



## **Agenda Item 7**

August 14, 2012

**ITEM NAME:** CalPERS Other Post-Employment Benefit Actuarial Assumptions Model

**PROGRAM:** Actuarial Office

**ITEM TYPE:** Action

### **RECOMMENDATION**

Staff recommends the adoption of the proposed Other Post-Employment Benefit (OPEB) Assumptions Model (Attachment 1) for cost reports dated after August 15, 2012.

### **EXECUTIVE SUMMARY**

Staff recommends adopting revisions to the existing California Public Employees' Retirement System (CalPERS) OPEB Assumptions Model to provide greater flexibility to employers and their actuaries in the preparation of OPEB cost reports to comply with Governmental Accounting Standards Board (GASB) Statements 43, 45, and 57.

Staff proposes to eliminate specific values from the OPEB Assumptions Model used by the California Employers' Retiree Benefit Trust (CERBT) employers to prepare their biennial OPEB valuation cost reports. Under the proposed OPEB Assumption model, CERBT employers would continue to be required to comply with Actuarial Standards of Practice (ASOP) and with Governmental Accounting Standards Board (GASB) Statements. However, if the proposal is approved, then participating employer OPEB valuations dated after August 15, 2012, would not be required to adhere to a specific set of actuarial methods and assumptions as described in the current CalPERS OPEB Assumptions Model.

A copy of the proposed OPEB Assumption Model can be found in Attachment 1. A copy of the current OPEB Assumption Model can be found in Attachment 2.

### **BACKGROUND**

Accounting Standards require that CalPERS include information on the liabilities for benefits being funded in the CERBT. CalPERS requires the participating employers to provide this information as part of participating in the program. The existing OPEB Assumptions Model (hereafter called the Model) describes a set of values for actuarial assumptions acceptable for this purpose. The Model was established when the CalPERS Board of Administration established the CERBT to ensure consistency of the information included in our financial statements. The CERBT has

grown to more than 300 participating employers with \$14 billion in measured liabilities.

Since the time the Model was originally adopted by the Board, GASB added another accounting standard and published guidance that required more flexible OPEB assumptions than those included in the Model. These GASB changes have reduced the comparability and uniformity of the aggregated financial results reported by CalPERS in the Notes and Required Supplemental Information of its annual financial statements. As a result, the Model has been modified three times over the last few years (2007, 2008 and 2011) in part to accommodate these changes to accounting standards.

### **ANALYSIS**

The CERBT is dedicated to pre-funding the OPEB liabilities of participating employers. The CERBT annual financial report must comply with governmental accounting standards.

GASB guidance has made clear that participating employers are responsible for measuring, reporting and pre-funding OPEB liabilities. Participating CERBT employers and the CalPERS Board divide financial reporting responsibilities much differently than the division between the Board and employers that participate in the Public Employees Retirement Fund (PERF). In the CERBT, the employer measures the OPEB liability and determines the employer's pre-funding policy. In the PERF, the CalPERS Board measures the pension liability and determines the employer's pre-funding policy.

The CalPERS OPEB Assumptions Model was intended to support comparability of the OPEB liabilities reported by participating CERBT employers. However, that intention is not achievable in part due to the fact that GASB has issued guidance the last few years that employers were not required to use a single set of actuarial assumption values and methods in measuring their OPEB liabilities. In its current form, the Model does not enhance the ability of CalPERS to comply with OPEB financial reporting requirements, and it does not improve measurably the quality of CalPERS financial reporting. The GASB accounting standards oblige CalPERS to aggregate the financial reporting results of CERBT employers, which in part are based on assumptions, methods, time periods, and liability sources that are incommensurate.

Given that accounting standards limit the consistency of the information that will be reported, a move away from requiring the use of specific actuarial assumption values and methods for the measurement of OPEB liabilities will simplify the model without significantly reducing the quality of reporting. The proposed model recommends the use of the actuarial assumptions and methods used in actuarial valuations of the agency's pension plans, but does not require them. We will

continue to provide access to a complete listing of all the actuarial assumptions currently in use for actuarial valuations of pension plans at CalPERS. This information is available through the CalPERS website.

The proposed Model, if adopted, will be consistent with potential upcoming changes to accounting standards. GASB recently substantially revised the pension accounting and reporting requirements. Similar revisions of OPEB accounting and reporting requirements are scheduled to follow. Staff expects the GASB to apply the logic of the new pension reporting requirements published in June 2012, to the new OPEB reporting requirements expected in June 2014.

This proposed change has been reviewed and accepted by the staffs of the Actuarial Office, the Office of Audit Services, the CERBT Program, the Fiscal Services Division, and the CalPERS External Auditor (Macias Gini & O'Connell LLP).

The effective date of this proposed change has been set to August 15, 2012, after the close of the first fiscal year of the biennial valuation cycle required under GASB Statement No. 57. This date was chosen in order to underscore that CalPERS does not require employers to recognize the Model changes sooner than the next scheduled valuation report dated June 30, 2013.

### **BENEFITS/RISKS**

The benefit of the recommended action is that employers will gain greater latitude to use actuarial assumptions best suited to their specific OPEB plan condition. The recommended action will align the CalPERS OPEB Assumption Model more completely with the intention of Governmental Accounting Standards. Furthermore, it will simplify the model and require less staff and Board time to keep it up to date.

The risk of the recommended action is that there may be slightly less internal consistency in the financial information that is aggregated on our financial statements. In addition, some employers may prefer to rely on the required assumptions of the current model. We will continue to provide recommended assumption values, which we believe, will provide adequate support to employers who wish for CalPERS guidance in this matter.

### **ATTACHMENTS**

Attachment 1 – Proposed OPEB Assumptions Model

Attachment 2 – Current OPEB Assumptions Model

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