**Factors to consider when establishing**

**an employee benefit trust**

*updated – June 15, 2017*

Governmental Accounting Standards Board (GASB) Statement 45 and amended by Statement 75 were established to provide more complete and reliable financial reporting regarding other post employment benefits (OPEB). The statements address the costs and obligations governments incur when they provide post employment benefits, other than pensions, as compensation for services currently rendered by employees. As a result of these statements, school districts are required to determine their other post employment benefit (OPEB) liabilities. These statements do **not** require a school district to set funds aside for the future payment of the liability, only to determine the liability and disclose it in the financial statements.

Choosing to fund the OPEB liability through a trust is strictly a local decision of the district. If district resources are available, setting funds aside for the future payment of these benefits appears to be a fiscally responsible thing to do. The following information is provided to assist you in making the decision of whether to set funds aside or continue on the “pay as you go” (pay current retirees from current operating funds).

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| **Fund other post employment benefits on the “pay as you go” method:** |  | **Fund a trust for future payment of post employment benefits:** |
| *A school district may choose to continue payment of other post employment benefits from current year operating funds (pay as you go). Under this option, the district is required to determine the OPEB liability for financial reporting under the appropriate actuarial valuation or other acceptable cost method. There are several things a district may want to consider when choosing this method:* |  | *A district may choose to set up a trust thereby making a contribution to the trust for payment of future post employment benefits. Under this option, a school district is required to determine the OPEB liability for financial reporting under the appropriate actuarial valuation or other acceptable cost method. The difference between making trust payments and “pay as you go” is that funds are set aside in trust for future payment of the benefits, rather than paying the benefit as it comes due with operating funds. There are several things a district may want to consider when choosing this method:* |

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| **Fund other post employment benefits on the “pay as you go” method:** |  | **Fund a trust for future payment of post employment benefits:** |
| * The annual “pay as you go” cost becomes part of the district’s shared cost. Depending on how a district is aided, this may have either a positive or negative affect on general aid received. The payment of retirement benefits through this method is not eligible for federal or state grants or state categorical aid. |  | * The annual contribution to the trust becomes part of the district’s shared cost. Depending on how a district is aided, this may have either a positive or negative affect on general aid received. A contribution less than or equal to the ARC/ADC is eligible for federal or state grants provided consistent treatment is used in allocation to individuals or group(s) of employees in the plan. This contribution may also be eligible for additional state categorical aid provided all DPI requirements are met. |
| * Under the “pay as you go”, funds held for operating purposes (fund 10) are to be invested under WI statute 66.0603. These investments are generally of a short term nature with low investment return. |  | * In January, 2006, the Governor signed into law Wisconsin ACT 99 which allows funds held in trust to provide for other post employment benefits to be invested in the same manner as is authorized for investments under s. 881.01 “uniform prudent investor act”. This law provides for increased latitude in investing funds held in trust which may result in long-term investments with increased investment return. |
| * With implementation of GASB statement 75, a district will be required to report balance of the Net OPEB Liability on the face of the financial statements as well as the method of funding. Without a contribution to reduce the liability reported in the district wide financial statements, the liability will continue to grow. The increased liability and planned method of funding may negatively impact future bond ratings. |  | * With implementation of GASB statement 75, a district will be required to disclose the balance of the Net OPEB Liability as well as the method of funding. When contributions to a trust are made, the liability reported in the district wide financial statements will decrease. This reduced liability and planned method of funding may positively impact future bond ratings. |

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| **Fund other post employment benefits on the “pay as you go” method:** |  | **Fund a trust for future payment of post employment benefits:** |
| * Depending on benefits offered, annual costs to the district for current retirees will probably increase each year. |  | * By establishing a trust and contributing the ADC on an annual basis, other post employment benefit costs to the district may be higher in the earlier years but more consistent overall. |
| * Current retiree benefits are paid by general operating funds. |  | * Once a trust is established, current retiree benefits are paid from the trust. |
|  |  | * A legally established irrevocable trust must be established |
|  |  | * Setting up a trust requires additional reporting requirements. GASB Statement 43/74 will impact a district’s financial statements when a trust is set up. Also, additional reporting at the annual meeting (common or union high school district) or public budget hearing (unified school district) of the district is required. |
|  |  | * Assets must be segregated (separate cash/investment account) and may only be used to pay the benefits. |
|  |  | * By contributing funds to a trust, employees are provided with the security that funds will be available to them at retirement. |

***Note to school districts/others with fund 73***

Many decisions are required during the establishment of an employee benefit trust fund (fund 73). These decisions are the sole responsibility of the school district.  DPI does not make a determination regarding legality or risks associated with the trust including investments and debt. DPI does provide guidance on how to account for the activity for filing DPI required reports and determination of district aid eligibility.