

## February 2010

The following news summaries were developed by Gabriel, Roeder, Smith & Company to inform clients and other benefit professionals of news in the benefits industry. Our thanks to Mary Ann Vitale for her diligent work on this issue. To receive this publication electronically, send an email to [web.admin@gabrielroeder.com](mailto:web.admin@gabrielroeder.com) with “SUBSCRIBE NEWS SCAN” in the subject line. To stop receiving this publication electronically, send “UNSUBSCRIBE NEWS SCAN” in the same manner. Copies of this and other benefit-related publications are available on the GRS website at [www.gabrielroeder.com](http://www.gabrielroeder.com).

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### **GASB Issues Statement No. 57 for Agent Multiple-Employer OPEB Plans and Agent Employers**

On December 31, 2009, the Governmental Accounting Standards Board (GASB) released Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. OPEB plans are plans that provide “other postemployment benefits” which largely consist of health care benefits for retirees. Agent multiple-employer OPEB plans are collections of individual-employer OPEB plans that have grouped together to share administrative and investment costs, but maintain separate benefits and determine contribution rates through separate valuations. An employer participating in an agent multiple-employer plan is referred to as an “agent employer.”

**Alternative Measurement Method.** In 2004, the GASB released its OPEB accounting rules as Statement Nos. 43 and 45.<sup>1</sup> In the rules, the GASB required that the OPEB costs and liabilities presented in state and local government financial reports be determined through actuarial valuations. However, for individual employers with OPEB plans covering fewer than 100 total members, the GASB allowed an “alternative measurement method” to be used as a simplified approach for small plans that could have difficulty affording an actuarial valuation. The GASB also allowed agent employers with fewer than 100 total members to use the alternative method, but only if the total members covered by the agent multiple-employer OPEB plan was also less than 100. Statement No. 57 changes this rule, and now allows agent employers covering fewer than 100 total members to use the alternative method, regardless of the number of members covered by the agent multiple-employer OPEB plan.

**Frequency and Timing of Measurement.** The GASB’s OPEB rules generally require OPEB valuations to be done at least once every two years for financial reporting purposes. However, for OPEB plans with fewer than 200 members, the standards allow valuations to be done at least every three years. This presented an issue for agent employers with fewer than 200 members in agent multiple-employer OPEB plans with 200 or more members, since the employer was allowed to measure OPEB benefits every three years, whereas the agent multiple-employer plan was required to measure them every two years.

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<sup>1</sup> GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

To address the issue, the GASB was asked clarify that agent employers with fewer than 200 members were allowed to measure OPEB benefits every three years, regardless of the measurement period used by the agent multiple-employer OPEB plan. However, the GASB rejected this suggestion, reasoning that it could result in aggregated measurements of agent multiple-employer OPEB costs and liabilities based on different dates. Consequently, Statement No. 57 clarifies that these measures should be determined for the employers and the plan as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements.

The provision allowing agent employers covering fewer than 100 members to use the alternative measurement is effective immediately. The provision requiring coordination of the frequency and timing of measurements in agent multiple-employer OPEB plans is effective for financial statement periods beginning after June 15, 2011, with earlier implementation encouraged.

GASB Statement No. 57 may be ordered from the GASB website at: [www.gasb.org](http://www.gasb.org)

### **NIRS Releases Pension Resource Guide**

In January 2010, the National Institute on Retirement Security (NIRS) released its "Pension Resource Guide," developed to provide information for employers, taxpayers, employees and retirees regarding the role of public pensions in the U.S. economy. With over \$2.6 trillion in assets, state and local government pension plans add to the U.S. economy by providing over \$163 billion annually in retirement benefits to 7.5 million public retirees and beneficiaries. According to NIRS, state and local pension expenditures support 2.5 million American jobs and \$358 billion in national economic output.

The guide includes three educational modules which highlight the importance of public pensions. The first module, "Public Pension Basics," provides an overview of public pension plans and key facts about benefits, funding, and investment policies. The second module, "Why Pensions Matter" identifies the significant advantages provided by pension plans, including: (1) providing employers with an effective tool for recruiting and retaining employees; (2) providing employees with a secure retirement; (3) offering an economically efficient and prudent means of investing funds; and (4) positively impacting local economies and capital markets. The third module, "Strong Public Pensions for Today and Tomorrow" presents practices which may improve the sustainability of public pension plans through the effective integration of benefits, funding, and investment policies. Additional materials provided on the NIRS website include:

- A Pension Primer
- Glossary of Key Terms
- PowerPoint Presentation
- Frequently Asked Questions (FAQ)

The resources are available at:

[http://www.nirsonline.org/index.php?option=com\\_content&task=view&id=338&Itemid=116](http://www.nirsonline.org/index.php?option=com_content&task=view&id=338&Itemid=116)

### **Survey Finds State and Local Governments Are Making Workforce and Benefit Changes Due to Recession**

On January 26, 2010, the Center for State and Local Government Excellence released its survey report, *The Great Recession and the State and Local Government Workforce*. Based on responses from about 400 human resource and state personnel executives, the survey indicates that many state and local governments have implemented workforce changes due to the recession. According to the report, hiring freezes have been implemented by 67% of the respondents; pay freezes by 63%; layoffs by 41%; and furloughs by 30%. However, of the governments that have implemented furloughs, only 61% have achieved their estimated savings.

Additionally, 21% of the respondents reported having made one or more changes to their retirement plans. Approximately 18% increased employee contributions; 8% increased the years required to vest in pension benefits; and 5% replaced their defined benefit plan with a defined contribution plan. For the most part, the changes did not affect current workers. The survey also found that 46% of the respondents reported that the economy is causing retirement-eligible employees to postpone their retirement.

Approximately 50% of the respondents reported having made changes to health care benefits. Of those that did: 69% increased employee contributions; 23% reduced benefits; and 10% decreased employer contributions. Other changes include: increasing years of service required to vest in health care benefits; adding wellness programs; providing 24-hour nursing advice; and paying employees to opt out of health care coverage if they have access to coverage elsewhere (e.g., through a spouse).

The report also indicates that while state and local governments will likely face fiscal constraints for at least two more years, they are also having difficulty filling critical positions in engineering, skilled trades, information technology, health care, finance, law enforcement, and senior management.

The survey results are based on 396 respondents from among the 8,400 members of the International Public Management Association for Human Resources (IPMA-HR) and the National Association of State Personnel Executives (NASPE). Of the members who responded to the online survey, 78% represent local governments; 14% state governments; 3% the federal government; and 5% were outside the government sector.

The survey is available at: <http://op.bna.com/gr.nsf/r?Open=llbe-825mfe>

### **NCSL Reports on State Retirement System Defined Contribution Plans**

In September 2009, the National Conference of State Legislatures (NCSL) released its report *State Retirement System Defined Contribution Plans*. The report is based on the NCSL's summaries of annual state pensions and retirement legislation in addition to information collected from individual retirement systems. The report provides short summaries of plans by state and is organized by the type of defined contribution plan.

Part 1 presents state defined contribution plans that provide primary (rather than supplemental) retirement benefits and are mandatory for eligible state employees or state teachers. Part 2 presents state defined contribution plans that provide primary benefits, but that are optional for eligible employees – that is, new employees are given a choice of participating in either the defined benefit plan or the defined contribution plan. Part 3 presents state hybrid plans, which provide combined features of both defined contribution and defined benefit plans. Generally, hybrid plans maintain a defined contribution plan for employee contributions and a defined benefit plan for employer contributions.

The report does not discuss optional deferred compensation plans, such as Section 457 plans, which states offer to employees and teachers as a means of supplementing primary pension coverage. The report also does not discuss defined contribution plans that are offered to the faculty of many public colleges and universities.

The NCSL annual legislative summaries are at: <http://www.ncsl.org/default.aspx?tabid=13399>

The report is available at: <http://www.ncsl.org/Portals/1/Documents/employ/StateGovtDCPlansSept2009.pdf>

### **CalPERS Reports OPEB Liability Increased 7.5% in FY 2009**

On February 8, 2010, California Comptroller John Chiang reported that the actuarial accrued liability for other postemployment benefits (OPEBs) under the State of California's Retiree Health Benefits Program increased from \$48.2 billion in 2008 to \$51.8 billion in 2009, rising \$3.6 billion or 7.5%. Under this program, the State of California provides retired statewide employees with medical, prescription drug, and dental benefits through a self-funded defined benefit plan. The program is administered by the California Public Employees Retirement

System (CalPERS) and the Department of Personnel Administration (DPA). Currently, the benefits are paid on a “pay-as-you-go” basis as costs come due each year.

Under Governmental Accounting Standards Board (GASB) Statements Nos. 43 and 45, public employers sponsoring retiree health care benefits are required to recognize the benefit costs on an accrual basis. Under the GASB rules, the discount rate used to value the liabilities reflects the long-term expected investment return on the assets available to pay benefits. Consequently, for plan sponsors that fully fund their plans, the discount rate reflects the expected return on the plan’s diversified investment portfolio (e.g., 7.75%). For plan sponsors that finance benefits on a pay-as-you-go basis, the discount rate reflects the expected return on the short-term investments available to the employer’s general fund (e.g., 4.5%). For plan sponsors that partially fund their plans, the discount rate proportionally reflects the degree to which contributions are made to fund the plan.

The OPEB valuation report done for the Retiree Health Benefits Program as of June 30, 2009, by Gabriel, Roeder, Smith & Company (GRS), shows the valuation results assuming three alternative funding options and discount rates:

- Under the pay-as-you-go funding scenario, the state is assumed to finance retiree health care benefits from general fund assets with a 4.50% investment return. This scenario produced an actuarial accrued liability of \$51.8 billion, an annual required contribution (ARC) of \$3.9 billion, and estimated employer contributions of \$1.4 billion for FY 2010.
- Under the partial funding scenario, the state is assumed to contribute 50% of the excess of the full funding ARC over the pay-as-you-go costs, resulting in a 6.125% discount rate. This scenario produced an actuarial accrued liability of \$41.1 billion, an ARC of \$3.2 billion, and estimated employer contributions of \$2.1 billion for FY 2010.
- Under the full-funding scenario, the state is assumed to fully fund the ARC in a separate trust with a 7.75% investment return. This scenario produced an actuarial accrued liability of \$33.4 billion, ARC of \$2.8 billion and estimated employer contributions of \$2.8 billion for FY 2010.

Although the results of the actuarial valuation depend primarily on the discount rate assumption, other key assumptions also impact the results, including: assumed trends in health care costs, the likelihood that an employee retires from the state, and the likelihood that the employee elects health care coverage upon retirement.

The June 30, 2009 actuarial valuation report is available at:

[http://sco.ca.gov/press-releases/2010/opeb\\_february\\_2010.pdf](http://sco.ca.gov/press-releases/2010/opeb_february_2010.pdf)

### **Record Numbers Began Receiving Social Security Retirement Benefits in 2009**

In January 2010, the Urban Institute published a retirement policy fact sheet titled: “Social Security Retirement Benefit Awards Hit All-Time High in 2009.” The fact sheet finds that record numbers of men and women began receiving Social Security benefits in 2009, due in part to the rapid growth of the age-62 population. The number of Americans turning age 62 increased 9% between 2008 and 2009 as the baby boomer cohort (those born from 1946 to 1964) grew older.

In 2009, a total of 3.2 million men and women age 62 and older began collecting Social Security benefits, the highest number in any year since 1940, when Social Security benefit payments began. Of these new recipients, 1.3 million were men, nearly all of whom (97%) received the benefits as a result of employment. The remaining 3% received the benefits as spouses or widowers. In addition, 1.9 million were women, with about 61% receiving the benefits as a result of employment, 18% as spouses, and 21% as widows.

Another significant event that occurred in 2009 was that many older Americans were unable to find employment due to the economic recession. Although access to Social Security benefits provides those age 62 and older with

ongoing income, the early receipt of benefits also limits their long-term benefits. For example, when beneficiaries begin collecting Social Security at age 62 their benefits are about 25% lower than the benefits they would otherwise receive at full Social Security retirement age.

The impact of the recession on older Americans' decisions to receive Social Security benefits is illustrated by changes in the retirement benefit "take-up" rate. The take-up rate is the number of annual retirement benefit awards in a given year divided by the number of adults age 62 and older who had not yet started collecting benefits at the beginning of the year. Among men, the "take-up rate" reached 25.8% in 2009, up from 22.7% in 2008 and 21.2% in 2007. Among women, the take-up rate reached 36.6% in 2009, up from 34.8% in 2008 and 32.9% in 2007.

The increase in take-up rates represents a change in trends. Although, benefit take-up rates for men and women peaked in 2000 when Congress eliminated the retirement earnings test, the take-up rates for men age 62 and older generally decreased between 1992 and 2007. This occurred mainly because the labor force participation rates for older men increased after 1992 due to increased work incentives, improved health, and greater concerns about retirement security.

The fact sheet is available at:

[http://www.urban.org/UploadedPDF/412010\\_retirement\\_benefit\\_awards.pdf](http://www.urban.org/UploadedPDF/412010_retirement_benefit_awards.pdf)

### **GASB Issues Statement No. 58 on Accounting and Financial Reporting for Chapter 9 Bankruptcies**

On December 31, 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The Statement provides guidance on accounting and financial reporting for municipalities that have petitioned for relief from creditors under Chapter 9 of the U.S. Bankruptcy Code.<sup>2</sup> The guidance relates to recognition, measurement, reporting, and disclosure of financial information for such municipalities.

When a government petitions for relief under Chapter 9, it submits a "Plan of Adjustment" (POA) identifying the claims that are subject to adjustment. Typically, a government's debt is adjusted by extending maturities, reducing principal or interest, or refinancing the debt with new borrowing. When the POA is confirmed by the court, the pre-petition liabilities subject to the POA are discharged and the government is bound to the new debt under the payment terms of the POA.

As provided in GASB Statement No. 58, a government should recognize gains (or losses) resulting from the liability adjustments as of the POA's confirmation date (or a later date if significant conditions are unresolved). Accounts payable, notes, bonds, or similar obligations that require payment on determinable dates should be remeasured using the payments terms of the POA. If the POA reduces future interest payments, then lower interest costs should be reported. If the POA reduces principal and interest payable, then gains should be reported at the time of the reduction, to the extent the adjusted principal and interest are less than the carrying amount of the pre-petition debt.

For pension and other postemployment benefit (OPEB) liabilities, remeasurement depends on whether the POA provides for the pension or OPEB plan's amendment or rejection. If the plan is amended, then the amended plan should be remeasured using the applicable pension or OPEB accounting standards. However, if the plan is rejected and becomes a general unsecured debt of the employer, then it should be accounted for as a plan termination and a new liability recognized in its place. The new liability would reflect a "judgment liability" of

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<sup>2</sup> Chapter 9 applies to political subdivisions, public agencies, and instrumentalities of a State, but not to the State government or to Indian tribal governments.

the amounts owed to plan participants as general creditors (along with the employer's other general creditors) rather than owed as a benefit obligation.

Governments that have filed for bankruptcy should also disclose the relevant conditions and events that led to the bankruptcy, the effects of the bankruptcy upon levels of services and government operations, and expected outcomes, including the possible termination of the government.

GASB Statement No. 58 is effective for reporting periods beginning after June 15, 2009. Retroactive application is required for all prior periods presented during which the government was in bankruptcy.

Statement No. 58 may be ordered from the GASB website at: [www.gasb.org](http://www.gasb.org)

### **SEC and IRS Will Collaborate to Monitor Municipal Securities**

On March 2, 2010, the Securities and Exchange Commission (SEC) and the Internal Revenue Service (IRS) issued press releases announcing that the agencies will work more closely to monitor and regulate the municipal bond industry. In addition, representatives of the IRS and SEC signed a Memorandum of Understanding (MOU) designed to enhance coordination between the agencies and improve compliance with the related rules and regulations. As discussed in the MOU, the two agencies will “work cooperatively to identify issues and industry trends within the tax exempt bonds/municipal securities industry and to develop strategies to enhance performance of their respective responsibilities.” To support this effort, the agencies will create a standing Tax Exempt Bond/Municipal Securities Committee to share information and discuss policy, procedures, and compliance issues related to municipal bonds.

The SEC Press Release, which includes a link to the Memorandum of Understanding, is available at: <http://www.sec.gov/news/press/2010/2010-30.htm>