

Projection of the GASB 75 Actuarially Determined Contribution (ADC)

Table 1 presents a five-year projection under the assumptions that **there are no plan changes, the District contributes according to the Funding Policy**, the Fund earns 7.28% per year, the discount rate remains 7.28% and the Normal Cost component of the ADC increases by 5.00% per year throughout the five-year period. We assumed mid-year benefit withdrawals from the Trust.

	2018/19	2019/20	2020/21	2021/22	2022/23
Actuarial Accrued Liability (AAL)	\$3,729,202	\$3,872,140	\$4,036,454	\$4,215,052	\$4,388,403
Actuarial Value of Assets at beginning of year	<u>1,175,071</u>	<u>1,336,759</u>	<u>1,526,045</u>	<u>1,736,370</u>	<u>1,948,770</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$2,554,131	\$2,535,380	\$2,510,409	\$2,478,682	\$2,439,633
Remaining Amortization Period	21	20	19	18	17
Calculation of ADC under GASB 45 ARC Rules					
Normal Cost	\$99,929	\$104,925	\$110,171	\$115,680	\$121,464
Amortization of UAAL	<u>194,174</u>	<u>198,690</u>	<u>203,275</u>	<u>207,925</u>	<u>212,634</u>
Actuarially Determined Contribution (ADC)	\$294,103	\$303,615	\$313,446	\$323,605	\$334,098
Calculation of Contribution under Funding Policy					
Estimated Pay-go	\$180,780	\$182,693	\$185,953	\$201,087	\$197,882
Implicit Rate Subsidy ¹	39,809	32,127	31,691	39,494	29,809
Estimated Trust Contribution	<u>73,514</u>	<u>88,795</u>	<u>95,802</u>	<u>83,024</u>	<u>106,407</u>
Funding Policy Contribution	\$294,103	\$303,615	\$313,446	\$323,605	\$334,098

GASB 75 was effective with the 2017/18 fiscal year. Although GASB 75 is not a funding method, it includes disclosure of an Actuarially Determined Contribution or ADC, which can be the GASB 45 ARC. The table above shows what this methodology would look like under the new GASB 75 rules. Note that under GASB 75, the annual expense calculation does not include an “Adjustments to the ARC.” As a result, your funding policy would necessarily change from “Contributing the Annual OPEB Expense (or Cost)” to “Contributing the ADC (or ARC)”.

¹ If you don't transfer this from Active Benefit Expense to OPEB accounting, then this amount should be contributed to the trust in cash.

Projection of the GASB 75 Actuarially Determined Contribution (ADC)

Table 2 presents a five-year projection under the assumption that a plan amendment effective June 30, 2019 occurs to remove the \$125/month required employee contributions and to impose caps at 100% of the 2019 Kaiser Bay Area premiums. These caps are not assumed to increase in the future.

Table 2					
Kensington Police Protection District – Freeze at 100% of 2019 Kaiser Bay Area					
Five-year Projection of Contributions					
Based on a 7.28% discount rate and EAN method					
	2018/19	2019/20	2020/21	2021/22	2022/23
Actuarial Accrued Liability (AAL)	\$3,729,202	\$2,785,100	\$2,805,239	\$2,836,734	\$2,861,319
Actuarial Value of Assets at beginning of year	<u>1,175,071</u>	<u>1,336,759</u>	<u>1,434,075</u>	<u>1,538,476</u>	<u>1,650,477</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$2,554,131	\$1,448,341	\$1,371,164	\$1,298,258	\$1,210,842
Remaining Amortization Period	21	20	19	18	17
Calculation of ADC under GASB 45 ARC Rules					
Normal Cost	\$99,929	\$53,999	\$56,699	\$59,534	\$62,511
Amortization of UAAL	<u>194,174</u>	<u>113,502</u>	<u>111,027</u>	<u>108,905</u>	<u>105,535</u>
Actuarially Determined Contribution (ADC)	\$294,103	\$167,501	\$167,726	\$168,439	\$168,046
Calculation of Contribution under Funding Policy					
Estimated Pay-go	\$180,780	\$196,319	\$189,813	\$193,633	\$182,959
Implicit Rate Subsidy ¹	39,809	32,127	31,691	39,494	29,809
Estimated Trust Contribution	<u>73,514</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Funding Policy Contribution	\$294,103	\$228,446	\$221,504	\$233,127	\$212,768

GASB 75 is effective with the 2017/18 fiscal year. Although GASB 75 is not a funding method, it includes disclosure of an Actuarially Determined Contribution or ADC, which can be the GASB 45 ARC. The table above shows what this methodology would look like under the new GASB 75 rules. Note that under GASB 75, the annual expense calculation does not include an “Adjustments to the ARC.” As a result, your funding policy would necessarily change from “Contributing the Annual OPEB Expense (or Cost)” to “Contributing the ADC (or ARC)”.

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Projection of the GASB 75 Actuarially Determined Contribution (ADC)

Table 3 presents a five-year projection under the assumption that a plan amendment effective June 30, 2019 occurs to remove the \$125/month required employee contributions and to impose caps of 90% of the 2019 Kaiser Bay Area premiums. These caps are not assumed to increase in the future.

Table 3					
Kensington Police Protection District – Freeze at 90% of 2019 Kaiser Bay Area					
Five-year Projection of Contributions					
Based on a 7.28% discount rate and EAN method					
	2018/19	2019/20	2020/21	2021/22	2022/23
Actuarial Accrued Liability (AAL)	\$3,729,202	\$2,615,204	\$2,637,668	\$2,670,795	\$2,697,243
Actuarial Value of Assets at beginning of year	<u>1,175,071</u>	<u>1,336,759</u>	<u>1,434,075</u>	<u>1,538,476</u>	<u>1,650,477</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$2,554,131	\$1,278,445	\$1,203,593	\$1,132,320	\$1,046,767
Remaining Amortization Period	21	20	19	18	17
Calculation of ADC under GASB 45 ARC Rules					
Normal Cost	\$99,929	\$51,282	\$53,846	\$56,538	\$59,365
Amortization of UAAL	<u>194,174</u>	<u>100,188</u>	<u>97,458</u>	<u>94,985</u>	<u>91,234</u>
Actuarially Determined Contribution (ADC)	\$294,103	\$151,470	\$151,304	\$151,523	\$150,599
Calculation of Contribution under Funding Policy					
Estimated Pay-go	\$180,780	\$179,509	\$173,705	\$177,278	\$167,731
Implicit Rate Subsidy ¹	39,809	32,127	31,691	39,494	29,809
Estimated Trust Contribution	<u>73,514</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Funding Policy Contribution	\$294,103	\$211,636	\$205,396	\$216,772	\$197,540

GASB 75 is effective with the 2017/18 fiscal year. Although GASB 75 is not a funding method, it includes disclosure of an Actuarially Determined Contribution or ADC, which can be the GASB 45 ARC. The table above shows what this methodology would look like under the new GASB 75 rules. Note that under GASB 75, the annual expense calculation does not include an “Adjustments to the ARC.” As a result, your funding policy would necessarily change from “Contributing the Annual OPEB Expense (or Cost)” to “Contributing the ADC (or ARC)”.

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Projection of the GASB 75 Actuarially Determined Contribution (ADC)

The Districts Funding Policy as of 6/30/17:

Your funding policy is to fund the full Actuarial Determined Contribution (ADC), which includes:

- Pay-go (Explicit retiree benefit costs)
- Implicit rate subsidy (Transfers of a portion of employee benefit expense to OPEB)
- Trust contribution (Calculated as the ADC less the above two amounts, but no less than zero)

Trust Contribution Budgeting

While there is no requirement to prefund OPEB, doing so is an effective way to manage your benefit policy and cash flow. Unlike GASB 45, GASB 75 is purely an accounting method and not an actuarial method. It is noted, however, that GASB 75 has Required Supplementary Information that includes an Actuarially Determined Contribution (ADC). While an organization can choose not to calculate and disclose an ADC, we recommend those prefunding their plans do so.

The GASB 45 ARC can be considered an ADC. We recommend the District use the ARC methodology (with certain adjustments) as their ADC, since your GASB 75 amortization and normal cost calculation methods will be similar to what was used under GASB 45. This brings consistency to your ongoing dialogue with your financial statement users, Board, and other stakeholders.

It is preferable to pass all amounts through the trust for documentation purposes. In other words, the District should consider a policy of making the full ADC contribution to the trust, paying benefit payments from the trust, and reimbursing the District from the trust for any Implicit Rate Subsidy contributions transferred from active benefit costs.

Funding Valuations

If the District fully funded the plan on a GASB 75 basis at 7/1/17, a funding policy could be to fund the GASB 75 annual expense each year regardless of the cash flow volatility this approach may cause. Absent this approach, the District should consider performing a funding valuation to determine the ADC. Calculating the ADC can be a byproduct of the GASB actuarial valuation work we do as long as the actuarial methods and assumptions are the same. Because Nicolay was using assumptions under GASB 45 that are still acceptable under the new GASB 75 rules, we'd propose the District be reticent in making a change, with the exception of the changes associated with an overfunded plan. This approach promotes consistency and does not introduce new complexities. However, there are certain things you may want to change that do not introduce some complexity.

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Changes to ARC Methodology to Consider for your ADC

Generally, for pre-funded plans the funding policy is to fund the full ADC and so the ADC is the cash flow related to this plan. Reducing volatility in the ADC for an underfunded plan can be achieved effectively through managing your amortization period and/or asset smoothing techniques.

Amortization Method: GASB 75 amortizes asset gain/loss over 5 years, liability experience and assumption change gain/loss over a variable period of roughly 5-10 years, and immediately recognizes plan amendment gain/loss and your initial unfunded. Under the GASB 45 methodology, the District was amortizing all of these items over a closed 30 year period. The District should think about how long it wants to amortize the initial unfunded (or overfunding) at 7/1/17 (Stay with current GASB 45 23-year period? Restart closed 30-year period? Other?). Also, the District should consider how it wants to treat future gain/loss (Stay with current GASB 45 23-year period? Switch to GASB 75 periods? Use an open 10-year period for all types of gain/loss? Other?).

Asset Smoothing: GASB 75 calculates the unfunded liability using market value of assets. However, equity risk can result in significant asset volatility, which can result in volatile unfunded. To mitigate this volatility, the District can continue its 5-year asset smoothing method, which recognizes gain/loss for any one year systematically over the smoothing period. Common smoothing periods are 3-5 years in length.

Frequency of Funding Valuations

Performing a funding valuation at the same time as your GASB 75 valuation (i.e., every 2 years) streamlines costs by limiting data collection and analysis. Alternatively, they can be performed every year, every 4 years, or on an ad-hoc basis as needed. Our funding valuation reports will contain an ADC funding projection for up to 5 years, although caution should be exercised with utilizing these projected amounts as your ADC beyond 2 years.