



NEW MEXICO
RETIREE
HEALTH CARE
AUTHORITY

GASB No. 75
User Guide

For the Measurement Year Ended June 30, 2020

Disclaimer

The purpose of this guide is to assist employers who are participants in the Retiree Health Care Fund administered by the New Mexico Retiree Health Care Authority to comply with the accounting and financial reporting requirements in the Governmental Accounting Standards Board's *Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75).

The information provided by this guide and the tools included with this guide do not constitute, and should not be treated as, professional advice. As guidance, the information and tools are only the starting point for an employer and its auditors to independently determine the accuracy and completeness of the pension related information that is reported in the employer's audited financial statements.

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Introduction

Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) is effective for employers that participate in the Retiree Health Care Fund administered by New Mexico Retiree Health Care Authority (NMRHCA) for fiscal years beginning after June 15, 2017. GASB No. 75 requires all participating employers in the Retiree Health Care Fund to recognize their portion of the net other postemployment benefits (OPEB) liability, deferred inflows and outflows of resources, and OPEB expense. To assist the participating employers in recognizing these amounts, NMRHCA published the audited *Schedules of Employer Allocations and OPEB Amounts by Employer* (the Schedules), a journal entry tool, and this user guide. This guide provides instructions for using the journal entry tool and provides an example of a footnote disclosure.

The journal entry tool generates “model” journal entries based on the employer specific information shown in the schedules of employer allocations and OPEB amounts published annually by NMRHCA. To generate the journal entries, the tool requires user to select a participating employer, input contributions made after the measurement date (i.e. contributions made from July 1, 2020 to June 30, 2021) with the related covered payroll, and input the contributions that were deferred last year as a deferred outflow (i.e. they should be disclosed in the footnotes of each participating employer). Once the journal entries are generated, an employer can use them as a model to prepare customized journal entries that are consistent with employer’s chart of accounts and accounting processes. The tool also includes references to the Schedules that can be used as an internal control aide to help ensure completeness and accuracy of the amounts to be recorded.

The notes and required supplementary information (RSI) template provide sample OPEB-related financial statement notes and RSI schedules. The template includes the disclosures generally applicable to all participating employers. Employer specific information is highlighted, so that it can be added by the employer using the template. Next to each highlight are instructions on where to find the information. The template also includes templates for the required supplementary information schedules (and related notes), and where to find the employer-specific information for the template.

Before proceeding, if you are not familiar with GASB No. 75, we suggest you first read the standard as published by the GASB.

Section 1: GASB No. 75 Requirements and Journal Entry Tool

GASB No. 75 requires employers to report the following balances:

The employer's–

- Proportionate share of the net OPEB liability at the end of the year.
- Proportionate share of the change in collective deferred outflows of resources.
- Proportionate share of the change in collective deferred inflows of resources.
- Proportionate share of collective OPEB expense.
- Deferral of the employer contributions between the measurement date and the reporting date.

The journal entry tool accompanying this guide summarizes the accounting requirements listed above into two journal entries by using the information in the Schedules published annually by NMRHCA. Figure 1 below illustrates the tool's journal entries to be recorded after the appropriate data is entered. How to use the journal entry tool is explained in Section 2.

Figure 1: Summary Amounts Generated by Journal Entry Tool (using 2327 – Horizon Academy West as an example)

| Employer Amounts | Amount | Reference |
|--------------------------------|-----------|--------------------------------------|
| 2020 Employer Allocation % | 0.04754% | Schedule of Employer Allocation |
| Deferred Outflows of Resources | 546,797 | Schedule of OPEB Amounts by Employer |
| Deferred Inflows of Resources | 708,970 | Schedule of OPEB Amounts by Employer |
| Total OPEB Expense (Income) | (57,570) | Schedule of OPEB Amounts by Employer |
| Ending Net OPEB Liability | 1,996,161 | Schedule of OPEB Amounts by Employer |

Section 2: How to Use the Journal Entry Tool

The journal entry tool is in an Excel[®] workbook, which can be found at the NMRHCA's website. Once the workbook is downloaded, open the workbook and input the information in the blue boxes as directed. Figure 2 below illustrates the data entry section.

*Figure 2: Data Entry Required**

| | Employer Number | Employer Name |
|---|-----------------|---|
| 1. Please input the employer number | 2327 | HORIZON ACADEMY WEST |
| 2. Please enter the contributions expensed from July 1, 2020 to June 30, 2021: | | |
| Contributions | 46,000 | Employer's General Ledger |
| Covered payroll | 2,300,000 | Employer's General Ledger for payroll of the employees that are provided with OPEB through NMRHCA |
| 3. Please enter the contributions deferred from July 1, 2019 to June 30, 2020 (Deferred Outflow): | | |
| | 45,881 | Employer's Prior Year Financial Statements |

* Example assumes employer contributions and associated covered payroll from July 1, 2020 through June 30, 2021 equaled \$46,000 and \$2,300,000, respectively, and disclosed \$45,881 as deferred outflow related to contributions made after the measurement date last year.

In Step 1, the Employer Number used above can be found in the Schedules and is the same number used by New Mexico Educational Retirement Board (ERB) or New Mexico Public Employees Retirement Association (PERA) for participating employers. The Schedules are available for download at the link provided above. Enter the Employer Number and the Employer Name should appear. This number is used as a reference to provide the journal entries and disclosure amounts within the journal entry tool.

Step 2 requires an input of the participating employer's contribution expense during the current fiscal year or from July 1, 2020 to June 30, 2021 and the covered payroll for that same time frame. Covered payroll is defined as the payroll of employees that are provided OPEB through the OPEB plan. The information should be available in the employer's general ledger software or directly from the remittance advices sent to NMRHCA with your contributions.

Step 3 requires an input from the employer's prior year footnote disclosures. It should be the amount disclosed as "Contributions made after the measurement date" in the prior year financial statement disclosures. This should be the same amount or close to the contribution amount as the audited Allocation Schedules for the year ended June 30, 2020 shown on page 3 through 7. It is likely that these two amounts will not match based on timing differences or accrual entries recorded at the employer or NMRHCA. The journal entry in step 4 accounts for these differences and the differences should be recorded to OPEB expense or OPEB income.

Step 4 through 5 directs the user to record the current year journal entries. Figure 3 illustrates the journal entries the tool generates on the next page.

Figure 3: Sample Journal Entries

4. Record the net change Net OPEB Liability (Debit = positive amounts):

| | | |
|--|-----------|--|
| Net OPEB Liability | (531,250) | |
| Deferred Inflows of Resources | 146,099 | |
| Deferred Outflows of Resources | 442,717 | |
| OPEB Expense (Income) | (57,570) | |
| Rounding Impact to OPEB Expense (Income) | 4 | Note: this is the rounding impact and difference between NMRHCA contributions and Employer's contributions |

5. Record current year contributions to Deferred Outflows:

| | |
|--------------------------------|----------|
| Deferred Outflows of Resources | 46,000 |
| RHCA Contributions Expense | (46,000) |

Please note the rounding impact generated above. This is due to formula formatting that rounds the allocation percentage to five decimal places and/or difference between NMRHCA report contribution income and the employers deferred outflow related to contributions for the year ended June 30, 2020. The impact should be recorded to OPEB expense (income) to ensure the journal entry balances. In the example above the OPEB expense (income) that should be recorded as a credit of \$57,566 in the actual journal entry.

Notice that the account descriptions used in the tool are generic. The accounts noted may represent a higher level of summary than the chart of accounts used by participating employers. In addition, only a few elements from the tool's entries might be applicable, depending on the accounting processes used. For example, if contributions are deferred between the measurement date and the reporting date (instead of recording them as expenditures), Step 5 will be skipped. However, the tool may be used to verify the amount recorded.

Step 6 provides information that might be useful for financial statement footnote disclosure. NMRHCA provided an example disclosure in section 3.

Section 3: Financial Statement Footnote and RSI Template

Disclaimer: The sample financial statement footnotes and required supplementary information (RSI) below are based on the illustrations in GASB No. 75. The sample is not and should not be treated as professional advice. The sample includes only commonly required employer disclosures; accordingly, employers should consult with their independent public accountants for specific financial statement presentations.

The example is based on the disclosure example in Illustration 2 on page 216 of GASB No. 75. The example uses the Horizon Academy West and uses the journal entry tool example above. Dark blue text in brackets are directions or calling out information that needs to be considered. Any amounts highlighted in gray are specific to this example and will need to be updated.

Footnote and RSI Template

**School of Gallup
Notes to the Financial Statements
for the Year Ended June 30, 2019**

Note 1. Summary of Significant Accounting Policies

[The following should be included in the *Summary of Significant Accounting Policies*.]

Postemployment Benefits Other Than Pensions (OPEB). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X - OPEB

[If the Employer's employees were provided with benefits through more than one defined benefit OPEB plan, the Employer should disclose information required by paragraph 89 of GASB No. 75 and should apply the requirements of paragraph 90.]

General Information about the OPEB

Plan description. Employees of the School are provided with OPEB through the Retiree Health Care Fund (the Fund)—a cost-sharing multiple-employer defined benefit OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the State of New Mexico. The funds administered by NMRHCA are considered part of the State of New Mexico financial reporting entity and are OPEB trust funds of the State of New Mexico. NMRHCA's financial information is included with the financial presentation of the State of New Mexico.

Benefits provided. The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

Employees covered by benefit terms. At June 30, 2020, the Fund's measurement date, the following employees were covered by the benefit terms:

| | |
|--|----------------|
| Plan membership | |
| Current retirees and surviving spouses | 52,179 |
| Inactive and eligible for deferred benefit | 10,916 |
| Current active members | 91,082 |
| | <u>154,177</u> |
| Active membership | |
| State general | 17,097 |
| State police and corrections | 1,830 |
| Municipal general | 17,538 |
| Municipal police | 3,159 |
| Municipal fire | 1,966 |
| Educational Retirement Board | 49,492 |
| | <u>91,082</u> |

Contributions. Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee's salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on an actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the Fund. Contributions to the Fund from the School were \$46,000 for the year ended June 30, 2020.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the School reported a liability of \$1,996,161 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward to June 30, 2020. The School's proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2020. At June 30, 2020, the School's proportion was 0.04754 percent.

For the year ended June 30, 2021, the School recognized OPEB income of \$57,570. At June 30, 2021 the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences Between Expected and Actual Experience | \$ - | \$ 354,465 |
| Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments | 10,885 | - |
| Changes of Assumptions | 391,861 | 354,505 |
| Change in Proportion | 144,051 | - |
| Contributions made after the measurement date | 46,000 | - |
| | <u>\$ 592,797</u> | <u>\$ 708,970</u> |

Deferred outflows of resources totaling \$46,000 represent School contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended June 30:

| | |
|-------|------------------|
| 2022 | (137,194) |
| 2023 | (106,286) |
| 2024 | (27,242) |
| 2025 | 23,305 |
| 2026 | 85,244 |
| Total | <u>(162,173)</u> |

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2019 and rolled forward to June 30, 2020, using the following actuarial assumptions:

| | |
|-----------------------------|---|
| Actuarial cost method | Entry age normal, level percent of pay, calculated on individual employee basis |
| Asset valuation method | Market value of assets |
| Actuarial assumptions: | |
| Inflation | 2.50% for ERB members; 2.50% for PERA members |
| Projected payroll increases | 3.25% to 13.50%, based on years of service, including inflation |
| Investment rate of return | 7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation |
| Health care cost trend rate | 8% graded down to 4.5% over 14 years for Non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 years for Medicare medical plan costs |
| Mortality | ERB members: RP-2000 Combined Healthy Mortality Table with White Collar Adjustment (males) and GRS Southwest Region Teacher Mortality Table (females) PERA members: RP-2014 Combined Healthy Mortality |

Rate of return. The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

The best estimates for the long-term expected rate of return is summarized as follows:

| Asset Class | Long-Term Rate of Return |
|-------------------------------|-----------------------------|
| U.S. core fixed income | 2.1% |
| U.S. equity - large cap | 7.1% |
| Non U.S. - emerging markets | 10.2% |
| Non U.S. - developed equities | 7.8% |
| Private equity | 11.8% |
| Credit and structured finance | 5.3% |
| Real estate | 4.9% |
| Absolute return | 4.1% |
| U.S. equity - small/mid cap | 7.1% |

Discount rate. The discount rate used to measure the Fund's total OPEB liability is 2.86% as of June

30, 2020. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ending June 30, 2039. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2040. The index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher was used beyond 2041, resulting in a blended discount rate of 2.86%.

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates.

The following presents the net OPEB liability of the School, as well as what the School's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.86 percent) or 1-percentage-point higher (3.86 percent) than the current discount rate:

| 1% Decrease (1.86%) | Current Discount (2.86%) | 1% Increase (3.86%) |
|------------------------|-----------------------------|------------------------|
| 2,481,236 | 1,996,161 | 1,621,248 |

The following presents the net OPEB liability of the School, as well as what the School's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| 1% Decrease | Current Trend Rates | 1% Increase |
|-------------|------------------------|-------------|
| 1,638,475 | 1,996,161 | 2,267,475 |

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in NMRHCA's audited financial statements for the year ended June 30, 2020.

Payable to the OPEB Plan

At June 30, 2021, the School reported a payable of \$_____ for outstanding contributions due to NMRHCA for the year ended June 30, 2021.

**Horizon Academy West
Required Supplementary Information
for the Year Ended June 30, 2021**

SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

| | <u>2021</u> |
|---|--------------|
| Employer's proportion of the net OPEB liability | 0.04754% |
| Employer's proportionate share of the net OPEB liability | \$ 1,996,161 |
| Employer covered payroll | \$ 2,043,325 |
| Employer's proportionate share of the net OPEB liability as a percentage of its covered payroll | 97.69% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 16.50% |

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the School will present information for available years.

[The participating employer should include all available years' information. Only the current year is presented above.]

**Horizon Academy West
Required Supplementary Information
for the Year Ended June 30, 2021**

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS

| | 2021 |
|---|--------------|
| Contractually required contribution | \$ 46,000 |
| Contributions in relation to the contractually required contribution | 46,000 |
| Contribution deficiency (excess) | \$ - |
| Employer's covered payroll | \$ 2,300,000 |
| Contributions as a percentage of covered payroll | 2.00% |

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the School will present information for available years.

[The participating employer should include all available years' information. Only the current year is presented above.]

Horizon Academy West
Notes to Required Supplementary Information
for the Year Ended June 30, 2021

In the June 30, 2019 actuarial valuation rolled forward to the measurement date of June 30, 2020, changes in assumptions and differences between expected and actual experience include adjustments resulting from an decrease in the discount rate from 4.16% to 2.86%, changes in medical carrier election assumptions based on recent enrollment, and updated Medicare Advantage trends to reflect 2020 and 2021 premiums.