

**CALSTRS**

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

# Impacts of GASB 74/75 on CalSTRS and Employers

Presented on July 13, 2017



## **GASB Implementation**

- Effective for CalSTRS FY 2016-17
  - Statement 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB).
- Effective for Employers FY 2017-18
  - Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

## **Applicability of Statement GASB 74**

- Establishes new financial reporting standards for state and local governmental OPEB plans.
- Applies to the CalSTRS Medicare Premium Payment Program (MPP Program).

## **Applicability of Statement GASB 75**

- Establishes new standards for employers who provide OPEB to retirees:
  - CalSTRS employers for retirees receiving MPP Program benefits.
  - CalSTRS itself for OPEB benefits provided to retirees under CalPERS.

## Purpose of Changes

- Similar to GASB 67/68.
- Intended to improve reporting:
  - Transparency.
  - Consistency.
  - Comparability amongst systems.
- Separates funding and financial reporting:
  - Necessitates actuarial valuation for funding and another for financial reporting.

## Reporting Changes

- Adds Net OPEB Liability (NOL) – similar to the unfunded liability.
- Recasts OPEB expense to reflect changes in the NOL from the prior year.
- Requires more extensive footnote disclosures.

## Reporting Changes (continued...)

- Creates a blended rate that must be used when a plan is projected to deplete assets:
  - MPP Program is funded on a pay-as-you-go basis.
  - Blended rate uses the assumed rate of return up to the point no assets are available to pay benefits and then a high quality municipal bond rate for the remaining liability.

## Reporting Changes (continued...)

- Requires a closed 5-year period to amortize investment earnings differences.
- Requires a money weighted rate of return disclosure for investments.

## Actuarial Considerations

- Requires use of Entry Age Normal for all Financial Reporting Actuarial Valuations.
- Milliman creates two valuations; one for funding and one for financial reporting.
- Employers or their auditors may have questions for CalSTRS.

# New Disclosures

## *OPEB Liability of the MPP Program Employers as of 6/30/2016*

<i>Total OPEB</i>	\$	<i>315,000,000</i>
<i>Less Plan Fiduciary Net Position</i>		<i>-</i>
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<i>Employers OPEB Liability</i>	\$	<i>315,000,000</i>

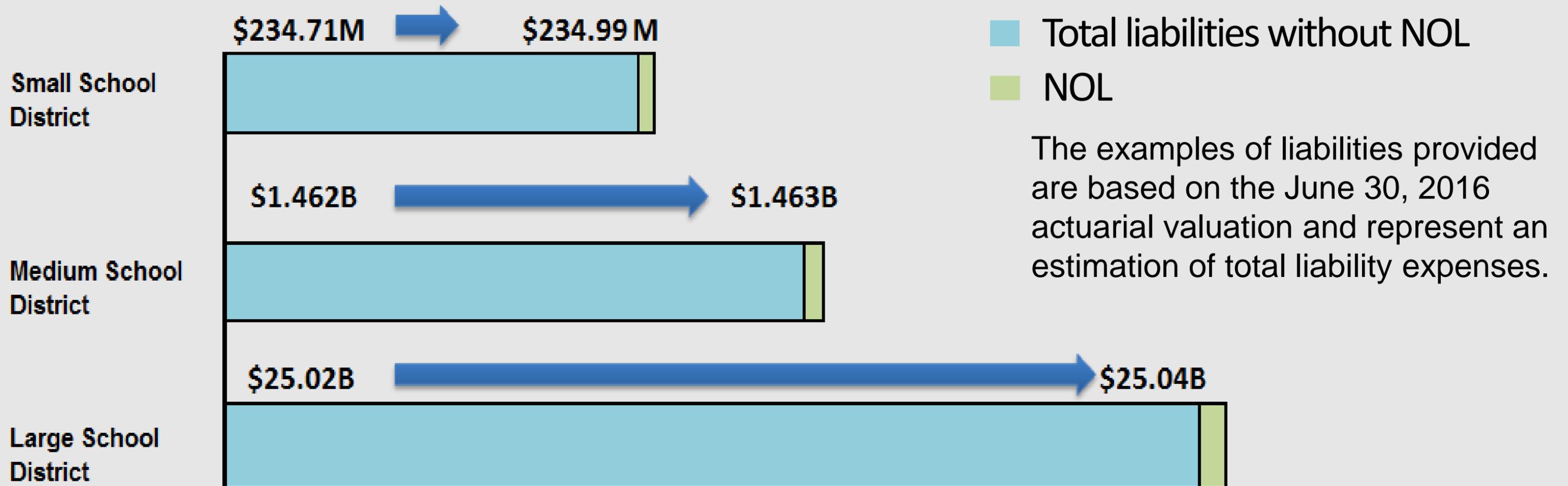
## **New Schedules of Proportionate Share (SPS)**

- **Contributions for Employers:**
  - *Based on STRP employer contributions, without the State.*
- **Premiums and Surcharges Paid for Employers:**
  - *Based on allocation of Medicare premiums and surcharges paid for participants by last employer.*

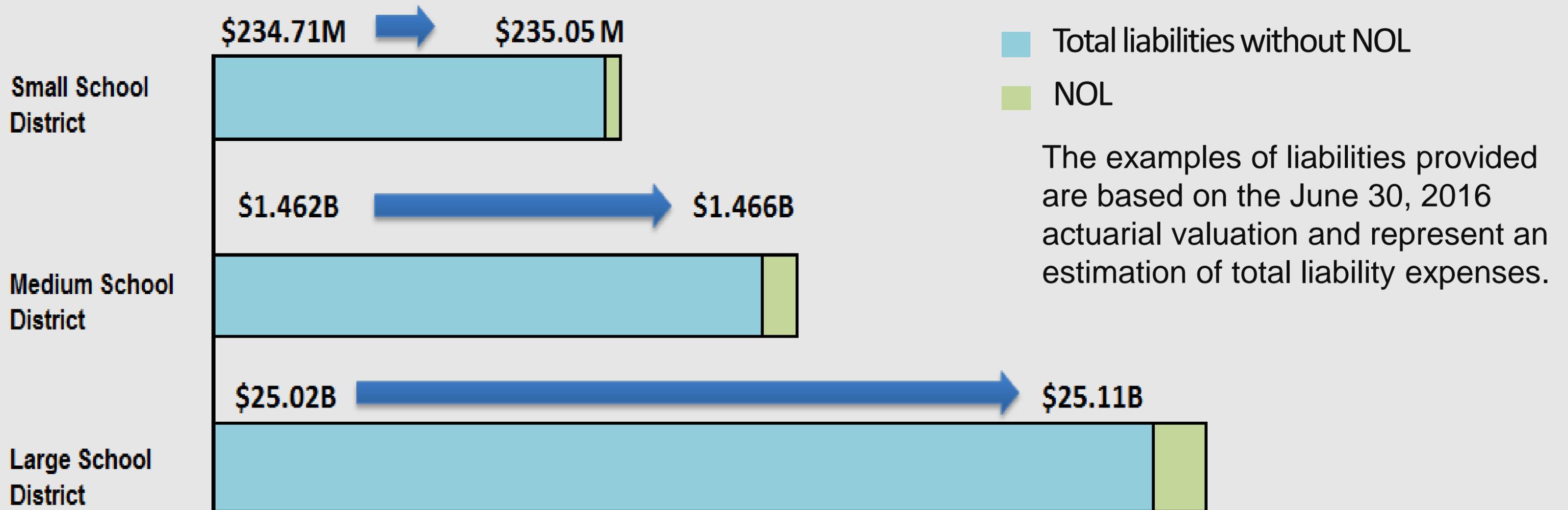
## Impact to Employers

- GASB 75 requires employers to report a proportionate share of MPP Program Net OPEB Liability.
- Increased OPEB expense/liability (GASB 75).

# Impact of NOL on Employer using Schedule of Proportionate Share of Contributions for Employers



## Impact of NOL on Employer using Schedule of Proportionate Share of Premiums and Surcharges Paid for Employers



## **Preparation and Outreach**

- CalSTRS will hold meetings with stakeholders and employers.
- Resource materials will be available on our website.

## Key Take Away

- MPP Program unfunded from a financial reporting perspective.
- Additional liabilities to the employers, but relatively small in proportion to typical balance sheet.

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