This document reflects the result of analyses, discussions and review by UCOP staff and PricewaterhouseCoopers (PwC) to date. The document is subject to change pending additional discussions with PwC; however, it represents the best information available to date.

University of California

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*

Issues Resolution Memo No. 45.7

(Issued: July 26, 2007)

(Updated: July 24, 2008)

Financial Reporting to Recognize the Legal Financial Responsibility of the Department of Energy (DOE) for all Retiree Health Costs Associated with University of California Employees Who Currently Work, or Previously Worked at the Lawrence Berkeley National Laboratory (LBNL)

Background

The University currently manages the LBNL for the DOE through the Prime contract. UC provides retiree health benefits to retired UC employees. Employees working at the DOE laboratories are technically UC employees as long as the Prime UC/DOE contract is in place. As a result, retired employees who worked at LBNL while managed by UC receive retiree health benefits under the University of California retiree benefit plan provisions.

Under the terms of the contract, the DOE makes payments to UC on a "pay-as-you-go" basis. There are no accumulated assets at UC to pay for the LBNL segment liabilities to satisfy the future obligations to the LBNL retirees. The DOE, through LBNL, provides funding to UC on a monthly basis, in arrears, for the actual cost incurred to provide these benefits specifically for employees who retired from the LBNL. LBNL retirees do not participate in the recently established retiree health trust.

An actuarial report is prepared annually to track the status of the LBNL segment liabilities, separate from the actuarial report prepared for the rest of the University. The separate LBNL segment actuarial report provides the basis for the measurement of the LBNL segment liabilities, for which the DOE is financially responsible.

Issue Resolution Memo 45.5 documented the legal financial responsibility of the DOE for all retiree health costs associated with University of California employees who currently work, or previously worked, at the LBNL.

Define Issues

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* requires the UC to record the Annual Required Contribution (ARC) as an expense and also a net OPEB obligation to the extent the obligation is unfunded.

In the future, UC's financial statements will include an ARC and net OPEB obligation. However, the DOE is ultimately the financially responsible party for all retiree health costs specifically related to current or former employees at the LBNL.

At issue is how the UC, under these circumstances, should record:

- the "accounting" requirements under GASB Statement No. 45 associated with any portion of the University's ARC or net OPEB obligation that relates to current or former employees at the LBNL, and

- the "legal" aspects of the DOE's ongoing obligation to provide future funding to pay for the retiree health benefits earned under the University's retiree health plan by current or former employees at the LBNL.

Authoritative Guidance and Discussion

Accounting requirements

The University maintains a retiree health plan and therefore should follow the "accounting" requirements outlined in GASB Statement No. 45. As documented and concluded in IRM 45.1, similar to all salary-related and other LBNL expenses, the ARC related to LBNL is reported as a "DOE Laboratory Expense" and is included in the University's net OPEB liability.

However, circumstances are complicated by the unique nature of the DOE's "legal" financial responsibility to the University for the ongoing funding obligations for certain employees who work, or worked, at LBNL.

Legal aspects of the relationship and related accounting requirements

As documented in IRM 45.5, DOE's legal financial obligation under the LBNL contract's provisions is not ambiguous; what is ambiguous is the methodology for anticipating and minimizing any shortfall before the last LBNL beneficiary dies and the actual total cost is known.

These are two very separate issues associated with the payment of retiree health benefits:

1. The legal obligation to pay, and

2. The process for determining the timing and amount of payments.

All of the circumstances giving rise to DOE's obligation exist in the contracts. DOE agrees in the contracts that allowable costs incurred in termination of the contracts (including pension and retiree health costs) which had not been previously paid under the contract are:

1. Payable by DOE without regard to the funds obligated to the contract prior to expiration,

2. Payable from any funds appropriated to DOE which could be lawfully used to make such payments, and

3. If no funds were currently available, DOE would make its best efforts to obtain appropriated funds for that purpose.

Given the DOE's ultimate financial responsibility to provide financial resources to the University for ongoing funding obligations related to LBNL, it is appropriate for the University to record a receivable from the DOE to the extent there is a future retiree health obligation.

Conclusion

Based on the results of the actuarial reports prepared for the LBNL as of the beginning of the year, UC will:

1. At year end, record in its statement of revenues, expenses and changes in net assets (SRECNA) the effect of the ARC, included as part of the "DOE Laboratory Expense" line item. This will increase the net OPEB obligation that is recorded on the statement of net assets (SNA). The University contributions on behalf of LBNL will reduce the net OPEB obligation. Refer to Steps 2, 6 and 7 in Appendix 1.

2. During each month of the year, record the appropriate cash received during the year from the LBNL and monthly payments of retiree health liabilities associated with former employees who worked at LBNL on a "pay-as-you-go" basis. Refer to Steps 4 and 5 in Appendix 1.

3. At year end, based upon the most recent actuarial report outlining the retiree health liability associated with the LBNL segment, record a current and noncurrent DOE receivable and DOE Laboratory Revenue, representing the DOE's ongoing legal obligation to provide future funding for the laboratory segment as of the end of the University's fiscal year. Refer to Step 6 in Appendix 1. (This Step assumes the actuarial report used to record the receivable and deferred revenue is effectively the liability measured at the beginning of the University's fiscal year. The current portion of the liability must agree to the pay-as-you-go amount received from LBNL for the year).

4. At year-end, recognize the DOE's cash contribution made during the year and reduce the receivable and net OPEB obligation that satisfied the pay-as-you-go amount contributed during the current year. Refer to Step 7 in Appendix 1. (NOTE: This Step follows 3 above in that the actuarial report used to record the current receivable is effectively the liability at the beginning of the year, as opposed to the end of the year).

5. At year end, reduce the net OPEB obligation related to LANL and the current DOE receivable by the amount of the implicit rate subsidy of retirees that is charged to active employees. Since the LBNL has already reimbursed the University for the stated cost for LBNL active employees, they have effectively paid this implicit subsidy of retirees. Refer to Step 9 in Appendix 1.

The combination of the above results in revenue and expense for the full amount of the ARC related to LBNL that is reported as DOE Laboratory Revenue and DOE Laboratory Expense, and a noncurrent DOE receivable for the portion of the net OPEB obligation related to LBNL.

Next Steps—Required Actions

Responsibility (C, OP)	Required Completion Date	Action Item/Task
OP	July 2007	Finalize discussions on UC's approach with PwC.
OP	August 2007	Include any comments from D&T actuaries; incorporate new requirements into their planning and communications with HR&B.
OP	August 2007	Finalize UC's approach and develop internal structures to report as outlined.

Appendix 1: Retiree Health Scenario Separating the "Legal" from the "Accounting" Requirements Under GASB Statement No. 45 Resulting from the DOE's Financial Responsibility for Total Retiree Health Liabilities for LBNL

	At Year End	At Year End	Monthly	Monthly	Monthly	At Year End	At Year End	At Year End	At Year End	
	Step 1	**Step 2**	**Step 3**	**Step 4**	**Step 5**	**Step 6**	**Step 7**	**Step 8**	**Step 9**	**Total**
Assumptions: -$1315 "UC only ARC -$50 LBNL ARC -$205 UC contribution to trust -$17 LBNL pay-as-you-go -$45 UC Implicit Subsidy -$3 LBNL Implicit Subsidy	**Record UC ARC (excludes LBNL)**	**Record ARC for LBNL**	**Record UC contribution to Trust**	**Record "pay-as-you-go" cash from LBNL**	**Remit "pay-as-you-go" Healthcare costs from LBNL**	**Record DOE "legal" obligation for all LBNL OPEB**	**Recognize current DOE OPEB cash contribution on behalf of LBNL**	**Recognize UC implicit subsidy**	**Recognize LBNL implicit subsidy**	**Final SNA and SRECNA**
Assets										
Cash			(205)	17	(17)					**(205)**
DOE Receivable-Current						17	(17)			**-**
DOE Receivable-Noncurrent						33			(3)	**30**
Net Pension Asset										**-**
										-
Liabilities										
Net Pension Obligation										**-**
OPEB Obligation	(1,315)	(50)	205				17	45	3	**(1,095)**
Payable to UCRP										**-**
DOE Lab Liabilities										**-**
Deferred Revenue-DOE										**-**
Payable to Healthcare Vendors				(17)	17					**-**
										-
Net Assets										
Fund Balance-DOE		50				(50)				**-**
Fund Balance UC	1,315							(45)		**1,270**

Operating Revenue										
DOE Lab Revenue						(50)				**(50)**
Other Operating Revenue										**-**
										-
Operating Expenses										
DOE Lab Expenses		50								**50**
OPEB ARC	1,315									**1,315**
Pension APC										**-**
Benefits expense-active employees								(45)		**(45)**
Other Operating Expense										**-**
										-
Nonoperating Revenue (Expense)										
Nonoperating Revenue-DOE										**-**
Nonoperating Expense-DOE										**-**
										-
(Increase) Decrease in Net Assets	**1,315**	50				**(50)**		**(45)**		**1,270**