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FINANCE AND BUDGET COMMITTEE
NOVEMBER 16, 2006

SUBJECT: GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NUMBER 45

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file this report of the status of GASB 45 implementation.

ISSUE

GASB 45 is the new accounting standard affecting governmental employers who provide retirees other post employment benefits (OPEB) such as medical, dental and life insurance, but not pension benefits. GASB 45 does not mandate the approach to setting aside cash, "funding strategy," to provide the future benefits. We will implement all of the accounting requirements of GASB 45 so that our financial statements will continue to be in full compliance with generally accepted accounting principles (GAAP).

POLICY IMPLICATIONS

GASB 45's basic concept is to recognize the cost of an employee's OPEB during the period of service. As defined in the standard, a significant expense recognizing the past and future costs of providing OPEB benefits is required to be recorded annually. In the case of our defined benefit plans, this annual cost is the actuarially required contribution (ARC). There are funding strategy options that affect the computation of future ARCs and future amounts of budgetary resources required depending on how much and what types of financing procedures are implemented. The impacts of the funding strategy adopted will be reflected in our audited financial statements and may affect the perception of those who read them.

DISCUSSION

In anticipation of the July 2008 implementation requirement, we engaged Mercer Human Resource Consulting to provide a detailed report for "Planning for GASB 45 Reporting and Related Issues." Mercer prepared an actuarial analysis of the 2005 OPEB obligation. They estimated the present value of future OPEB benefits to be $937 million. Mercer found that the ARC expense for FY2005 would have been $68 million. Our budgeted cost, "pay-as-you-go" basis, in 2005 for these retiree benefits was $11 million.

The ARC is the cost benefits earned by current employees during the period plus amortization of unfunded past liabilities for both current and future retirees. Our current practice is to budget only the payments to be made in the budget year on behalf of estimated actual retirees.

The funding strategy to minimize future ARCs would be to set aside cash in the amount of the ARC each year into an irrevocable trust. Monies in the trust could then only be used for OPEB purposes. The trust assets would be legally protected from creditors and the Board would have no further discretion over the use of those assets. This option requires substantially more cash resources than anticipated in the 10-Year Forecast presented to the Board in October.

Retaining a pay-as-you-go strategy would result in significantly higher future ARCs since there would be no monies on deposit to earn interest to offset future costs. The entire liability would be disclosed in the financial statements as "unfunded" unless monies are deposited into an OPEB trust.

Mercer has been engaged to perform the GASB 45 required actuarial study based on our employee and retiree population as of January 1, 2007. The UTU and TCU health and welfare funds have agreed to provide data regarding their plan participants. Metro staff administers these benefits for all other employee groups. Mercer will provide its report by summer 2007 in time for our accounting implementation. However, we will need to develop FY08 budget parameters before the report can be completed.

NEXT STEPS

- Survey other peer agencies to determine expected funding strategies.
- Recommend a funding strategy in the context of the FY08 Budget Planning Parameters to be presented to the Board in January 2007.
- Report the final results of the 2007 actuarial study in summer 2007.

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Executive Officer, Finance and Treasurer

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