GASB 68: Bet You Can't Wait!

Taking a closer look at GASB's new pension standards

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Presenters

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Barrie leads the Finance and Administrative Services team which is comprised of dedicated individuals in a variety of service units, including financial planning and budgets, financial services and reporting, facilities management, human resources, campus police, parking, and residences and auxiliary services.

Mary Hill, Associate Vice President Financial Services and Reporting and Controller, Central Michigan University

Mary oversees financial services and reporting departments including accounting, grants, payroll, travel, payable accounting, student account services, treasury and investments, contracting and purchasing, risk management, environmental health and safety services.

Katie Thornton, CPA, Senior Manager, Plante Moran

Katie is the leader of the firm's higher education professional standards team and is responsible for the industry's technical quality control and training of our higher education industry staff. Katie has presented on GASB's new pension standards to clients and higher education industry associations in the last year.

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Agenda

- Impact of new standards - Overview
- Basic concepts - Refresher
- Financial statement impact
- Example calculations
- Implementation changes and challenges
- "To-do" Timeline
- Current Discussions
- Q&A
- (Appendix items provided at end)

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Plans/Employers Impacted

* Single-employer plans/single employer
  * Provide benefits to the employees of only one employer.
    * Example: City of Anytown creates a pension system just for its employees
* Agent multiple-employer plans/agent employer
  * Provide benefits to more than one employer by pooling assets for investment purposes, but legally segregating the assets to pay benefits promised by individual employers. Essentially an agent plan is a collection of single-employer plans.
    * Example: MERS, in Michigan
* Cost-sharing multiple-employer plans/cost-sharing employer
  * Provide benefits to more than one employer by pooling the assets and obligations across all participating employers. As a result, plan assets may be used to pay the benefits of any participating employer.
    * Example: OPERS, in Ohio

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Plans/Employers Impacted

* Which kind of plan do you have?

  1. Single-employer plans/single employer
  2. Agent multiple-employer plans/agent employer
  3. Cost-sharing multiple-employer plans/cost-sharing employer

* Any of you have more than one?

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Overall Impact

* This impacts all governmental entities that participate in a pension plan! (not just higher education)
* Most states have a state-wide cost-sharing plan
* Many different situations
* Where should we spend the time today?
  * Mechanics of recording the entries
  * Politics and communication

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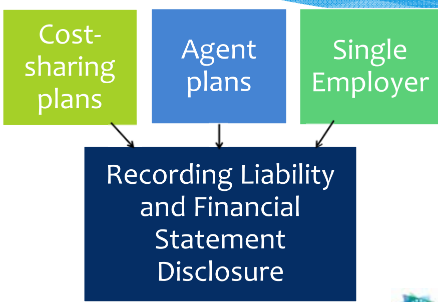
Employer Responsibility/End Goal



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Employer Information Requirements

- Employers need the following to record the liability and disclose appropriately:
  - Net pension liability (NPL)
  - Deferrals
  - Pension expense
  - Footnote disclosure data
  - Required supplemental information (RSI) data
- Where this information comes from depends on the type of plan!

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Question

- How much have you done to prepare for GASB 67/68 to date?
  1. Not much, that is why I am here!
  2. Attended a few webinars, but I feel there is much more to learn
  3. Started talking to my state plan, actuaries, and/or auditors
  4. Spent a lot of time researching and discussing; I/we feel well prepared

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Let's review

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Effective Dates

- GASB 67, Financial Reporting for PENSION PLANS
  - Years beginning after June 15, 2013
  - IMPACT:
    - Stand alone plan f/s
    - Employer with a pension trust fund
- GASB 68, Accounting & Financial Reporting for Pensions (EMPLOYER)
  - Years beginning after June 15, 2014
  - IMPACT:
    - NPL recorded regardless of plan type
    - Does not impact funding!!

June year end	December year end
Pension – FY2014	Pension – FY2014
Employer – FY2015	Employer – FY2015

- This does NOT impact OPEB (yet)!

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Current Approach vs…

- Current:
  - Pension costs are recognized as the pensions are funded (or how they should be funded, based on the actuarially required contribution (ARC))
  - There is no liability reported if the government fully funds it's ARC (single-employer or agent plans) or pays its contractually required contribution (cost-sharing plan)

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New Approach under GASB 67/68

* GASB 67/68:
  * ***Key conceptual shift in reporting pension liabilities and expense under the economic resources measurement focus…***
    * ***from a "funding" approach to***
    * ***an approach more focused on interperiod equity.***

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New Approach Under GASB 67/68

* Theory:
  * Pension costs are part of the employment exchange, and should be recognized as the employment services are rendered (not as they are funded)
* Responsibility:
  * The pension plan is the primary obligor for the funded portion – but the employer is the primary obligor for the unfunded portion; this does meet the definition of a liability and should be recorded as a liability

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Overall Balance Sheet Impact

* Employers will now record the NET pension liability on the full accrual statements.

* These amounts will be measured as of the "measurement date"

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Overall Income Statement Impact

CHANGE IN NET PENSION LIABILITY DUE TO:	EXPENSE	DEFD I/O
1. Employees work and earn more benefits	x	
2. Interest on the total pension liability	x	
3. Changes in total pension liability due to: a) Actual economic & demographic changes differing from assumed		Amortized Over Service Period
b) Changing assumptions about economic & demographic factors		Amortized Over Service Period
c) Changes in the terms of pension benefits	x	
4. Changes in amount of pension plan net assets due to: a) Projected investment earnings	x	
b) Actual investment earnings experience different than assumed		Amortized Over 5 Years
c) All other (receiving contributions, paying benefits, etc.)	x	
5. Changes in proportionate share of collective net pension liability (cost-sharing plans only)		Amortized Over Service Period

Let's talk Employer Financial Statements – End Result

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Employer Financial Statement

Statement of Net Position

ASSETS		**June 30, 2015**
Cash and cash equivalents	$	13,518,186
Investments		5,929,622
Receivables (net)		3,085,177
Capital assets (net of accumulated depreciation)		29,912,082
TOTAL ASSETS		52,445,067
LIABILITIES		
Accounts Payable & accrued liaiblities		4,538,206
Non-current liabilities:		
Current portion of long-term debt		936,000
Long-term debt (net of current portion)		1,360,000
Net pension liability		16,549,861
TOTAL LIABILITIES		23,384,067
DEFERRED INFLOWS OF RESOURCES		320,702
NET POSITION		
Net investment in capital assets		27,616,082
Restricted		3,645,199
Unrestricted		(2,520,983)
TOTAL NET POSITION	$	28,740,298

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Employer Financial Statement Impact - Overview

- **Income Statement impact**
- Pension expense will continue to be allocated to the functions reported on the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP)

- First year – recording the initial liability will not impact pension expense. Initial journal entry will be:
  - Debit – Unrestricted Net Position
  - Credit – Net Pension Liability (for balance at July 1, 2014)

Employer Footnote Disclosures

- Very significant footnote disclosure changes (the illustrative model takes 5 pages!):
  - Benefit terms
  - # of participants
  - Contribution requirements
  - Assumptions
  - Support for the discount rate
  - Details of the changes in the net pension liability

Likely these will be very time-intensive to compile! Plan accordingly!

Employer Financial Statement Impacts – Overview

- New information in footnotes – Cost-sharing Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 3,000
Changes of assumptions	16,000	-
Net difference between projected and actual earnings on pension plan investments	30,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	3,500
University contributions subsequent to the measurement date	-	-
Total	$ 46,000	$ 6,500

Employer Financial Statement Impacts – Overview

New information in footnotes – Cost-sharing Plan

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	X%	X%
Domestic equity	X	X
International equity	X	X
Real estate	X	X
Private equity	X	X
Commodities	X	X
Cash	X	X
Total	100%	

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Employer Financial Statement Impacts – Overview

New information in footnotes – Cost-sharing Plan

Sensitivity of the University's proportionate share of the Plan net pension liability to changes in the discount rate. The following presents the University's proportionate share of the Plan net pension liability net pension liability calculated using the discount rate of 7.0 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability for the Plan	$XXX	$152,707	$XXX

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Expanded Required Supplementary Information – all plans

- 10 years of changes in net pension liability
  - Cost-sharing plan – proportionate share of NPL
- 10-year comparison of funding status
  - Not applicable to cost-sharing plans
- 10 years of ARC/contractual v. actual contributions

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Employer Financial Statement Impacts – Overview

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Teachers Pension Plan
Last 10 Fiscal Years*
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6
District's proportion of the net pension liability (asset)	0.020%	0.019%	0.019%	0.019%
District's proportionate share of the net pension liability (asset)	$ 1,491	$ 1,174	$ 1,297	$ 1,349
State's proportionate share of the net pension liability (asset) associated with the District	13,419	10,564	11,675	12,145
Total	$ 14,910	$ 11,738	$ 12,972	$ 13,494
District's covered employee payroll	$ 11,512	$ 10,412	$ 9,715	$ 9,553
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12.95%	11.28%	13.35%	14.12%
Plan fiduciary net position as a percentage of the total pension liability	81.39%	83.20%	80.41%	78.53%

* The amounts presented for each fiscal year were determined as of 12/31.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

- Example RSI – From GASB 68

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Financial Statement Impacts – Overview

- Example RSI – From GASB 68

SCHEDULE OF STATE CONTRIBUTIONS
Teachers Pension Plan
Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6
Statutorily required contribution	$ 915,028	$ 914,246	$ 896,893	$ 764,380
Contributions in relation to the statutorily required contribution	915,028	914,246	896,893	764,380
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

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Employer Financial Statement Impacts – Overview

- Example RSI – From GASB 68

Notes to Required Supplementary Information
for the Year Ended June 30, 20X9

Changes of benefit terms. Amounts reported in 20X8 reflect an increase in disability benefits to be equivalent to retirement benefits. Amounts reported in 20X4 reflect a modification to the benefit terms to incorporate a new definition of base compensation.

Changes of assumptions. Amounts reported in 20X9 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 20X6 and later, the expectation of retired life mortality was based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table, which was used to determine amounts reported prior to 20X6. Amounts reported in 20X3 reflect an adjustment of expected retirement ages to more closely reflect actual experience. Amounts reported in 20X0 reflect an adjustment of assumed life expectancies to more closely reflect actual experience.

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Example Calculations - EMPLOYER

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Step 1 – Gather Data

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Gather Data

Type of Plan in which Employer Participates →	Single Employer Plan	Agent Multi Employer Plan	Cost Sharing Plan
Actuary report	X	X	(Plan only)
Plan's financial statements	X	X	X
Schedule of changes in the NPL	X	X (Employer level)	X (Plan Level)
Proportionate Share of NPL			X

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Changes in the NPL

Changes in Net Pension Liability (in thousands)	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 9/30/13	$ 63,427,123	$ 41,038,867	$22,388,256
Changes for the Year			
Service Cost	758,640		758,640
Interest	2,165,150		2,165,150
Differences between expected and actual experience	375,390		375,390
Contributions - employer		457,131	(457,131)
Contributions - employee		314,510	(314,510)
Net investment income		1,961,540	(1,961,540)
Benefit payments, including employee refunds	(1,194,340)	(1,194,340)	-
Administrative expense		(33,730)	33,730
Other changes		80	(80)
Net changes	2,104,840	1,505,191	599,649
Balances at 9/30/14	$ 65,531,963	$ 42,544,058	$22,987,905

Changes in the NPL

Changes in Net Pension Liability (in thousands)	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Cost-Sharing Plan Proportionate Share 0.07200%
Balances at 9/30/13	$ 63,427,123	$ 41,038,867	$22,388,256	$ 16,120
Changes for the Year				
Service Cost	758,640		758,640	546
Interest	2,165,150		2,165,150	1,559
Differences between expected and actual experience	375,390		375,390	270
Contributions - employer		457,131	(457,131)	(329)
Contributions - employee		314,510	(314,510)	(226)
Net investment income		1,961,540	(1,961,540)	(1,412)
Benefit payments, including employee refunds	(1,194,340)	(1,194,340)	-	-
Administrative expense		(33,730)	33,730	24
Other changes		80	(80)	(0)
Net changes	2,104,840	1,505,191	599,649	432
Balances at 9/30/14	$ 65,531,963	$ 42,544,058	$22,987,905	$ 16,551

Cost-Sharing Employers

- Calculate Employers “Proportionate share”
  - GASB encourages the estimation of expected future contributions as the basis to allocate; but it allows any method that is determined on a basis that is consistent with the manner in which required contributions are determined.

Cost-Sharing Employers

Cost Sharing Plan Pension Benefits - Estimated GASB 68 Liability *(in thousands)*			
Total Pension Liability (TPL) as of 9/30/13		$63,427,123	
Actuarial Value of Total Plan Net Position as of 9/30/13		$41,038,867	
Net Pension Liability (NPL) as of 9/30/13 – plan level		$22,388,256	(A)
Total Plan Covered Payroll for Year Ended 6/30/13	X	$12,000,000	
Estimated XYZ Entity Covered Payroll for Year Ended 6/30/13	Y	**$8,640**	
Covered Payroll as a Percentage of Total Covered Payroll – PROPORTIONATE SHARE	X / Y	0.072%	(B)
Estimated pro-rata share of Net Pension Liability as of 6/30/14 (NPL x proportionate share of covered payroll)		**$16,120**	A*B

[Example: to determine the initial year liability as of July 1, 2014]

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Cost-Sharing Employers: Allocation Method

- The **allocation method** chosen for this calculation was the proportion of covered payroll.
- This may be acceptable, but the GASB allows any method that measures the proportionate relationship of the individual employer to the aggregate of all employers.
- They encourage the use of projected long-term contribution efforts of each employer as the basis.

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- Step 2 – Allocate changes in the NPL between the components of pension expense and deferred inflows/outflows

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Included in Pension Expense

- Employees work and earn more benefits
- Interest on the total pension liability
- Employee contributions (as a reduction)
- Changes in the terms of pension benefits
- Amortization of deferrals (see next slide)
- Administrative expenses
- Projected investment earnings (as a reduction)

- NOT INCLUDED –
  - Benefit payments reduce both Plan net position and Total Pension Liability by the same amount;
  - Employer contributions prior to the "measurement date" has reduced the net pension liability; contributions after the measurement date are reported as deferred outflows.

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Included in Deferred Inflows/Outflows

- Actual economic & demographic experience differing from assumed
- Changing assumptions about economic & demographic factors
- Change in proportionate share (cost-sharing plans)
  - *These 1st three factors will be amortized over the expected remaining service lives (working careers) of all plan members (retired, inactive, and active)*
- Actual investment earnings experience different than assumed
  - *This will be amortized over 5 years.*
- Employer contributions prior to the "measurement date" has reduced the net pension liability; contributions after the measurement date are reported as deferred outflows.

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Pension Expense vs. Deferred Inflow/Outflow

Changes in Net Pension Liability (in thousands)	Cost-Sharing Plan Proportionate Share 0.07200%	Expense	Deferred
Plan balances at 9/30/13 (Employer balance at 6/30/14)	$ 16,120		
Changes for the Year			
Service Cost	546	546	
Interest	1,559	1,559	
Differences between expected and actual experience	270		270
Contributions - employer	(329)		
Contributions - employee	(226)	(226)	
Net investment income	(1,412)	(642)	(770)
Benefit payments, including employee refunds	-		
Administrative expense	24	24	
Other changes	(0)	(0)	
Net changes	432		
Plan balances at 9/30/14 (Employer balance at 6/30/15)	$ 16,551		
Items not included in the rollfoward from the plan, to be tracked by the Employer:			
Amortization of deferred inflows/outflows of resources		(136)	136
Employer contributions to plan after 9/30/14 (10/1/14-6/30/15)		(247)	247
Net changes to expense and deferreds		$ 878	$ (117)

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Tracking Amortization of the Deferrals

Deferred Inflow/Outflow of Resources (in thousands)	Fiscal Year End	Amort. Period	Current Year Activity: Outflow Balance	Inflow Balance	Recognized during Year	Future Recognition of Deferred Outflows/Inflows: FY+1	FY+2	FY+3	FY+4	FY+5	Thereafter
Differences between projected and actual experience	6/30/2015	15	$ 270	$ -	$ (18)	$ (18)	$ (18)	$ (18)	$ (18)	$ (18)	$ (162)
Difference between projected and actual investment earnings	6/30/2015	5	-	770	154	154	154	154	154	-	-
					136						
Differences between projected and actual experience	6/30/2016	15	130	-	9		(9)	(9)	(9)	(9)	(87)
Changes of assumptions	6/30/2016	15	-	14	1		1	1	1	1	9
Change in proportionate share	6/30/2016	15	32	-	2		(2)	(2)	(2)	(2)	(21)
Difference between projected and actual investment earnings	6/30/2016	5	260	-	52		(52)	(52)	(52)	(52)	-
Differences between projected and actual experience	6/30/2017	15	-	450	30			30	30	30	330
Change in proportionate share	6/30/2017	15	-	3	0			0	0	0	2
Difference between projected and actual investment earnings	6/30/2017	5	-	900	180			180	180	180	180

T Accounts & Journal Entries

	Unrestricted Net Position: Debit	Credit	Net Pension Liaiblity: Debit	Credit	Deferred: Debit	Credit	Pension Expense: Debit	Credit
	(1) $16,120			(1) $16,120				
				(2) $ 432	(2) $ 270	(2) $ 770	(2) $1,261	
					(3) $ 136			(3) $136
					(4) $ 247			(4) $247
Net change	$16,120			$16,551		$ 117	$ 878	

(1) Recording Net Pension Liability (NPL) at 7/1/14

(2) Recording NPL rollfoward to 6/30/15

(3) Record amortization of deferreds

(4) Move employer contributions after NPL date (9/30/14) to deferred

Implementation challenges

Implementation Challenges

Requirement	Challenge
Data to come up with the journal entries	Getting it, timely; Verifiability
Data to come up with disclosures	Getting it, timely; Verifiability
Year-end differences between plan and employer	Contribution deferral. Complicates timing, coordination, journal entries
Tracking the deferrals year to year	Different layers, different lives
Coordination among parties	Working with many individuals (employer, plan, actuary, auditor)
Who is doing what?	Employer or Plan? When?
Where is the info coming from?	Employer or Plan?

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Potential issues

- **Agent Plans –**
  - Audited financial statements of the plan do not include actuarial information, nor do they include each employer's "interest" in the fiduciary net position
  - Allocation of fiduciary position reported by plan to employer is unaudited
  - Employers need the full break down of all the NPL components
- **Cost Sharing Plans –**
  - Audited financial statements of the plan only included total net pension liability for plan. They do NOT include all components needed
  - Standard is silent on who (plan or each individual participating employer) should calculate allocation percentages
  - Standard provides flexibility in approach to determining allocations
  - Standard encourages an allocation method that will be extremely difficult to audit as it is based on projected future contributions

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AICPA tentative recommendations

- **Agent Plans –**
  - Include supplemental condensed schedule of "changes in fiduciary position" by employer in plan financial statements for which plan auditor is engaged to provide opinion
  - Plan auditor engaged to issue SOC 1 (type 2) report on allocation of inflows (i.e., contributions, investment income, etc.) and outflows (i.e., benefit payments, administrative expenses, etc.) of plan to individual employer accounts
- **Cost Sharing Plans –**
  - Include "supplemental schedule of employer allocations" in the Plan's financial statements for which Plan auditor provides an opinion
  - Include supplemental "schedule of plan pension amounts" in plan financial statements for which plan auditor engaged to provide opinion

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What Now?

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Employer "To-Do" Timeline

Task	Timing
Read the standards and look at examples ☺	Now
Look for GASB Pension Toolkit	• GASB 67 Implementation Guide, Videos, Articles, Q&A – available NOW (plan level guidance) • Employer guidance under GASB 68 (available now!)
Start the conversations	Now
Implementation plan (timeline, who is doing what within organization, measurement date, when do you get the info, actuarial valuation date)	Now
Start putting together footnote wording and RSI schedules	Now - 2015
Create general ledger accounts	Now - 2015
Record activity!	2015

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Current Discussions

- CMU's Involvement in MPSERS (Michigan Public School Employees Retirement System)
- Political Challenges
  - Board of Trustees
  - Press
  - State
  - Plans
- Bond Rating Impact
- Pre-funding

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CMU's Estimated Impact

* CMU's estimated net pension liability for MPSERS retirement plan is $102 million at 6/30/14

Condensed Statement of Net Position - Beginning Balance impact as of 6/30/14

(in millions)	Original 6/30/2014	Beginning Balance GASB 68 AJE	Post-Implementation 6/30/2014
Current assets	$ 122,401		$ 122,401
Noncurrent assets	816,720		816,720
Deferred outflows	8,120		8,120
Current liabilities	104,118		104,118
Noncurrent liabilities			
LTD	149,189		149,189
Net Pension Liability	-	102,000	102,000
Net Position			
Net investment in capital assets	322,478		322,478
Restricted	98,227		98,227
Unrestricted	273,229	(102,000)	171,229
Total Net Position	$ 693,934	$ -	$ 591,934

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CMU's Estimated Impact

* CMU's estimated net pension liability for MPSERS retirement plan is $110 million at 6/30/15

Rollforward of liability from $102 million to $110 million at 6/30/15

		Expense	Deferred
6/30/14 net pension liability	$ 102,000		
Service Cost	3,000	3,000	
Interest	10,000	10,000	
Differences between expected and actual experience	1,500		1,500
Contributions - employer	(1,600)		
Contributions - employee	(1,000)	(1,000)	
Net investment income	(5,000)	(3,000)	(2,000)
Benefit payments, including employee refunds	-	no impact!	
Change in proportionate share	1,100		1,100
6/30/15 net pension liability	$ 110,000	$ 9,000	$ 600
Items not included in the rollfoward from the plan, to be tracked by the Employer:			
Amortization of deferreds		200	(200)
Employer contributions from 10/1/14-6/30/14		(1,200)	1,200
Total changes to expense & deferred		$ 8,000	$ 1,600

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CMU's Estimated Impact

Condensed Statement of Net Position - Ending Balance impact as of 6/30/15

(in millions)	Original 6/30/2015	First Year of Activity AJE	6/30/2015	
Current assets	$122,401		$ 122,401	
Noncurrent assets	816,720		816,720	
Deferred outflows				
LTD & Swap related	8,120		8,120	katie.thornton: Recording Deferred
Pension related		1,800		katie.thornton: Amortization of Deferred
		(200)	1,600	
Current liabilities	104,118		104,118	
Noncurrent liabilities				
LTD	149,189		149,189	
Net Pension Liability	102,000	8,000	110,000	
Net Position				
Net investment in capit	322,478		322,478	
Restricted	200,227		200,227	
Unrestricted	171,229	(9,600)	161,629	
Total Net Position	$693,934	$ -	$ 684,334	

Condensed Statement of Rev, Exp & Changes in Net Position

Operating revenues	$316,018		$ 316,018
Operating expenses	439,118	9,600	448,718
Nonoperating	138,835		138,835
Other	4,801		4,801
Increase in net position	$ 20,536	$ (9,600)	$ 10,936

CMU's estimated net pension liability for MPSERS retirement plan is $110 million at 6/30/15

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OPEB – Exposure Draft Released!

May 28, 2014—The Governmental Accounting Standards Board (GASB) voted unanimously to approve two Exposure Drafts proposing significant improvements to financial reporting by state and local governments of other postemployment benefits (OPEB), such as retiree health insurance.

Folks were encouraged to review the proposals and provide comments by August 29, 2014

GASB hosted public hearings on the Exposure Drafts on September 10, 11, and 12, 2014.

Implementation for fiscal years beginning after December 15, 2016 (or June 30, 2018).

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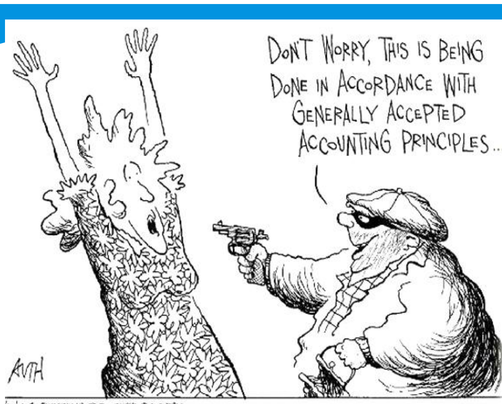

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Q&A

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*Thank you!!

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*Appendix A – Full footnotes

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Employer Financial Statement Impacts - Overview

- Example footnotes – Cost-sharing Plan
  - Significant Accounting Policies
    - *Pensions.* For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Public Employees' Retirement Fund (SERF) and additions to/deductions from SERF's fiduciary net position have been determined on the same basis as they are reported by SERF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
  - Examples/wording are from GASB 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27

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Employer Financial Impacts – Overview

- Example footnotes – Cost-sharing Plan

Note XX

The University provided retirement plan coverage to 20,000 and 19,500 active employees, as of June 30, 2015 and 2014, respectively, in addition to contributing to the Federal Insurance Contributions Act (FICA) as required by law.

General Information about the Pension Plans

Plan Description. State Public Employees' Retirement Fund. The University contributes to the State Public Employees' Retirement Fund (SERF), a cost-sharing multiple-employer defined benefit pension plan, with annuity savings account provisions, administered by the State Public Retirement System (SPRS). All support, technical, and service employees with at least a 50% full-time equivalent (FTE) appointment participate in the SERF plan. There were 5,500 and 5,400 active University employees covered by this retirement plan as of June 30, 2015 and 2014, respectively State statutes authorize the University to contribute to the plan and govern most requirements of the system. SERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. This report may be obtained by writing the State Employees Retirement Fund, State Road, Your State, DC 11111, by calling 1-888-555-1234, or by reviewing the Annual Report online at www.yourstate.gov/serf/annual reports.htm.

Benefits Provided. State Public Employees' Retirement Fund. The SERF retirement benefit consists of the pension and an annuity savings account, both of which are funded by employer contributions. The annuity savings account consists of contributions set by state statute at three percent of compensation plus the earnings credited to members' accounts. The University has elected to make the contributions on behalf of the members. Retirement benefits are determined as 1.0 percent of the employee's average monthly earnings multiplied by the employee's years of creditable service. Employees with 10 years of creditable service are eligible to retire at age 65. Employees with 15 years of creditable service are eligible to retire at age 60. Employees can retire at age 55 when creditable service plus age equals 85 or more.

Contributions. State Public Employees' Retirement Fund. Per state statutes, contribution requirements of the participating employers are established and may be amended by the SERF Board. The participating employers contractually required contribution rate for the years ended June 30, 2015 and 2014, was 6.0 percent, respectively, of annual payroll, actuarially determined as an amount that is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability and an additional 2% University contribution for the annuity savings account. Contributions to the pension plan from the University were $20,000 and $19,000 for the years ended June 30, 2015 and 2014, respectively.

Employer Financial Statement Impacts – Overview

- Example footnotes – Cost-sharing Plan

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

State Public Employees' Retirement Fund. At June 30, 2015, the University reported a liability of $150,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the University's proportion was 3.25 percent, which was a decrease of 0.25 from its proportion measured as of June 30, 2014.

Pension expense in aggregate for the plan of the University at June 30, 2015 and 2014 was $X and $X, respectively. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERF	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 3,000
Changes of assumptions	16,200	-
Net difference between projected and actual earnings on pension plan investments	30,000	-
Changes in proportion and differences between University contributions and proportionate share of contributions	-	3,500
University contributions subsequent to the measurement date	-	-
Total	$ 46,200	$ 6,500

$XX reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	SERF
2013	$X
2014	X
2015	X
2016	X
2017	X
Thereafter	X

Employer Financial Statement Impacts – Overview

- Example footnotes – Cost-sharing Plans

Actuarial Assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	SERF
Cost of living	1.5 percent
Inflation/Salary increases	3.0 percent, average
Investment rate of return	7 percent, net of pension plan investment expense

Mortality rates were based on the 2015 RS State Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2013. As a result of the 2014 actuarial experience study, the expectation of life after disability was adjusted in the June 30, 2014 actuarial valuation to more closely reflect actual experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan 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 allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	SERF	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	X%	X%
Domestic equity	X	X
International equity	X	X
Real estate	X	X
Private equity	X	X
Commodities	X	X
Cash	X	X
Total	100%	

Discount Rate. The discount rate used to measure the total pension liability was 7.0 percent for SERF. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension 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 on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Employer Financial Statement Impacts – Overview

- Example footnotes – Cost-sharing Plan

Sensitivity of the University's proportionate share of the SERF net pension liability to changes in the discount rate. The following presents the University's proportionate share of the SERF net pension liability net pension liability calculated using the discount rate of 7.0 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
University's proportionate share of the net pension liability for SERF	$XXX	$152,707	$XXX

Pension Plan Fiduciary Net Position. Detailed information about the pension plans' fiduciary net position is available in the separately issued SERF financial reports.

Payable to the Pension Plan

At June 30, 2015, the University reported a payable of $XXX for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2015.

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Appendix B – Example AICPA Recommendations

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Agent plans – potential issues

- Audited financial statements of the plan do not include actuarial information, nor do they include each employer's "interest" in the fiduciary net position
- Allocation of fiduciary position reported by plan to employer is unaudited
- Employers need the following elements to record as of the measurement date:
  - Total pension liability less fiduciary position = net pension liability
  - Deferred outflows/inflows based on investment experience
  - Deferred outflows/inflows based on changes in assumptions
  - Deferred outflows/inflows based on actuarial gains and losses
  - Pension expense

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Agent plans – AICPA tentative recommendations

- Include supplemental condensed schedule of "changes in fiduciary position" by employer in plan financial statements for which plan auditor is engaged to provide opinion
- Plan auditor engaged to issue SOC 1 (type 2) report on allocation of inflows (i.e., contributions, investment income, etc.) and outflows (i.e., benefit payments, administrative expenses, etc.) of plan to individual employer accounts

Agent Plan - Example Combining Schedule of Changes in Fiduciary Net Position (by employer)

Example Agent Multiple-Employer PERS
Combining Schedule of Changes in Fiduciary Net Position
Year ended June 30, 2015

	Employer 1	Employer 2	Employer 3	Total
Additions:				
Contributions:				
Employer	86,252,000	34,500,000	51,751,000	172,503,000
Member	32,662,000	13,065,000	19,597,000	65,324,000
Investment income:	80,965,000	20,347,000	37,112,000	138,424,000
Total additions	199,879,000	67,912,000	108,460,000	376,251,000
Deductions:				
Pension benefits, including refunds	384,635,000	184,352,000	228,356,000	797,343,000
Administrative expenses	4,716,000	1,886,000	2,829,000	9,431,000
Total deductions	389,351,000	186,238,000	231,185,000	806,774,000
Net increase (decrease)	(189,472,000)	(118,326,000)	(122,725,000)	(430,523,000)
Net position restricted for pension benefits:				
Beginning of year	5,843,645,000	1,468,538,000	2,678,595,000	9,990,778,000
End of year	$ 5,654,173,000	1,350,212,000	2,555,870,000	9,560,255,000

From AICPA "The New GASB Pension Standards – An Auditor's Perspective Part II"

Cost sharing plans – potential issues

- Audited financial statements of the plan only included total net pension liability for plan. They do NOT include:
  - Deferred outflows/inflows of resources by category
  - Pension expense
  - Each participating employer's share of collective pension amounts
- Standard is silent on who (plan or each individual participating employer) should calculate allocation percentages
- Audited financial statements of the plan may not include necessary information to calculate allocation percentages
- Standard provides flexibility in approach to determining allocations
- Standard encourages an allocation method that will be extremely difficult to audit as it is based on projected future contributions

Cost sharing plans – AICPA tentative recommendations

- Include "supplemental schedule of employer allocations" in the Plan's financial statements for which Plan auditor provides an opinion
  - Use allocation method based on covered payroll or ARC
  - Standard does not preclude employers from calculating their own allocation

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Cost-Sharing Plan – Example

Example Schedule of Employer Allocations

Employer	20X5 Actual Employer Contributions	Employer Allocation Percentage
Employer 1	$ 2,143,842	0.3773%
Employer 2	2,147,400	0.3779%
Employer 3	2,577,136	0.4536%
Employer 4	3,866,040	0.6804%
Employer 5	5,065,000	0.8914%
Employer 6	1,154,304	0.2032%
Employer 7	762,920	0.1343%
Employer 8	753,904	0.1327%
Employer 9	6,362,920	1.1199%
Employer 10	2,139,744	0.3766%
Employer 485	185,433	0.0326%
Employer 486	1,682,468	0.2961%
Employer 487	1,295,375	0.2280%
Total	$ 568,185,924	100.0000%

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Cost sharing plans – AICPA tentative recommendations

- Include supplemental "schedule of plan pension amounts" in plan financial statements for which plan auditor engaged to provide opinion
  - Supplemental schedule of plan pension amounts include net pension liability, deferred outflows, deferred inflows, and pension expense for plan as a whole for which plan auditor is engaged to provide opinion
    - An alternative could be to include a "schedule of employer pension amounts"

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Sample Schedule of Pension Amounts by Employer

		Deferred Outflows			Pension Expense		
Employer	Net Pension Liability	Experience Differences	Investment Earnings Differential	Etcetera - other diff's	Share of Plan Expense	Amort of Proportion Diffs	Employer Pension Expense
Employer 1	$ 26,798,025	$ 535,961	$ 535,960	Etc...	$ 1,692,342	$ 124	$ 1,692,466
Employer 2	26,842,500	536,850	536,850	Etc...	1,695,151	(1,793)	1,693,358
Employer 3	32,214,200	644,284	644,284	Etc...	2,034,383	(8,088)	2,026,295
Employer 4	48,325,500	966,510	966,510	Etc...	3,051,839	3,021	3,054,860
Employer 5	63,312,500	1,266,250	1,266,250	Etc...	3,998,295	(9,900)	3,988,395
Employer 6	14,428,800	288,576	288,576	Etc...	911,204	599	911,803
Employer 7	9,536,500	190,730	190,730	Etc...	602,247	625	602,872
Employer 8	9,423,800	188,476	188,476	Etc...	595,129	(5,712)	589,417
Employer 9	79,536,500	1,590,730	1,590,730	Etc...	5,022,868	8,405	5,031,273
Employer 10	26,746,800	534,936	534,936	Etc...	1,689,107	(1,188)	1,687,919
Employer 485	2,317,913	46,358	46,358	Etc...	146,380	(205)	146,175
Employer 486	21,030,850	420,617	420,617	Etc...	1,328,135	147	1,328,282
Employer 487	16,192,188	323,844	323,843	Etc...	1,022,565	3,842	1,026,407
Total	$ 7,102,324,050	$ 142,046,481	$ 142,046,481	Etc...	$ 448,524,130	$ -	$ 448,524,130

Example Schedule of Employer Pension Amounts

		Deferred Outflow of Resources			
Employer/ Nonmployer (special funding situation)	Net Pension Liability	Differences Between Expected and Actual Economic Experience	Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense
State of Example	38,589,135	428,768	2,058,088	1,500,690	782,365
Employer 1	4,831,647	53,685	257,688	187,898	96,633
Employer 2	5,798,553	64,428	309,256	225,499	115,971

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Example Schedule of Employer Pension Amounts

		Deferred Inflows of Resources			
Employer/ Nonmployer (special funding situation)	Net Pension Liability	Differences Between Expected and Actual Economic Experience	Differences Between Actual and Projected Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense
State of Example	$ 38,589,135	380,371	1,063,285	–	584,365
Employer 1	4,831,647	47,625	133,131	–	125,325
Employer 2	5,798,553	57,156	159,773	–	245,386

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Example Schedule of Employer Pension Amounts

		Pension Expense	
Employer/ Nonmployer (special funding situation)	Net Pension Liability	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Propotion and Proportionate Share of Pension Expense
State of Example	$ 38,589,135	1,878,717	12,375
Employer 1	4,831,647	235,229	(1,793)
Employer 2	5,798,553	282,303	(8,088)

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Cost sharing plans – other recommendations and observations

- Plans should carefully consider their responsibility for verifying the accuracy and completeness of census data and engage their auditors in a similar discussion
  - Likely will result in significant incremental effort to test at participating employers by both Plan and their auditors

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Glossary

- **Net pension liability** – Liability that equals the difference between the total pension liability (per actuary) and the value of assets set aside in a pension plan to pay benefits, or the "unfunded portion" of the pension liability
- **Plan Net Position** – Essentially, the assets of the pension plan or the "funded portion" of the pension liability
- **Actuarially required contribution (ARC)** - the employer's required contributions for the year determined by actuary
- **Required supplemental information (RSI)** – Information that a designated accounting standard setter requires to accompany an entity's basic financial statements (but not part of the basic FS)

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Glossary

- **Service cost** - Service cost is the additional liability created because another year has elapsed, for which all current employees get another year's credit for their service.
- **Interest cost** - Interest cost is the additional liability created because these employees are one year nearer to their benefit payouts.
- **Deferred inflows/outflows of resources** – An acquisition/consumption of net assets by the government that is applicable to a future reporting period (only can be specific items defined by GASB, government cannot pick & choose)
- **OPEB** - Other postemployment benefits, such as healthcare or life insurance

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