New Policies in the World of Pensions

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OPERS Implementation Preparation and Experience with the new GASB Standards

- OPERS Background
- OPERS Participation in the GASB Rule-Making Process
- OPERS Mock Implementation
- Key Issues
- Education and Communication Plan
- OPEB
OPERS Background

• Ohio Public Employees Retirement System is a multiple-employer, cost-sharing system

• Assets of $90 billion

• Over 3,700 employers with different year-ends representing all months

• 82% funded with remaining liability expected to be financed within 24 years

• Substantial pension reform completed in 2012, resulting in net reduction in liability of $3.9 billion

• Fixed statutory contribution rate: 10% member / 14% employer (non-Social Security state)

• Consistently funded the ARC
OPERS Participation in GASB Rule-Making Process

OPERS has history of actively participating in rule-making process:

• Commented back to GASB during all opportunities (Preliminary Views, Invitation to Comment, Exposure Draft)

• Testified (Invitation to Comment and Exposure Draft)

• Created template for OPERS employers to provide comment to GASB (Ohio had over 200 responses to GASB)

• Participated in GASB field test

• Participated in national finance organization Public Pension Financial Forum (P2F2), providing written response and testimony
Following GASB’s issuance of the final standards, OPERS completed full mock implementation of the new standards using prior year-end (12/31/12) financial reports.

Goals of Mock Implementation:

• Develop a complete understanding of the standard
• Identify the required data elements – both OPERS and our employers
• Identify the actuarial issues and valuation timing issues
• Identify the implementation “gaps” and communicate to GASB for consideration in their implementation
• Identify audit issues
• Understand employer impact
• Develop education and communication plans
Mock Implementation Results

Project identified issues and allowed us to lead resolution of issues:

- Identified issues (proportionate share, cash basis reporters, multiple systems, decimal point, beginning balance)
- Created position paper (to GASB, industry)
- Full journal entries – for employers
- Financial statement mock up:
  - Allocation to employer
  - Employers created mock up financial statement
- Actuary finalization (modified timing of valuation)
- Auditor finalization (coordination of audits and audit report issues)
- Developed education and communication approach
Mock Implementation Results

These outcomes allowed us to develop coordinated education and communication approach

• Employers
  – Educate on standard and impact on their reporting
  – Understand their concerns (largely focused on understanding, volatility and access to debt)
  – Answer their questions about how and when we will provide data
  – Current concerns revolve around audit approach

• Auditors
  – AICPA white paper
  – Auditor of State coordinated audit approach

• Legislators, Media and Others
  – Understanding of the impact of the standards
## OPERS Mock Implementation Results

### Test Employers – Sample Impacts

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<tr>
<th>Revenues</th>
<th>Disbursements</th>
<th>Net Income</th>
<th>Net Position</th>
<th>Pension Expense</th>
<th>Net Pension Liability</th>
<th>Deferred Inflows</th>
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</table>
Implementation Impacts

• Addition of significant liability and expense to employers financial statements – not related to employer’s obligation to fund

• Increased disclosure and accounting requirements

• Increased volatility

• Communication to stakeholders

• Bond rating

• Budgeting
OPERS GASB Education Activities

Multi-faceted approach developed to assist all learning styles – all levels of financial knowledge

• Employer-specific outreach
  – **Educational series**: Began November 2013 – archived and enhanced through implementation in 2015
  – Continues in 2014
  – Executive Track and Operational Track
  – Topic Specific Webinars (15)
  – **Online**
    ✓ Employer Forum for shared experiences
    ✓ Secure transfer of data
    ✓ Q&A ([gasboutreach@opers.org](mailto:gasboutreach@opers.org))

• Development of talking points to assist employers
OPERS GASB Education Activities

• Education Plan

  - Legislators
    - HCR 40 (unanimous passage)
    - Briefings to Ohio General Assembly and staff

  - Auditor
    - Coordination and communication

  - Media/Other
    - Discussions with rating agencies
    - Discussions with banks
    - Media preparation
Implementation Involvement Drives Results

- GASB Implementation Guide
- Audit Approach
- Education
- Framing of Issue
- Minimize employer concerns
- Minimize legislator concerns
- Impact on rating agencies
- Issue leader
Other Postemployment Benefits (OPEB)

- In late May, the Governmental Accounting Standards Board (GASB) issued two proposed standards (Exposure Drafts) changing the accounting and financial reporting requirements for the cost of postemployment benefits other than pensions (Other Postemployment Benefits or OPEB)

- For OPERS participating employers, this impacts health care reporting
GASB’s Perspective on OPEB:

The intent of the proposed standards is the same as the pension standards issued in June 2012 (GASB 67 and 68):

• Enhance the transparency of OPEB-related information in financial reports

• Improve accountability

• Standardize actuarial valuation practices
GASB’s Perspective:

• Other postemployment benefits, including health care, are a component of the compensation package.

• To the extent the system providing the benefit is not 100% funded, employers have a liability for the unfunded portion of the health care earned by their employees to date.

• Employers should recognize this unfunded health care liability in their financial statements.
OPERS Health Care Background:

- OPERS has funded health care since 1974
- $13 billion trust – one of the largest health care trusts in the US
- 64% funded
- Solvency years – expected to last current members’ lifetime
- Approximately 5 major health care plan revisions in the last 12 years
- Most recent health care plan change reduced liability by $12.1 billion
OPERS’ Perspective:

- Health care in Ohio is discretionary and thus has been subject to significant modifications. OPERS’ goal is to provide health care coverage that can be supported with existing funding.

- Pension issues differ from health care issues – i.e. use of same allocation methodology as pension has significant issues relative to health care.

- OPERS will testify to the GASB in September with concerns over the exposure drafts.
OPEB Communication Issues

- Proposed standards modify the accounting requirements for financial reporting
- Current GASB proposal adds more significant liabilities to employers
- Responsibility for funding the health care liability has not changed and remains with OPERS
- OPERS actuary projections reflect that current funding structure will provide sufficient resources to appropriately fund health
- OPERS is committed to partnering with employers to provide comments to the GASB on the Exposure Drafts by August 29, 2014, the due date of comment letters
Questions?