

Fund 73 Trust Situations and Accounting Entries

Olivia Bernitt
School Finance Auditor, School Financial Services
Wisconsin Department of Public Instruction
608-261-2137
Olivia.Bernitt@dpi.wi.gov

Linda Mont
Sr. Benefit Consultant
lmont@keybenefits.com
Key Benefit Concepts, LLC
262-522-6415

WASBO Accounting Conference
March 2023



Agenda

- ▶ Types of Trust benefits
- ▶ Types of Trust Funding
- ▶ Eligibility for Categorical Aid
- ▶ Reallocating Assets

Focus on **Accounting Entries** pertaining to trust funding



Types of Post Employment Benefits



16

Compensated
Absences

Sick Leave, vacation pay,
etc.



67, 68, 73

Pensions
(Stipends)

Cash or cash equivalents
including post employment
TSA contributions

Other Post Employment Benefits

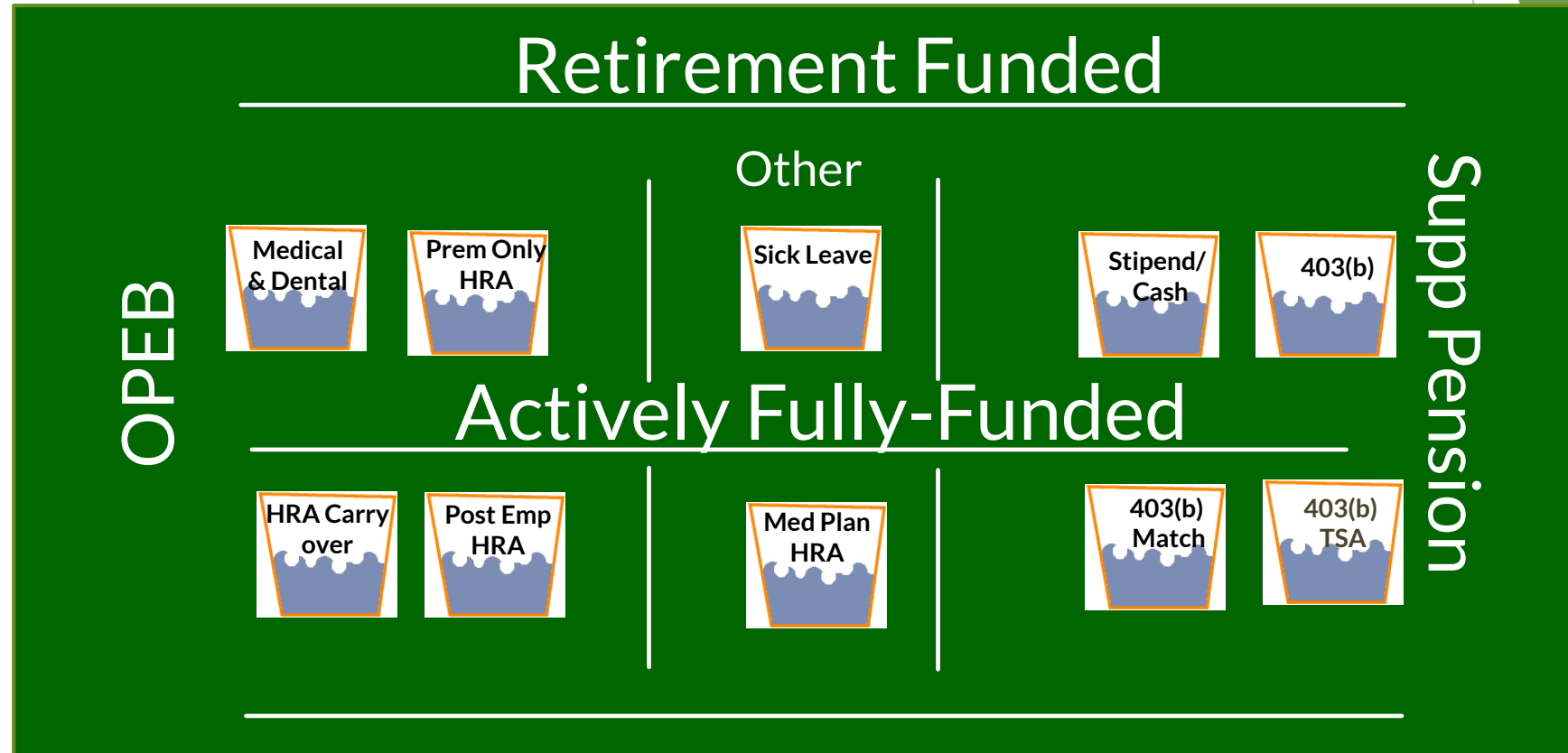


74, 75

Health, Dental,
Vision, Life,
Implicit Rate
Subsidy

Continued insurance
coverages or HRA
contributions available for
premium reimbursement or
other expenses

Examples of Post Employment Benefit Trust

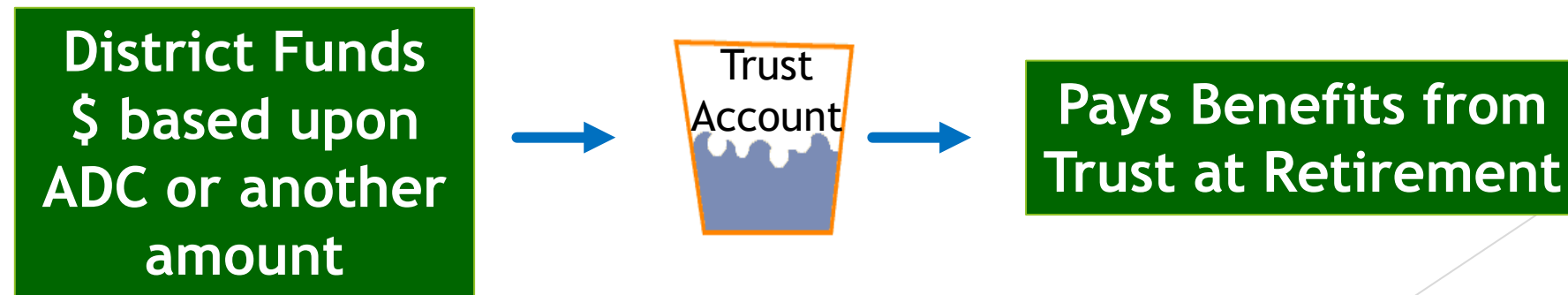


Actively Funded means the amount earned each year is funded each year via a Trust

Types of Funding



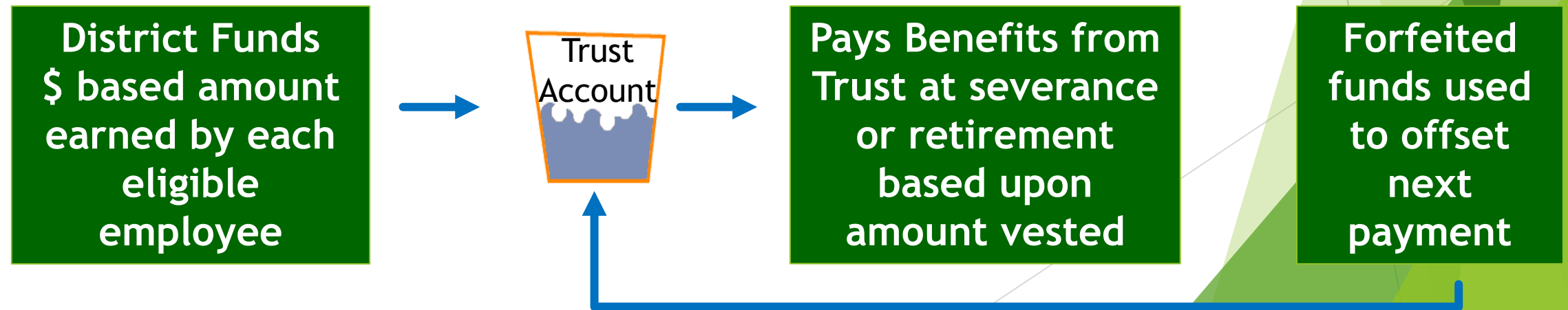
- ▶ Pay-as-you-go
- ▶ Irrevocable Trust (Fund 73)
 - Funded based upon benefits accrued and expected to be paid out in the future, usually retirement
 - In essence - under-funded or funded based upon amount earned
 - Will payout more than is funded unless benefit changes



Types of Funding

► Irrevocable Trust (Fund 73)

- Funded each year as earned by individual; may be paid out at severance based upon vesting schedule or retirement
 - In essence - overfunded
 - Will not payout all that is funded -
 - Forfeited dollars used to offset next contribution





Retirement Funding

Eligible for WRS with at least 15 years service



Health,
Dental,
Vision, Life,
LTC, Etc.

Medical Insurance: District contribution same as active Teachers (currently 87.4%). District contribution frozen for 4 years. If a retiree becomes Medicare-eligible prior to the exhaustion of their benefit, a Medicare 'carve-out' plan will be instituted in lieu of regular coverage



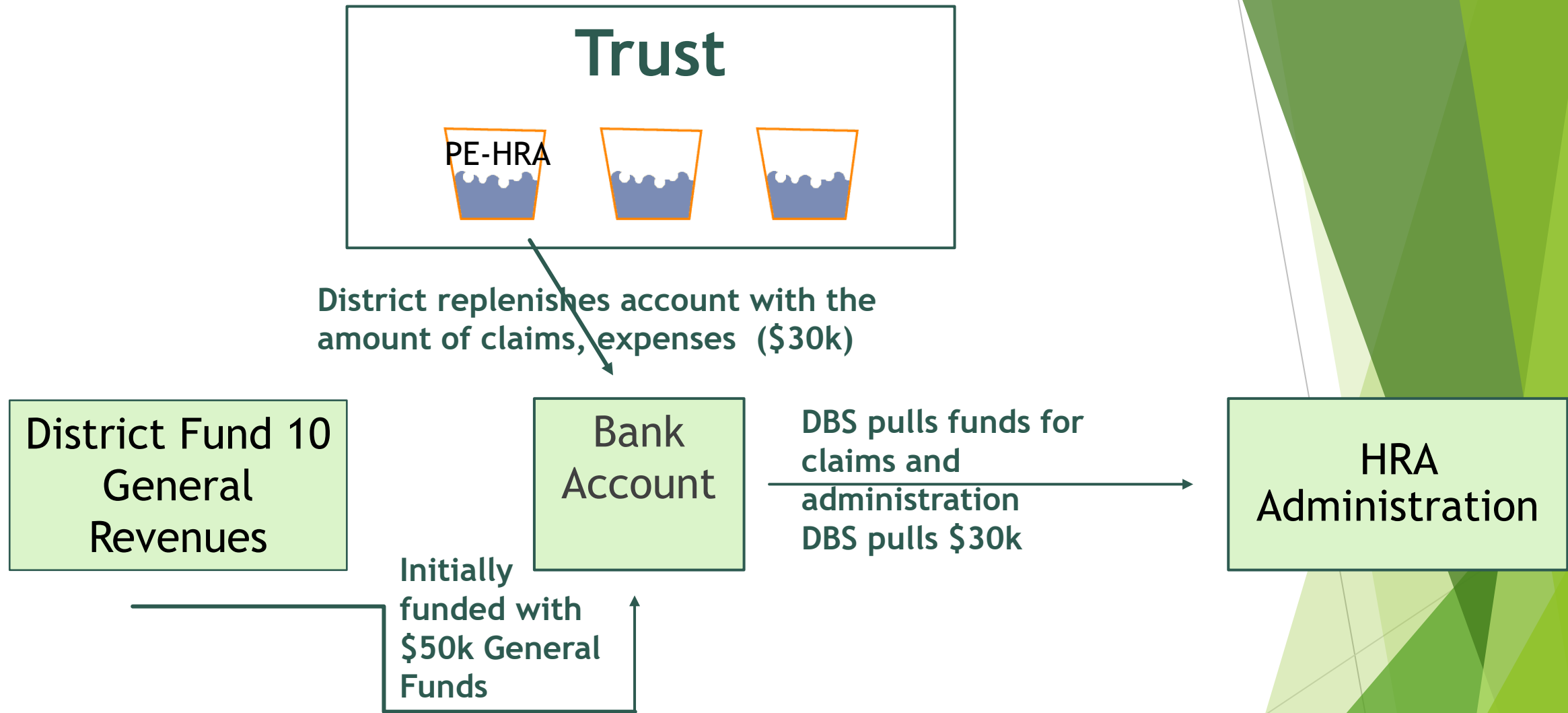
Stipends
Cash Payouts

Cash in Lieu Payments: Eligible retirees waiving coverage in the District's group medical plans will instead receive an annual cash benefit of \$2,375 in lieu of such participation for a period of 4 years.



Accounting Entries to Establish Trust and Fund it

- ▶ Benefits Valued in an Actuarial Study
- ▶ Contribution to trust:
 - Expended using object 218 across Funds and Functions
 - Revenue source 951 in Fund 73
- ▶ When the benefits are paid out of Fund 73:
 - Expended in Fund 73 using object 991, function 420000



Actively-Funding Benefit

Actively Funded Benefit

Eligibility

Retirement is
age 55 and 15
YOS

Actively Funded Benefit

Part 1: HRA Contribution: District will make an annual \$350 contribution **during active years of service** into the District's irrevocable trust. No District maximum contribution. Upon retirement (age 55 and 15 YOS), the vested amount will be divided by 5 and 1/5th paid annually into an HRA.

Part 2: District 403(b) Match: District will make a second contribution to the **District's irrevocable account annually**

Years of Service	Employee contribution	District 50% Match
1 – 5	\$400	\$200
6 – 10	\$800	\$400
11+	\$1200	\$600

After year	Vesting
5	25%
10	50%
15	100%

Upon retirement (age 55 and 15 YOS), the vested amount will be divided by 5 and 1/5th paid annually into a non-elective 403(b) plan



Accounting Entries to Establish Actively-Funded Trust Accounts and Annual Entries

- ▶ Defined Contribution not valued in an Actuary Study
- ▶ Contribution to trust:
 - ▶ Defined Contribution HRA: Expended using object 219
 - ▶ Active Employee Benefits: Expended using object 249
 - ▶ Pay as you go retiree benefits: Expended using object 290
 - ▶ Revenue source 955 in Fund 73
- ▶ When the benefits are paid out of Fund 73:
 - ▶ Expended in Fund 73 using object 993, function 420000



Actively-Funding Benefit

- ▶ Trust Account may be held by District (like the WI OPEB Trust) or by an outside party (like WEA Member services)
- ▶ This is a funding arrangement that is important to the District, but is still seen as one trust by DPI
- ▶ Does not impact accounting entries



Retirement Funding and Actively-Funding

Eligible for WRS with at least 15 years service



Health,
Dental,
Vision, Life,
LTC, Etc.

Medical Insurance: District contribution same as active Teachers (currently 87.4%). District contribution frozen for 4 years. If a retiree becomes Medicare-eligible prior to the exhaustion of their benefit, a Medicare 'carve-out' plan will be instituted in lieu of regular coverage



Stipends
Cash
Payouts

Cash in Lieu Payments: Eligible retirees waiving coverage in the District's group medical plans will instead receive an annual cash benefit of \$2,375 in lieu of such participation for a period of 4 years.

Actively Funded Benefit

Eligibility

Actively Funded Benefit

Retirement is age 55 and 15 YOS

Part 1: HRA Contribution: District will make an annual \$350 contribution **during active years of service** into the District's irrevocable trust. No District maximum contribution. Upon retirement (age 55 and 15 YOS), the vested amount will be divided by 5 and 1/5th paid annually into an HRA.

Part 2: District 403(b) Match: District will make a second contribution to the **District's irrevocable account annually**

Years of Service	Employee contribution	District 50% Match
1 – 5	\$400	\$200
6 – 10	\$800	\$400
11+	\$1200	\$600

After year	Vesting
5	25%
10	50%
15	100%

Accounting Entries

- ▶ For Actively-funded benefit
 - Catch up contribution for Tier 3:
 - ✓ Paid at retirement from trust
 - ✓ Catch up contributions funded over 3 years so that full amounts are funded within 3 years
- ▶ On-going Entries

Actively Funded Benefit

Eligibility	Actively Funded Benefit																			
Retirement is age 55 and 15 YOS	<p><u>Part 1: HRA Contribution:</u> District will make an annual \$350 contribution during active years of service into the District’s irrevocable trust. No District maximum contribution. Upon retirement (age 55 and 15 YOS), the vested amount will be divided by 5 and 1/5th paid annually into an HRA.</p>																			
	<p><u>Part 2: District 403(b) Match:</u> District will make a second contribution to the District’s irrevocable account annually</p>																			
	<table><tr><th>Years of Service</th><th>Employee contribution</th><th>District 50% Match</th></tr><tr><td>1 – 5</td><td>\$400</td><td>\$200</td></tr><tr><td>6 – 10</td><td>\$800</td><td>\$400</td></tr><tr><td>11+</td><td>\$1200</td><td>\$600</td></tr></table> <table><tr><th>After year</th><th>Vesting</th></tr><tr><td>5</td><td>25%</td></tr><tr><td>10</td><td>50%</td></tr><tr><td>15</td><td>100%</td></tr></table>	Years of Service	Employee contribution	District 50% Match	1 – 5	\$400	\$200	6 – 10	\$800	\$400	11+	\$1200	\$600	After year	Vesting	5	25%	10	50%	15
Years of Service	Employee contribution	District 50% Match																		
1 – 5	\$400	\$200																		
6 – 10	\$800	\$400																		
11+	\$1200	\$600																		
After year	Vesting																			
5	25%																			
10	50%																			
15	100%																			

Accounting Entries

- ▶ What if the District stops funding the benefit each year as earned?
 - ▶ Becomes a retirement-funded benefit (subject to actuarial valuation)
 - ▶ Changes in Account Entries





Accounting Entries - Walkthrough

My district pays the retirement benefit out of the general checking fund since we cannot set the payments up directly from the trust. How should this be recorded?

► Entries when the benefits are paid from the general fund:

D: 10B 714000 Due from Other Funds	\$XXX
C: 10B 711000 Cash	\$XXX
D: 73E 991 420000	\$XXX
C: 73B 812000 Due to Other Funds	\$XXX

► Entries when trust reimburses the general fund:

D: 10B 711000 Cash	\$XXX
C: 10B 714000 Due from Other Funds	\$XXX
D: 73B 812000 Due to Other Funds	\$XXX
C: 73B 711000 Cash	\$XXX



Accounting Entries - Walkthrough

My district pays the retirement benefit out of the general checking fund since we cannot set the payments up directly from the trust. How should this be recorded?

- ▶ Entries when the benefits are paid from the general fund:

~~D: 10B 714000 Due from Other Funds \$XXX~~

~~C: 10B 711000 Cash \$XXX~~

D: 73E 991 420000 \$XXX

~~C: 73B 812000 Due to Other Funds \$XXX~~

- ▶ Entries when trust reimburses the general fund:

~~D: 10B 711000 Cash \$XXX~~

~~C: 10B 714000 Due from Other Funds \$XXX~~

~~D: 73B 812000 Due to Other Funds \$XXX~~

C: 73B 711000 Cash \$XXX



Implicit Rate Subsidy

- ▶ The difference between individuals' actual incurred costs for medical coverage (i.e., incurred medical claims paid by the insurer, in the case of a fully-insured health plan) and the individuals' total premiums charged for such coverage.
- ▶ If retirees remain on the district's health insurance plan, there will likely be an implicit rate subsidy.
- ▶ Exceptions:
 - ▶ Self-insured plans that pay exact claims and administrative expenses
 - ▶ WI ETF State Group Insurance (possibly)
 - ▶ Separately rated plans
 - ▶ Immaterial (this determination is made by the independent auditors)



Categorical Aid

3 methods to meet requirements for categorical aid on contributions made to the trust:

- ▶ Contributions must be equal to or exceed the Actuarially-Determined Contribution (ADC)
- ▶ Contribution for current year exceeds expenditures (Pay-As-You-Go) plus Implicit Rate Subsidy (IRS) by 5%
- ▶ Over the last 3-year period, 3-year contribution totals must exceed total 3-year expenditures by 5%

If the district does not meet any of these three criteria, the district should not charge any of the contribution for special education staff to project 011 in the PI-1505-SE.

Note that the contribution over the ADC is not eligible for categorical aid and must be coded to function 292000



Examples of Meeting Categorical Aid Requirements

This Year	
ADC	\$150,000
PAYG	\$35,000
IRS	<u>\$21,000</u>
Total PAYG + IRS	\$56,000
Add'l 5%	\$2,800
Total Trust Contribution must be at least	\$58,800

3-Year Review	
ADC	\$150,000
PAYG (30,000 + 35,000 + 40,000)	\$105,000
IRS	<u>\$63,000</u>
Total PAYG + IRS	\$168,000
Add'l 5%	\$8,400
Total 3-Yr Trust Contribution must be at least	\$176,400



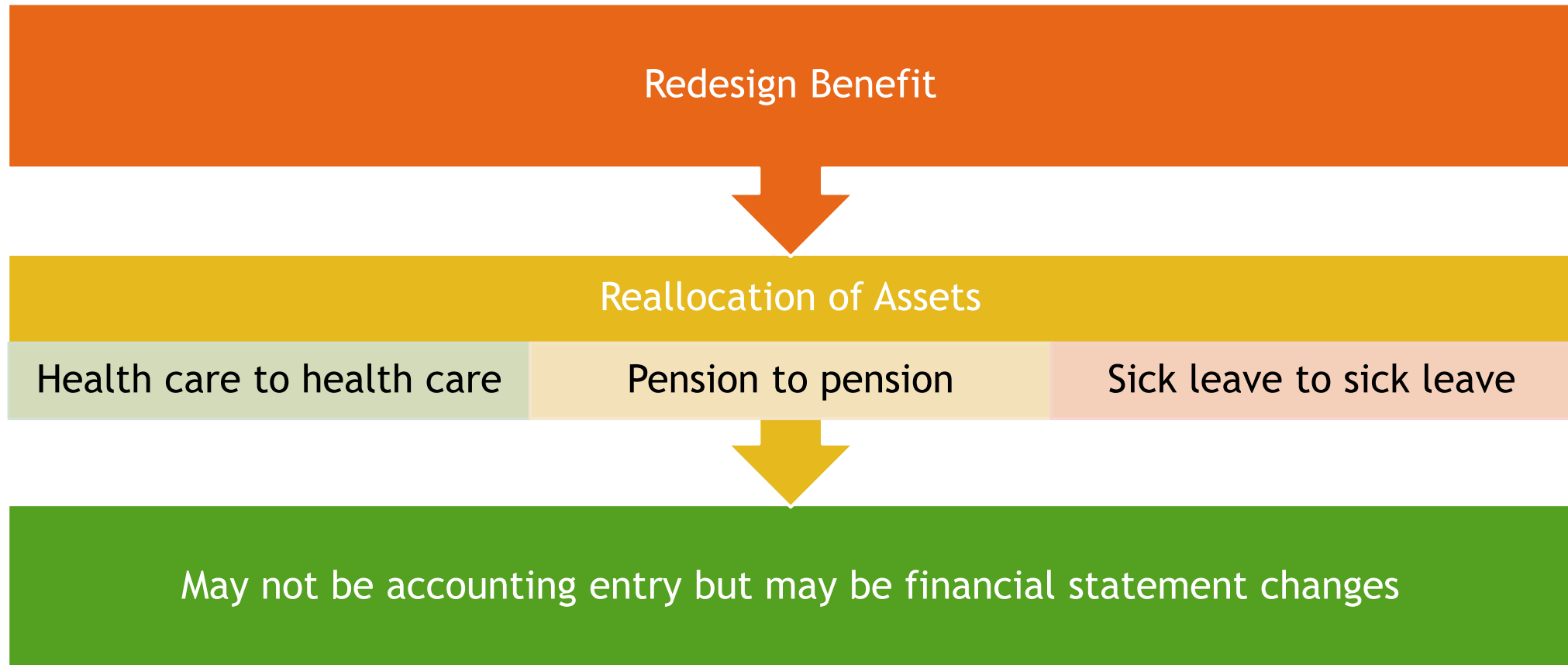
Employer Contributions and the ADC

- ▶ District determines ADC from the table provided by their actuary
 - ▶ Review:
 - ▶ Total contributions made for the year as it compares to the ADC schedule
 - ▶ Districts PAYG + IRS + 5% (current and three year calculations)
 - ▶ If the District's contribution does not equal the PAYG + IRS +5% for either calculation, the district must contribute at least the amount of the ADC to be eligible for categorical aid.
 - ▶ ADC option chosen does not have to be the same each year.
 - ▶ Categorical aid is a one-time opportunity.
 - ▶ Not eligible for categorical aid if net obligation in the actuary study is negative
 - ▶ Calculate your own IRS - do not use the example in the PAYG table

Categorical Aid

- ▶ If the district does meet the current or three-year calculation and does not contribute at least the amount of the ADC, then they are not eligible for categorical aid and cannot code the portion for special education to project 011 in the PI-1505-SE.
- ▶ Categorical aid being a one-time opportunity, if the district funds over the ADC that was selected from the study, that portion above the ADC cannot be claimed in categorical aid.
- ▶ The ADC is recalculated every 2 years so if the district underfunds, the ADC options will likely be higher. It is important to determine to fund the ADC or the pay-as-you-go plus IRS plus 5% looking at 1 year or 15% looking back 3 years. Otherwise, the amount funded into the trust will not now or ever be eligible for categorical aid.
- ▶ To calculate their own IRS, use the sample entries excel document that DPI provides on our website on the employee benefit trust fund page.

Dissolving a Trust or Trust Bucket






What happens to Trust Assets

- ▶ No longer providing post employment benefit of a similar type:
 - ▶ Contact DPI
 - Assure appropriate timing
 - Review of categorical aid
 - Help with journal entries
- ▶ Use funds for 'other purpose' as defined in trust agreement
 - May want to add a trust amendment





Dissolving a Trust or Trust Bucket



Assure there are no other post employment benefits of a similar type?



Draining trust assets

Pay out all benefits remaining until Implicit Rate Subsidy only, or benefit is immaterial



Entries are required if the funds are moved out of the trust, or the trust or a portion of the trust is closed.



Steps for Reallocation



Determination of direction

Assistance from legal counsel



Approval by board

Board Resolution



Date of change

Assets reallocated in cash

New obligation as of given date (funding a new benefit)



DPI approval and Journal entries

Questions



[This Photo](#) by Unknown Author is licensed under [CC BY](#)

Olivia Bernitt

School Finance Auditor, School Financial Services

Wisconsin Department of Public Instruction

608-261-2137

Olivia.Bernitt@dpi.wi.gov

Linda Mont

Sr. Benefit Consultant

Key Benefit Concepts, LLC

262-522-6415

lmont@keybenefits.com

*Thank
you*

[DPI Employee Benefit Trust Fund webpage](#)