

Accounting 100.704cd Early Retirement Liability

Office: Business Services
 Procedure Contact: Business Services Accounting Manager
 Related Policy or Policies:
 Distribution:

Revision History

Revision Number:	Change:	Date:
001	Update content and format	01-04-2018

A. Purpose

The purpose of this document is to set forth the procedure for managing the early retirement liability file, namely calculating the early retirement liability and periodically adjusting the liability in Banner, preparing the early retirement liability update, and reestablishing the calculation spreadsheet for the new fiscal year.

B. Definitions

Agreement on Relinquishment of Tenure - Agreement between faculty and SOU that sets forth the retirement option elected by the retiree.

Option A - 25% one-time cash settlement for health and dental benefits.

Option B - Extended health and dental benefits for up to seven years or until retiree reaches age 65, whichever comes first.

C. Procedures

Early Retirement Liability File Management

Options A and B, defined above, are available to only faculty. As of the writing of this document, this program is only being offered as part of the faculty bargaining agreement.

After the Agreement on Relinquishment of Tenure has been executed by all parties (the faculty member and Southern Oregon University), the Provost’s office shall copy the Director of Business Services on the agreement.

The Director of Business Services shall place the agreement here:

S:\Business Services\Data\Accounting\Early Retirement Liability\ER Health Benefit Contracts

On a monthly basis, a Business Services Accountant shall check the above-referenced folder for any new agreements and review the agreement(s) to determine whether the retiree has elected either Option A or Option B. If the retiree has elected Option A, then the agreement shall be merely filed in the folder entitled, “Option A= Non-Medical Benefit Option.” If the retiree has elected Option B, then the Accountant shall add the retiree to the spreadsheet entitled “ER-Liab [Current Fiscal Year End Date] Adjustment” (found in the folder entitled, “FY20XX”) and move the agreement to the folder entitled, “Posted on ER Spreadsheet.”

The “ER Liab [Current Fiscal Year End Date] Adjustment” spreadsheet contains multiple worksheets, one for each fiscal year, and one that analyzes the maximum potential impact of the early retirement liability. The fiscal year worksheet contains two distinct sections: 1) one for retirees who elected Option B in a prior fiscal year and 2) one for retirees who elected Option B in the current fiscal year. Retirees who elect Option B in the current fiscal year shall be added to section 2 entitled, “added to

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program during current fiscal year.” When transitioning to a new fiscal year, all section 2 retirees shall be moved up to section 1 entitled, “prior retirees.” Refer below to the procedure on spreadsheet setup for the new fiscal year.

With the exception of the date of birth of the retiree, all retiree information required by the spreadsheet can be gleaned from the agreement. To ascertain the date of birth of the retiree, open the Banner form “SPAIDEN” and query on the retiree’s name.

Early Retirement Liability Calculation and Adjustment

The early retirement liability shall not exceed 1% of the estimated fiscal year Education and General (E&G) operating revenues.

Example #1:

If the estimated E&G operating revenues were \$60,000,000, then the maximum liability would be \$600,000 (adjusted to represent the Net Present Value [NPV] for the current fiscal year). Any retirees that cause the amount of the liability to exceed the maximum amount would be required to delay their retirement to the following fiscal year. Any retirees affected by this rule would receive priority status in the following fiscal year.

On a quarterly basis (September 30, December 31, March 31, and June 30), the Accountant shall submit a JV for approval to adjust the short- and long-term early retirement liability. It is critical that the adjustment be made consistently, on a quarterly basis, so that Business Services can perform a meaningful analysis of the impact of the liability.

To calculate the quarterly adjustment to the short- and long-term early retirement liability, in FWITBAL, query the general fund and record in the ER-Liab [Current Fiscal Year End Date] Adjustment spreadsheet the current balance for the short-term early retirement liability (B1720) and the long-term early retirement liability (B1820). The short-term portion of the liability is the sum of the payments due in the following fiscal year. The long-term portion of the liability is the difference between the total net present value discounted liability for all retirees and short-term portion of the liability.

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Below is a sample of the spreadsheet calculation.
 Short-term Liability (amount that will be due during the following year).
 Long-term Liability (total less short-term portion)

ER-Liab 2017-06-30 Adjustment.xlsx - Excel

Southern Oregon University
 Early Retirement Liability, as of June 30, 2017
 Option "B": Tenure Relinquishment, with Health Benefits for 7 years after Retirement, or until age 65

Program Year	Last Name	First Name	Date Retiree reaches age 65	Benefit Starting Month	Benefit Ending Month	Effective Monthly Benefit Estimate at Retirement	Monthly Benefit	Fiscal Year Benefit Estimate													Total					
								2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028								
2016			7/17/2021	July, 2016	July, 2021	\$ 1,288.00	\$ 1,591.84	\$ 19,102.08	\$ 19,102.08	\$ 19,102.08	\$ 19,102.08	\$ 15,918.84	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	\$ 78,000.16					
2016			12/11/2017	Jan, 2016	Dec, 2017	\$ 1,288.00	\$ 1,288.00	\$ 7,728.00	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	\$ 7,728.00					
2016			7/18/2025	Oct, 2015	Oct, 2022	\$ 1,288.00	\$ 1,530.04	\$ 18,360.48	\$ 18,360.48	\$ 18,360.48	\$ 18,360.48	\$ 16,120.16	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	\$ 79,562.08					
Subtotal of Prior Year Retirees:								\$134,541	\$104,294	\$114,953	\$100,357	\$57,725	\$46,150	\$11,932	\$0	\$0	\$0	\$0	\$0	\$0	\$563,612					
NPV Discount Rate Estimated at 6%:								0.943	0.890	0.840	0.792	0.747	0.705	0.665	0.627	0.592	0.558	0.527								
NPV Discounted Liability Associated with Prior Retirees:								\$ 126,872	\$ 92,621	\$ 96,514	\$ 79,482	\$ 43,121	\$ 32,536	\$ 7,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 479,095		
Added to Program During 2017:																										
2017			12/24/2007	N/A = Over 65	N/A = Over 65	\$ 1,288.00	\$ 1,288.00	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	\$ -					
2017			9/8/2018	Jan, 2018	Sept, 2018	\$ 1,288.00	\$ 1,288.00	\$ 7,728.00	\$ 3,864.00	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	\$ 11,592.00					
2017			6/14/2018	Jan, 2017	June, 2018	\$ 1,288.00	\$ 1,288.00	\$ 15,456.00	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	\$ 15,456.00					
2017			10/31/2023	July, 2017	Oct, 2023	\$ 1,288.00	\$ 1,288.00	\$ 15,456.00	\$ 15,456.00	\$ 15,456.00	\$ 15,456.00	\$ 15,456.00	\$ 5,152.00	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	N/A = +65	\$ 82,432.00					
2017			9/8/2026	Jan, 2020	Sept, 2026	\$ 1,288.00	\$ 1,288.00	Flending	Flending	\$ 7,728.00	\$ 15,456.00	\$ 15,456.00	\$ 15,456.00	\$ 15,456.00	\$ 15,456.00	\$ 15,456.00	\$ 3,864.00	N/A = +65	N/A = +65	N/A = +65	\$ 104,328.00					
2017						\$ 1,288.00	\$ 1,288.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
2017						\$ 1,288.00	\$ 1,288.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
2017						\$ 1,288.00	\$ 1,288.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
2017						\$ 1,288.00	\$ 1,288.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -					
SUBTOTAL Future Retirement Commitments:								\$38,840	\$19,320	\$23,184	\$30,812	\$30,812	\$20,608	\$15,456	\$15,456	\$15,456	\$3,864	\$0	\$0	\$213,808						
NPV Discount Rate Estimated at 6%:								0.943	0.890	0.840	0.792	0.747	0.705	0.665	0.627	0.592	0.558	0.527								
Discounted Liability for Current Year Retirees for Current Fiscal Year:								\$ 36,438	\$ 17,195	\$ 19,465	\$ 24,482	\$ 23,091	\$ 14,529	\$ 10,278	\$ 9,691	\$ 9,150	\$ 2,156	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 166,475	
Estimated FY E&G Operating Revenues																					\$ 58,197,000					
1% of Est Oper. Revenues																					\$ 581,970					
Estimated Remaining Liability Eligibility @1% of E&G Revenues																					\$ 415,495					
NPV Discount Rate Estimated at 6%:								0.943	0.890	0.840	0.792	0.747	0.705	0.665	0.627	0.592	0.558	0.527								
Total NPV Discounted Liability for All Retirees:								\$ 163,310	\$ 110,016	\$ 115,979	\$ 103,964	\$ 66,212	\$ 47,065	\$ 17,887	\$ 9,691	\$ 9,150	\$ 2,156	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 645,530
Short-Term Liab																					\$ 120,000					

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Option B - Active June, 2017

Count: 0 Sum: 0

Example #2:

- Current balance—short-term early retirement liability = \$100,000 (per Banner)
- Current balance—long-term early retirement liability = \$200,000 (per Banner)
- Total net present value discounted liability for all retirees = \$500,000 (per spreadsheet)
- Short-term portion of liability = \$120,000 (per spreadsheet)

	Debit	Credit	
DR HRRETI/28521	\$200,000		(\$500,000-\$100,000-\$200,000)
CR 001000/B1720		\$20,000	(\$120,000-\$100,000)
CR 001000/B1820		\$180,000	(\$500,000-\$120,000-\$200,000)

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Oracle Fusion Middleware Forms Services: Open > FWITBAL

File Edit Options Block Item Record Query Tools Help

General Ledger Trial Balance Form FWITBAL 8.0.0.1.C (SOUPRD)

Chart: F Account Type: Fund: 001000 General Fund Operations
 Fiscal Year: 17 Account:
 Fiscal Period:

Account	Description	Beginning Balance	D/C *	Current Balance	D/C *
B0370	Early Retirement Liability	0.00	C	0.00	C
B0371	Early Retirement Liab - Current	0.00	C	0.00	C
B0375	Early Retirement Liability SOU	0.00	C	0.00	C
B0390	Contract Retainage Payable	0.00	C	0.00	C
B0401	Change Request from Bank	0.00	C	0.00	C
B0819	Accrued Interest Pay Bonds/COPs	1,763.33	C	0.00	C
B1720	Early Retirement Liab - ST	109,988.00	C	163,310.00	C
B1790	Compensated Absences Liability - ST	1,287,846.51	C	1,287,846.51	C
B1820	Early Retirement Liab - LT	314,400.00	C	482,222.00	C
B1890	Compensated Absences Liability - LT	258,309.61	C	258,309.61	C
B1902	S&W Payable Manual Accrual	0.00	C	0.00	C
B1990	Compensated Absences Liability	0.01	D *	0.01	D *
B4901	Miscellaneous Deposits	0.00	C	0.00	C
B5002	SIS Cash Clearing	109,362.61	C	67,170.41	C
B5003	Unapplied Financial Aid Disbur.	60,419.30	C	11,509.95	C
Total: ALL ACCOUNTS		0.00		0.00	

* - denotes amount is opposite of Normal Balance

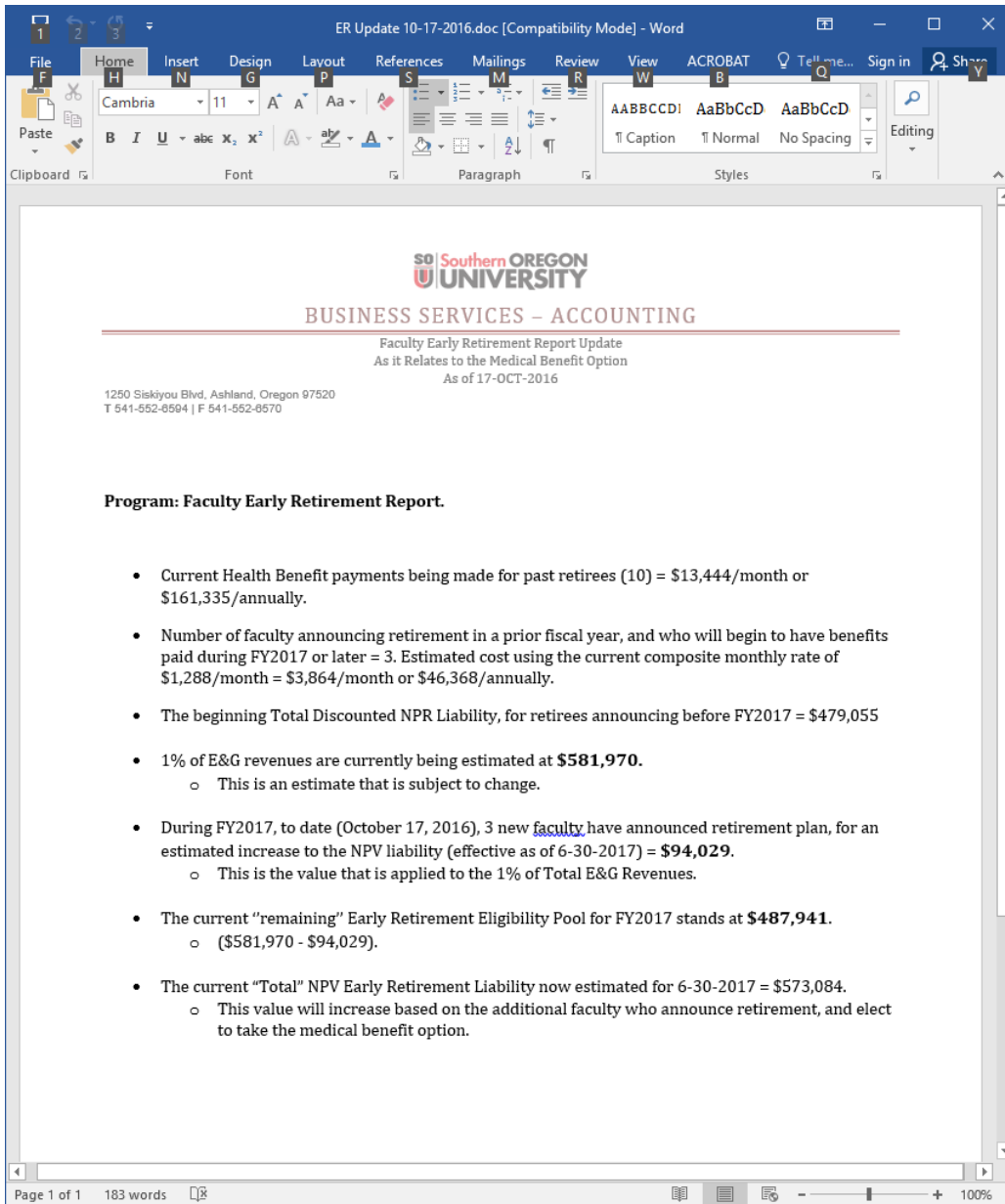
Press Key Duplicate Item to view General Ledger activity.
 Record: 74/108

To sufficiently document the JV to adjust the short- and long-term early retirement liability, save the ER Liab Adjustment spreadsheet as a new file and name it, "J00XXXXX ER-Liab [Current Fiscal Year End Date] Adjustment." Place the file in the folder entitled, "JV Adjustment Backup."

Early Retirement Liability Report

The Accountant shall periodically update the file entitled, "ER Update [date of last update]." This file serves to report on the current status of the early retirement liability. The ER Update contains a number of bullet points. Information for the first bullet point, which reports on current payments made on behalf of prior retirees, can be found in Banner. Information for the remaining bullet points, which report on various other information, such as the number of faculty who announced their retirement in a prior fiscal year and who will begin receiving monthly benefit payments in the current fiscal year or later, can be gleaned from the ER Liab [Current Fiscal Year End Date] Adjustment spreadsheet.

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Spreadsheet Setup for New Fiscal Year

When transitioning fiscal years, a new fiscal year folder shall be created, along with a new spreadsheet. Any retirees who announced their retirement in the prior fiscal year shall be moved up to the "prior retirees" section of the spreadsheet. Even if the effective monthly benefit estimate at the time of retirement changes, which it invariably does from year-to-year, this estimate shall follow the retiree to this section and shall be left unchanged for the duration of the payout of the benefit. This will allow Business Services to determine whether the early retirement liability is properly stated. Given the invariable change to the estimate (whether up or down), and the fact that the liability is based on the estimate at retirement, the potential exists for the actual payout (established in the first year the faculty member is "retired") to the Health Provider may be different than the composite-rate estimate used in the year the faculty member announces their retirement. The actual monthly payout amount will be reflected on the spreadsheet, but in a separate column that will adjust the formulas for

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generating the ongoing liability (this allows the ability to still see the earlier estimated rate, along with the actual amount that is paid out). Once the payout rate is set for the year the faculty member is finished with their teaching assignments and is formally "retired", this rate will not change and will be the amount the institution will be committed to pay regardless of future increases to medical benefit rates that may occur.

Example #3:

Retiree A's retirement is effective June 30, 2016. The estimated benefit at the time of retirement is \$1,288. In fiscal year 2017, however, when Retiree A's benefit is scheduled to begin paying out, the actual benefit is \$1,400. In this case, the liability is understated by \$112. The composite rate is used to initially generate the estimated liability since some may come in higher and some may come in lower...it's used to estimate the average liability, prior to knowing the actual amount that will be known at the time of retirement. Adjust the "Monthly Benefit" (Column "O") to reflect the updated "actual" amount to be paid. This will remain constant through the duration of the obligation (the faculty member is responsible for any increases to health care benefits until the end of the agreement).

Composite-rate used to estimate benefit before retirement occurs:
 Actual rate confirmed at the time of retirement:

Program Year	Last Name	First Name	Date Retiree reaches 65	Benefit Starting Month	Benefit Ending Month	Effective Monthly Benefit Estimate at Retirement	Monthly Benefit	2018	2019	2020	2021
2016			7/17/2021	July, 2016	July, 2021	\$ 1,288.00	\$ 1,591.84	\$ 19,102.08	\$ 19,102.08	\$ 19,102.08	\$ 19,102.08
2016			12/11/2017	Jan, 2016	Dec, 2017	\$ 1,288.00	\$ 1,288.00	\$ 7,728.00	N/A = +65	N/A = +65	N/A = +65
2016			7/16/2025	Oct, 2015	Oct, 2022	\$ 1,288.00	\$ 1,530.04	\$ 18,360.48	\$ 18,360.48	\$ 18,360.48	\$ 18,360.48
Subtotal of Prior Year Retirees:								\$134,541	\$104,294	\$114,953	\$100,357
NPV Discount Rate Estimated at 6%:								0.943	0.890	0.840	0.792
NPV Discounted Liability Associated with Prior Retirees:								\$ 126,872	\$ 92,821	\$ 96,514	\$ 79,482
Added to Program During											
2017			12/24/2007	N/A = Over 65	N/A = Over 65	\$ 1,288.00	\$ 1,288.00	N/A = +65	N/A = +65	N/A = +65	N/A = +65
2017			9/8/2018	Jan, 2018	Sept, 2018	\$ 1,288.00	\$ 1,288.00	\$ 7,728.00	\$ 3,864.00	N/A = +65	N/A = +65
2017			6/14/2018	Jan, 2017	June, 2018	\$ 1,288.00	\$ 1,288.00	\$ 15,456.00	N/A = +65	N/A = +65	N/A = +65
2017			10/31/2023	July 2017	Oct, 2023	\$ 1,288.00	\$ 1,288.00	\$ 15,456.00	\$ 15,456.00	\$ 15,456.00	\$ 15,456.00
2017						\$ 1,288.00	\$ 1,288.00	\$ -	\$ -	\$ -	\$ -
2017			9/6/2026	Jan, 2020	Sept, 2026	\$ 1,288.00	\$ 1,288.00	Pending	Pending	\$ 7,728.00	\$ 15,456.00
2017						\$ 1,288.00	\$ 1,288.00	\$ -	\$ -	\$ -	\$ -
2017						\$ 1,288.00	\$ 1,288.00	\$ -	\$ -	\$ -	\$ -
2017						\$ 1,288.00	\$ 1,288.00	\$ -	\$ -	\$ -	\$ -
SUB TOTAL Future Retirement Commitments:								\$38,640	\$19,320	\$23,184	\$30,912
NPV Discount Rate Estimated at 6%:								0.943	0.890	0.840	0.792
Discounted Liability for Current Year Retirees for Current Fiscal Year:								\$ 36,438	\$ 17,195	\$ 19,465	\$ 24,482

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Tips: Don't drag formulas - for future years, you will be deleting columns and migrating the NPV formulas forward. If formulas are dragged or tied to calculation in an earlier column, the formulas will be broken when the lead column is deleted when preparing the spreadsheet for the coming year.

.690 CONTACT INFORMATION

Direct questions about this procedure to the following offices:

Subject	Contact
General questions from institutional personnel	Service Center
Service Center	Business Services - Controller's Division

This procedure may be revised at any time without notice. All revisions supersede prior procedures and are effective immediately upon approval.

D. Appendix