

 Rehmann *Live!*

GASB 67/68 Implementation

The New Pension Standards

April 22, 2014

Webinar

Presented in association with



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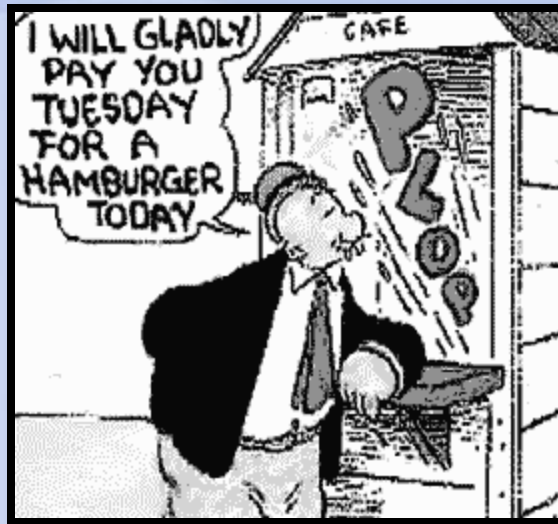


Session Outline

- Actuarial Concepts
- Overview of GASB 68
- Implementation: The First Year
- Reporting Illustrations

Actuarial Concepts

Actuarial Concepts



- Although Defined Benefit Pension plans provide *retirement* income, that future income is in exchange for services rendered today

Actuarial Concepts

Cost Methods

- A procedure for determining the *present* value of *future* pension plan benefits and expenses and for developing an allocation of such value to time periods in the form of a normal (service) cost and actuarial accrued liability

Actuarial Concepts

Cost Methods

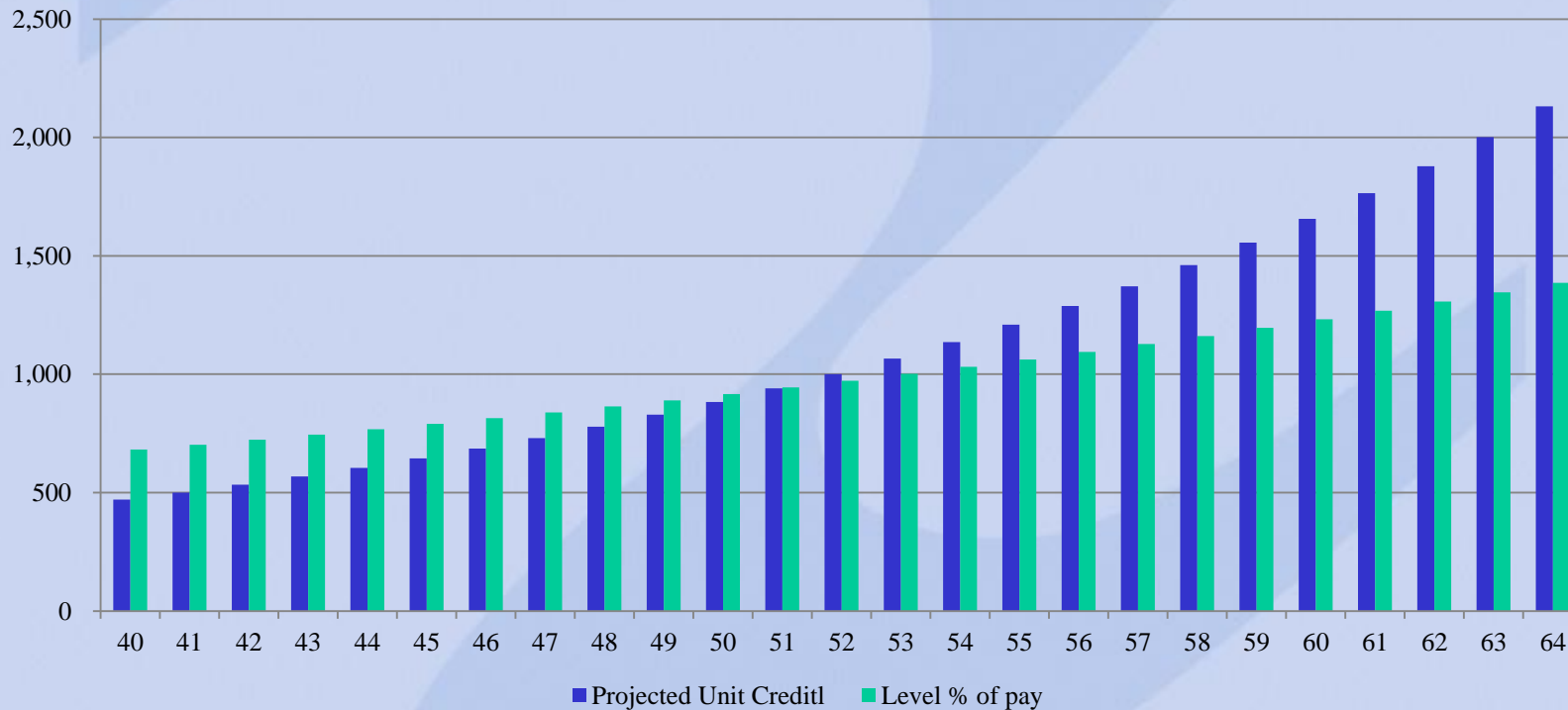
- **Projected Unit Credit**
 - allocation of present value of benefits according to a consistent formula
- **Entry Age Level Percentage of Pay**
 - allocation of present value of benefits on a level percent of pay basis over earnings of an individual from entry age to assumed exit age(s)

Actuarial Concepts

Cost Methods

Defined Benefit Cost Methods

6.5% Asset Return



Actuarial Concepts

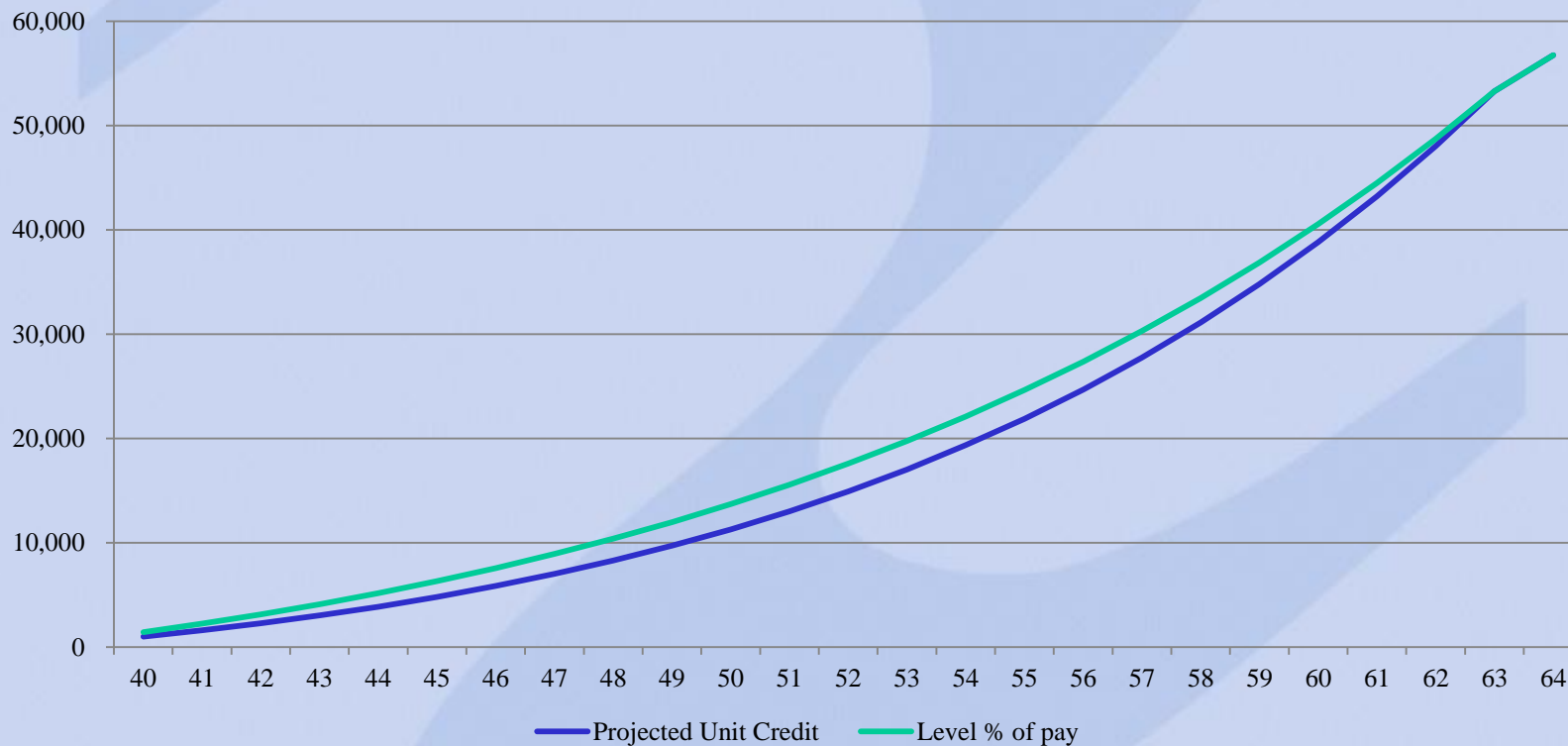
Actuarial Accrued (Pension) Liability

- That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by future Normal Costs

Actuarial Concepts

Actuarial Accrued (Pension) Liability

Liability by Cost Method



Actuarial Concepts

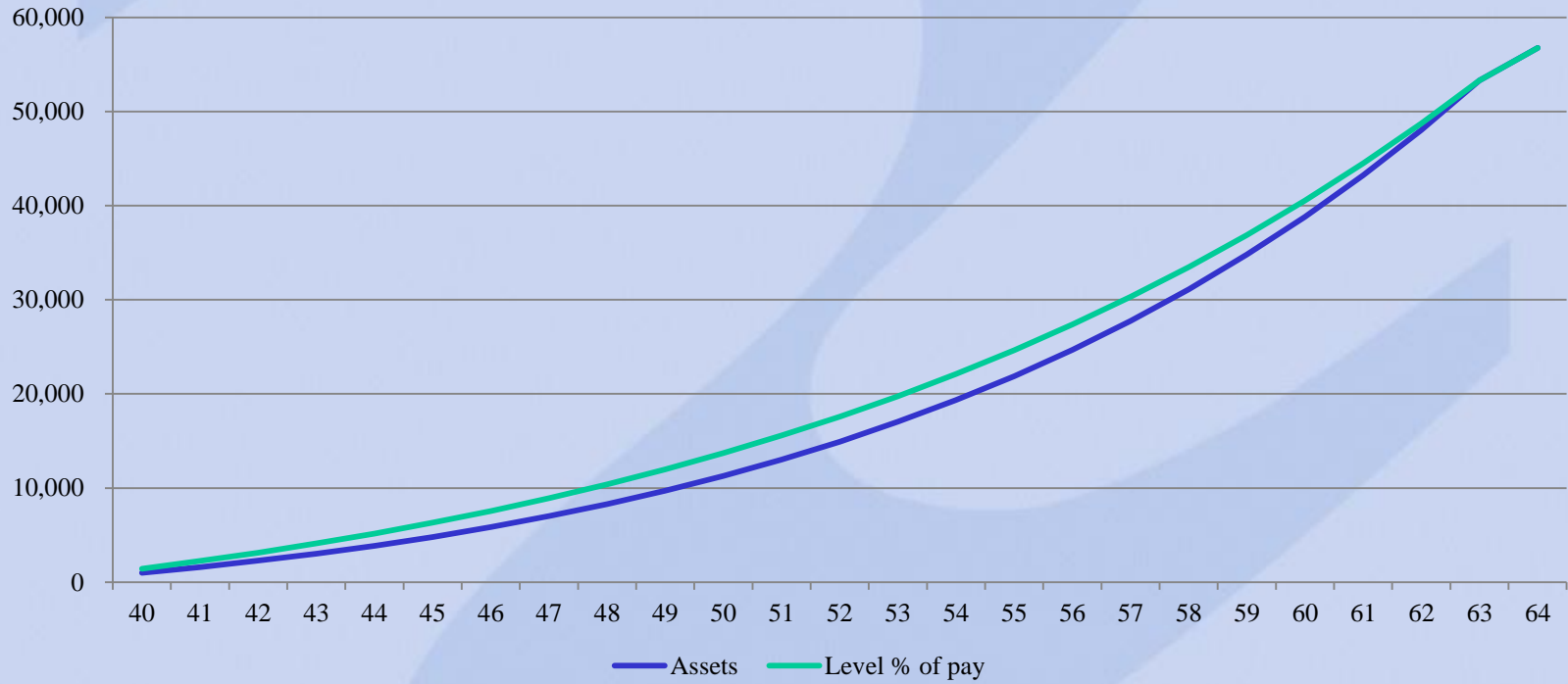
Unfunded Actuarial Accrued Liability

- Difference between actuarial liability and market related (actuarial) value of assets

Actuarial Concepts

Unfunded Actuarial Accrued Liability

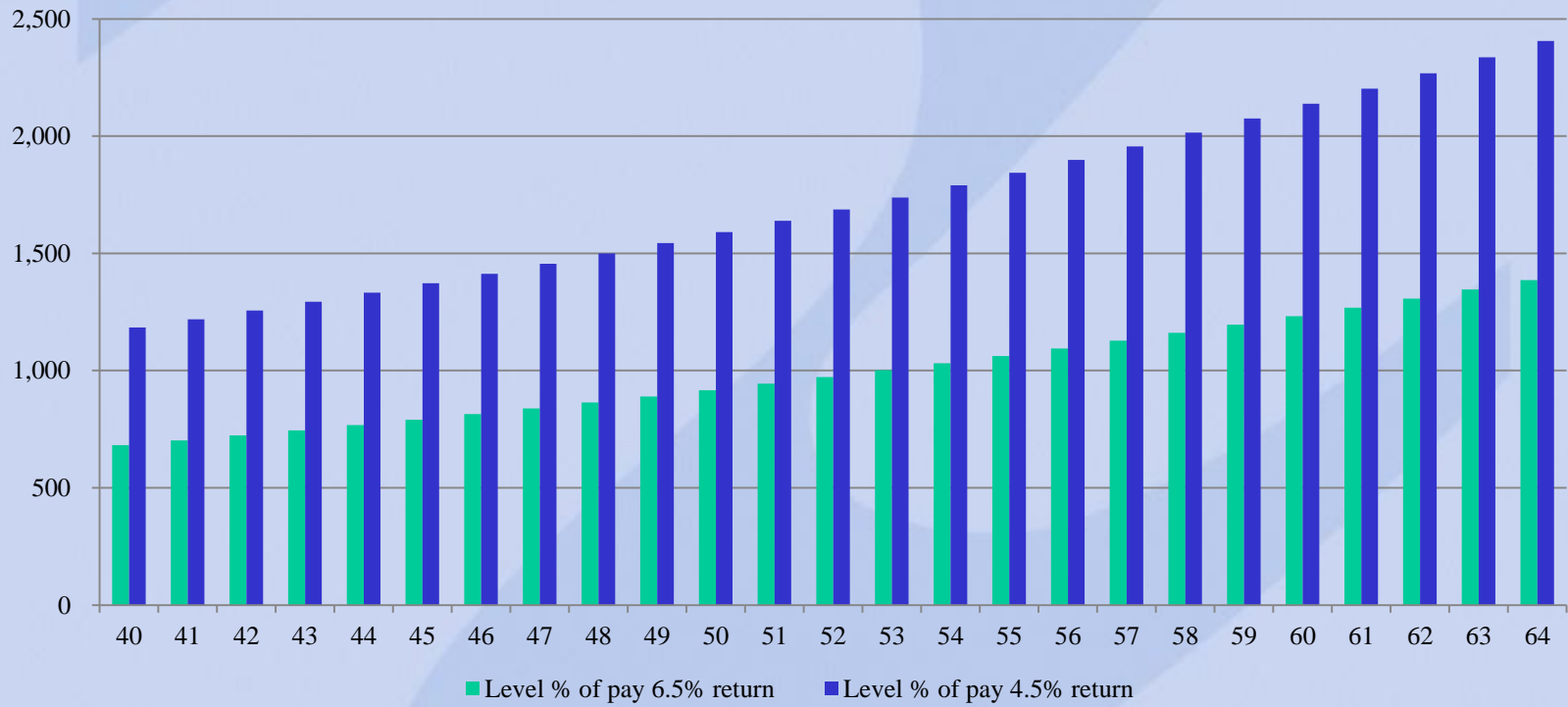
**Funded Status: Level % of Pay Measurement
Projected Unit Credit Funding**



Actuarial Concepts

Unfunded Actuarial Accrued Liability

Impact of Asset Return/Discount Rate Assmp
6.5% v 4.5%



Actuarial Concepts

Normal (Service) Cost

- Allocation of a portion of the present value of future benefits to one year of service

Actuarial Concepts

Amortization of Unfunded Actuarial Liability

- Recognition of a portion of the unfunded actuarial liability over a future period (fixed number of years, average future service, etc.)

GASB's Objective

Statements 67/68

- Accountability for resources provided for pension benefits
 - What does the plan owe participants and how well is it positioned to honor those commitments?

Overview of GASB 68



GASB Statement 67/68

The New Pension Standards

- GASB 67
 - Applies to the financial statements of **pension plans** (pension trust funds)
 - Effective 06/30/2014
- GASB 68
 - Applies to the financial statements of **employers** providing pension benefits
 - Effective 06/30/2015

Defining Pension & OPEB

- Pensions
 - Retirement income and benefits (other than healthcare) provided through a pension plan
- Other postemployment benefits (OPEB)
 - All postemployment healthcare benefits
 - Postemployment benefits other than retirement income not administered by a pension plan

Defining Pension & OPEB

- Two broad types of pension plans:
 - **Defined benefit (DB)**
 - Benefits are defined by plan terms (either a specific dollar amount, or calculated based on age, years of service, compensation, etc.)
 - No individual accounts by plan member
 - Primary focus of GASB 68

Defining Pension & OPEB

- Two broad types of pension plans:
 - **Defined contribution (DC)**
 - Individual account for each plan member
 - Identify the employer contributions to be made in each period of service
 - Benefits are limited to contributions made and the earnings thereon
 - Little changed by GASB 68

Defining Pension & OPEB

- Three types of defined benefit plans:
 - **Single-employer** pension plan
 - A primary government and its component units may be considered to be one employer
 - **Agent multiple-employer** pension plan
 - Assets are pooled, but each employer's share is legally available to pay the benefits of only its employees

Defining Pension & OPEB

- Three types of defined benefit plans:
 - Cost-sharing multiple-employer pension plan
 - Assets are pooled, and may be used to pay benefits of the employees of any participating employer

GASB Statement 67/68

The New Pension Standards

- New term: **net pension liability**
 - Recorded by the employer (not the plan)
 - Equal to the actuarially determined **total pension liability**, less the **net position** of the pension trust fund
 - Recorded in full accrual financial statements (certain portions are deferred and amortized)

Total Pension Liability

- Calculated by the actuary:
 - Project future benefits
 - Discount to present value
 - Attribute present value to specific periods



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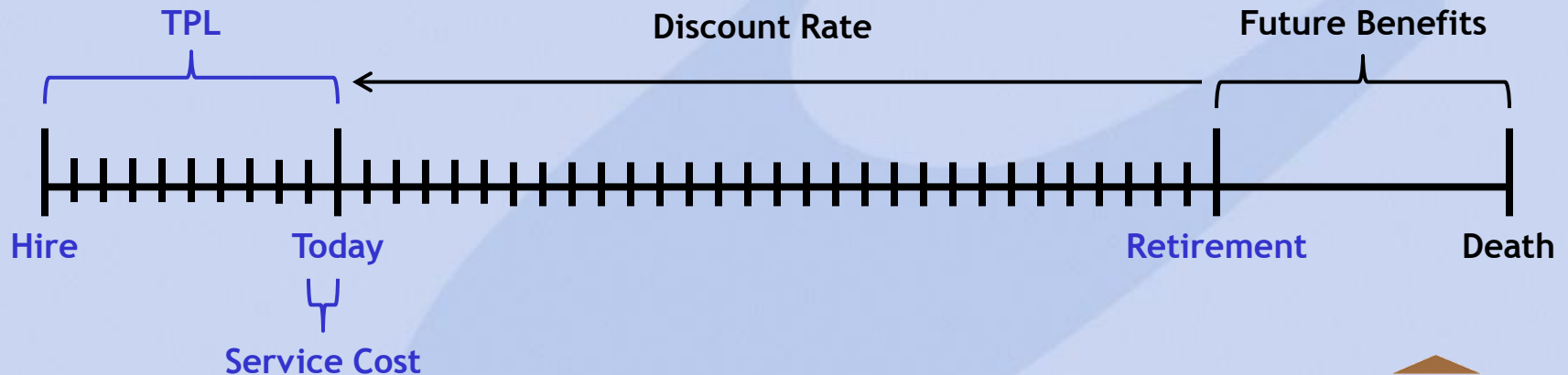
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Key Actuarial Changes

Current to New Standards

- Actuarial cost method
 - GASB 25/27 allowed for use of one of six actuarial cost methods
 - GASB 67/68 requires use of the Entry Age Level % of Pay cost method
 - If currently using a method other than Entry Age Level % of Pay, the funded status of the plan will change

Key Actuarial Changes

Current to New Standards

- Expected return/discount rate
 - GASB 25/27 based on current or expected long-term rates of return
 - GASB 67/68 requires calculating a single blended rate
 - Expected rate of return (sufficient assets)
 - AA 20 year muni bond rate (insufficient assets)
 - A lower discount rate produces a higher liability and vice versa

Key Actuarial Changes

Current to New Standards

- Annual Cost
 - GASB 27 required calculation of a “Annual Required Contribution (ARC)” equal to the service cost plus amortization of the unfunded actuarial liability
 - GASB 68 requires calculation of Pension Expense equal to the change in the net pension liability with adjustments for deferred recognition of some gains/losses

Key Actuarial Changes

Current to New Standards

- Asset method
 - GASB 27 permitted an actuarial asset method that smoothed gains and losses
 - GASB 68 requires market value of assets

Key Actuarial Changes

Current to New Standards

- Amortization of unfunded liability
 - GASB 27 permitted wide latitude in amortization periods
 - GASB 68 requires:
 - Plan changes - immediately
 - Assets returns other than expected - 5 years
 - Other actuarial liability gains and losses - average future service

Key Actuarial Changes

Current to New Standards

- Assumptions used
 - Largely consistent with funding approach
 - Discount rate may differ
 - Sensitivity analysis (calculate the TPL $\pm 1\%$ of the selected discount rate)
 - Auditors may need to apply greater scrutiny

Sample Discount Rate

	Target Allocation	Long-term Expected Real Rate of Return	Money Weighted Rate of Return
Domestic equity	46%	5.4%	2.48%
International equity	21%	5.5%	1.16%
Fixed income	26%	1.3%	0.34%
Real estate	6%	4.5%	0.27%
Cash	1%	0.0%	0.00%
	<u>100%</u>		<u>4.25%</u>
Inflation			<u>3.50%</u>
Investment rate of return			<u>7.75%</u>

Net Pension Liability

- Total pension liability less net position of the pension trust fund
 - Single employer and agent multiple-employer plans record NPL and disclose information for the plan
 - Cost-sharing plans record pro-rata share of overall plan amounts

Changes in the NPL

	Increase (decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 06/30/x8	\$ 2,853,455	\$ 2,052,589	\$ 800,866
Changes for the year			
Service cost	73,034		73,034
Interest	219,345		219,345
Difference between expected and actual experience	(37,539)		(37,539)
Contributions-employer		79,713	(79,713)
Contributions-employee		31,451	(31,451)
Net investment income		196,154	(196,154)
Benefit payments, including refunds of employee contributions	(119,434)	(119,434)	-
Administration expense		(3,373)	3,373
Other changes		8	(8)
Net changes	<u>135,406</u>	<u>184,519</u>	<u>(49,113)</u>
Balances at 06/30/x9	<u>\$ 2,988,861</u>	<u>\$ 2,237,108</u>	<u>\$ 751,753</u>

Examples are from the GASB 68 Implementation Guide.

Pension Expense

- Pension expense (full accrual) bears no direct relationship to the amounts actually contributed to a pension plan
- Governmental funds (modified accrual) continue to only report actual contributions made

Pension Expense/Change in NPL

Description	Pension Expense Amount	Net Pension Liability
Balances at 06/30/x8		\$ 800,866
Changes for the year		
Service cost	\$ 73,034	73,034
Interest on the total pension liability	219,345	219,345
Differences between expected and actual experience	3,454	(37,539)
Changes in assumptions	20,101	
Employer contributions		(79,713)
Employee contributions	(31,451)	(31,451)
Projected earnings on pension plan investments	(158,625)	(196,154)
Differences between projected and actual earnings on plan investments	29,155	
Pension plan administrative expense	3,373	3,373
Other changes in fiduciary net position	(8)	(8)
Total pension expense	\$ 158,378	(49,113)
Balances at 06/30/x9		\$ 751,753

Examples are from the GASB 68 Implementation Guide.

Disclosures and RSI

- Extensive new footnote and RSI
 - Plan description
 - Investment policies
 - Annual money-weighted return (10 years)
 - Basis for calculating the net pension liability, including discount rate assumptions and a “sensitivity analysis”
 - 10 year trend information (prospectively)

Disclosures and RSI

- Extensive new footnote and RSI
 - 10 year schedule of annual changes in the NPL by type
 - Funded status and funding progress (if actuarially calculated)
 - Schedule of deferred inflows/outflows to be amortized in future periods (similar to long-term debt amortization)

Implementation: The First Year



Implementation

- Planning meetings
- Providing data to the actuary
- The new look of actuarial valuations
- Recording the net pension liability
- Auditing the net pension liability

Planning Meetings

- Who to include
 - Finance staff, auditor, and actuary
- Timing
 - Work backwards from when GASB 68 is due in your financials
- Issues to address
 - Availability of information
 - Who will do what, when?

Providing Data to the Actuary

- Census data
- Key assumptions
- Investment policy statements

*Much of the information
is the same as pre-GASB 68*

The New Actuarial Valuations

- Funding report unchanged
- Will need to replace GASB 25/27 requirements with GASB 67/68
 - NPL history
 - NPL sensitivity
 - Pension Expense
 - Deferred inflows and outflows
 - Discount rate support (100-year run out)
- Have discussion about what is to be included

Recording the NPL

- The net pension liability is only recorded in full accrual statements
 - Allocation options:
 - Governmental activities
 - Enterprise funds
 - Internal service funds
 - Restating beginning net position
 - Deferred items

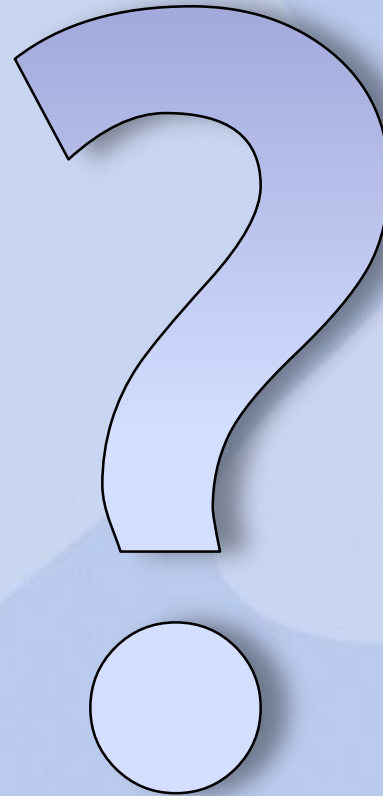
Auditing the NPL

- The net pension liability may be the single largest amount on the government's financial statements
- The AICPA is currently developing standards for auditors
- Special considerations for agent and cost-sharing plans

Resources

- GASB's website (www.gasb.org)
 - GASB 68 Implementation Guide
 - Pension podcasts

Questions and Answers...



For More Information

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