

Sample Notes to the Financial Statements
Cost-Sharing Employer Plans –
VRS Teacher Employee Health Insurance Credit Program
For the Fiscal Year Ended June 30, 2019

***Instructions** – The Sample Notes to the Financial Statements for the Cost-Sharing Employer Plans – VRS Teacher Employee Health Insurance Credit Program are based on the data in Illustration 2 of GASB Statement No. 75 and the related information in the Implementation Guide. These are provided by the Virginia Retirement System as a guide for employers in the development of their GASB 75 note disclosures. The GASB 75 schedules referenced in this document can be found in the “GASB Statement No. 75 Report for the Virginia Retirement System Prepared as of June 30, 2018” on the VRS Guidelines and Resources page of the VRS website at:*

<https://employers.varetire.org/financial-reporting/vrs-guidelines-and-resources-opeb.html>

Within the sample Notes to the Financial Statements, the sample Required Supplementary Information and the sample Journal Entries there are a number of variable items which each employer must fill in using their own unique information. For each of these items, we have identified the source of the information.

We have also provided an analysis of the change in Net OPEB Liability HIC-Teacher. This analysis includes the June 30, 2017 Net OPEB Liability HIC-Teacher and elements impacting the 2018 Net Change in OPEB Liability HIC-Teacher and the June 30, 2018 Net OPEB Liability HIC-Teacher. Most of this data is also contained in the GASB 75 Report from the VRS actuary.

***Note:** If material, employers should recognize and disclose the difference between their contractually required contributions and actual contributions during the measurement period. The amount of contractually required contributions may be found in the GASB 75 Report with Audit Opinion while your actual contributions during the measurement period may be obtained from the data used to prepare AJE 2 included in the Sample Journal Entries. Please refer to GASB 75, Paragraph 65 for the employer level requirements for recognition and measurement (the applicable expected remaining service life may be found beginning on p. 27 of the GASB 75 report prepared as of the Measurement Date of June 30, 2018). Additionally, disclosures required in GASB 75 paragraphs 96h and 97b are not included in the information provided below.*

The information in this document is provided as an additional resource for employers, but each employer is responsible for their own Notes to the Financial Statements. Employers should review the language and other information provided with their auditors.

If you have any questions concerning this information, please contact me at (804) 344-3128 or send me an email at bfaison@varetire.org.

School Division Name
Notes to the Financial Statements
For the Year Ended June 30, 2019

Summary of Significant Accounting Policies

Teacher Employee Health Insurance Credit Program

The Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit Program is a multiple-employer, cost-sharing plan. The Teacher Employee Health Insurance Credit Program was established pursuant to §51.1-1400 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Teacher Employee Health Insurance Credit Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For purposes of measuring the net Teacher Employee Health Insurance Credit Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Teacher Employee Health Insurance Credit Program OPEB, and the Teacher Employee Health Insurance Credit Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit Program; and the additions to/deductions from the VRS Teacher Employee Health Insurance Credit Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Teacher Employee Health Insurance Credit Program

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information for the Teacher Health Insurance Credit Program OPEB, including eligibility, coverage, and benefits is set out in the table below:

TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM (HIC) PLAN PROVISIONS

Eligible Employees

The Teacher Employee Retiree Health Insurance Credit Program was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit.

Eligible employees are enrolled automatically upon employment. They include:

- Full-time permanent (professional) salaried employees of public school divisions covered under VRS.

Benefit Amounts

The Teacher Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:

- **At Retirement** – For Teacher and other professional school employees who retire with at least 15 years of service credit, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount.
- **Disability Retirement** – For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either:
 - \$4.00 per month, multiplied by twice the amount of service credit, or
 - \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

Health Insurance Credit Program Notes:

- The monthly Health Insurance Credit benefit cannot exceed the individual premium amount.
- Employees who retire after being on long-term disability under VLDP must have at least 15 year of service credit to qualify for the health insurance credit as a retiree.

Contributions

The contribution requirement for active employees is governed by §51.1-1401(E) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division’s contractually required employer contribution rate for the year ended June 30, 2019 was 1.20% of covered employee compensation for employees in the VRS Teacher Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the school division to the VRS Teacher Employee Health Insurance Credit

Program were \$ [Insert amount] and \$ [Insert amount] for the years ended June 30, 2019 and June 30, 2018, respectively.

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Teacher Employee Health Insurance Credit Program OPEB

At June 30, 2019, the school division reported a liability of \$ [Schedule D – Net OPEB Liability – Health Insurance Credit Plan - Teacher, 6/30/2018 Net OPEB Liability] for its proportionate share of the VRS Teacher Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2018 and the total VRS Teacher Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee Health Insurance Credit Program OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the school division's proportion of the VRS Teacher Employee Health Insurance Credit Program was [Schedule A – Proportionate Share of Contributions – Health Insurance Credit Plan - Teachers, 2018 Employer Allocation Percentage] % as compared to [Schedule A – Proportionate Share of Contributions – Health Insurance Credit Plan - Teachers, 2017 Employer Allocation Percentage] % at June 30, 2017.

For the year ended June 30, 2019, the school division recognized VRS Teacher Employee Health Insurance Credit Program OPEB expense of \$ [Schedule B – Deferred Inflows and Outflows and OPEB Expense – Health Insurance Credit Plan - Teachers, Total Employer OPEB Expense]. Since there was a change in proportionate share between measurement dates a portion of the VRS Teacher Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee Health Insurance Credit Program OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | 1 | 5 |
| Net difference between projected and actual earnings on Teacher HIC OPEB plan investments | 2 | 6 |
| Change in assumptions | 3 | 7 |
| Changes in proportionate share | 4 | 8 |
| Employer contributions subsequent to the measurement date | [Insert amount] | - |
| Total | \$ - | \$ - |

Source of Data for Deferred Outflows and Deferred Inflows Schedule:

Schedule B – Schedule of Deferred Inflows and Outflows and HIC OPEB Expense – Health Insurance Credit Plan – Teachers

- 1 – \$ [Deferred Outflows of Resources - Difference Between Expected and Actual Exp.]
- 2 – \$ [Deferred Outflows of Resources - Net Difference Between Projected and Actual Inv...]
- 3 – \$ [Deferred Outflows of Resources - Change of Assumptions.]
- 4 – \$ [Deferred Outflows of Resources - Changes in Proportionate Share.]
- 5 – \$ [Deferred Inflows of Resources - Difference Between Expected and Actual Exp.]
- 6 – \$ [Deferred Inflows of Resources - Net Difference Between Projected and Actual Inv...]
- 7 – \$ [Deferred Inflows of Resources - Change of Assumptions.]
- 8 – \$ [Deferred Inflows of Resources - Changes in Proportionate Share.]

\$(Insert amount) reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC OPEB Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

Year ended June 30

| | |
|------------|-----------------------------|
| FY 2020 | \$ [Schedule C, Year 1] |
| FY 2021 | \$ [Schedule C, Year 2] |
| FY 2022 | \$ [Schedule C, Year 3] |
| FY 2023 | \$ [Schedule C, Year 4] |
| FY 2024 | \$ [Schedule C, Year 5] |
| Thereafter | \$ [Schedule C, Thereafter] |

**Source of Data for Amortization of Deferred Outflows and Deferred Inflows Schedule:
Schedule C – Amortization of Deferred Inflows and Outflows – Health Insurance Credit
Plan - Teachers**

Actuarial Assumptions

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

| | |
|--|---|
| Inflation | 2.5 percent |
| Salary increases, including inflation – Teacher Employees | 3.5 percent – 5.95 percent |
| Investment rate of return | 7.0 percent, net of plan investment expenses, including inflation* |

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

Mortality rates – Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |

Net Teacher Employee HIC OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee Health Insurance Credit Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2018, NOL amounts for the VRS Teacher Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

| | |
|---|---|
| | Teacher Employee HIC OPEB Plan |
| Total Teacher Employee HIC OPEB Liability | \$ 1,381,313 |
| Plan Fiduciary Net Position | <u>111,639</u> |
| Teacher Employee net HIC OPEB Liability (Asset) | <u>\$ 1,269,674</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability | 8.08% |

The total Teacher Employee HIC OPEB liability is calculated by the System’s actuary, and the plan’s fiduciary net position is reported in the System’s financial statements. The net Teacher Employee HIC OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. These ranges 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 and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|-------------------------------|--------------------------------------|---|---|
| Public Equity | 40.00% | 4.54% | 1.82% |
| Fixed Income | 15.00% | 0.69% | 0.10% |
| Credit Strategies | 15.00% | 3.96% | 0.59% |
| Real Assets | 15.00% | 5.76% | 0.86% |
| Private Equity | 15.00% | 9.53% | 1.43% |
| Total | <u>100.00%</u> | | <u>4.80%</u> |
| | Inflation | | <u>2.50%</u> |
| | * Expected arithmetic nominal return | | <u>7.30%</u> |

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total Teacher Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2018, the rate contributed by each school division for the VRS Teacher Employee Health Insurance Credit Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined

contribution rate. From July 1, 2018 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Teacher Employee HIC OPEB liability.

Sensitivity of the School Division's Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the VRS Teacher Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | 1.00% Decrease (6.00%) | Current Discount Rate (7.00%) | 1.00% Increase (8.00%) |
|--|---|--|---|
| School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan Net HIC OPEB Liability | \$ [Schedule D – Net OPEB Liability – Health Insurance Credit Plan - Teachers, Net OPEB Liability 1% Decrease (6.0%)] | \$ [Schedule D – Net OPEB Liability – Health Insurance Credit Plan - Teachers, 6/30/2018 Net OPEB Liability] | \$ [Schedule D – Net OPEB Liability – Health Insurance Credit Plan - Teachers, Net OPEB Liability 1% Increase (8.0%)] |

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee Health Insurance Credit Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Teacher Employee Health Insurance Credit Program OPEB Plan

[If the school division reported payables to the VRS, it should disclose information required by paragraph 142 of GASB 75. It is the school division's responsibility to calculate this amount and complete the required disclosure.]

**Required Supplementary Information (RSI) Template
Cost-Sharing Employer Plans –
VRS Teacher Employee Health Insurance Credit Program
For the Fiscal Year Ended June 30, 2019**

Instructions – *This template includes two sample schedules and the language for Notes to RSI to be used as a guide in the development of the RSI section of your financial statements:*

- *Schedule of Employer’s Share of Net HIC OPEB Liability*
- *Schedule of Employer Contributions*
- *Notes to Required Supplementary Information*

The sample schedules presented in this section will each eventually show a 10-year history of data related to GASB 75. You may create your own tables based on the examples VRS has provided. Each year, VRS will update the data highlighted in accordance with the legend. However, the employer is responsible for providing the remainder of the information and calculation as indicated.

Each employer is responsible for maintaining its own schedules, retaining prior year data, and updating the schedules each year based on the new information.

Note: *Employer’s Covered Payroll referenced in the GASB 75 schedules in the template represent the total covered payroll for employees covered under the HIC OPEB plan. The periods for the schedules for FY 2019 are as follows:*

- *Schedule of Employer’s Share of Net HIC OPEB Liability for the Measurement Dates of June 30, 2017 and 2018. This schedule will now have two years because this is the second year for this presentation.*
- *Schedule of Employer Contributions – Covered Payroll is for the fiscal year ended June 30, 2019. This schedule should have ten years. Pre-GASB Statement No. 75 information can be taken from the RSI data previously required under GASB Statement No. 45.*

Sample Schedule of Employer's Share of Net HIC OPEB Liability

**Schedule of Employer's Share of Net OPEB Liability
Health Insurance Credit Program (HIC)
For the Measurement Dates of June 30, 2018 and 2017**

| | 2018 | 2017 |
|---|---|--|
| Employer's Proportion of the Net HIC OPEB Liability (Asset) | [Schedule A - Proportionate Share of Contributions - Health Insurance Credit Plan - Teachers, 208 Employer Allocation Percentage] % | [Schedule A - Proportionate Share of Contributions - Health Insurance Credit Plan - Teachers, 2017 Employer Allocation Percentage] % |
| Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) | \$ [Schedule D - Net OPEB Liability - Health Insurance Credit Plan - Teachers, 6/30/2018 Net OPEB Liability] | \$ [Schedule D - Net OPEB Liability - Health Insurance Credit Plan - Teachers, 6/30/2017 Net OPEB Liability] |
| Employer's Covered Payroll | \$ [Inset Amount] | \$ [Inset Amount] |
| Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of its Covered Payroll | [Calculation: Line 2 divided by Line 3] % | [Calculation: Line 2 divided by Line 3] % |
| Plan Fiduciary Net Position as a Percentage of the Total HIC OPEB Liability | 8.08% | 7.04% |

Schedule is intended to show information for 10 years. Since 2018 is the second year for this presentation, only two year of data is available. However, additional years will be included as they become available.

For Reference Only: The Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability for the Health Insurance Credit (HIC) for each year is presented on page 123 of the VRS 2018 Comprehensive Annual Financial Report (CAFR).

Sample Schedule of Employer Contributions

| Schedule of Employer Contributions For the Years Ended June 30, 2010 through 2019 | | | | | |
|---|---|---|--|----------------------------------|----------------------------|
| | Contributions in Relation to | | | | Contributions as a % of |
| | Contractually Required Contribution | Contractually Required Contribution | Contribution Deficiency (Excess) | Employer's Covered Payroll | Covered Payroll |
| Date | (1) | (2) | (3) | (4) | (5) |
| 2019 | \$ [Insert Amount] | \$ [Insert Amount] | Col (1) - (2) | \$ [Insert Amount] | Col (2) / (4) |
| 2018 | \$ [Insert Amount] | \$ [Insert Amount] | Col (1) - (2) | \$ [Insert Amount] | Col (2) / (4) |
| 2017 | \$ [Insert Amount] | \$ [Insert Amount] | Col (1) - (2) | \$ [Insert Amount] | Col (2) / (4) |
| 2016 | \$ [Insert Amount] | \$ [Insert Amount] | Col (1) - (2) | \$ [Insert Amount] | Col (2) / (4) |
| 2015 | \$ [Insert Amount] | \$ [Insert Amount] | Col (1) - (2) | \$ [Insert Amount] | Col (2) / (4) |
| 2014 | \$ [Insert Amount] | \$ [Insert Amount] | Col (1) - (2) | \$ [Insert Amount] | Col (2) / (4) |
| 2013 | \$ [Insert Amount] | \$ [Insert Amount] | Col (1) - (2) | \$ [Insert Amount] | Col (2) / (4) |
| 2012 | \$ [Insert Amount] | \$ [Insert Amount] | Col (1) - (2) | \$ [Insert Amount] | Col (2) / (4) |
| 2011 | \$ [Insert Amount] | \$ [Insert Amount] | Col (1) - (2) | \$ [Insert Amount] | Col (2) / (4) |
| 2010 | \$ [Insert Amount] | \$ [Insert Amount] | Col (1) - (2) | \$ [Insert Amount] | Col (2) / (4) |

For Reference Only:

Column 1 – Employer contribution rate multiplied by the employer’s covered payroll

Column 2 – Actual employer contribution remitted to VRS

Column 4 – Employer’s covered payroll amount for the fiscal year.

Sample Notes to Required Supplementary Information

**Notes to Required Supplementary Information
For the Year Ended June 30, 2019**

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

| | |
|---|---|
| Mortality Rates (Pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table – RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |