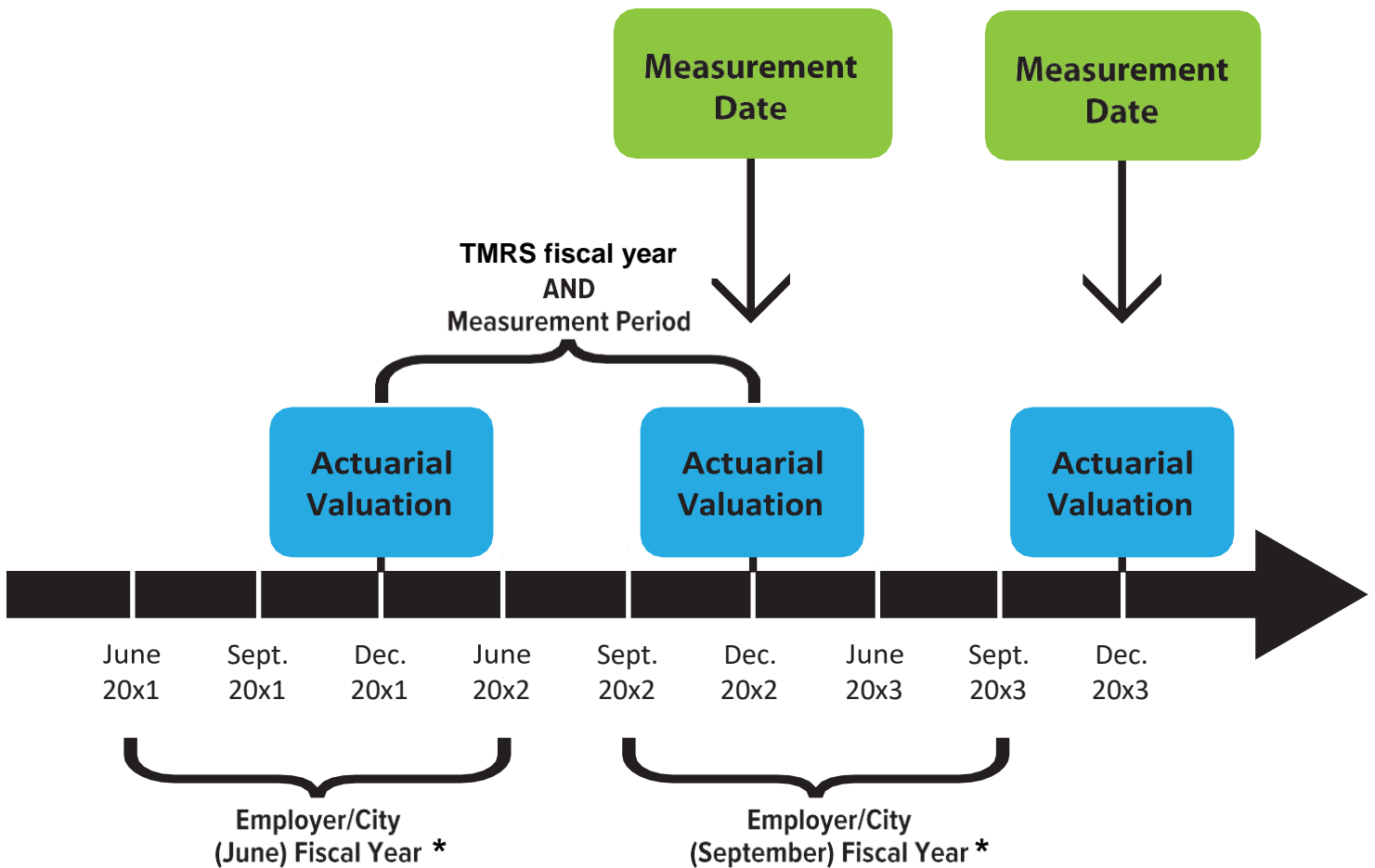
To determine the city’s GASB 75 Total OPEB Liability (or “TOL”), TMRS’ consulting actuary, Gabriel Roeder Smith & Company (GRS) completes an annual actuarial valuation for each participating municipality. As part of this process, GRS creates an Employer Reporting Package (GRS Reporting Package) for each city, to include a certification letter, as well as numerous data elements needed by the city. This Guide will walk the reader through the materials included in the GRS Reporting Package and also provide additional information to assist the city in locating any other relevant information needed for their disclosures and/or financial audit.

Cities participating in the TMRS Supplemental Death Benefits Plan – with retiree coverage – should make disclosures as a participant in a defined benefit OPEB plan that is not administered through a trust that meets the criteria in paragraph 4 of GASB 75. **See Illustration 4 in GASB 75 for sample Note Disclosures and Required Supplementary Information.**

Disclaimer:

TMRS is providing this Guide and its contents as a resource to cities. While we attempt to include all relevant information, we cannot and do not attest to complete accuracy. All financial statement and note disclosures are the responsibility of the city/employer and the city’s independent public accountant.

II. Timeline and Measurement Date



The **measurement date** is the date the actuary uses to value the Total OPEB Liability of each employer.

TMRS' measurement date will be **December 31** each year, which coincides with our fiscal year-end.

According to GASB 75, the measurement date must be between the end of the employer's prior fiscal year and their current fiscal year-end, and must be consistently applied from year to year. Additionally, the measurement must be based on an actuarial valuation performed within 30 months plus 1 day of the employer's year-end.

TMRS' consulting actuary, Gabriel Roeder Smith and Company (GRS), performs an actuarial valuation each year as of December 31, covering the 12-month calendar year.

The **measurement period** is the period of time from one measurement date to the next, and is the period of time TMRS' actuary, GRS, uses to calculate the OPEB expense for each employer. The measurement period for participating employers in TMRS is January 1 through December 31.

* Fiscal years depicted in this chart will be consistent for future years.

III. OPEB Accounting and Disclosure Requirements

Accounting for OPEB

GASB 75 requires recognition of the Total OPEB Liability (TOL), deferred (inflows)/outflows of resources, and total OPEB expense on the face of the employer's financial statements. The TOL is calculated by the System's actuary in accordance with the provisions of GASB 75. The OPEB expense and deferred (inflows)/outflows of resources related to OPEB, which are required to be reported by an employer, primarily result from changes in the components of the TOL. Most changes in the TOL will be included in OPEB expense in the period of the change. For example, changes in the TOL resulting from current-period service cost, interest on the TOL, and changes of benefit terms (including TMRS plan participation) are required to be included in OPEB expense immediately. Changes in the TOL that have not been included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB.

The effects on the TOL of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period. In addition, employer contributions subsequent to the measurement date of the TOL are required to be reported as deferred outflows of resources.

Notes to Financial Statements

GASB No. 75 requires the notes to the employer's financial statements to disclose the total OPEB expense, changes in the TOL, and deferred outflows of resources and inflows of resources related to OPEB.

In addition, GASB 75 requires the notes to the financial statements for the employers to include such items as (list may not be all inclusive; references to GASB 75 are noted below in [square brackets]):

[Paragraph 165]:

- The name of the OPEB plan, identification of the entity that administers the OPEB plan, and identification of the OPEB plan as a single-employer or multiple-employer defined benefit plan; for TMRS-city reporting, the SDB is considered to be a single-employer plan.
- A brief description of the benefit terms, including:
 - The classes of employees covered;
 - The types of benefits;
 - The key elements of the OPEB formulas; and
 - The authority under which benefit terms are established or may be amended.
- The number of employees covered by the benefit terms, separately identifying numbers of the following:
 - Inactive employees currently receiving benefit payments;
 - Inactive employees entitled to but not yet receiving benefit payments; and
 - Active employees.
- The fact that there are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75;
- Identification of the authority under which requirements for the employer and non-employer contributing entities, if any, to pay OPEB as the benefits come due are established or may be amended. Also, the amount paid by the employer for OPEB as the benefits came due during the reporting period, if not otherwise disclosed.

[Paragraph 166]:

- Significant assumptions and other inputs used to measure the TOL as well as the dates of experience studies on which significant assumptions are based;

[Paragraph 168]:

- Schedule of changes in the TOL, including:
 - Beginning balance of the TOL;
 - Service cost;
 - Interest on the TOL;
 - Changes of benefit terms, including TMRS plan participation;
 - Differences between expected and actual experience in the measurement of the TOL;
 - Changes of assumptions or other inputs;
 - Benefit payments;
 - Other changes, separately identified if individually significant; and
 - The ending balance of the TOL.

[Paragraph 169]:

- Measurement date of the TOL (date of the actuarial valuation);
- If the employer has a special funding situation, the employer's proportion of the TOL, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date;
- A brief description of changes of assumptions, benefit terms, or other inputs that affected measurement of the TOL since the prior measurement date;
- A brief description of the nature of changes, if any, between the measurement date of the TOL and the employer's reporting date that are expected to have a significant effect on the TOL;
- The amount of OPEB expense recognized by the employer in the reporting period;
- The employer's balances of deferred outflows of resources and deferred inflows of resources related to OPEB, classified as follows, if applicable:
 - Differences between expected and actual experience in the measurement of the TOL;
 - Changes of assumptions or other inputs;
 - If the employer has a special funding situation, changes in the employer's proportion and differences between (a) the amounts paid by the employer for OPEB as the benefits came due and (b) the employer's proportionate share of the total of certain amounts paid by the employer and non-employer contributing entities for OPEB as the benefits came due; and
 - Amounts associated with transactions subsequent to the measurement date of the TOL.
- A schedule presenting the following:
 - For each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources that will be recognized in the employer's OPEB expense;
 - If the employer does not have a special funding situation, the amount of the employer's balance of deferred outflows of resources that will be recognized as a reduction of the TOL; and
 - If the employer has a special funding situation, the amount of the employer's balance of deferred outflows of resources that will be included as a reduction of the TOL.
- The amount of revenue recognized for the support provided by non-employer contributing entities, if any.

Required Supplementary Information for OPEB [Paragraphs 170 and 171]

The financial statements of employers should also include required supplementary information showing the 10-year fiscal history (built prospectively, as the information becomes available) of:

- Changes in the TOL (as of the measurement date);
- Beginning and ending balances of TOL;
- Covered payroll;
- TOL as a percentage of covered payroll; and
- Notes to required schedules to include:
 - The fact that no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits; and
 - Factors that significantly affect trends in the amounts reported.

IV. GRS – GASB 75 Employer Reporting Package

This section of the Guide will walk you through the **GRS – GASB 75 Employer Reporting Package** (“Reporting Package”). References to GASB Statement No. 75 will be noted in [square brackets].

Certification Letter

The package begins with a certification letter from GRS. The letter indicates that the actuarial calculations are in compliance with the requirements of GASB 75 for the city’s financial reporting purposes; this is in contrast to the annual actuarial valuations that are also performed for each city, but for funding (contribution rate calculation) purposes. The letters are certified by actuaries with GRS. Complete biographies of the actuaries, as well as company history and information, can be found on the “Eye on GASB” section of the TMRS website, in the “For your financial statement audit” section (see “*Qualifications of Actuary*”).

Section A – Actuarial and Financial Schedules

Section A, Actuarial and Financial Schedules, contains information necessary for the city to record the TOL, OPEB expense, and deferrals, as well as provide information for the city’s Notes to Financial Statements, in accordance with GASB 75.

The schedules provided include:

- **Actuarial valuation date** (or measurement date of the TOL) – [paragraph 169.a]
- **Membership information for the city, by type of member** (inactive and active employees) – [paragraph 165.c]
- **Changes in the TOL** – [paragraph 168]

For the current reporting period, a schedule of changes in the TOL should be presented in the Employer’s Notes to Financial Statements. GRS has provided all the components that comprise the net change in the TOL over the measurement period. The beginning and ending Total OPEB Liability are also provided.

Benefit payments are treated as being equal to the employer’s yearly contributions for retirees. The city can calculate this number by multiplying the covered payroll amount by the retiree portion of the SDB contribution rate (see “Schedule of Contributions” for the retiree contribution rate). Other components of the change in the TOL for the year can be noted below in the Components of OPEB expense.

■ **TOL as a percentage of covered payroll** – [paragraph 170.b]

Required Supplementary Information (RSI), includes a 10-year schedule (presented prospectively), which contains the TOL as a percentage of covered payroll. GRS has provided the information to include in the RSI.

■ **Summary of actuarial assumptions** – [paragraph 166]

Significant assumptions and other inputs used to measure the TOL, including assumptions about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and the sharing of benefit-related costs with inactive employees, should be disclosed, as applicable. GRS has provided the actuarial assumptions used in calculating the TOL.

■ **Sensitivity of the TOL to changes in the discount rate** – [paragraph 167.b]

GASB 75 requires disclosure of the sensitivity of the TOL to changes in the discount rate. GRS has provided the TOL using a discount rate that is 1 percentage point higher and 1 percentage point lower than the current discount rate.

■ **Components of OPEB expense** – [paragraph 169.g]

GASB 75 requires the notes to include the amount of OPEB expense recognized by the employer in the reporting period. OPEB expense comprises the changes in the TOL from one measurement date to the next measurement date, and should be recorded in the current reporting period. There are, however, items that are deferred and recognized in later periods (i.e., deferred inflows and deferred outflows of resources).

- *Line 1 is the service cost, which is the portion of the actuarially-determined present value of future benefits, attributable to service accrued during the current year.*
- *Line 2 is the interest on the TOL which can be recalculated by the city, as follows:*
 - *((Beginning TOL plus current year benefit changes) x beginning of year discount rate %) + ((service cost minus current year benefit payments) x one-half the discount rate %)*
 - *The discount rate should be a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). [paragraph 155]*
 - *One-half the discount rate is used for the benefit payments, as these are expected to occur, on average, mid-year.*
- *If the city adopted benefit changes (including TMRS plan participation) during the measurement period, the cost of that benefit would be reflected in line 3.*
- *Line 4 is the employer administrative costs, which is \$0 for the SDB plan, as all administrative expenses are allocated to the pension plan administered by TMRS.*
- *Line 5 represents the current period charges to OPEB expense due to amortization of deferred inflows or outflows of the differences between actual and expected experience.*
- *Line 6 represents the current period charges to OPEB expense due to amortization of deferred inflows or outflows of the difference in actuarial assumptions. This deferral will typically originate solely from the year-to-year change in the discount rate.*

■ **Deferred (inflows)/outflows of resources** – [paragraphs 169.h and 169.i]

GASB 75 requires the notes to include the employer's balances of deferred outflows and deferred inflows of resources related to OPEB and a five-year schedule for the future recognition of deferrals to OPEB expense.

Deferred outflows of resources and deferred inflows of resources related to OPEB, result from the following, if applicable:

- a. Differences between expected and actual experience in the measurement of the TOL;
- b. Changes of assumptions or other inputs;
- c. If the employer has a special funding situation, changes in the employer's proportion (paragraph 196) and differences between (a) the amounts paid by the employer for OPEB as the benefits came due and (b) the employer's proportionate share of the total of certain amounts paid by the employer and non-employer contributing entities for OPEB as the benefits came due (paragraph 197); and
- d. Amounts associated with transactions subsequent to the measurement date of the TOL.

For items a and b above, GRS will provide the balance of the deferrals and recognition period or years over which the deferred amounts will be amortized (straight-line). This recognition period is the estimated average remaining service lives of all members (active, inactive, and retired) for the city, determined as of the measurement date. This recognition period can change from year to year. Each year, as new deferred outflows or inflows are determined, a new "layer" will be created, to amortize that new deferral over a new recognition period. GRS has provided an Amortization Schedule in Section A of their Reporting Package, which will show the various layers as they are created each year. For item d above, the city must calculate this amount, totaling municipal/employer contributions, for the retiree coverage only, remitted to TMRS subsequent to the measurement date, up to the city's fiscal year-end. This amount will be reported as a deferred outflow of resources, but is not amortized like the other three deferrals. Each year, the previous year deferral is simply reversed and the current year deferral is recorded.

- **Schedule of contributions** – to aid the city in determining contributions remitted to TMRS (for OPEB only) and the deferred outflows for OPEB contributions made subsequent to the measurement date.

Section B – Implementing and Reporting Your OPEB Amounts

Section B, Implementing and Reporting Your OPEB Amounts, provides a summary of information to assist your city in implementing the new GASB 75 standard, for OPEB. It is pointed out that, in the year of transition, the beginning TOL is provided, and should be reflected as a prior period adjustment in your city's financial statements.

Section C – Actuarial Assumptions

In this section, GRS has provided a complete summary of the actuarial assumptions used for determining the TOL for your city.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rates (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method.

Section D – Glossary of Terms

Provided by GRS, this section will help to define terms used in the Reporting Package.
