GASB Statement No. 68

Accounting & Financial Reporting for Pensions

A summary of the changes and recommended implementation steps

An amendment of GASB Statement No. 27

Mike Lowry, CGFM
Vice President,
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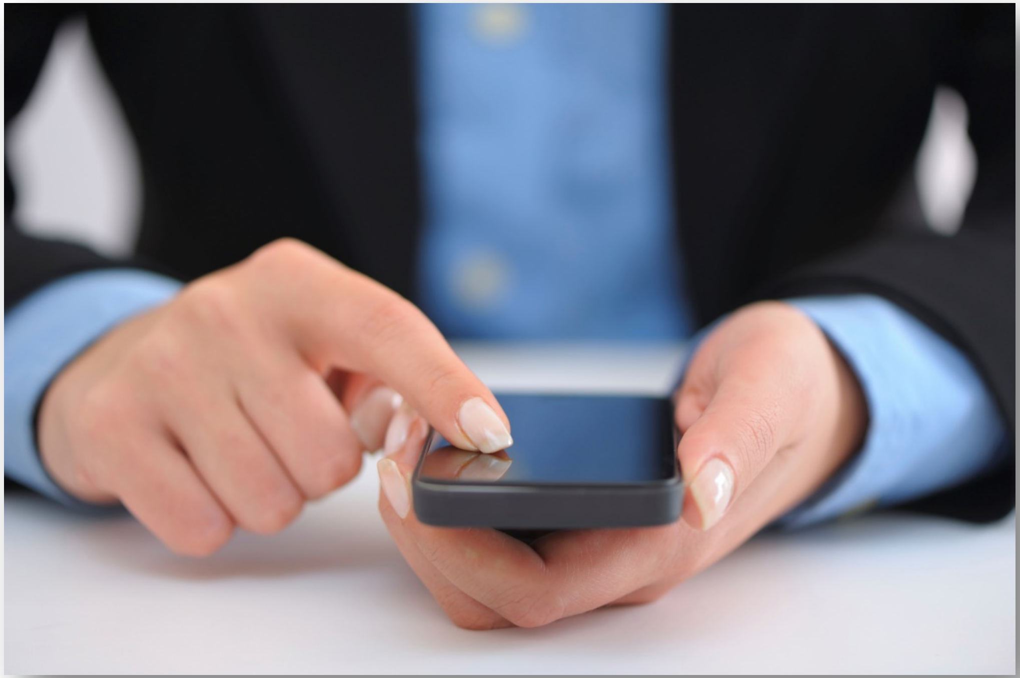

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About the Speaker

Mike Lowry, CGFM

Specializes in governmental and not-for-profit clients

20 years’ experience in financial and technology leadership positions

Member of the AICPA, KSCPA, and AGA

Learning Objectives

Gain an understanding of the new calculation for the "net pension liability," the new "blended discount rate" and the "crossover point"

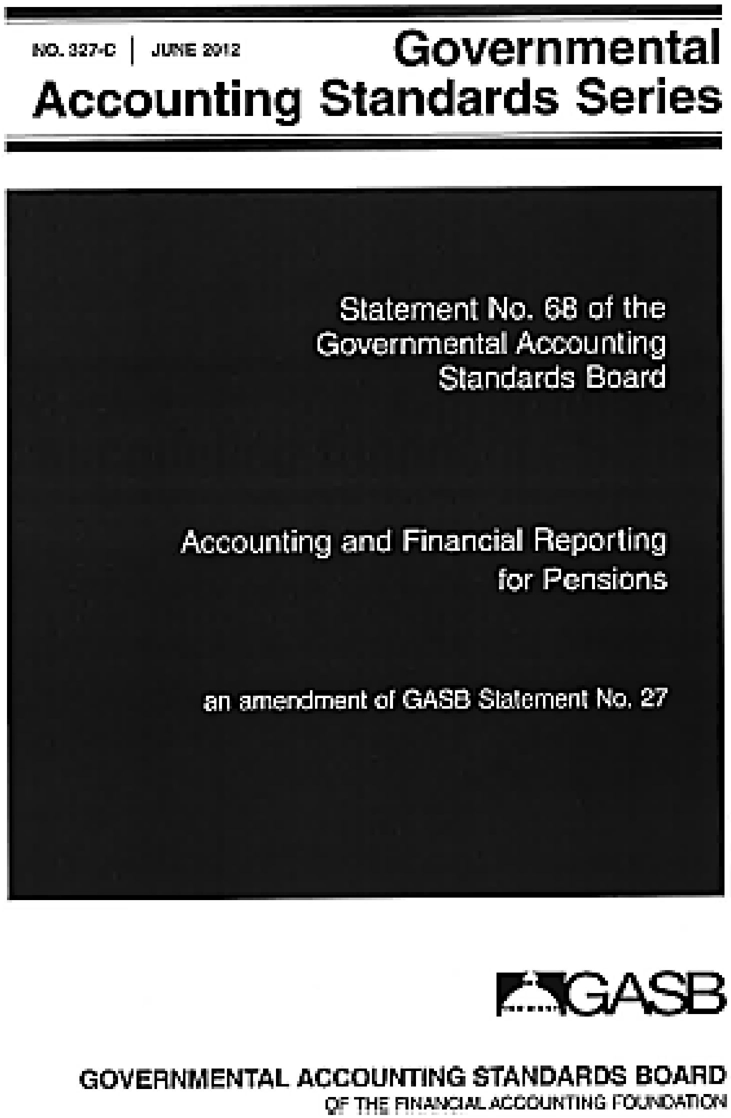
Learn about "special funding situations"

Give an overview of changes to actuarial methods, measurement frequency and valuation requirements

Understand expanded footnote disclosures

Prepare for implementation with some first steps to consider to help you better manage the transition

Statement 68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Governmental Accounting Standards Series

Statement No. 68 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Pensions

an amendment of GASB Statement No. 27

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Statement 68 Employer Reporting

Effective for periods beginning after June 15, 2014 (June 30, 2015)

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Statement 68 Highlights

- Scope limited to pensions provided through trusts that meet certain criteria
- Revises recognition, measurement, disclosure requirements for all employers
- Liability
  - Measured net of pension plan's fiduciary net position
  - Fully recognized in accrual basis financial statements
- Changes in liability
  - Some recognized as expense in the period of change
  - Other recognized as deferred outflows / inflows of resources with expense recognized over defined future periods

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Statement 68 Scope & Applicability

- Defined benefit and defined contribution pensions provided through trusts that meet the following criteria:
  - Employer / non-employer contributions irrevocable
  - Plan assets dedicated to providing pensions
  - Plan assets legally protected from creditors
- Excludes all OPEB
- Applies to employers and non-employers contributing entities that have a legal obligation to make contributions directly to the plan
  - Special funding situations

Effective Date & Transition

- Fiscal years beginning after June 15, 2014
- Beginning deferred outflows / deferred inflows of resources balances all or nothing at initial implementation (amended by Statement No. 71)
- RSI schedules prospective if information is not initially available

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What are the financial statement pieces/impact?

- These amounts will be required to be determined related to a defined benefit pension plan as of a date (measurement date) no earlier than the end of the employer's prior fiscal year:
  - Net pension liability (asset)
  - Pension expense
  - Pension deferred outflows of resources and deferred inflows of resources

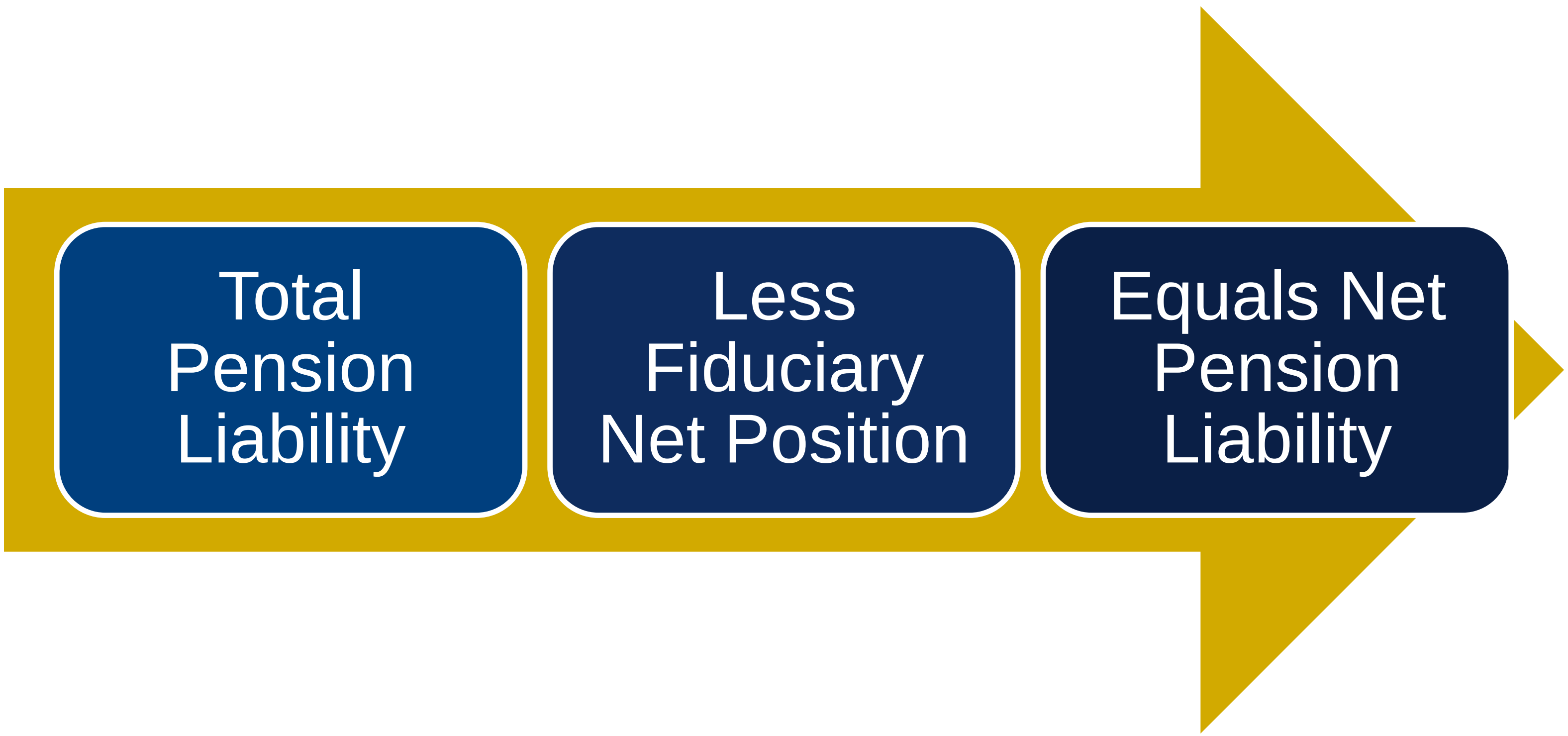
GASB 68

What are the financial statement pieces/impact (cont.)

- Employers participating in single employer or agent multiple employer plans will recognize 100 percent of the above amounts (previous slide) for each plan
- Employers participating in cost sharing, multiple employer plans will recognize their proportionate shares of the collective amounts for the plan as a whole

Recognition of Pension Liability

Represents total pension liability less the fiduciary net position of the plan



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Net Pension Liability (NPL)

Similar to Unfunded Liability calculation except:

	Unfunded Liability	Net Pension Liability (NPL)
Discount Rate	Long-term rate of investment return	Long-term rate of return and possibly a 20-year municipal bond index rate combination
Asset Valuation	Smoothed actuarial value of assets	Fair (market) value of assets
Actuarial Cost Method	Use one of six possible methods	Entry age normal

Discount Rate

A single blended rate should be used to discount projected future benefit payments, based on:

The long-term expected rate of return on plan investments (net of investment expenses) that are expected to be used to finance the payment of pension benefits to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested, using a strategy to achieve that return

AND

A yield or index rate for 20-year, tax-exempt general obligation (municipal) bonds with average rating of AA or higher, to the extent that the conditions above are not met.

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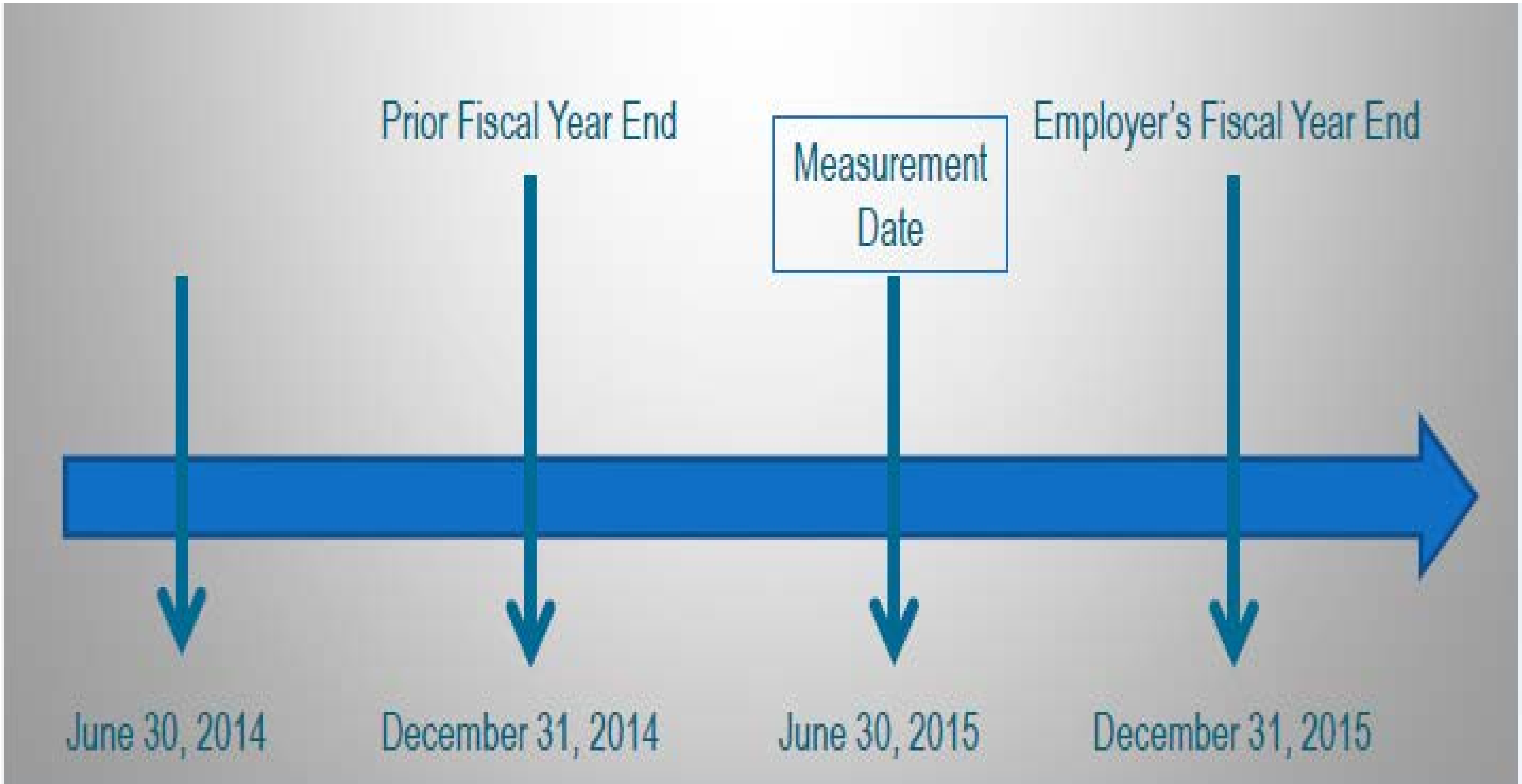
Timing of Measurement of Net Pension Liability

- Calculated as of a “measurement date” which corresponds to the plan’s year end
- Measurement date must be no earlier than the end of the employer’s prior fiscal year



Measuring Total Pension Liability

An actuarial valuation performed as of the measurement date, or

The use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 30 months and one day earlier than the employer's year end

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Polling Question #1

Recognition of Pension Expense

- Certain aspects of the change in net pension liability should be recognized **immediately** as pension expense.
- Other changes in pension liability should be recognized as deferred outflows / inflows of resources and recognized (amortized) into pension expense over time.

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Recognition of Pension Expense

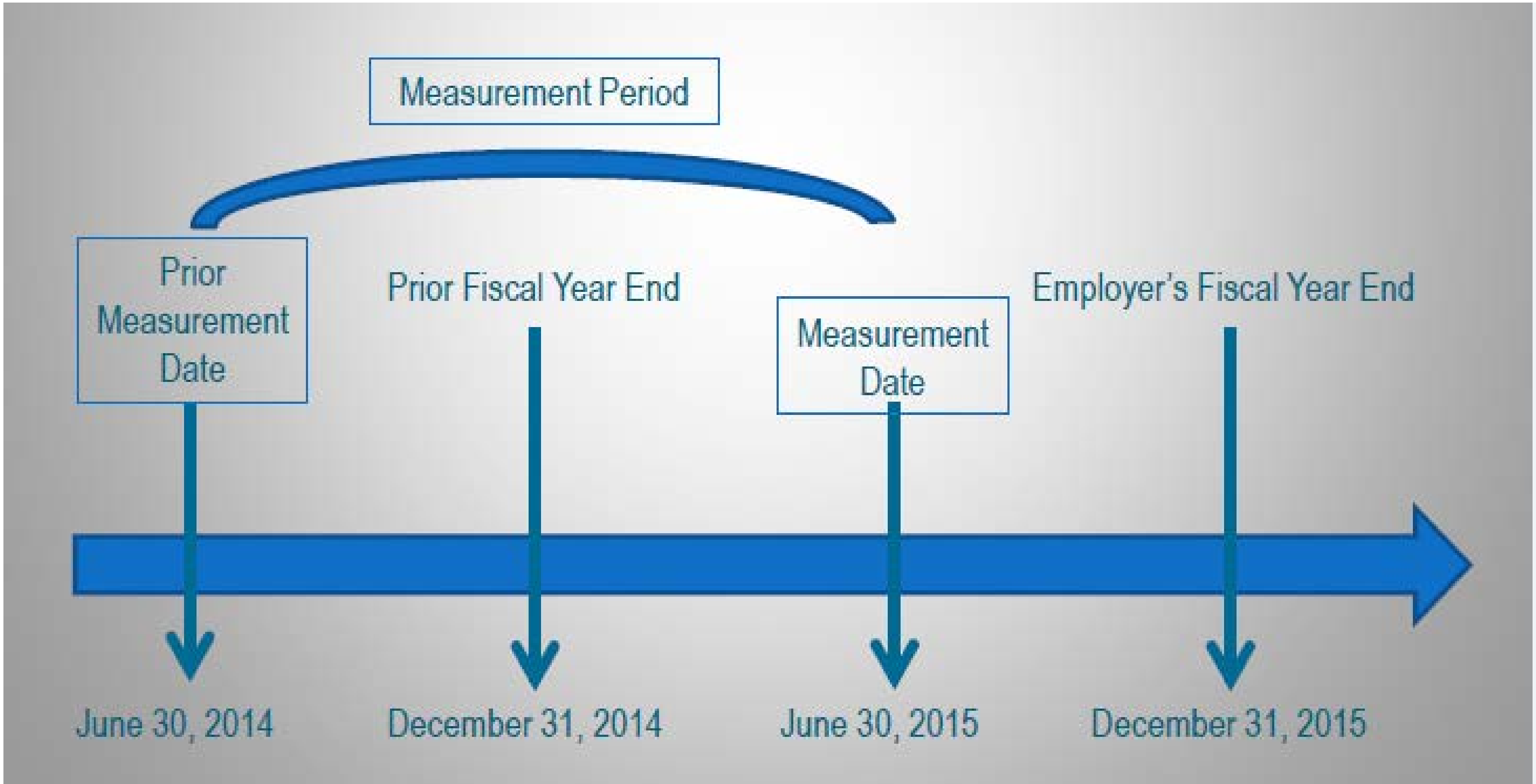
- Employers participating in single-employer or agent multiple-employer plans will recognize 100 percent of the pension expense and deferred amounts determined for each plan.
- Employers participating in cost-sharing plans will recognize their proportionate shares of the collective pension expense.

Pension Expense

- No longer tied to funding (contributions)
- Directly tied to changes in the NPL from one year to the next
- Must be calculated by plan's actuary
- May be a negative expense (revenue)

Pension Expense

- Calculated during the “measurement period” ending on the measurement date



Changes in Net Pension Liability Immediately Recognized as Pension Expense

Changes in the Total Pension Liability:

- Current period service cost
- Interest on the beginning total pension liability
- Impact of changes in benefit terms

Changes in Plan's Fiduciary Net Position:

- Projected earnings on plan investments
- Changes in plan fiduciary net position other than employer contributions and benefit payments

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Changes in Net Pension Liability Immediately Recognized as Pension Expense (another view)

Item	Effect on Pension Expense
Service Cost (Normal Cost)	Increase
Interest on the TPL	Increase
Projected Investment Earnings	Decrease
Member Contributions	Decrease
Administrative Costs	Increase
Benefit Provision Changes	Increase or Decrease

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Changes in Net Pension Liability Resulting in Deferred Inflows / Outflows of Resources

Changes in the Total Pension Liability

Effects of actuarial differences and changes in assumptions related to economic or demographic factors attributable to active and inactive employees, including retirees

Recognize as deferred inflow/outflow and recognize in expense (amortize) over a closed period equal to the average of the expected remaining service lives of all employees (active, inactive, and retirees)

Changes in Plan's Fiduciary Net Position

Differences between actual and projected earnings on plan investments

Recognized as deferred inflow/outflow and recognized in expense (amortize) over a closed five-year period – report amounts from multiple years net

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Pension Expense

Components deferred and recognized later include:

Item	Amortization Period
Difference between actual and projected earnings on investments	Closed 5 Years
Changes in actuarial assumptions (mortality, disability, salary growth, inflation, payroll growth, etc.)	Closed period equal to the average of the expected remaining service lives of all employees (active, inactive, and retirees
Difference between actual and assumed actuarial experience	

Deferred portions are accumulated as "deferred outflows of resources" or "deferred inflows of resources" and recognized as PE in future years.

Example

Item	Pension Expense	Deferred Outflows	Deferred Inflows
Service Cost	$20,000		
Interest on TPL	$10,000		
Projected Investment Earnings	$(8,000)		
Member Contributions	$(1,000)		
Administrative Expenses	$100		
Change in Benefit Provisions	$(200)		
Change in Assumptions (8 Years)	$100	$1,000	$300
Difference Between Assumed and Actual Experience (8 Years)	$(50)	$150	$500
Difference Between Actual & Projected Investment Earnings (5 Years)	$(100)		$400
Total	**$20,850**	**$1,150**	**$1,200**

Polling Question #2

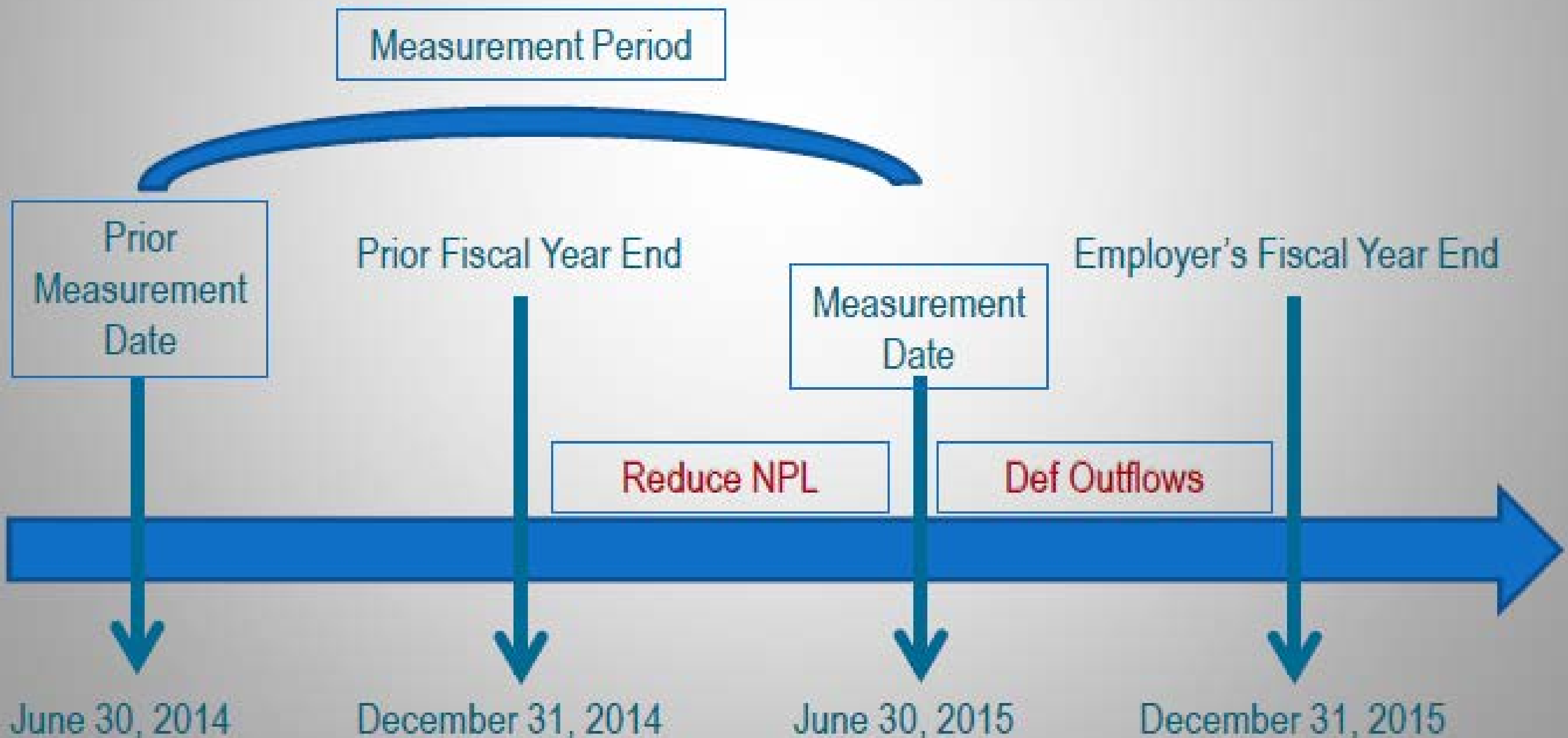
Employer Contributions

- During the measurement period
  - Directly reduce NPL (no expense impact)

- Subsequent to measurement date
  - Deferred outflow of resources related to pensions
  - Directly reduce NPL in next reporting period

Employer Contributions

- Booking ER Contrib. during the Employer's fiscal year



Footnote Disclosures – All Employers

DESCRIPTIVE INFORMATION

- Type of plan, identification of administrator
- Benefit terms – types of benefits, key elements of benefit formula, classes of employees covered, legal authority
- Contributions – basis, authority, rates ($ or % of pay), contributions in reporting period
- Availability of plan report

Footnote Disclosures – All Employers

SIGNIFICANT ASSUMPTIONS

- Inflation, salary changes, post-employment benefit changes, mortality assumptions, dates of experience studies
- Discount rate, plus
  - Long term expected rate of return and how determined
  - If applicable, municipal bond rate, the bond rate used and source of that rate
  - Periods of projected benefit payments to which long term rate of return is used and municipal bond rate is used when determining the discount rate
  - Assumed asset allocation of portfolio / expected real rates of return
  - NPL calculated at discount rate +/- 1% (sensitivity analysis)

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Footnote Disclosures – All Employers

- Information about pension plan's fiduciary position or reference to plan report
- Measurement date, actuarial valuation date
- Changes of assumptions / other inputs and changes of benefit terms
- Changes subsequent to measurement date
- Pension expense in current reporting period
- Deferred outflows/deferred inflows of resources
  - Balance by source
  - Net impact on pension expense in each of the next 5 years and thereafter in the aggregate
  - Amount that will be reduction of NPL

Expense and Deferred Outflows/Inflows of Resources Disclosures Example

"Cost-Sharing Plan"

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$2,657	$142
Change of actuarial assumptions	1,714	130
Net difference between projected and actual earnings on investments		2,188
Changes in proportionate share	747	153
City's contributions subsequent to measurement date	1,065	0
Totals	**$6,183**	**$2,613**

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Expense and Deferred Outflows/Inflows of Resources Disclosures Example

$1,065, reported as deferred outflows of resources related to pensions resulting from the City's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended December 31, 20Y0.

Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended 12-31	
20Y0	$(269)
20Y1	161
20Y2	217
20Y3	545
20Y4	551
Thereafter	1,300

Footnote Disclosures Single/Agent Employers

- Number of employees covered – inactive receiving benefits, inactive not receiving benefits, active
- Allocated insurance contracts
- Schedule of changes in NPL by source for current period
  - Service cost, interest, benefit changes, contributions by source
  - Plan investment income, etc.

Footnote Disclosures
Cost-Sharing Employers

- Employer's proportion, basis for proportion, change in proportion
- Employer's proportionate share (amounts) of collective NPL

Polling Question #3

RSI – Single/Agent Employers

10-year schedules

- Changes in NPL by source
- Components of NPL and related ratios (may be presented with changes in NPL by source)
  - TPL
  - Pension plan fiduciary net position
  - NPL
  - Plan net position as % of TPL
  - Covered-employee payroll
  - NPL as % of covered-employee payroll

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RSI – Single/Agent Employers

10-year schedules

- Paragraph 46 b. (2)
  for special funding situations
- Paragraph 46 c.
  for actuarially determined contribution
- Paragraph 46 d.
  for statutorily or contractually established contribution
- Paragraph 47 – Notes to RSI

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RSI – Cost-Sharing Employers

10-year schedules

- Employer's proportion (%),
- Proportionate share (amount) of NPL,
- Covered-employee payroll,
- Proportionate share as % of covered-employee payroll,
- Pension plan's net position as % of TPL
- **Paragraph 82. Notes to RSI**

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RSI – Cost-Sharing Employers

	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 6/30.

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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RSI – Cost-Sharing Employers

- If statutory or contractual contribution requirements
  - Required contribution
  - Contributions in relation to required
  - Difference
  - Covered-employee payroll
  - Contributions as % of covered-employee payroll

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RSI – Cost Sharing Employers

	20X9	20X8	20X7	20X6
Contractually required contribution	$ 2,095	$ 2,057	$ 1,969	$ 1,649
Contributions in relation to the contractually required contribution	(2,095)	(2,057)	(1,969)	(1,649)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 12,097	$ 10,962	$ 10,063	$ 9,634
Contributions as a percentage of covered-employee payroll	17.32%	18.76%	19.57%	17.11%

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.

Summary

GASB 25-27	GASB 67-68	Implications
Pension expense is equal to employer contributions sent to PERA.	Pension expense is related to the change in net pension liability each year.	Pension expense will be volatile. Cannot be calculated by the employer.
Pension systems' unfunded liability does not impact individual employer financial statements.	Employer must show proportionate share of the Net Pension Liability (unfunded liability) on balance sheet.	Employers, who previously did not have a pension liability, now have a large liability shown on the balance sheet.
Long-term rate of return used to discount future benefits, which determines liabilities.	Discount rate is long term rate of return while assets exist and municipal bond rate after that.	Potential for higher liabilities if assets are projected to be depleted in the future.
Accounting numbers linked to funding numbers. De facto standard for contributions.	Decoupling of accounting and funding numbers.	Two sets of numbers confusing and hard to explain, and may cause "panic" by citizens and governing bodies.
Unfunded liability can be amortized over maximum 30 years regardless of source of UAL (plan amendment, assumption change, gain/loss).	Shorter amortization. Plan changes, change in assumptions and gain/loss on retiree experience recognized immediately. Gain/loss on active liability recognized over average working lifetime	Higher pension expense and more volatility

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Special Funding Situation

- Special funding situations are circumstances in which a non-employer entity is legally responsible for making contributions **directly** to a pension plan to provide benefits for employees or another entity(ies) and **either** one of the following conditions exist:
  - Amount of contributions is not dependent upon one or more events or circumstances unrelated to pensions
  - Non-employer entity is the only entity with a legal obligation to make contributions directly to the plan
- Note: It is important to read statutes and/or plan document to determine if the above conditions are met. If not clearly defined, it generally should not be considered a special funding situation. It is anticipated that some governments will amend plan documents and statutes to more clearly define non-employer entity legal obligations.

What Will Plans Provide?

IT DEPENDS!

Employers will need to communicate with your plan to coordinate information that will be needed for the employer's financial statements.

Is the plan adopting the recommendations in the AICPA SLGEP Pension White Paper Series?

What Will Plans Provide?

- Total Pension Liability
- Plan’s Fiduciary Net Position
- Total Pension Liability
- Total Pension Expense/Deferred Inflows & Outflows
- Proportionate Share for Each Employer
- Employer Contributions (individual and Collective)
- Footnote Disclosure Information

How are the beginning amounts recorded upon implementation of GASB 68?

- If comparative financial statements are presented, does the government have to restate prior periods?
- Do prior year comparative amounts have to be restated in the MD&A?

How are the beginning amounts recorded upon implementation of GASB 68?

- "To the extent practical," changes made to implement standard should be reported as adjustment of prior periods, and financial statements presented for periods affected should be restated (if comparative, restate, or go to single year)
- Beginning balances of deferred outflows/inflows of resources are not required to be restated, except for deferred outflows related to contributions made after the measurement date (most will just start at zero)
- Not required to restate comparative information in MD&A

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How are the beginning amounts recorded upon implementation of GASB 68?

Employer Implementation Adjustment at Beginning of Period

Dr.	Beginning net position	$12,100
Dr.	Deferred outflows of resources	0
Dr.	Deferred outflows of resources – contributions made after the prior measurement date	500
Dr.	Net pension obligation – beginning of year under GASB 27	2,500
Cr.	Deferred inflows or resources	0
Cr.	Net pension liability	$15,100

Other Implementation Issues

- Does not impact governmental/modified accrual funds
- For GAAP/CAFR entities, will impact the entity-wide level statements
- How will this impact full accrual proprietary type funds? See GASB 68 implementation guide question #36.

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Cost-Sharing Plans: Employer Responsibilities

- **Report**

  Complete and accurate data to the plan

- **Evaluate**

  The appropriateness of information used to record financial statement amounts

  Whether plan auditor's report on schedules are adequate and appropriate for employer purposes

- **Verify and recalculate**

  Employer amount used in allocation percentage

  Recalculate allocation percentage of employer

  Recalculate allocation of pension amounts based on allocation percentage of employer

Polling Question #4

Resources

Debt Raters and the New Pension Reporting Standards:

– www.standardandpoors.com

Pension Accounting for Preparers and Auditors:

– www.gasb.org

– www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/gasbmatters

Pension Accounting and Reporting for citizens, elected officials and administrative staffs:

– www.nasact.org/washington/downloads/announcements/03_13_Pension_Funding_Guide.pdf

– https://www.agacgfm.org/Research-Publications/Journals.aspx

GASB Pension Accounting Toolkit

– www.gasb.org

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Thank you!

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