

GASB 45 and Scotts Valley Unified School District



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Accountant

Who is GASB?



- An independent, private, non-profit operating body of the Financial Accounting Foundation
- Created to provide consistent standards of accounting and financial reporting amongst government entities
- Private sector counterpart known as the Financial Accounting Standards Board (FASB)

What is GASB 45?

- Statement No. 45 requires agencies to report their costs and obligations for post-employment healthcare and other post-employment benefits (“OPEBS”) or “retiree benefits”.



- Districts must disclose OPEBS as an expense and liability, and need to have actuarial valuations done to determine the unfunded liability for their financial statements.

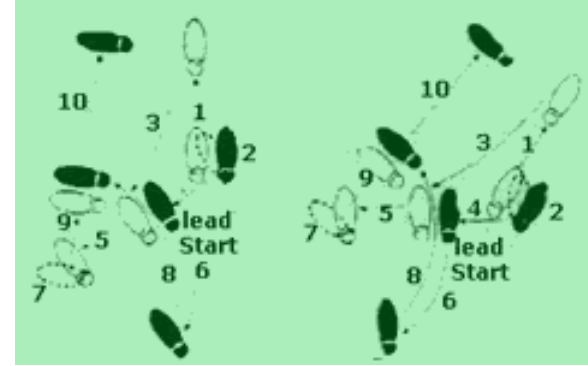
When does compliance begin?

- Compliance is determined by the size of the governmental entity's annual revenue.



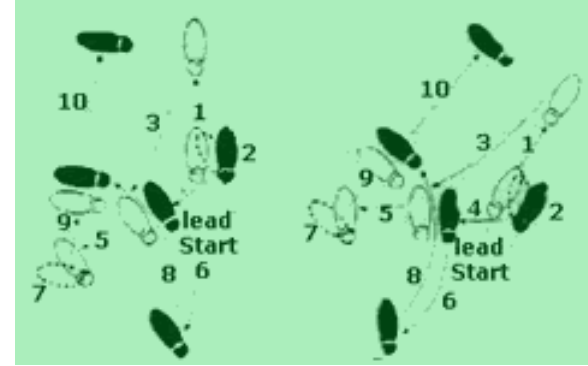
- The initial fiscal year SVUSD is required to comply with GASB 45 is 2008-2009.

Steps to Get There



- First, quantify the amount of the OPEB that must be disclosed on your financial statements by having an actuarial study performed.
 - SVUSD's OPEBS include health, dental, and vision insurance.
- Our actuarial study has been completed by Geoffrey Kischuk of Total Compensation Systems, Inc.; a complete copy has been provided to you.

Steps to Get There

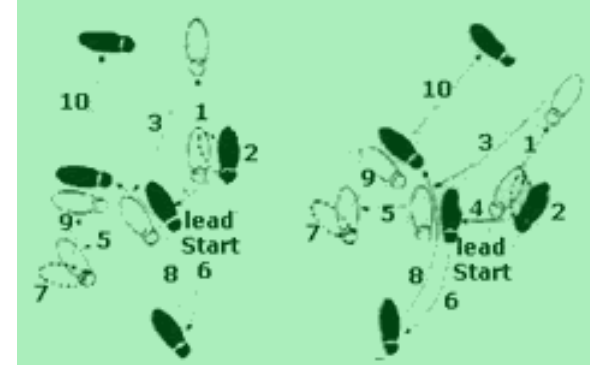


- The actuarial present value of total projected benefits for all **current** employees **and** retirees as of April 1, 2005 is estimated to be:

✓ Classified	=	\$1,358,723
✓ Certificated	=	742,707
✓ Management	=	<u>49,961</u>
- Grand Total	=	\$2,151,391

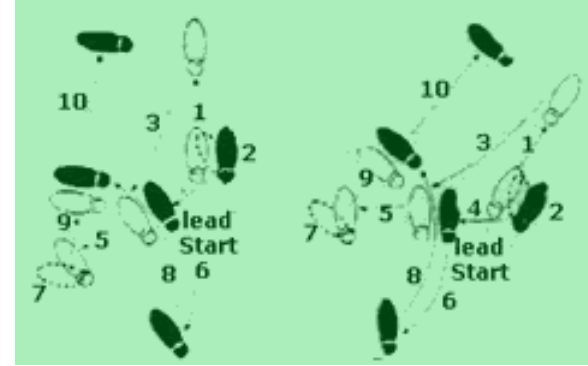
- This amount includes both past service AND future service liabilities.

Steps to Get There



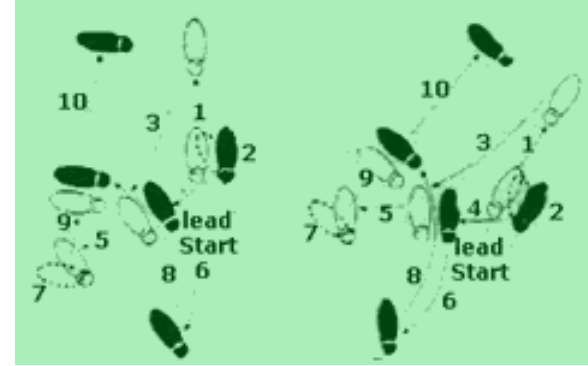
- The Actuarial Present Value of Total Projected Benefits amount of \$2,151,391 is the number we are required to disclose on our financial statements in accordance with GASB 45.

Steps to Get There Why Do We Care?



- If it's only a number on the books, why do we care?
- First, there is much discussion around how disclosing this unfunded liability would impact the District's ability to conduct future borrowing with a favorable bond rating.
- Districts may face higher debt issuance costs as their credit rating may suffer.

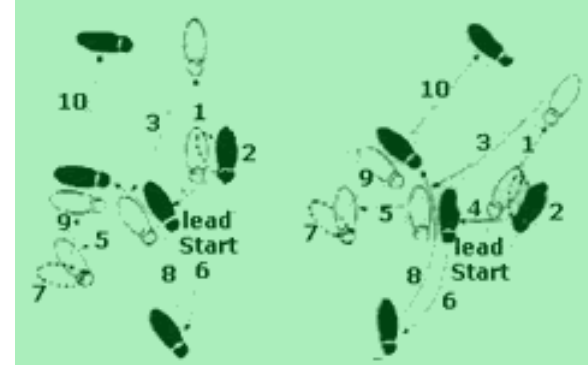
Steps to Get There Why Do We Care?



➤ If it's only a number on the books, why do we care?

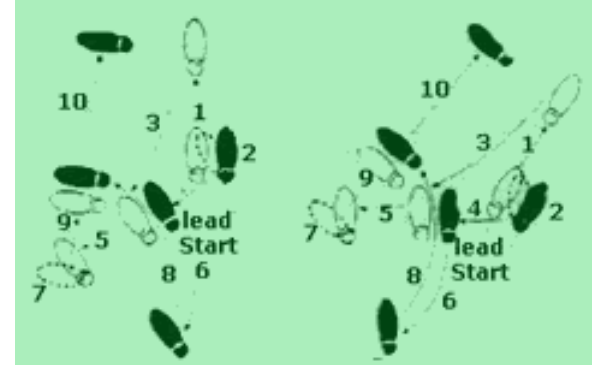
- Second, while the current language in GASB 45 requires disclosure of this amount, it does not address funding requirements.
- “Those who know” say that legislation is in the works that will require funding to begin, perhaps in the next five to seven years.

Steps to Get There Why Do We Care?



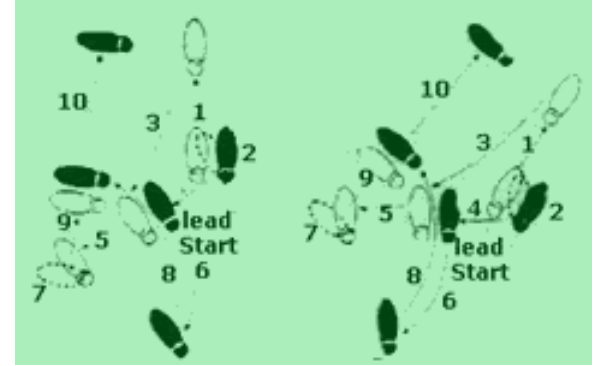
- If it's only a number on the books, why do we care?
- Finally, the sooner we begin funding it, the less the liability will grow.

Steps to Get There



- What are we doing now?
 - We are currently paying for our existing retirees using the “Pay-As-You-Go” method. This means we pay the amount that is due (premiums) for each year, but have not accumulated the funds necessary to pay off the liability determined by the actuarial study. Liken this method to paying the “minimum due” amount each month on your credit card.
- In the year beginning April 1, 2005 the estimated cost of providing retiree health benefits was \$79,761 and is thought to increase an average of 7.6% annually over the next ten years.

Steps to Get There



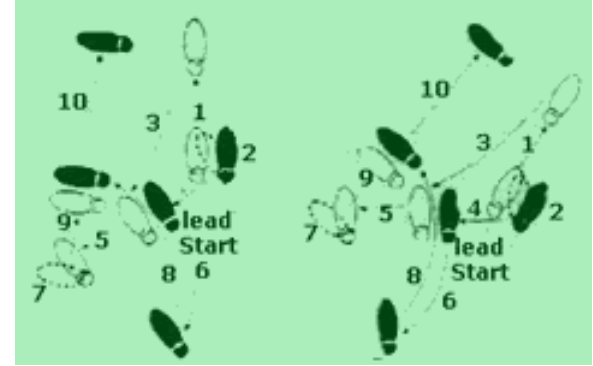
- For all current employees, the total value of benefits “accrued” starting in April 2005 was \$28,264. This is referred to in the study as the Normal Cost.
- This Normal Cost would increase each year based on covered payroll.
- Had the district recorded the retiree health benefit liability when each current employee and retiree was hired, the estimated total liability would be \$1,946,074.

Steps to Get There



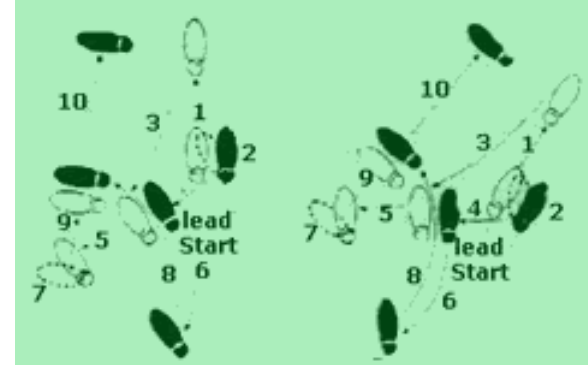
- The calculated cost of the Unfunded Actuarial Accrued Liability (\$1,946,074) over 30 years at 5% interest would be \$86,197 annually.
- Remember – the \$2,151,391 is the estimated Net Present Value of all future retiree health benefits for all current employees and retirees.

Steps to Get There



- By combining the Normal Cost and the unfunded Actuarial Accrued Liability amount, we would have a first year Annual Required Contribution (ARC) amount of \$114,461.
- This amount would be **in lieu of** (rather than in addition to) the Pay-As-You-Go amount currently at \$79,761.

Steps to Get There



● ADD Normal Cost	\$ 28,264
(value of benefits for current employees)	
● PLUS Unfunded Actuarial Accrd Liab	<u>86,197</u>
(amount accrued over 30 years)	
● EQUALS Annual Required Contribution	\$114,461
● Current Pay-As-You-Go Method	<u>79,761</u>
ADDITIONAL COST OF GASB 45	\$ 34,700

To Recap

- It's important to remember that GASB 45 requires employers to REPORT their OPEB liability; it does not, however, require FUNDING of this liability *at this time!*
- A strategy will need to be devised by the District to address the unfunded liability. Planning NOW is important, because waiting to address the funding will dramatically reduce our fiscal options.
- It is recommended that the District conduct revised Actuarial Studies no less than every three years to ensure accurate evaluations.

