



NEW MEXICO  
RETIREE  
HEALTH CARE  
AUTHORITY

**GASB No. 75**  
**User Guide**

For the Measurement Year Ended June 30, 2017

## **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. For most participating employers, this means the reporting year ended June 30, 2018. 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 for the first year of implementation.

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 and input contributions made after the measurement date. 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 provides 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 them.

Before proceeding, if you are not familiar with GASB No. 75, we suggest you first read the standard as published by the GASB by following [this link](#) and clicking “Accept” when prompted. The audited Schedules and journal entry tool are available on NMRHCA’s [webpage](#).

## 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 beginning of the year for the implementation year.
- 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 three 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 2308 – 21<sup>st</sup> Century Public Academy as an example)\**

<b>Employer Amounts</b>	<b>Amount</b>	<b>Reference</b>
2017 Employer Allocation %	0.02741%	Schedule of Employer Allocation
Beginning Net OPEB Liability	1,498,988	Schedule of OPEB Amounts by Employer
Deferred Outflows of Resources	-	Schedule of OPEB Amounts by Employer
Deferred Inflows of Resources	282,706	Schedule of OPEB Amounts by Employer
Total OPEB Expense	49,383	Schedule of OPEB Amounts by Employer
Ending Net OPEB Liability	1,242,132	Schedule of OPEB Amounts by Employer
Net Change in Net OPEB Liability	(256,856)	Calculation

## Section 2: How to Use the Journal Entry Tool

The journal entry tool is in an Excel<sup>®</sup> workbook, which can be downloaded from the link provided above. 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\**

Please enter information in the blue boxes below.

	<b>Employer Number</b>	<b>Employer Name</b>
1. Please input the employer number	<input type="text" value="2308"/>	21ST CENTURY PUBLIC ACADEMY

2. Please enter the contributions expensed from July 1, 2017 to June 30, 2018:

<input type="text" value="25,000"/>	Employer's General Ledger
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\* Example assumes employer contributions from July 1, 2017 through June 30, 2018 equaled \$25,000

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, 2017 to June 30, 2018. The information should be available in the employer's general ledger software.

Step 3 through 5 directs the user to record the current year journal entries, which includes a journal entry to reduce the unrestricted net position to record the beginning net OPEB liability. Figure 3 illustrates the journal entries the tool generates on the next page.

*Figure 3 Sample Journal Entries*

3. Record the following entry to recognize the beginning net OPEB liability (positive amounts are debits; negative amounts are credits):

Net Position Unrestricted	1,475,453
Deferred Outflows of Resources	23,535
Net OPEB Liability	(1,498,988)

4. Record the net change Net OPEB Liability:

Net OPEB Liability	256,856
Deferred Inflows of Resources	(282,706)
Deferred Outflows of Resources	(23,535)
OPEB Expense	49,383
Rounding Impact to OPEB Expense	2

5. Record current year contributions to Deferred Outflows:

Deferred Outflows of Resources	25,000
RHCA Contributions Expense	(25,000)

Please note the rounding impact generated above. This is due to formula formatting that rounds the allocation percentage to five decimal places. The impact should be recorded to OPEB expense to ensure the journal entries balance. In the example above the OPEB expense that should be recorded in \$49,385 in the actual journal entries.

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.

Since GASB No. 75 is effective for fiscal year 2018, an example footnote with first-year implementation considerations has been provided. The example is based on the disclosure example in Illustration 2 on page 216 of GASB No. 75. The example uses 21<sup>st</sup> Century Public Academy and builds off of 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**

**21<sup>ST</sup> Century Public Academy\***  
**Notes to the Financial Statements**  
**for the Year Ended June 30, 2018**

**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, 2017, the Fund’s measurement date, the following employees were covered by the benefit terms:

Plan membership	
Current retirees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	97,349
	<u>160,035</u>
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municipal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	<u>97,349</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 \$25,000 for the year ended June 30, 2018.

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

At June 30, 2018, the School reported a liability of \$1,242,132 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School’s proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ending June 30, 2017. At June 30, 2017, the School’s proportion was 0.02741 percent.

For the year ended June 30, 2018, the School recognized OPEB expense of \$49,385. At June 30, 2018 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>
Difference between expected and actual experience	\$ -	\$ 47,666
Changes of assumptions	-	217,171
Differences between actual and projected earnings on OPEB plan investments	-	17,869
Contributions made after the measurement date	25,000	-
Total	<u>\$ 25,000</u>	<u>\$ 282,706</u>

Deferred outflows of resources totaling \$25,000 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, 2019. 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:**

2019	\$ (60,105)
2020	(60,105)
2021	(60,105)
2022	(60,105)
2023	(42,286)
Total	<u>\$ (282,706)</u>

**Actuarial assumptions.** The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Valuation Date	June 30, 2017
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; 2.25% for PERA
Projected payroll increases	3.50%
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 for Medicare medical plan costs

**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	4.1%
U.S. equity - large cap	9.1
Non U.S. - emerging markets	12.2
Non U.S. - developed equities	9.8
Private equity	13.8
Credit and structured finance	7.3
Real estate	6.9
Absolute return	6.1
U.S. equity - small/mid cap	9.1

**Discount Rate.** The discount rate used to measure the Fund's total OPEB liability is 3.81% as of June 30, 2017. 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, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

**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 (2.81 percent) or 1-percentage-point higher (4.81 percent) than the current discount rate:

1% Decrease (2.81%)	Current Discount (3.81%)	1% Increase (4.81%)
\$ 1,506,686	\$ 1,242,132	\$ 1,034,565

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
\$ 1,056,518	\$ 1,242,132	\$ 1,386,864

**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, 2017.

**Payable Changes in the Net OPEB Liability.** At June 30, 2018, the School reported a payable of \$2,083 for outstanding contributions due to NMRHCA for the year ended June 30, 2018.

**21<sup>ST</sup> Century Public Academy  
Required Supplementary Information  
for the Year Ended June 30, 2018**

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

	2018*
Employer's proportion of the net OPEB liability	0.02741%
Employer's proportionate share of the net OPEB liability	\$ 1,242,132
Employer covered-employee payroll	\$ 1,141,804
Employer's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	108.79%
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

\*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.

**21<sup>ST</sup> Century Public Academy  
Required Supplementary Information  
for the Year Ended June 30, 2018**

**SCHEDULE OF EMPLOYER'S CONTRIBUTIONS**

	<u>2018*</u>
Contractually required contribution	\$ 87,040
Contributions in relation to the contractually required contribution	43,354
Contribution deficiency (excess)	<u>43,686</u>
Employer's covered-employee payroll	\$ 1,141,804
Contributions as a percentage of covered-employee payroll	3.83%

\*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.