



September 11, 2017

TO: Each Member
Board of Retirement

FROM: Insurance, Benefits and Legislative Committee
William de la Garza, Chair
Vivian H. Gray, Vice Chair
Ronald Okum
Alan Bernstein
David Muir, Alternate

FOR: October 12, 2017 Board of Retirement Meeting

SUBJECT: **LACERA Other Post-Employment Benefits (OPEB) Actuarial Valuation and Audit Policy**

RECOMMENDATION

That the Board of Retirement adopt the Other Post-Employment Benefits (OPEB) Actuarial Valuation and Audit Policy.

INTRODUCTION

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74 and Statement No. 75, which govern new accounting and financial reporting standards for public sector post-retirement benefit programs and the employers that sponsor them. The implementation of these complex GASB statements requires a high degree of coordination and alignment between the plan administrator (LACERA) and the employers (i.e., County, Superior Court, Outside Districts). As such, in February 2016, LACERA established a GASB 74/75 Task Force (Task Force) comprised of key stakeholders from the employer groups and external professional service providers to discuss requirements for implementing the new standards. This strategic partnership provides the opportunity to open the lines of communication among the parties involved and collectively work towards establishing timelines and a framework for implementation decisions.

Attached is a proposed policy, incorporating feedback from the Task Force, on the OPEB actuarial projects necessary to meet all objectives of a prudent plan and its administration.

SUMMARY

GASB Statements 74 and 75 reflect a fundamental overhaul in the standards for accounting and financial reporting for post-employment benefits other than pensions (OPEB). GASB 74 is for OPEB plans (LACERA) and is effective beginning for plan fiscal year as of June 30, 2017. GASB 75 is for employers that sponsor OPEB plans and is effective beginning for employer fiscal year as of June 30, 2018. The information required to be noted and disclosed as a result of GASB 74 is a foundational basis for the information required by GASB 75.

Currently the OPEB actuarial valuation is performed biennially and the related investigation of experience and assumption study is performed triennially. The associated independent audit of the actuarial valuation, as well as the audit of the experience and assumption study are conducted every six years. With the advent of GASB 75, the Task Force needed to revisit the timing of these reporting requirements.

GASB 75 requires that the reporting date can be a maximum of 30 months (and a day) after the actuarial valuation date. The Task Force believed this requirement, coupled with the one-year lag period stipulated by the County's GASB 75 implementation schedule, imposes a tight timeline that leaves no room for unforeseen issues or adversity for all parties concerned. Increasing the OPEB valuation schedule from every other year (biennial) to every year (annual) effectively eliminates this critical risk and highly improves compliance with GASB 75 firm reporting requirements, including the ability to conduct audits of the OPEB information which will be included in the County's financial statements. Note that the new GASB standards promote annual valuations. Similarly, as we are improving the OPEB actuarial valuation frequency, the timing of the associated OPEB audits also require enhancement. More frequent updates provide more recent information to decision-makers, plan sponsors, and program administrators.

The proposed policy includes the following value-added OPEB actuarial projects:

- Increasing the OPEB Actuarial Valuation to an annual valuation.
- Increasing the Audit of OPEB Valuation to every three years.
- Increasing the Audit of OPEB Experience and Assumption Study to every three years.

The adoption of the proposed policy provides formal documentation for undertaking the modified OPEB actuarial projects and demonstrates LACERA's continuing commitment to excellence.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Adopt the Other Post-Employment Benefits (OPEB) Actuarial Valuation and Audit Policy.

RH:BSA:TG:EW:ms

Attachments

Los Angeles County Employees Retirement Association**Board of Retirement****Policy Statement****Other Post-Employment Benefits (OPEB) Actuarial Valuation and Audit****Adopted: November 2010****Revised: October 2017****Purpose**

LACERA administers the retiree medical, dental/vision, and death benefits covering the retired Los Angeles County (County) workers who also participate in the Los Angeles County Employees Retirement Association (LACERA) retirement benefits plan. Collectively these health-related benefits are referred to as the Los Angeles County Other Post-Employment Benefits (OPEB) program. This document establishes the OPEB Actuarial Valuation and Audit Policy (OPEB Policy) of actuarial valuations and audits, which estimate future liabilities relating to the OPEB program.

Statement of Policy

LACERA will periodically perform all OPEB actuarial projects to:

- Establish the actuarially determined values of the County's OPEB program liabilities.
- Validate that such an appraisal reflects actual experiences and appropriate assumptions.
- Certify the appraisal is determined in accordance with all legislative, regulatory and professional standards.

Policy Objectives

The objectives that provide the guiding principles in the development and implementation of the OPEB Policy include the following:

- Comply with the financial reporting requirements mandated by the Governmental Accounting Standards Board (GASB).
- Ensure data and assumptions used in the valuation are, when appropriate, consistent with those used in the valuation of retirement benefits.
- Promote operating effectiveness and optimize cost efficiencies where possible.
- Mirror the policy and principles guiding the retirement benefits actuarial projects.
- Coordinate consistently and efficiently with external audits of LACERA's financial statements when appropriate.

Types and Frequency of OPEB Actuarial Projects

- **Valuation:** A calculation of the actuarial values in accordance with all relevant legislative, regulatory, and professional requirements and standards.
 - o Required By: GASB
 - o Performed By: OPEB Consulting Actuary
 - o Frequency: Every year (annual)
 - o Rationale:
 - GASB requires the net OPEB liability measured as the total OPEB liability, less the amount of the OPEB program's fiduciary net position.
 - The total OPEB liability is generally required to be determined through an actuarial valuation.
 - Actuarial valuations of the total OPEB liability must be performed at least every two years, with more frequent valuations encouraged.
 - All assumptions underlying the determination of the total OPEB liability must conform to the guidance in Actuarial Standards of Practice issued by the Actuarial Standards Board.
 - To ensure data and assumptions used in the OPEB valuation are consistent with the retirement benefits valuation, the OPEB Policy requires each annual OPEB valuation immediately after the annual retirement benefits valuation for the same fiscal year ending.
 - The OPEB Policy promotes operating efficiency by leveraging the efforts of the consulting actuary to complete two projects with each mobilization.
- **Experience and Assumption Study:** An investigation of the experience and review of the assumptions used in the valuation.
 - o Required By: OPEB Policy
 - o Performed By: OPEB Consulting Actuary
 - o Frequency: Every three years (triennial)
 - o Rationale:
 - The 1937 Act requires an investigation of experience and assumption study (experience study) on LACERA retirement benefit assumptions performed triennially (every three years) to reset member contribution rates as appropriate. Certain experience data and assumptions from the retirement benefits valuation provide essential input variables to the experience study for the OPEB program.
 - To ensure data and assumptions common to both experience studies are used consistently, the OPEB Policy requires an experience study for the OPEB program immediately follow each experience study for the retirement benefits plan.
 - The OPEB Policy promotes operating efficiency by leveraging the efforts of the consulting actuary to complete two projects with each mobilization.

- **Audit of Valuation:** A triennial audit of the OPEB valuation, including a parallel valuation (i.e., an independent reproduction of the detailed valuation results).
 - o Required By: OPEB Policy
 - o Performed By: OPEB Audit Actuary
 - o Frequency: Every three years (triennial)
 - o Rationale:
 - The 1937 Act requires the LACERA retirement benefits valuation be performed triennially. The Retirement Benefit Funding Policy (dated February 13, 2013 as amended) currently in effect between the County and LACERA requires the retirement benefits valuation to be performed annually.
 - As a recognized leader in public pension plan administration, LACERA has long implemented the prudent policy and practice of performing triennial audits of the retirement benefits valuation.
 - In combination, these requirements dictate an audit of the annual retirement benefits valuation, triennially.
 - Governmental Finance Officers Association (GFOA) best practices recommend a comprehensive audit performed by an independent actuary of a pension plan's actuarial valuations at least once every five years.
 - Consistent with policy and practice of the retirement benefits valuation and audit cycle, this OPEB Policy requires an audit of OPEB valuation performed triennially. This policy is consistent with GFOA best practices.
- **Audit of Experience and Assumption Study:** An audit of the investigation of experience and assumption study(experience study) is performed in conjunction with the audit of the OPEB valuation.
 - o Required By: OPEB Policy
 - o Performed By: OPEB Audit Actuary
 - o Frequency: Every three years (triennial)
 - o Rationale:
 - The 1937 Act requires an experience study performed triennially for the LACERA retirement benefits plan.
 - As a recognized leader in public pension plan administration, LACERA has long implemented the prudent policy and practice of performing an audit of each triennial experience study for the retirement benefits plan.
 - Consistent with policy and practice of the retirement benefits valuation and audit cycle, and for cost-benefit optimization, the OPEB Policy requires an audit of the experience study performed each time a triennial experience study is completed (see the previous section thereof).
 - Promoting operating efficiency by leveraging the efforts of the audit actuary teams in completing two projects with each mobilization, the OPEB Policy requires an audit of the OPEB valuation immediately after an audit of the experience study.

Roles and Responsibilities

- LACERA Board of Retirement, the Governance of the Plan Administrator, establishes and adopts the Policy relating to the OPEB actuarial practices of LACERA, and provides oversight of Policy implementation.
- LACERA Executive Office implements the Policy under the guidance and direction of the Board of Retirement.
- The OPEB Consulting Actuary under the guidance and direction of LACERA Executive Office performs in accordance with contractual terms and conditions the annual valuation and the triennial experience study. The OPEB Consulting Actuary submits work products to the Audit Actuary for every triennial valuation and each time a triennial experience study is completed.
- The OPEB Audit Actuary under the guidance and direction of the LACERA Audit Committee performs in accordance with contractual terms and conditions an audit of every valuation and an audit of every experience study, triennially.
- LACERA Internal Audit, under the general guidance of the Audit Committee, provides independent consultation to LACERA Executive Office to facilitate the effective and efficient implementation of the OPEB Policy.

Implementation

LACERA will implement the policy through the prescribed schedule as shown in Exhibit A.

Policy Review

The policy is subject to periodic reviews to identify and incorporate necessary updates and revisions.

Background

GASB 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 in April 2004. This statement covers financial reporting for Post-Employment Benefits Other Than Pension Plans (commonly referred to as OPEB programs). LACERA was required to adopt Statement No. 43 when preparing financial statements for periods beginning after December 15, 2005.

GASB issued Statement No. 45 in July 2004. This statement covers accounting and financial reporting by employers for Post-Employment Benefits Other Than Pension. Los Angeles County (the County) is required to adopt Statement No. 45 for periods beginning after December 15, 2006.

The financial reporting under GASB Statement No. 43 and GASB Statement No. 45 requires the Schedule of Funding Progress be actuarially determined. At a minimum, the actuarial valuation for plans with total membership of 200 or more must be performed biennially (every 2 years). A new valuation should be performed if, since the previous valuation, significant changes have occurred which affect the results of the valuation, including significant changes in benefit provisions, the size or composition of the population covered by the plan, or other factors impacting long-term assumptions.

To comply with GASB 43, LACERA, in collaboration with the County, engaged Milliman to perform the first OPEB actuarial valuation, as of July 1, 2006^{1,2}, of the retiree medical, dental/vision, and life insurance benefits covering the retired County workers who also participated in the LACERA retirement benefits plan. The valuation was completed and report issued in May 2007 (2006 OPEB valuation). Consistent with the policy and practice in the actuarial undertakings on the retirement benefits plan, LACERA again in coordination with the County, engaged Segal in 2007 to perform a full scope audit of Milliman's 2006 OPEB Valuation. The audit, although not required either by GASB or by law, was completed in 2008.

¹ The valuation as of July 1, 2006 was conducted and reported by LACERA, in accordance with Paragraph 33 of GASB 43, in the Comprehensive Annual Financial Report for the year ended June 30, 2007, the initial required reporting period. The County reported the same valuation, in accordance with Paragraph 12 of GASB 45, in its Comprehensive Annual Financial Report for the year ended June 30, 2008, the initial required reporting period.

² With reference to GASB 43 and GASB 45, a July 1 valuation date, instead of a June 30 valuation date, maximizes the flexibility to use the valuation for reporting the annual required contributions (ARC) in future fiscal years. GASB 45 Paragraph 12 refers to the beginning of the fiscal year for which the ARC is being reported being not more than 24 months after the date of the valuation.

GASB 74 and 75

The Governmental Accounting Standards Board (GASB) issued Statement No. 74 in June 2015. This statement covers financial reporting for Post-Employment Benefits Other Than Pension Plans (commonly referred to as OPEB programs). LACERA is required to adopt Statement No. 74 when preparing financial statements for fiscal years beginning June 30, 2017.

GASB issued Statement No. 75 in June 2015. This statement covers accounting and financial reporting by employers for Post-Employment Benefits Other Than Pension. Los Angeles County (County) is required to adopt Statement No. 75 for fiscal years beginning June 30, 2018 or in other words one year after LACERA implements GASB 74. The information required to be noted and disclosed as a result of GASB 74 is a foundational basis for the information required by GASB 75.

GASB 75 requires that the reporting date can be a maximum of 30 months (and a day) after the actuarial valuation date. This requirement coupled with the one-year lag period imposed by the County's GASB 75 implementation schedule imposes a tight timeline that leaves no room for unforeseen issues or adversity. Increasing the OPEB valuation schedule from every other year (biennially) to every year (annually) effectively eliminates this risk and improves compliance with GASB 75 reporting requirements. More frequent updates provide more recent information to decision-makers, plan sponsors, and program administrators.

Annual OPEB program valuations are consistent with the frequency performed for the retirement benefits plan schedule.

A triennial OPEB experience and assumptions study is consistent with the frequency performed for the retirement benefits plan schedule.

Triennial OPEB audits (i.e., valuation audit and experience study audit) are consistent with the frequency performed for the retirement benefits plan schedule.

Exhibit A

Schedule of LACERA OPEB Actuarial Valuation and Audit Projects

	OPEB Actuarial Projects			
	Valuation	Experience & Assumption Study	Audit of Valuation	Audit of Experience & Assumption Study
Frequency	Every 2 Years	Every 3 Years	Every 6 Years	Every 6 Years
Fiscal Year Ending				
2006	X		X	
2007				
2008	X	X		
2009				
2010 ⁽¹⁾	X	X	X	X
2011				
2012	X			
2013		X		
2014	X			
2015				
2016 ⁽²⁾	X	X	X	X
Frequency	Every Year	Every 3 Years	Every 3 Years	Every 3 Years
Fiscal Year Ending				
2017	X			
2018 ⁽³⁾	X	X	X	X
2019	X			
2020 ⁽⁴⁾	X	X	X	X
2021	X			
2022	X			
2023 ⁽⁴⁾	X	X	X	X
2024	X			
2025	X			
2026 ⁽⁴⁾	X	X	X	X
2027	X			
2028	X			

Schedule of LACERA OPEB Actuarial Valuation and Audit Projects

	OPEB Actuarial Projects			
	Valuation	Experience & Assumption Study	Audit of Valuation	Audit of Experience & Assumption Study
Frequency	Every Year	Every 3 Years	Every 3 Years	Every 3 Years
Requirement	OPEB Policy	OPEB Policy	OPEB Policy	OPEB Policy
OPEB Policy Primary Objectives	Consistency with Retirement Benefits Policy.	Consistency with Retirement Benefits Policy. For operating efficiency, lagged one year from Retirement Benefits Experience and Assumption Study.	Consistency with Retirement Benefits Policy. For operating efficiency, lagged one year from Audit of Retirement Benefits Valuation.	Consistency with Retirement Benefits Policy. For operating efficiency, lagged one year from Audit of Retirement Benefits Experience and Assumption Study.

Footnotes

(1) For fiscal year ended on June 30, 2010, all OPEB actuarial projects were performed for the same fiscal year-end for the first time.

(2) For fiscal year ended on June 30, 2016, the full 6-year cycle (of the prior policy) repeated.

(3) For fiscal year ending on June 30, 2018, the catch-up 2-year cycle is planned to make efficient use of the Experience Study during the 4 year gap between the old and new policy.

(4) For fiscal years ending on June 30, 2020, June 30, 2023, and June 30, 2026, the full 3-year cycle repeats. During the intervening years, various projects will be performed as scheduled.

OPEB Valuation and Audit Policy

BOARD OF RETIREMENT
OCTOBER 12, 2017

ROBERT HILL
TED GRANGER

GASB 74/75 Task Force

Established: February 2016

LACERA = 10

County

- CEO Office = 4
- Auditor-Controller = 4

Superior Court = 1

LAFCO = 2

SCAQMD = 2

Little Lake Cemetery District = 1

Plante Moran = 2

MGO = 4

Platinum Consulting Group = 1

BCA Watson Rice = 1

Milliman = 2

Cheiron = 4

Scenario A
Biennial Valuation
Lagged GASB Reporting

	Cycle 1	Cycle 2
Valuation Date	7/1/2016	7/1/2016*
LACERA GASB 74 Reporting Date	6/30/2017	6/30/2018
County GASB 75 Reporting Date	6/30/2018	6/30/2019*

*Not GASB 74/75 compliant. Reporting Date can be a maximum of 30 months (and a day) after the Valuation Date.

Scenario B
Biennial Valuation
Unlagged GASB Reporting

	Cycle 1	Cycle 2
Valuation Date	7/1/2016	7/1/2016
LACERA GASB 74 Reporting Date	6/30/2017	6/30/2018
County GASB 75 Reporting Date	N/A	6/30/2018

Scenario B (Continued)
Biennial Valuation
Unlagged GASB Reporting
Estimated Reporting Complications

	<u>Due Dates</u>			
	LACERA		County	
	<u>F/S</u>	<u>GASB 74</u>	<u>F/S</u>	<u>GASB 75</u>
LACERA Financial Statement Close	8/31			
LACERA Actuary completes GASB 74 Report		9/27		
LACERA External Auditor issues LACERA Financial Statement Opinion	10/15			
County Financial Statement Close			10/31	
LACERA Actuary completes GASB 75 Report				11/15*
LACERA Auditing Actuary completes GASB 75 Review				11/15*
LACERA External Auditor issues GASB 75 Report Opinion				11/30*
County External Auditor reviews GASB 75 Report Opinion				11/30*
County External Auditor issues County Financial Statement Opinion			12/10	

*Biennial Valuation and Unlagged Reporting imposes a timeline that leaves no room for unforeseen issues or adversity. Potential delays at any point in the process increases the risk of untimely actuarial reporting which could derail LACERA Auditor's opinion of the GASB 75 Report, thereby delaying the County Auditor's review and adversely impacting the County's Financial Statement Opinion.

Scenario C
Annual Valuation
Lagged GASB Reporting

	<u>Cycle 1</u>	<u>Cycle 2</u>
Valuation Date	7/1/2016	7/1/2017
LACERA GASB 74 Reporting Date	6/30/2017	6/30/2018
County GASB 75 Reporting Date	6/30/2018	6/30/2019

Scenario C (Continued)
Annual Valuation
Lagged GASB Reporting
Estimated Reporting Schedule

	<u>Due Dates</u>			
	LACERA		County	
	<u>F/S</u>	<u>GASB 74</u>	<u>F/S</u>	<u>GASB 75</u>
LACERA Financial Statement Close	8/31			
LACERA Actuary completes GASB 74 Report		9/27		
LACERA External Auditor issues LACERA Financial Statement Opinion	10/15			
LACERA Actuary completes GASB 75 Report				11/1 - 5/31
LACERA Auditing Actuary completes GASB 75 Review				11/1 - 5/31
LACERA External Auditor issues GASB 75 Report Opinion				6/30
County External Auditor reviews GASB 75 Report Opinion				6/30
County Financial Statement Close			10/31	
County External Auditor issues County Financial Statement Opinion			12/10	