10th Annual Emerging Issues Forum

GASB 67 & 68

Practical Applications for Massachusetts Retirement Plans

Slide Handouts (Part 1)

Hogan Conference Center

College of the Holy Cross, Worcester, MA

September 18, 2014

PERAC Public Employee Retirement Administration Commission

COMMONWEALTH OF MASSACHUSETTS
Public Employee Retirement Administration Commission
Five Middlesex Avenue, Suite 304 | Somerville, MA 02145
Phone: 617-666-4446 | Fax: 617-628-4002
TTY: 617-591-8917 | Web: www.mass.gov/perac

EMERGING ISSUES FORUM

GASB 67 and GASB 68

Practical Applications for Massachusetts Public Plans

September 18, 2014

GASB 67/68 Presentations, Part 1:

Why, What, How, When and Who of GASB 67/68

PERAC Emerging Issues Forum

Hogan Conference Center, Holy Cross College
Worcester, MA

September 18, 2014

Lawrence B. Stone, FCA, MAAA
5 West Mill Street, Suite 4 Medfield, MA 02052
T (508) 359-9600 F (508) 359-0190 Lstone@stoneconsult.com

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What is GASB 67/68?

- Accounting Standard
  - Not a requirement
- Focus on accounting for retirement plans
  - GASB is about to extend to OPEB too
- Addresses cost of retirement plans in a more standardized manner
- Separates funding and accounting
- Lots of new terminology, definitions and concepts (TPL~AAL; Financial Net Position~assets; NPL~UAAL)
- New additional disclosure

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NOTES:

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Why?

Why:

Jim Lamenzo – PERAC

- Per GASB 68 #1:
  - "…to improve the usefulness of information"
  - "Assist users in assessing…inflows of resources and its total cost…of providing government services"
- Many public entities do not fund on an actuarial basis, e.g.
  - % of active payroll
  - Rolling 30-year schedule
  - Whatever is available to fund / ad hoc basis
- Separates funding and accounting
  - Reflects effect of cash flow
  - Different accounting for different liabilities
    - Similar to difference between cash expense and depreciation

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How?

How:

Jim Lamenzo (PERAC), Bill Connolly (Segal), David Driscoll (Buck), and Brock Romano (KPMG)

- Discount (interest) rate and crossover
  - Different rates depending on cash flow
  - Higher when you have assets and lower when you run out of money
  - Blended rate – combine the above
- Allocation to each unit
  - Before you just disclosed the total. Now you need to allocate to each unit.
  - Allocation and census needs to be audited
- Pension expense is no longer what you paid, even if on an actuarial basis

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NOTES:

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When?

When:

Jim Lamenzo (PERAC), Bill Connolly (Segal), Frank Biron (MelansonHeath), and Linda Bournival (KMS Actuaries)

- GASB 68 - Fiscal 2015
- Three different dates
  - Valuation date
    - Date of calculated actuarial results, data, and plan provisions
  - Measurement date
    - Some place within Fiscal Year
  - Reporting date (end of fiscal year)

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Who?

Who:

Brock Romano (KPMG), Frank Biron (Melanson and Heath), and Linda Bournival (KMS Actuaries)

- Many players
  - Retirement Boards, Employers / Plan Sponsors
  - Retirement System Auditors, Employers Auditors
  - Investment Advisors
  - Actuaries
- Who is responsible for what?
  - Can you rely on others?
  - Consistent timing
- Who pays for this?
- Who makes sure this gets done?

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NOTES:

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Lineup

- Larry Stone – Stone Consulting
  - *Why, What, How, When and Who of GASB 67/68*
- Jim Lamenzo – PERAC
  - *GASB 67 and GASB 68 Discount Rate/Dates and Timing*
- Bill Connolly – Segal
  - *GASB 67/68 – Coordinating Plan and Sponsor Statements*
- David Driscoll – Buck
  - *Cost-Sharing Plans: Treatment Under GASB 67/68*
- Brock Romano – KPMG
  - *The Audit Implications of the GASB's New Pension Standards Census Data Testing*
- Frank Biron – MelansonHeath & Linda Bournival – KMS Actuaries
  - *Planning, Preparation and Collaboratior 67/68 Implementation*

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NOTES:

GASB 67 and GASB 68

Discount Rate/Dates and Timing

James Lamenzo, Actuary

PERAC

September 18, 2014

Discount Rate for Calculations

- Single blended rate
  - Long term expected rate of return on assets
    - For assets sufficient to make projected benefit payments
  - 20 year tax exempt general obligation municipal bonds (AA/Aa or higher) 4.17% as of August 28
    - For assets not sufficient to make projected benefit payments

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NOTES:

“Crossover” or “Depletion” Calculation

- Are assets sufficient to pay all projected benefits?
- Lengthy projection – until all current members have died
- Is it realistic?
- Can we avoid the calculation?
  - Under what circumstances?

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Crossover Calculation

- A fair amount of work
- Well funded plans should “pass” easily
- Even plans with lesser funded ratios might pass!
- Why? Was this GASB’s intent?
  - Most Massachusetts Plans funded by FY35
  - No 30 year rolling schedules
  - No (limited) pension holidays

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NOTES:

Crossover Example – Town of Milo

January 1, 2013

325 Active Members
275 Retired Members

Funded Ratio 33.0%

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Crossover Example – Town of Milo

Table 1. Projection of Contributions *(in thousands)*

(1) Year	(2) Payroll	(3) Employee Contributions	(4) Employer Contributions	(5) Total Contributions
1	14,500	1,200	4,200	5,400
2	13,900	1,150	4,300	5,450
3	13,400	1,120	4,500	5,620
45	110	11	2	13
46	65	7	1	8

Figures reflect current employees
Total Contributions = (3) + (4)

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NOTES:

Crossover Example – Town of Milo

Table 2. Projection of Plan's Fiduciary Net Position *(in thousands)*

(1) Year	(2) Beginning Net Position	(3) Total Contributions	(4) Benefit Payments	(5) Investment Earnings	(6) Ending Net Position
1	28,650	5,400	6,900	2,160	29,310
2	29,310	5,450	7,140	2,205	29,825
3	29,825	5,620	7,400	2,240	30,285
23	100,000	550	11,220	7,335	96,665
45	9,360	13	6000	495	3,868
46	3,868	8	5,200	100	(1,224)

Total Contributions from Table 1
Benefit Payments Include Administrative Expenses
Investment Earnings Assumption 7.75%
Ending Net Position = (2) + (3) – (4) + (5)

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Crossover Example – Town of Milo

Table 3. Actuarial Present Value of Projected Benefits *(in thousands)*

(1) Year	(2) Beginning Net Position	(3) Benefit Payments
1	28,650	6,900
2	29,310	7,140
3	29,825	7,400
45	9,360	6,000
46	3,868	5,200

Assets no longer sufficient

Columns (2) and (3) from Table 2

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NOTES:

Determination of Blended Rate

- Develop present value of benefit payments in **each** year
  - Use 7.75% for Years 1 – 45
  - Use 4.17% for Years 46 – end
- Determine Total Present Value
- Determine **single** discount rate that matches total
  - In this case, 7.40%
    - 80 year projection

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Crossover Calculation Issues

- A lot of work for a minimal change
- Expect few (if any) MA systems impacted
- Logic Question — if fully funded at FY35 and assets still increasing, how can we ever have a crossover point?
  - Potential inconsistency/error in calculation?
  - Length of projection
- Does the crossover calculation always **need** to be done?

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NOTES:

Dates And Timing

- **Reporting Date** – fiscal year end (plan or employer)
- **Measurement Date**
  - **Plan:** fiscal year end
  - **Employer:** no earlier than end of prior fiscal year
- **Valuation Date**
  - **Plan:** no more than 24 months earlier than fiscal year end
  - **Employer:** no more than 30 months earlier than fiscal year end

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Local System Effective Dates

Plan Year	12/31
Fiscal Year	6/30
First Plan Year Effective	12/31/14
First Employer Year Effective	6/30/15

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NOTES:

Employer Dates

Reporting Date	6/30/15
Measurement Date	
• Allowable Period	6/30/14 - 6/30/15
• Most Practical	12/31/14
Valuation Date	
• Allowable Period	12/31/12 – 6/30/15
• Most Practical	1/1/13 or 1/1/14

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Plan Dates

Reporting Date	12/31/14
Measurement Date	12/31/14
Valuation Date	
• Allowable Period	12/31/12 - 12/31/14
• Most Practical	1/1/13 or 1/1/14

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NOTES:

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PERAC Emerging Issues Forum

GASB 67/68 – Coordinating Plan and Sponsor Statements

September 18, 2014

Presented by:

Bill Connolly, FCA, MAAA, EA
Consulting Actuary

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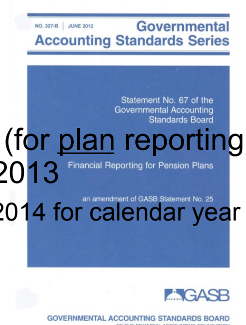
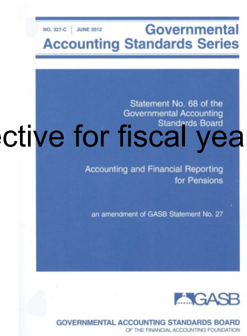
GASB 67 & 68 Timing of Measurements



- GASB 67 (for <u>plan</u> reporting): Effective for plan years beginning after June 15, 2013
  - Calendar 2014 for calendar year plans



- GASB 68 (for <u>employer</u> reporting): Effective for fiscal years beginning after June 15, 2014
  - 2014/2015 for June 30 fiscal year employers

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NOTES:

Stand Alone Plan Financial Reporting
GASB 67 Implementation Guide

- *Q*—Does Statement 67 require that stand-alone financial reports be issued for defined benefit pension plans?
- *A*—No. Statement 67 establishes standards that apply to financial reporting for defined benefit plans, including stand-alone financial reports, when such reports, prepared in conformity with generally accepted accounting principles, are issued.

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Stand Alone Plan Financial Reporting
GASB 67 Implementation Guide

- *Q*—A city reports a single-employer defined benefit pension plan as a pension trust fund in its basic financial statements. The plan issues a stand-alone financial report prepared in conformity with the requirements of Statement 67. Does the city have to apply all the requirements of Statement 67 for the pension trust fund?
- *A*—No. Although, in general, Statement 67 applies to financial reporting of the plan in stand-alone financial statements and in circumstances in which the plan is included as a pension trust fund of another government, for purposes of including the pension plan as a pension trust fund in the city's financial report, footnotes 9 and 11 of Statement 67 limit the applicability of the note disclosure and required supplementary information (RSI) requirements of that Statement to circumstances in which defined benefit pension plan financial statements are presented *solely* in the financial report of the city. Therefore, because a stand-alone plan financial report is prepared in conformity with the requirements of Statement 67, that Statement does not require that the city include the information identified in the detailed disclosure and RSI requirements of Statement 67 as part of its presentation of the pension plan as a pension trust fund in its financial report. Paragraph 106 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* as amended, requires that, in this circumstance, the notes to the financial statements of the city include information about how to obtain the stand-alone plan financial report. However, additional information can be presented in the city's note disclosures if the information is determined to be essential to the fair presentation of the city's basic financial statements.

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NOTES:

Net Pension Liability
Reported on Statement of Net Position

- Net Pension Liability (NPL)
  - Total Pension Liability (TPL) minus plan assets at market value (Fiduciary Net Position - FNP)
  - Similar to Unfunded Actuarial Accrued Liability (UAAL) but
    - using market assets, not "smoothed" assets
    - Entry Age Normal actuarial funding
    - Possibly a "blended" discount rate
- NPL must be reported on the employer's Statement of Net Position
  - Currently, UAAL is reported in the Required Supplementary Information (RSI)
  - Currently, only the Net Pension Obligation is reported on the Statement of Net Position
    - Cumulative difference between Annual Required Contribution (ARC) and actual contributions

New Pension Expense Component

- New GASB 68 pension expense is the change in NPL each year, with deferred recognition of certain elements
  - Specifically **NOT** intended to be a funding standard
- Components of the new pension expense include:
  - Service cost (i.e., normal cost)
  - Interest on the total pension liability (TPL) as of the beginning of the year
  - Changes in total pension liability over the year (with limited deferrals)
  - Differences between actual and projected earnings over the year (with certain deferrals)
  - Projected investment returns over the year
  - Employee contributions (offset)
  - Other changes in plan net position (i.e., market value of assets)

NOTES:

New Pension Expense Component

Changes in Total Pension Liabilities that Are Recognized Immediately

- Changes in total pension liability over the year ***(no deferrals allowed)***
  - Service cost
  - Annual interest on the TPL
  - Projected investment returns over the year
  - All plan amendments

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New Pension Expense Component

Changes in Total Pension Liabilities where Some Deferrals are Allowed

- Changes in total pension liability over the year ***(with deferrals)***
  - Changes in actuarial assumptions
  - Actuarial gains and losses
- These changes are recognized in expense over average expected remaining service lives of active **and** inactive members (including retirees)
  - Resulting recognition periods will be very short (often less than 10 years)
  - Method must be systematic and rational, using closed periods

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NOTES:

Expansion of Disclosure Information

- Includes both Notes and Required Supplementary Information
- The Notes section will include the following items:
  - General Information
    - A description of the employer
    - A description of the retirement plan
    - A summary of the plan of benefits
    - A summary of plan participation
    - The plan sponsor's funding policy
  - Net Pension Liability (NPL) Information
    - A summary of actuarial assumptions
    - The current asset allocation
    - A derivation of the discount rate
    - A summary of changes in the NPL
    - A summary of deferred inflows and outflows
- Annual rates of investment return for past 10 years (plan only)

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Timing and Frequency

- Net Pension Liability measurement date can be earlier than the fiscal year end reporting date
  - No earlier than the end of prior fiscal year
  - Must be consistently applied from period to period
- Total Pension Liability component determined by:
  - Actuarial valuation as of NPL measurement date, or
  - Actuarial valuation as of a date no more 30 months (plus one day) before reporting date, rolled forward to NPL measurement dated
- Asset component of Net Pension Liability:
  - Must be fair value of assets as of NPL measurement date
  - No roll forwards allowed

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NOTES:

Timing and Frequency

- Actuarial valuations must be at least biennial
- Recognition of significant changes between the actuarial valuation date and the measurement date:
  - Changes to benefit provisions
  - Size or composition of the membership
  - Change in municipal bond rate component of the discount rate
  - Other factors or assumptions that affect the valuation results

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Different Plan Types – Different Rules

- Single-Employer Defined Benefit Pension Plan
  - Provide pension benefits to the employees of one employer
- Agent Multiple-Employer Defined Benefit Pension Plan
  - Assets of participating government employers are pooled for investment purposes but separate accounts are maintained for each individual employer
- Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
  - Assets of participating government employees are pooled and assets are used to pay the pensions of the retirees of any participating employer.

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NOTES:

Sample Exhibits – Single Employer GASB 67/68

SECTION 5: GASB 67/68 Information for the City's Retirement Plan

(SAMPLE INFORMATION – FOR ILLUSTRATIVE PURPOSES ONLY)

EXHIBIT 1

Net Pension Liability

The components of the net pension liability of the City's Retirement Plan at December 31, 2013 were as follows:

Total pension liability	$59,651,486
Plan fiduciary net position	53,900,307
Plan's net pension liability	5,751,179
Plan fiduciary net position as a percentage of the total pension liability	90.36%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of January 1, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	7.75 for the first five years after date of hire, 3.75% thereafter
Investment rate of return	7.25%, net of pension plan investment expense

Mortality rates for healthy participants were based on the RP-2000 Combined Healthy Blue Collar Mortality Table for Males or Females, as appropriate. Mortality rates for disabled retirees were based on the same tables set forward five years.

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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2013 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	50%	9.20%
International developed markets equity	5%	9.70%
Core fixed income	40%	4.80%
Real estate	2%	7.00%
Short term governmental/money market	3%	4.40%

Sample Exhibits – Single Employer GASB 67/68

SECTION 5: GASB 67/68 Information for the City's Retirement Plan

(SAMPLE INFORMATION – FOR ILLUSTRATIVE PURPOSES ONLY)

Discount rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rates. 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 plan members. 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.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Plan, calculated using the discount rate of 7.25%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Plan's net pension liability	$12,213,634	$5,751,179	$245,742

Sample Exhibits – Single Employer GASB 67/68

SECTION 5: GASB 67/68 Information for the City's Retirement Plan

(SAMPLE INFORMATION – FOR ILLUSTRATIVE PURPOSES ONLY)

EXHIBIT 2

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

A. Pension expense for the year ended June 30, 2014

Service cost	$1,642,883
Interest	542,029
Recognized portion of current-period difference between expected and actual experience	36,508
Contributions – employee	-709,297
Administrative expenses	158,680
Changes of benefit terms	2,398,061
Recognized portion of current-period difference between projected and actual earnings on pension plan investments	-960,822
Recognition of deferred outflows of resources	0
Recognition of deferred inflows of resources	0
Pension expense for fiscal year ended June 30, 2014	$3,108,042

B. Deferred outflows/inflows of resources related to pensions

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$126,415	$0
Changes of assumptions	0	0
Changes of benefit terms	N/A	N/A
Net difference between projected and actual earnings on pension plan investments	0	3,236,223
Total	$126,415	$3,236,223

C. Projected recognition of deferred outflows/(inflows)

Year Ended June 30,	Recognition
2015	-$924,314
2016	-924,314
2017	-924,314
2018	-924,314
2019	4,894
Thereafter	0

Note: *Entry Age Normal liabilities calculated using ages and service amounts as of January 1, 2014 are used to measure the pension expense for fiscal year ended June 30, 2014.*

Sample Exhibits – Single Employer GASB 67/68

SECTION 5: **GASB 67/68 Information for the City's Retirement Plan**

(SAMPLE INFORMATION – FOR ILLUSTRATIVE PURPOSES ONLY)

EXHIBIT 3

Schedule of Changes in the Net Pension Liability – Last Ten Years

	Year End December 31,									
	2014	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Total pension liability										
Service cost	$1,992,694	$1,642,883								
Interest	- -	3,956,878								
Differences between expected and actual experience	- -	162,923								
Changes of assumptions	- -	0								
Changes of benefit terms	- -	2,398,061	(Historical information prior to implementation of GASB 67/68 is not required)							
Benefit payments, including refunds of employee contributions	- -	-2,888,013								
Net change in total pension liability	TBD	$5,272,732								
Total pension liability - beginning	$59,651,486	$54,378,754								
Total pension liability - ending (a)	TBD	$59,651,486	$54,378,754							
Plan fiduciary net position										
Contributions - employer	- -	$1,773,904								
Contributions - employee	- -	709,297								
Net investment income	- -	7,561,303								
Benefit payments, including refunds of employee contributions	- -	-2,888,013	(Historical information prior to implementation of GASB 67/68 is not required)							
Administrative expenses	- -	-158,680								
Other	- -	0								
Net change in fiduciary net position	TBD	$6,997,811								
Plan fiduciary net position - beginning	$53,900,307	$46,902,496								
Plan fiduciary net position - ending (b)	TBD	$53,900,307	$46,902,496							
Net pension liability – ending: (a)-(b)	TBD	$5,751,179	$7,476,258							
Plan's fiduciary net position as a percentage of the total pension liability	TBD	90.36%	86.25%							
Covered-employee payroll	$27,075,414	$23,759,270	(Historical information prior to implementation of GASB 67/68 is not required)							
Net pension liability as a percentage of covered-employee payroll	TBD	24.21%								

**Covered-employee payroll as reported in the January 1, 2014 funding valuation report*

Sample Exhibits – Single Employer GASB 67/68

SECTION 5: **GASB 67/68 Information for the City's Retirement Plan**

(SAMPLE INFORMATION – FOR ILLUSTRATIVE PURPOSES ONLY)

EXHIBIT 4

Schedule of Plan's Contribution – Last Ten Fiscal Years

Fiscal Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2006					
2007					
2008					
2009					
2010		(Historical information prior to implementation of GASB 67/68 is not required)			
2011					
2012					
2013					
2014	$2,214,985	$1,813,129*	$401,854*	$24,175,057	9.16%
2015	2,556,569	2,556,569*	0*	27,549,234	9.28%

** Figures may be adjusted for actual contributions made in the fiscal year. Actual contributions shown for 2014 and 2015 represent 7.50% and 9.28% of projected pay during fiscal year, respectively.*

Sample Exhibits – Single Employer GASB 67/68

SECTION 5: GASB 67/68 Information for the City's Retirement Plan

(SAMPLE INFORMATION – FOR ILLUSTRATIVE PURPOSES ONLY)

EXHIBIT 5

Notes to Required Supplementary Information

Valuation date	Actuarial determined contribution rates are calculated as of the January 1st 18 months prior to the beginning of the employer's fiscal year in which contributions are reported
Actuarial cost method	Entry age normal
Amortization method	Open level dollar for remaining unfunded liability
Amortization period	30 years
Asset valuation method	Market value of assets less unrecognized returns in each of the last four years. Unrecognized return is equal to the difference between the actual and expected return on a market value basis, and is recognized over a four - year period, further adjusted, if necessary, to be within 20% of the market value.
Actuarial assumptions:	
Investment rate of return	7.25% The net investment return assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes, as well as the Plan's target asset allocation.
Inflation rate	3.50%
Projected salary increases	7.75% for the first five years after date of hire, 3.75% thereafter
Cost of living adjustments	N/A
Retirement rates	(see table below)
Mortality rates	RP-2000 Combined Healthy Blue Collar Mortality Table with sex-distinct rates for healthy retirees. RP-2000 Combined Healthy Blue Collar Mortality Table with sex-distinct rates, set forward five years, for disabled retirees.

Retirement rates:

Age	Retirement Probability
50-55	7%
56-59	4
60	10
61	15
62-63	40
64	30
65 & older	100

*No retirements were assumed to occur in 2011-2013. The rates in 2014 are assumed to be triple the rates above, not to exceed 100%.

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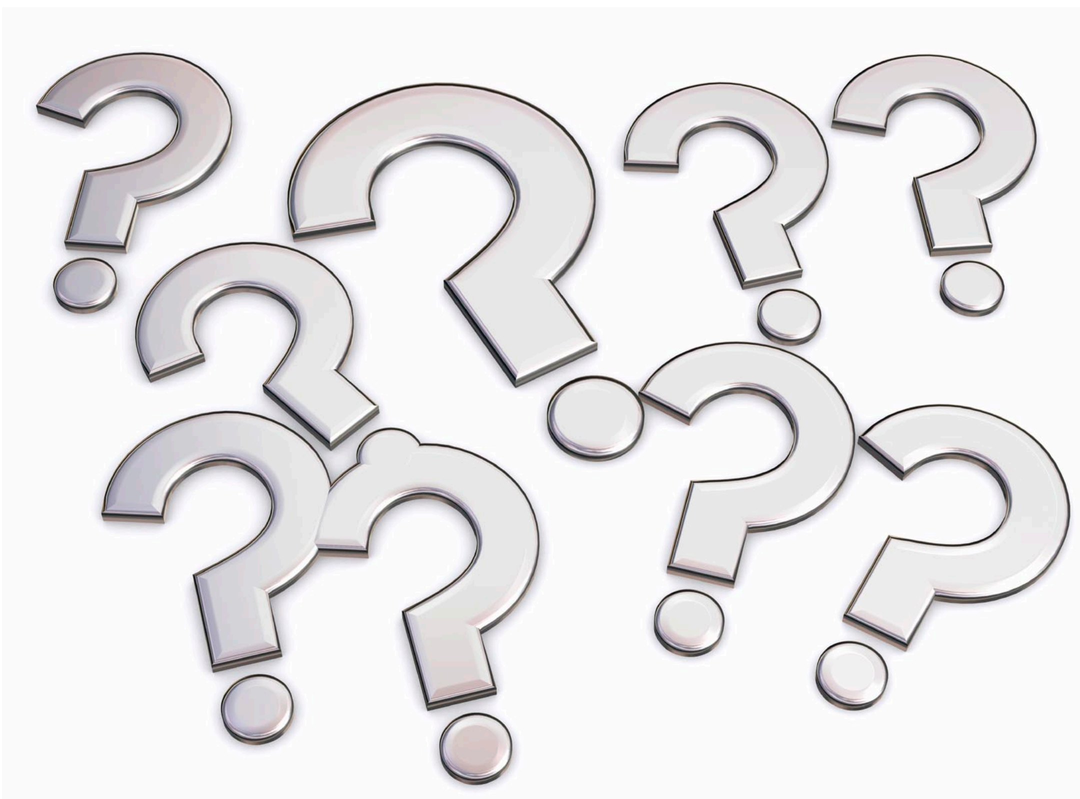
Questions



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Cost-Sharing Plans: Treatment Under GASB 67/68

David L. Driscoll, FSA
September 18, 2014

buckconsultants

xerox

Overview

- What is a cost-sharing plan?
- Treatment of cost-sharing plans under GASB 67
- Treatment of cost-sharing plans under GASB 68
- An example: Stooges County Contributory Retirement System
- Takeaways

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NOTES:

What is a cost-sharing plan?

- Full term: cost-sharing multiple-employer defined benefit pension plan
  - A **multiple-employer** plan (i.e., a defined benefit pension plan that is used to provide pensions to the employees of more than one employer)
  - The pension obligations to the employees of more than one employer are pooled
  - Plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the plan
- Contrast with **agent multiple-employer** plan
  - Assets are pooled for investment purposes
  - Separate accounts are maintained for each individual employer
  - Each employer's share of the pooled assets is legally available to pay the benefits of only its employees

Treatment under GASB 67

- RSI is mostly the same as that for a single-employer plan
- Note disclosures must identify a cost-sharing plan as such
- Interesting points from the Implementation Guide
  - Where biennial actuarial valuations are used, updates in intervening years must be made for financial reporting purposes (Q&A 79)
  - In the initial year of implementation both single-employer and cost-sharing plans are required to present a schedule of changes in the net pension liability (Q&A 97)

NOTES:

Treatment under GASB 68

- Participating employers must report in their financial statements their *proportionate shares* of
  - Net pension liability
  - Expense
  - Deferred inflows and outflows
- How are proportionate shares determined?
  - GASB 68, paragraph 48: "use of the employer's projected long-term contribution effort to the pension plan . . . as compared to the total projected long-term contribution effort of all employers . . . is encouraged."
  - AICPA: "Allocations based on historical measures are likely to be more easily substantiated than the actuarial method."

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Treatment under GASB 68 (cont'd)

Schedules of Required Supplementary Information

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)	0.20%	0.19%	0.19%	0.19%
District's proportionate share of the net pension liability (asset)	$ 14,910	$ 11,738	$ 12,972	$ 13,495
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	129.52%	112.74%	133.53%	141.26%
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%

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

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NOTES:

Treatment under GASB 68 (cont'd)

- Who determines proportionate shares?
  - GASB 68 does not assign the responsibility: could be employers, could be the plan
  - Must all employers have their proportionate shares determined in the same manner? **No!** (Implementation Guide, Q&A 132)
  - AICPA: "cost-sharing plans are in the best position to perform this calculation"
- Measurement date?
  - Not earlier than the end of the employer's prior fiscal year
  - Must be consistent from year to year
  - May be based on "roll-forward" of results of a valuation made not more than 30 months and one day prior to the employer's fiscal year end
  - GASB "encourages" annual valuations (paragraph 195)

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Treatment under GASB 68 (cont'd)

- Treatment of change in proportionate shares (paragraph 54)
  - Effect of change in proportionate share from prior measurement date, determined as of the beginning of the measurement period, is to be recognized in the employer's pension expense
  - Recognition in expense begins in the <u>current</u> period
  - Period over which the effects of changes in proportionate shares are to be recognized in expense is the average expected remaining service lifetime (reflecting both active <u>and inactive</u> participants)

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NOTES:

Example

- Stooges County Contributory Retirement System has three participating employers:
  - City of Larry
  - Town of Curly
  - Moe Mosquito Control District

- The collective net pension liability of the entire plan as of June 30, 2015, is $1,000,000, which is allocated according to the proportionate shares shown below:
  - Larry: $500,000 (.5)
  - Curly: $400,000 (.4)
  - Moe: $100,000 (.1)

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Example (cont'd)

- The net pension liability of the entire plan as of June 30, 2016, is $1,100,000, which is allocated according to the proportionate shares shown below:
  - Larry: $550,000 (.50)
  - Curly: $462,000 (.42)
  - Moe: $88,000 (.08)

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NOTES:

Example (cont'd)

- What are the effects on the expense amounts to be reported by Curly and Moe for the period ending June 30, 2016?
  - Effect of change in proportionate shares is an increase of $22,000 in the NPL allocated to Curly and a decrease of $22,000 in the NPL allocated to Moe at June 30, 2016
  - In accordance with Paragraph 54, in determining the expense reported by each employer, we recognize the effect of changes in proportionate shares over a period equal to:
    - the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan
    - for both active employees and inactive employees
    - determined as of the beginning of the measurement period

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Example (cont'd)

- Suppose the demographics of the system at July 1, 2014, were:

Employer	No. of Actives	No. of Inactives	Actives' Average Expected Remaining Service
Larry	3,000	1,500	10
Curly	2,500	750	8
Moe*	0	500	N/A
Total	5,500	2,750	N/A

*Moe ceased operations in 1982 and has only retired participants

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NOTES:

Example (cont'd)

- Question 1:

  In determining the amount of the effect of the changes in proportion to be recognized in the expense amounts reported by Curly and Moe, do we assign a weight of 0 or 1 to the inactives?

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Example (cont'd)

- Question 2:

  In determining the amount of the effect of the changes in proportion to be recognized in the expense amounts reported by Curly and Moe, do we:

  – divide the effect of the change in proportion for Curly by 6.38 (which is ((2500*8)+(750*1))/3250 and the effect of the change in proportion for Moe by 1 (which is ((500*1)/500), or
  – divide the effects for both Curly and Moe by 6.39 (which is ((3000*10 + 2500*8)+(2750*1))/8250)?

  Hint: look at Q&A 145 in the Implementation Guide

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NOTES:

Example (cont'd)

- So, in their reporting for the period ending June 30, 2015, Curly and Moe will
  - Include in their allocated expenses amounts for change in proportion equal to 22,000/6.39 = 3,443 (an addition to expense for Curly, a decrease to expense for Moe), and
  - Include the balance of the 22,000 in their allocated deferred inflows and outflows of resources (inflows in the case of Moe, outflows in the case of Curly)

Takeaways

- If this seems complicated – well, it is!
- Accounting for pensions by cost-sharing employers has increased greatly in complexity and effort required
- For most cost-sharing plans, there is no practical alternative to having the allocations of amounts to be recognized in the statements of individual participating employers by the plan and its actuary
- In the future, GASB 68 seems likely to lead most cost-sharing plans to
  - Have separate reports prepared for funding and financial accounting purposes
  - Work with their actuaries to develop templates that provide information required to be reported by each participating employer

NOTES:

Questions?

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