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University of California

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

Issues Resolution Memo No. 45.3

Issued: March 22, 2005

OPEB Modifications to the Payroll/Personnel System

Define Issues

Other Postemployment Benefits (OPEB) include postemployment healthcare as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. The University currently provides medical and dental benefits to its retirees.

The Governmental Accounting Standards Board (GASB) requires the effect of OPEB to be reported for any reporting segment or entity that has audited financial statements. The University's consolidated financial statements, as well as the "carve out" financial statements of each medical center, the UC Press, the Continuing Education of the Bar (CEB), the Associated Students of UCLA (ASUCLA), the National Laboratories, and the Hastings College of the Law, are audited by certified public accountants. For management purposes, it also may be necessary to identify the cost of OPEB attributable to certain University business and reporting segments, such as the campuses, the Office of the President (UCOP), and the Division of Agriculture and Natural Resources (DANR). Therefore, the University must determine whether the required OPEB financial information must be developed and maintained at a level below that of systemwide or individual campuses.

The University must formulate a basis and implement a process to identify the OPEB accumulated accrued liability at June 30, 2006 (transitional liability) and at each year-end thereafter, and to identify the annual OPEB expense at the desired level of detail to meet the requirements of the GASB and the University management. This Issues Resolution Memo (IRM) details the proposed modifications to the Payroll/Personnel System (PPS) that are required to support the University's approach to implementing the GASB financial reporting requirements in the University's consolidated financial statements and the separately audited "carve out" financial statements. The modifications include the development of location information for each UC employee that is necessary to support the allocation of the transition liability at the date of implementation. Further, the information will be used by the University's actuary to support the ongoing financial reporting requirements for these separately audited financial statements.

Background

The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement outlines changes to the information that the University will be required to record in its financial statements and to report in its footnotes regarding post employment benefits other than pensions. Other Postemployment Benefits generally includes medical, dental, and vision insurance, and other healthcare benefits. The reporting changes are required for the fiscal year 2007-08, with restatements for the fiscal year 2006-07, if appropriate.

The GASB has taken the position that pension benefits including OPEB are a part of the compensation earned by employees each year, although the employees do not receive these benefits until retirement. The University currently provides medical and dental benefits to its retirees; therefore, the cost of these future benefits is a part of the cost of providing services today. Among other matters, the Statement requires the University to record as an operating expense the actuarially determined, accrued annual cost of providing OPEB to employees. It also requires the University to record the accrued liability of its OPEB program.

The University must identify the annual OPEB costs and the outstanding obligations for the University as a whole and has developed a financial reporting approach for each separate reporting segment and affiliated entity participating in the University's OPEB programs.

Authoritative Guidance

The authoritative guidance is documented in IRM GASB 45.1, *Financial Reporting Approach for the University's Consolidated Financial Statements, the Separately Audited "Carve Out" Financial Statements, the National Laboratories' Financial Statements and The Hastings College of the Law*, and is an important part of the background supporting the positions contained in this IRM.

Recommended Approach

The PPS modifications planned in response to the GASB reporting requirements are summarized as follows:

- **Modification of UCRS Payroll Activity File**

Currently, campus payroll information is transmitted to UCRS in the monthly interface process (UCRS Payroll Activity File). However, sufficient detail, which would permit UCRS to distinguish sub-divisions within a campus, such as a medical center, or to identify UC Merced and certain UCOP employees paid through the UCLA payroll office, is not included in the interface

Modifications requested in Service Request 80694 and announced in Release 1549 modified the PPS so that the employee data on the UCRS Interface now contains the department location indicator associated with the Home Department of the employee. The Release added new department location indicator values so that data applicable to all sub-divisions required for OPEB reporting will be passed to UCRS. This information also will be passed to the Corporate Personnel System (CPS).

The department location indicator values, including the new V, E, and B, follow:

- C** Campus
- M** Medical Center
- P** Office of the President
- A** Division of Agriculture and Natural Resources (DANR)
- Blank** Campus default
- V** Merced
- E** Continuing Education of the Bar (CEB)
- B** UC Press (UCLA was subsequently instructed to consolidate Books and Journals)

Campuses received the modifications on January 23, 2004 and installed the modifications in time for the month-end processing of February 2004 earnings. With the implementation of Release 1549, the PPS can report the following employee-level information for use in OPEB financial reporting.

University Employees

By reading and passing the Department Location Indicator from the employee's record and passing the information on the UCRS Interface, the OPEB financial reporting process will be able to identify the University employees by the specific business and reporting segments that follow:

- Campuses
- Merced
- ASUCLA
- UC Press
- CEB

Laboratory Employees

The PPS is not used to pay employees at the Laboratories. Therefore, information related to these employees will be provided separately by the Laboratories, using a unique location code and passing a blank department location indicator code on its version of the UCRS Interface file.

University Affiliated Employees

Hastings: This modification was made to PPS in anticipation that separate assessment rates would be established for each reporting entity. However, in the event that a single University-wide rate is used, the new department location values will be useful for data collection and reporting purposes.

- **Modification of Annuitant Health Assessment Rate**

The University’s annuitant health and dental insurance programs are funded by applying a dollar factor against each \$100 of all payroll salaries subject to retirement coverage. This dollar factor also includes a component to fund the cost of benefits administration and healthcare facilitators. As an example, the rate applied in fiscal year 2003-04 is as follows:

Annuitant Health/Dental Insurance Rate:	\$2.30
Benefits Administrative Fee	<u>.10</u>
Total	\$2.40

Reporting requirements necessitate the separate tracking of the OPEB rate from that of the Benefits Administrative Fee at campuses and UCOP. Therefore, the Annuitant Health/Dental Insurance rate will be replaced by a new OPEB rate that will be calculated and reported independently from the Benefits Administrative Fee in the Payroll Expense Distribution Process. A new object code and new liability account assigned to the OPEB rate will attain the required separation of funds effective July 1, 2005.

- **New OPEB Assessment Rate – Option 1 Selected**

However, as a result of the conclusions reached in IRM GASB 45.1, a consistent rate must be charged to all locations in order to support the “cost sharing” approach to financial reporting thereby avoiding the substantial administrative complexity associated with the tracking of employees, liabilities and contributions by fund source, numerous actuarial valuations by location and fund source and a “push down” of the ARC and net OPEB liability to individual locations. Therefore, while we will develop the accounting and reporting process so that we have the ultimate capability to utilize Campus Rates by Fund Source, we will employ Option 1, the University-Wide Rate as we implement the new financial reporting standards for OPEB.

For background information, in theory the following are the various possible options available for the establishment of the new OPEB rate in the Payroll Expense Distribution Process:

1. **University-wide Rate** – Under this option, a single University-wide rate would be developed for all locations and fund sources. This option would mirror the current Annuitant Health/Dental Insurance Rate model.

2. **University-wide Rate by Fund Source** – Under this option, a single rate would be developed for all locations; however, the rate would include sub-rates by fund source. The fund source sub-rates would be applied to broad fund group categories such as General Funds, Federal Funds, Medical Center Funds, and Other Funds.
3. **Campus Rates** – Under this option, separate rates would be developed for each campus. Individual campus rates can be established to provide the same level of funding for OPEB University-wide.
4. **Campus Rates by Fund Source** – Under this option, separate rates, with fund source sub-rates, would be developed for UCOP and all campuses, including Hastings and ASUCLA. Fund source detail for other locations (see Appendix II) primarily paid by UCLA would be captured through a new monthly PPS report. This option would provide the most flexibility to maintain uniform levels of funding for OPEB or to assess differing levels of funding per funding source.

Next Steps—Required Actions

Responsibility	Required Completion Date	Action Item/Task
OP	Jan-04	Modify PPS: Completed 01/23/04, Release 1549.
Campuses	February Month-end Processing	Install Release 1549 and populate Home Department – Department Location Indicator.
Campuses & OP	29-Feb-04	Confirm installation and implementation of Department Location Indicator.
HR&B	Jan-04	Modify UCRS File to accept Department Location Indicator: Confirmed 02/04/04.
HR&B	29-Feb-04	Coordinate receipt of new data with actuary and UCRS.
Fin Mgt, HR&B, & Actuary	May-04	Work with actuary to use information; define level of detail in actuarial reporting requirements.
Fin Mgt	May-05	Separation of Annuitant Health/Dental Insurance Rate from the Benefits Administrative Fee effective 07/01/05 (Service Request 16945 submitted to IR&C 03/03/05).
Fin Mgt	May-05	Rename assessment from Annuitant Health/Dental to OPEB effective 07/01/05 (Service Request 16945 submitted to IR&C 03/03/05).
Fin Mgt	May-06	Automate OPEB Assessment transfer from campus to OPEB Trust effective 07/01/06.