

Intro to OPEB Requirements and Fund 73 Accounting

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Public Instruction
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What is OPEB?

Other Postemployment Benefits (OPEB) are post employment benefits earned by employees during their career that they receive after they are no longer active employees.

- Insurance benefits

- Health

- Health Reimbursement Accounts (HRA)

- Dental

- Vision

- Life Insurance

- Disability

- Long term care

- Does NOT include WRS retirement plans, pension plans, stipends or compensated absences

Why is OPEB Important?

- In 2004 the Governmental Accounting Standards Board issued Statement 45 (GASB 45) to provide more complete and reliable financial reporting of OPEB.

Applies to all districts

- GASB 75 supersedes Statement 45 effective FYE 6/30/18
- School districts (and other government bodies) are required to determine their OPEB liability and report this in their financial statements.
- Does NOT require the funding of future payments.

GASB Statements 74 and 75

- GASB 74: Rules for accounting of the trust fund. Compliance is

Only required *if* the district has established a trust fund

Therefore, **NOT** required of all districts

GASB 74 has replaced GASB 43 FYE 6/30/17

- GASB 75: Rules governing the determination of OPEB liability, establishing a Plan, identifying the ADC, etc.

Compliance is required of all districts

GASB 75

- For OPEB, all districts must have new valuation studies completed every 2 years
- Significant changes to employee benefits should result in a new actuarial study even if before the next scheduled study.

Plan members are those active employees eligible to receive those future benefits, terminated employees who have accumulated the benefits but are not yet receiving them, and retired employees (or their beneficiaries) currently receiving benefits.

Reevaluation of the benefits of having Fund 73 Trust should be made.

GASB 75

What does it mean for the district? - All Districts

- **Need to be sure they have a current valuation that can be used in the filing of the audited financial statements**
- **May want to start checking NOW to see if your districts are up to date on their valuations**

What does it mean for the auditor?

- **Without a current valuation, the auditor may have to issue a modified opinion or hold off on issuing the report until study completed**
- **Key items from the study are included in the district's financial statements**

What method should you use to determine the OPEB liability?

- **Actuarial Study**

Required for OPEB plans

Required for pension plans (non-OPEB)

Actuarial Studies

- Actuarial firms listed on the DPI website on the bottom of the Benefit Trust Fund page or directly at <http://dpi.wi.gov/sfs/finances/fund-info/employee-benefit-trust-fund>

These are not DPI recommendations

Ask for AND check references!

Talk to other districts or your auditors

- **DON'T** wait until the last minute to hire an actuary
Typically takes 10+ weeks to complete **AFTER** they have all the required information

Key Terms in the Study

- **Total OPEB Liability (TOL)**

The value of benefits for all periods prior to the current fiscal year. This value is accrued, and the benefits are earned, during the employment period.

- **Service Cost (SC)**

The value of benefits earned in the current year.

- **Net OPEB Liability**

The difference between Total OPEB liability and the value of assets dedicated to the liability (PFNP).

- **Plan Fiduciary Net Position (PFNP)**

Value of trust assets as of the valuation date

Key Terms in the Study

- **Actuarially Determined Contribution**

The employer's contribution to offset the liability
Equals **SC** + one year amortized value of the **Net OPEB
Liability**.

The annual amount a district is required to record as their liability on the financials.

Not actually the amount a district is required to contribute in a given year, but the amount needed in that year to fully fund the liability over the period of amortization.

Key Terms in the Study

- **Implicit Rate Subsidy (IRS)**

- **What is it?**

When retirees and active employees are on the same health insurance plan, generally the premiums are higher than if the active employees had their own plan. The difference between what the active employees pay with the retirees on their plan and what they would pay on a plan with just active employees is the Implicit Rate Subsidy.

Paying For Those Future Obligations

- **Option 1**
- **Districts that do NOT set aside funds, fund their obligation on a “Pay As You Go” basis.**

Example, the retiree insurance premium is paid out of fund 10, function 292000, object 290 during the period in which they are retired and receive that benefit

Paying For Those Future Obligations

- Option 2
- Districts may choose to set aside funds for the future payments towards the OPEB liability while employees are active.

This is governed by GASB 74

REQUIRES establishing a segregated trust fund

- WUFAR Fund 73
- Trust appoints a trustee
- These assets no longer belong to the district

What is Fund 73

•A trust fund established specifically to account for post employment benefits

Segregated fund to account for resources held in trust for post employment benefits

Established if the district creates a formal and legal trust, in accordance with

- State statutes
- Federal laws
- IRS guidelines

Considerations of whether to establish a trust?

Trust

- Assurance funds will be available for benefits
- Contribution reduces financial statement liability
- Effect on bond rating
- Retiree benefits paid from trust

Pay as you go

- No assurance funds will be available for benefits
- Fund balance set aside for benefits does not reduce financial statement liability
- Effect on bond rating
- Retiree benefits paid from operating funds

Considerations of whether to establish a trust?

Trust

- GASB 74 and 75 reporting in financial statements
- Segregation of assets
- Assets invested under WI Stat. §881.01
- Reporting at annual meeting

Pay as you go

- GASB 75 reporting in financial statements
- No segregation of assets
- Assets invested under WI Stat. §66.0603

Considerations of whether to establish a trust?

Trust

- Aid eligibility

General aid

- Contribution amount not exceeding unfunded liability plus normal cost

Categorical aid

- Contribution amount not exceeding ADC

Federal and State grants

- Contribution amount not exceeding ADC

Pay as you go

- Aid eligibility

General aid

- Benefits paid during current year

Categorical aid

- not eligible

Federal and State grants

- not eligible

What are DPI requirements when setting up a trust?

E-Mail to DPI

- Actuarial Study
- Employee benefit trust agreement
- Legal opinion
- Board approval

<https://dpi.wi.gov/sfs/finances/fund-info/employee-benefit-trust-fund>

What investment opportunities are available to the trust?

2005 Wisconsin ACT 99

- *Funds held in trust to provide for post-employment health care benefits may be invested in the same manner as is authorized for investments under §881.01, “Uniform prudent investor act”.*

Enacted into law January 4, 2006

What ALL can be in Fund 73?

- OPEB - Valued in actuarial study
 - Wide variety of benefits included
- Supplemental Stipend Type Pension - Valued in study
- Traditional Pension - Separate valuation (only a few districts have this, similar to WRS)
- Fully funded HRAs
 - Active employee current use
 - Active employee for use during retirement
- TSAs
- Prefunded Termination Benefits

Accounting For Fund 73 - OPEB

- District contributions to Trust
- Retiree contribution to Trust (if applicable)
- Payments to vendors for retirement benefits
- Implicit Rate Subsidy Payback
- **ALL SEPARATE CASH TRANSACTIONS!!**

Cash **MUST** move in full

No netting

No book entries

Must move within 30 days of year end (July 30th)

Contribution to the Trust

• **Benefits Valued in Actuary Study**

- Expensed to district Funds (10, 27, 50, 80...)
- Object Code 218 (Contribution to Employee Benefit Trust)
- Allocated across funds and functions of active employee plan members
 - By FTE or salaries
 - Amount paid in excess of ADC must be coded to function 292000
- Fund 73 OPEB Revenue Code 951
- District Funds Object 218 = Fund 73 Source 951

Determining the ADC

- **Actuarially Determined Contribution (ADC)**
 - Valued by the Actuary as part of the study
 - Used to help determine the amount to contribute to the trust
 - Impacts Aid eligibility
 - Can only receive categorical aid up to the ADC
 - ADC options table

Contribution Entry

- **Entries when the contribution is coded to Funds/Functions:**

| | | |
|------------------------------------|-------|-------|
| D: XXE 218 XXXXXX | \$XXX | |
| C: XXB 812000 Due to Other Funds | | \$XXX |
| D: 73B 714000 Due from Other Funds | \$XXX | |
| C: 73R 951 | | \$XXX |

- **Entries when cash physically moves to the trust:**

| | | |
|------------------------------------|-------|-------|
| D: XXB 812000 Due from Other Funds | \$XXX | |
| C: XXB 711000 Cash | | \$XXX |
| D: 73B 711000 Cash | \$XXX | |
| C: 73B 714000 Due from Other Funds | | \$XXX |

Contribution Entry

- Entries when the contribution is coded to Funds/Functions:

D: **XXE 218 XXXXXX**

\$XXX

C: ~~XXB 812000 Due to Other Funds~~ ————— ~~\$XXX~~

~~D: 73B 714000 Due from Other Funds~~ ————— ~~\$XXX~~

C: 73R 951

\$XXX

- Entries when cash physically moves to the trust:

~~D: XXB 812000 Due from Other Funds~~ ————— ~~\$XXX~~

C: XXB 711000 Cash

\$XXX

D: 73B 711000 Cash

\$XXX

C: ~~73B 714000 Due from Other Funds~~ ————— ~~\$XXX~~

Accounting For Fund 73 - OPEB

- **Retiree contributions to Trust**
 - Deposited to Fund 73 trust
 - Revenue Source 952
 - If the district can't directly deposit into the trust, when received, instead of a Fund 10 revenue, district should set up a Due to Fund 73 account (Function 812000).
 - This is not district revenue and should never be coded to a revenue account.

Retiree Contribution Entry

- **Entries when the contribution is coded in Fund 73:**

| | | |
|------------------------------------|-------|-------|
| D: 10B 711000 Cash | \$XXX | |
| C: 10B 812000 Due to Other Funds | | \$XXX |
| D: 73B 714000 Due from Other Funds | \$XXX | |
| C: 73R 952 | | \$XXX |

- **Entries when cash physically moves to the trust:**

| | | |
|------------------------------------|-------|-------|
| D: 10B 812000 Due from Other Funds | \$XXX | |
| C: 10B 711000 Cash | | \$XXX |
| D: 73B 711000 Cash | \$XXX | |
| C: 73B 714000 Due from Other Funds | | \$XXX |

Retiree Contribution Entry

- Entries when the contribution is coded in Fund 73:

~~D: 10B 711000 Cash~~ _____ ~~\$XXX~~

C: 10B 812000 Due to Other Funds _____ \$XXX

~~D: 73B 714000 Due from Other Funds~~ _____ ~~\$XXX~~

C: 73R 952 _____ **\$XXX**

- Entries when cash physically moves to the trust:

~~D: 10B 812000 Due from Other Funds~~ _____ ~~\$XXX~~

D: 10B 711000 Cash _____ \$XXX

D: 73B 711000 Cash _____ **\$XXX**

C: 73B 714000 Due from Other Funds _____ \$XXX

Payment of Retiree Benefits

- **Payment of Retiree Benefits from the Trust**

- Paid directly to Vendor**

- **73E-420000-991**

- District pays with Trust Reimbursing**

- **District (Fund 10) pays vendor and charges to 714000 - Due From Fund 73**
 - **NEVER AN EXPENDITURE TO DISTRICT**
 - **Trust Records a Due to Fund 10**
 - **Debit 73E-420000-991**
 - **Credit 73B-812000**
 - **Actual Cash, IN FULL, must be transited to district.**

Retiree Benefits Paid Entry

- **Entries when the benefits are paid from the general fund:**

D: 10B 714000 Due from Other Funds \$XXX

C: 10B 711000 Cash \$XXX

D: 73E 991 420000 \$XXX

C: 73B 812000 Due to Other Funds \$XXX

- **Entries when trust reimburses the general fund:**

D: 10B 711000 Cash \$XXX

C: 10B 714000 Due from Other Funds \$XXX

D: 73B 812000 Due to Other Funds \$XXX

C: 73B 711000 Cash \$XXX

Retiree Benefits Paid Entry

- Entries when the benefits are paid from the general fund:

~~D: 10B 714000 Due from Other Funds — \$XXX~~

C: 10B 711000 Cash — \$XXX

D: 73E 991 420000 \$XXX

C: 73B 812000 Due to Other Funds — \$XXX

- Entries when trust reimburses the general fund:

~~D: 10B 711000 Cash — \$XXX~~

C: 10B 714000 Due from Other Funds — \$XXX

~~D: 73B 812000 Due to Other Funds — \$XXX~~

C: 73B 711000 Cash \$XXX

Implicit Rate Subsidy

- The difference between individuals' actual incurred costs for medical coverage (i.e., incurred medical claims paid by the insurer, in the case of a fully-insured health plan) and the individuals' total premiums charged for such coverage.
- Implicit rate subsidy payback is paid to the district from the trust and reduces the healthcare costs of active employee plan members with health insurance.
 - **MUST BE ALLOCATED** to employee fund, function and project
- Even if no contribution that year, implicit rate subsidy payback applies.

Implicit Rate Subsidy Entry

- **Implicit Rate Subsidy Payback**

- Expenditure from the Trust to the District**

- **Debit 73E-420000-994**
 - **Credit 73B-711000**

- Receipt of Implicit Rate Subsidy Payback from the Trust**

- **Debit xxB-711000**
 - **Credit xxE-xxxxxx-241**

- **Fund 73 trust must pay the district IN CASH and IN FULL for the Implicit Rate Subsidy Payback.**

Defined Contribution Benefits

- **Defined Contribution not valued in an Actuary Study**
- **Contribution to trust:**
 - **Defined Contribution HRA: Expended using object 219**
 - **Active Employee Benefits: Expended using object 249**
 - **Pay As You Go Retiree Benefits: Expended using object 290**
 - **Revenue source 955 in Fund 73**
- **When the benefits are paid out of Fund 73:**
 - **Expended in Fund 73 using object 993, function 420000**

Accounting For Fund 73 - OPEB

- Sample of Activity
 - Spreadsheet on the Benefit Trust Fund page
 - Multiple tabs to guide you through the transactions
- Fund 73 - Account Descriptions
- Employee Benefit Fund Requirements

Compliance guidance – Start here if you are new
<https://dpi.wi.gov/sfs/finances/fund-info/employee-benefit-trust-fund>

How DPI requirements are audited

▶ Annual Report edits

- Amount of contribution from the district equals the revenue into the trust.

- Check: Total of object 218's (all funds) equal to Contribution in fund 73, source 951+ 953

- Did they meet one of the 3 criteria for state categorical aid (unless 1st year of the trust)?

- 1) Contribution = ADC

- 2) Contribution (73R 951) is 5% greater than the expenditures out of the trust for OPEB (73E, Objects 991 and 994)

- 3) Same as number 2 but looking at 3 years

- If it did not meet one of the criteria, not eligible for special education categorical aid and it will need to be moved to project 019.

How DPI requirements are audited

▶ Manual Report edits

- If a district has a trust, are they using it?
- **Check:** If beginning Fund Balance, are there expenditures?
- Is the implicit rate subsidy payback being done?
- **Check #1 - Auditor should check**
- **Check #2 - DPI will see if a district is using Object 994 for the Implicit Rate Subsidy Payback and if not will ask a question during the manual review.**

How DPI requirements are audited

- Manual edits continued:

Did the contribution exceed the ADC?

- **Check: Is there at least the amount in excess of the ADC in Function 292000, Object 218?**
- **Excess not eligible for categorical aid**

If a new study is due, does DPI have a copy?

- **Audit program – should be done as part of the audit**

Contribution required to be physically made within thirty days of June 30th (July 30th)

Was activity budgeted for?

Changing Benefits - Considerations

- Elimination of other post employment benefits for some or all current employees
 - Districts **CANNOT** eliminate post employment benefits to retirees. That obligation remains.
- What are the steps to be followed if OPEB trust assets exist and no future liability exists?
 - Consult the trust document for any language addressing dissolution of the trust
 - Consult with legal counsel and/or your actuary
 - Notify the School Financial Services Team

Questions?

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