



THE RETIREMENT SYSTEMS OF ALABAMA

David G. Bronner, CEO
Donald L. Yancey, Deputy Director

September 21, 2018

PEEHIP Participating Employers:

The Governmental Accounting Standards Board (GASB) has issued two new accounting and financial reporting standards related to other postemployment benefits (OPEB) plans provided through state and local governments (i.e. GASB 74 and 75). Previously we have issued a letter containing information related to your agency's financial reporting requirements in compliance with GASB 45 and GASB Technical Bulletin 2006-1. GASB Statement 75 "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" supersedes GASB Statement 45 and GASB Technical Bulletin 2006-1 (this letter replaces the On-Behalf letter issued in previous years). GASB 75 is effective for employers with fiscal years ending June 30, 2018 and after. This standard affects reporting for all employers participating in the Public Education Employees' Health Insurance Plan (PEEHIP), a health insurance plan for active and retired employees. The September 30, 2018 (reporting date) employer's net OPEB liability calculation has been determined based upon the September 30, 2016 PEEHIP actuarial valuation rolled forward to September 30, 2017 (measurement date) using standard roll-forward techniques.

The audit plan outlined below is based on the guidance from Chapter 14 Defined Benefit Postemployment Benefits Other Than Pensions (Plan and Employer Considerations) from the AICPA Audit Guide of State and Local Governments (the Guide). This memo assumes that each CPA firm has read and is knowledgeable of the Guide.

Schedule of Employer Allocations

PEEHIP has prepared a schedule of employer percentages that displays the proportionate relationship of employer contributions of each employer to all employers and calculates each employer's allocation percentage. In addition, we have engaged our auditor to obtain reasonable assurance and report on this schedule. Their report is available on our website, www.rsa-al.gov.

Schedule of OPEB Amounts by Employer

PEEHIP has prepared a schedule of OPEB amounts by employer which presents the proportionate share of the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense of each employer. In addition, we have engaged our auditor to obtain reasonable assurance and report on the total OPEB liability, total deferred outflows of resources, total deferred inflows of resources, total OPEB expense for the sum of all participating entities included in this schedule. Their report is available on our website, www.rsa-al.gov.

Each participating employer is solely responsible for its financial statements and for evaluating the information used to recognize and disclose OPEB liability amounts therein. Likewise, each participating employer's auditor is solely responsible for the audit of the employer's financial statements. In accordance with the Interpretation No. 2, "Auditor of Participating Employer in a Governmental Cost-Sharing Multiple Employer Pension Plan" (AU-C sec. 9500 par. .23 - .29), of AU-C section 500:

"the employer and employer auditor may use the plan auditor's report on the schedules to provide evidence that the pension amounts allocated to the employer and included in the employer's financial statements are not materially misstated."

The interpretation is specific to pension plans, however, the concepts also apply to OPEB plans. The employer auditor should evaluate the plan auditor's report for adequacy and suitability for the employer auditor purposes.

Additional Information Regarding Census Data Testing

Total OPEB liability and contributions receivable and benefit payments are dependent on the completeness and accuracy of census data. As such, processes and controls over census data for active employees, inactive employees and retirees are critical. The PEEHIP has designed and implemented a strong process of internal controls over the census data of our members. These control processes are being examined by an independent firm who will issue a report on the controls for the period October 1, 2017 – September 30, 2018. Once the report is issued it will be located on our website, www.rsa-al.gov. RSA's auditors obtained an understanding of the processes and controls we have in place over census data as part of the risk assessment they used in their audit. In accordance with the Guide, our auditors selected a representative group of contributing employers for testing underlying payroll records of employees who are potentially eligible for participation in the PEEHIP plan. Contributing employers will be subject to testing each year on a rotating basis following the guidance outlined below:

- Employers constituting more than 20% of total plan members will be tested annually.
- Employers constituting at least 5% of total plan members will be tested on a five year cycle.
- Employers who collectively constitute less than 2% of total plan members may not be tested.
- Remaining employers that individually represent less than 5% of total plan members will be tested on 10 year cycle.

Employers, regardless of size, may be subject to other audit tests that fall outside the scope of the procedures outlined above. Additionally, our auditors tested census data maintained by PEEHIP for inactive employees and retirees.

The enclosed materials are of utmost importance in complying with GASB 75 relating to the Public Education Employees' Health Plan. Included in your packet:

Employer specific Required Disclosures and Supplementary Information – includes journal entry to record September 30, 2018.

All other information provided by RSA related to GASB 75 is located on our website, www.rsa-al.gov.

We hope that this information helps you to record your OPEB liability. Please provide all of this information to your auditors as they will need it during their audit work.

Sincerely,



Diane E. Scott
Chief Financial Officer
Retirement Systems of Alabama