

GASB 67 and 68: Pension Fund Reporting

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GASB 67/68 - Accounting and Financial Reporting for Pensions

n Topics for discussion - Audit

- New GASB Pronouncements – new assumptions, new terminology, new calculations
- Funding vs. accounting
- Effective dates
- Other implications





GASB 67/68 - Accounting and Financial Reporting for Pensions

n Topics for discussion - Actuary

- Actuary for disclosures vs. funding
- Timing issues and considerations
- Funding policies





Current Accounting

n Current Employer Liability/Asset and Expense

- .. Currently: Record Net Pension Obligation/Asset (NPO/NPA)

- n** Cumulative difference between ARC and Actual Contributions

- n** Expenditures in the General Fund equal actual cash contributions to the pension fund(s) – tax levy request

- n** Expenses in the Government-Wide financial statements equal the change in the NPO/NPA





Scope of the New Statements

- n GASB 67 is related to the Pension Plans themselves, GASB 68 is related to the Employer
- n Effects IMRF, Police and Firefighter pension plans
- n Will effect entity-wide and business-type statements (enterprise/internal service, if applicable) – no effect on governmental funds





Separation of Funding and Accounting (Further Discussion)

- n Employers accustomed to obtaining an Annual Required Contribution (ARC) from your actuary
 - Used for budgeting purposes (expenditures in General Fund)
 - Used to establish the annual tax levy amount
 - Is also used in the calculation of the Net Pension Obligation/(Asset) – direct effect on the liability that is currently calculated





Separation of Funding and Accounting (Further Discussion)

n Current NPO Calculation

Annual Required Contribution

+/- Interest on the PY NPO

+/- Adjustment to the ARC

= Annual Pension Cost

- ACTUAL CONTRIBUTIONS

= Increase/Decrease in NPO

+ NPO – Beginning of Year

= NPO – End of Year

n New liability calculation will not be as directly correlated to actual funding each year





New Terminology

n Total Pension Liability (TPL)

- Portion of PV of future projected benefit payments that is attributed to past periods of member service

n Net Pension Liability (NPL)

- The liability of employers to plan members for benefits provided through the pension plan
- $NPL = TPL - \text{plan's net position}$

n Money-weighted rate of return

- A method of calculating period-by-period returns on pension plan investments that adjusts for the changing amounts actually invested





New Actuarial Assumptions and Considerations

- n Discount Rate
- n Cash Flow Analysis
- n Projected Benefit Payments
- n Entry Age Normal Cost Method





New Actuarial Assumptions and Considerations – Continued

n Discount Rate

- Discounting of projected benefit payments using SINGLE rate that reflects:

- n** 1) long-term expected rate of return to the extent that fiduciary net position (cash flow analysis) is projected to be sufficient to pay benefits AND
- n** 2) a tax-exempt, high-quality municipal bond rate to the extent that #1) is not met





New Actuarial Assumptions and Considerations – Continued

n Cash Flow Analysis

- Inflows: Employer contributions, current employee contributions, investment earnings
- Outflows: Benefit payments and administrative expenses
- Looking for the “cross-over point” which is where net position no longer exists to meet benefit payments
- Professional judgment should be applied to project cash flows for contributions from the employer (funding policies – more to come)





New Actuarial Assumptions and Considerations – Continued

n Projected Benefit Payments

- Automatic COLAs
- PLUS ad hoc COLAs

n Entry Age Normal Cost Method

- Used for all employers – currently various methods allowed
- Study found that the vast majority of employers were already using this assumption, including IMRF





New Accounting

n What will now be recorded:

- Net Pension Liability (Full Accrual Balance Sheet)
- Changes in the Net Pension Liability – most changes recognized as expense in the current year, including:
 - n** 1) Differences between expected and actual experience for economic/demographic factors or future economic/demographic factors – amortized over closed period = avg. expected remaining service lives of all qualifying employees (currently 30 years)
 - Current year expense recognized PLUS deferred inflow/outflow for remaining balance





New Accounting – Continued

n What will now be recorded:

- Changes in the Net Pension Liability – most changes recognized as expense in the current year, including:
 - n** 2) Difference between projected and actual earnings on investments – amortized over a closed five year period
 - Current year revenue/expense recognized PLUS deferred inflow/outflow for remaining balance
- Contributions to the plan from the employer after the Measurement Date of the NPL and before the fiscal year-end should be reported as a deferred outflow





New Disclosures

n Existing disclosures PLUS others

- Descriptive information on plan – types of benefits provided, # and classes of employees covered
- For the current year, sources of changes in the Net Pension Liability
- Significant assumptions used in the calculations – inflation, salary changes, ad hoc COLAs, discount rate detail, mortality, dates of experience studies
- Date of the actuarial valuation used to determine the total pension liability, information about changes in assumptions or other inputs/benefits, basis for determining employer contributions





New Required Supplementary Information

- n Required Supplementary Information – 10 Years
 - Sources of changes in the Net Pension Liability (New)
 - Components of the Net Pension Liability and related ratios
 - n Percent Funded
 - n Percentage of Covered Payroll
 - Actuarially Determined Contribution (currently ARC), actual contributions, percent contributed
 - Methods and assumptions used in calculating the Actuarially Determined Contribution should be presented as notes to the RSI
 - Reasons for any significant changes should be noted





GASB 67 and 68 Effective Dates

- n GASB 68 for Employers Effective Date – Fiscal Years Beginning After June 15, 2014
 - June 30, 2015 year ends and thereafter

- n GASB 67 for Pension Plans Effective Date – ONE YEAR EARLIER – Fiscal Years Beginning After June 15, 2013
 - June 30, 2014 year ends and thereafter





Other Implications

n Pension Plan investment policies

- Should specify the target allocation AND long-term expected real rate of return by asset class (e.g., fixed income, domestic equity, international equity, real estate, etc.)

n Pension Plan investment advisors

- Contact to assist in obtaining the annual money-weighted rate of return, net of investment expense (See paragraphs 30b(4) and 32d of GASB 67) – required in pension plan reporting





Other Implications – Continued

n IMRF

- They will provide the numbers – estimates as of 12/31/13 of TPL and NPL
- Actual numbers at 12/31/14 and 12/31/13 – one year ahead of required implementation
- Discretely presented component units
 - n** IMRF will only issue one report
 - n** Employer/auditors must split between the two entities
 - Percent of total payroll





Accounting vs. Tax Levy/Funding

n Accounting for Pensions

- Old: Statement 25 ARC – Determined via funding process (Illinois Statutes) as long as minimum standards met
- Statement 67 & 68
 - n** “...the Board has removed the specific link between (a) the accounting measures of the net pension liability and pension expense and (b) the actuarially determined funding based measures.”
 - n** No impact on cash budget considerations





Accounting vs. Tax Levy/Funding

n Pension Funding

- Still determined under the Illinois Pension Code
- Based on the Funding Policy
 - n** Formal vs. informal (more to follow)
 - n** Actual contributions vs. ARC





Funding Policy Basics

n Formal Plan

- Actuarial Cost Method
- Handling of Unfunded Liability
- Measurement of the Actuarial Value of Assets
- Procedures for Tracking
- Procedures for Determining Assumptions

n Informal Plan

- 5 Year contribution history
- Judgment

n More details later





Timing Issues

n Fiscal Year-End

- Actual most recent fiscal year-end for plan or employer

n Measurement Date (MD)

- Date at which the Total Pension Liability (TPL) and Net Pension Liability (NPL) are measured for reporting in the most recent fiscal year-end (may differ from fiscal year-end)

n Actuarial Valuation Date (AVD)

- Date liability is determined in the Actuary's Report
- Roll-forward procedures reconcile from AVD to MVD





Timing Issues

n Fiscal Year-End (FYE)

- Statement 67– Most Recent Plan FYE
- Statement 68 – Most Recent Employer FYE

n Measurement Date

- Statement 67– Current plan FYE
- Statement 68 – Prior FYE

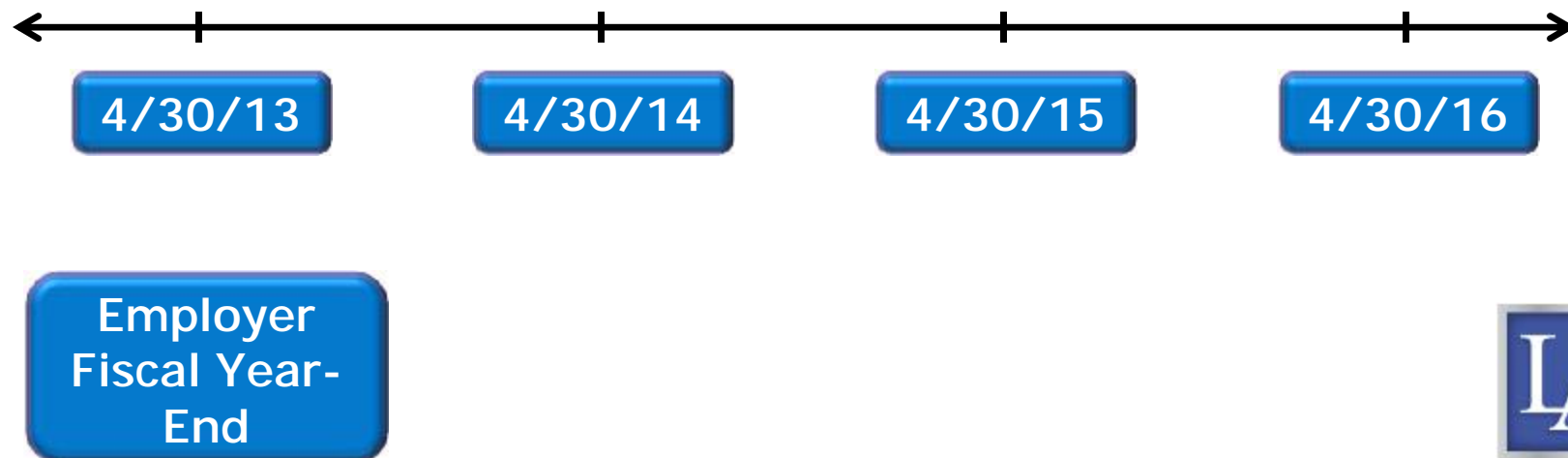
n Actuarial Valuation Date

- Statement 67– Up to 24 months prior to FYE
- Statement 68 – Up to 30 months (+1 day) prior to FYE

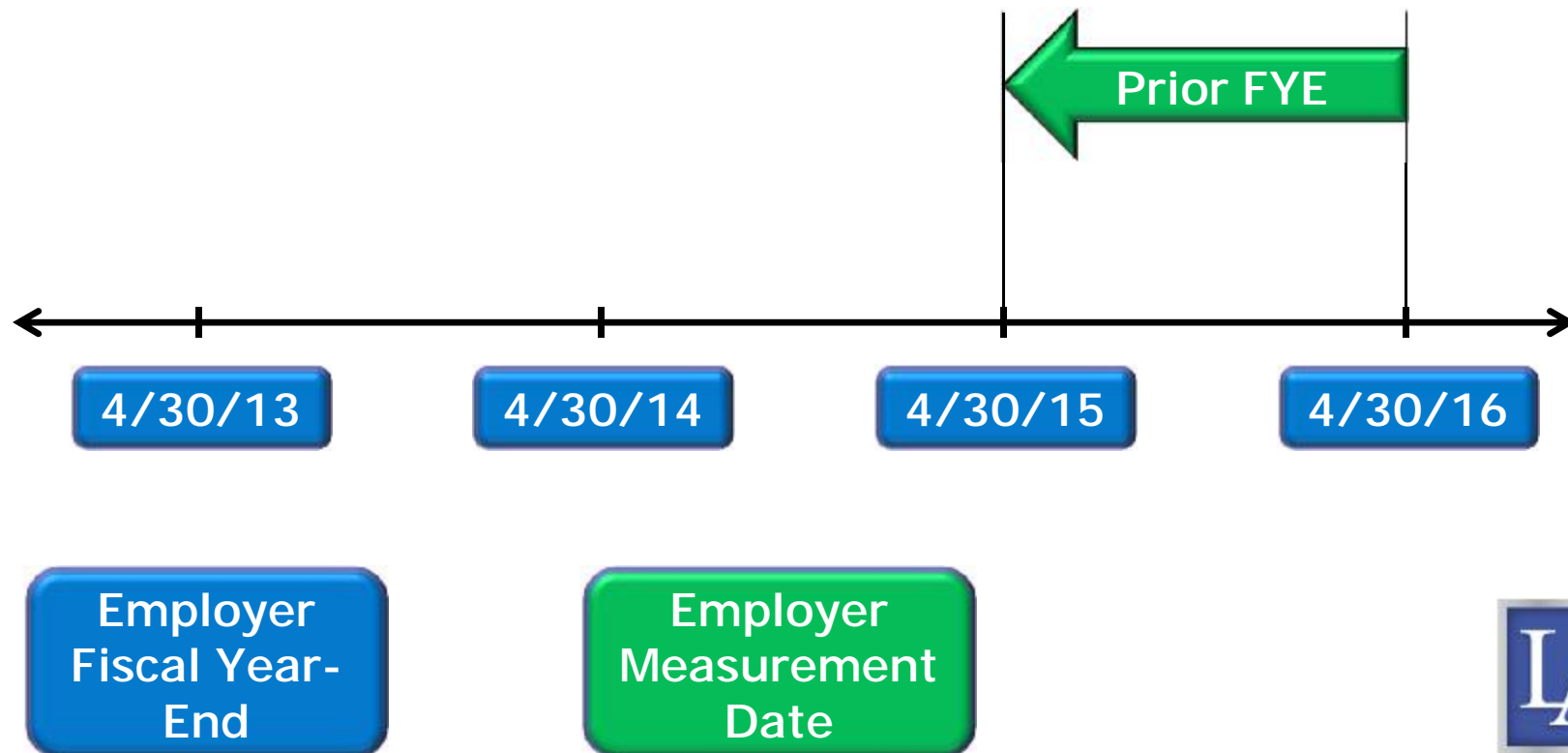




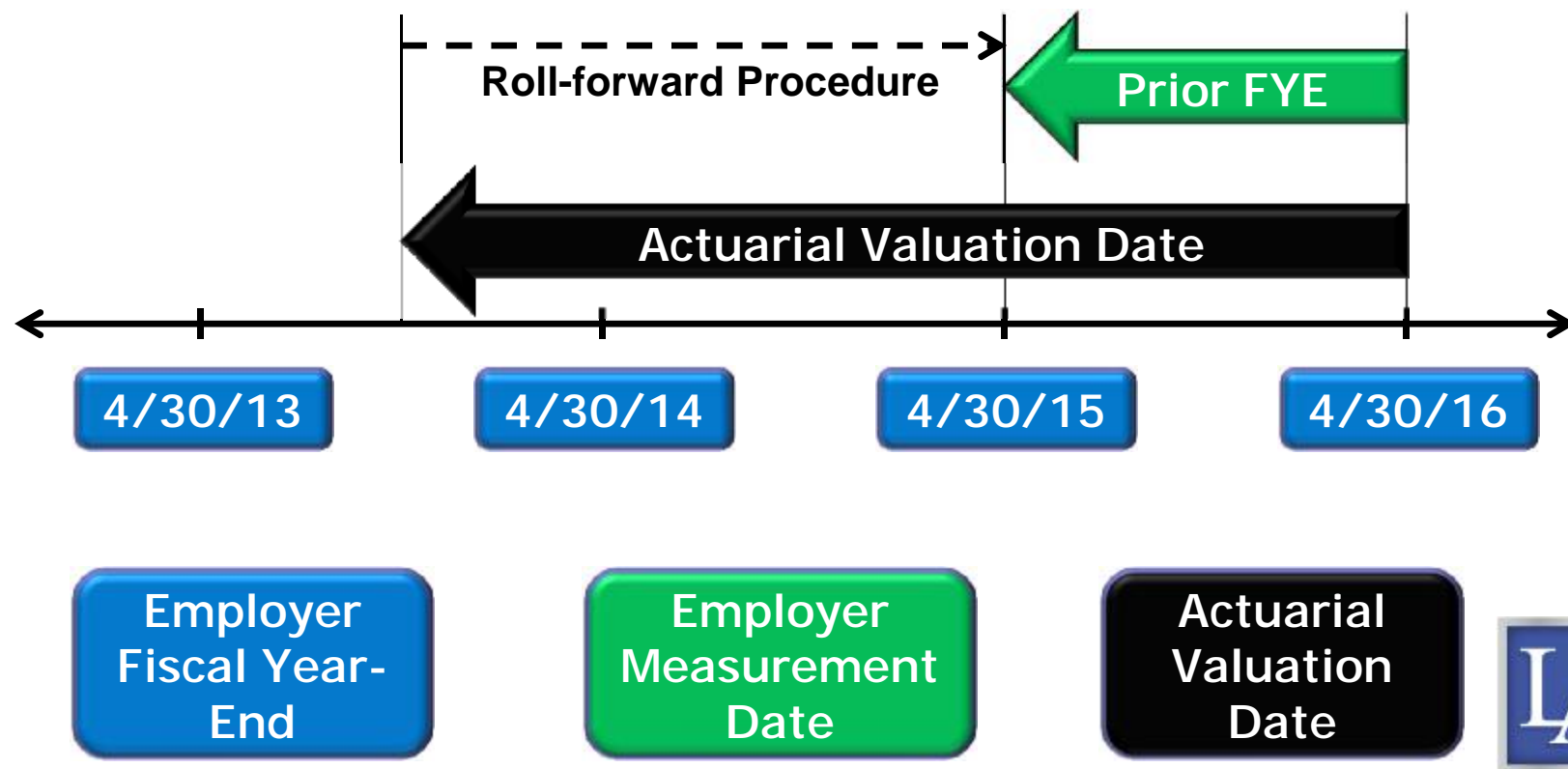
Measurement Timing – Employer (Statement 68)



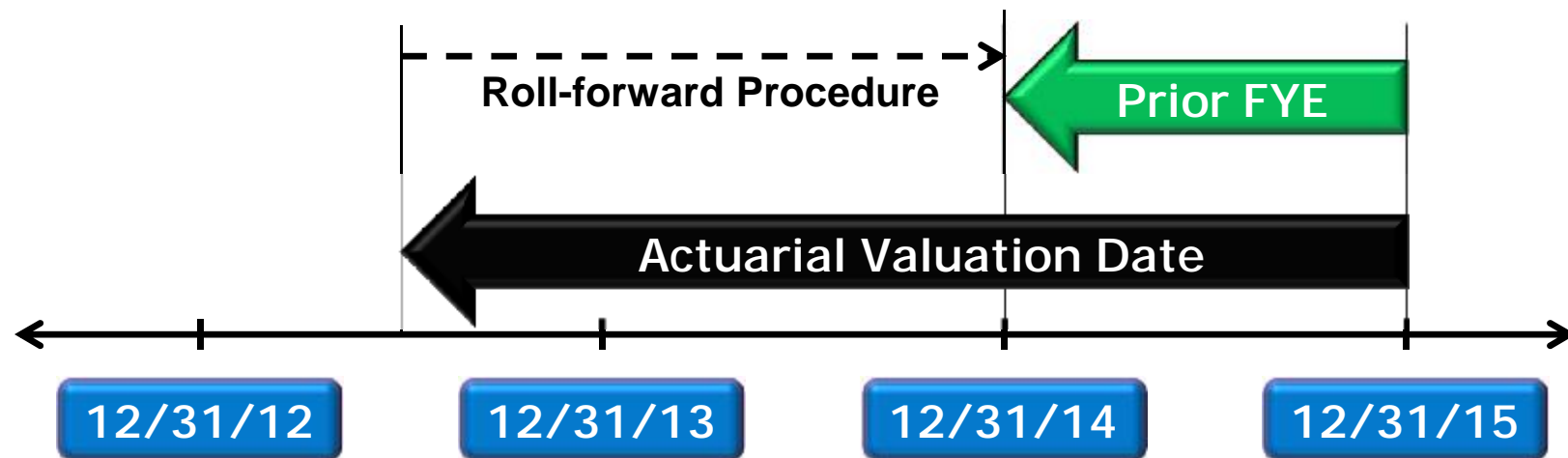
Measurement Timing – Employer (Statement 68)



Measurement Timing – Employer (Statement 68)



Measurement Timing – Employer (Statement 68)



Employer
Fiscal Year-
End

Employer
Measurement
Date

Actuarial
Valuation
Date



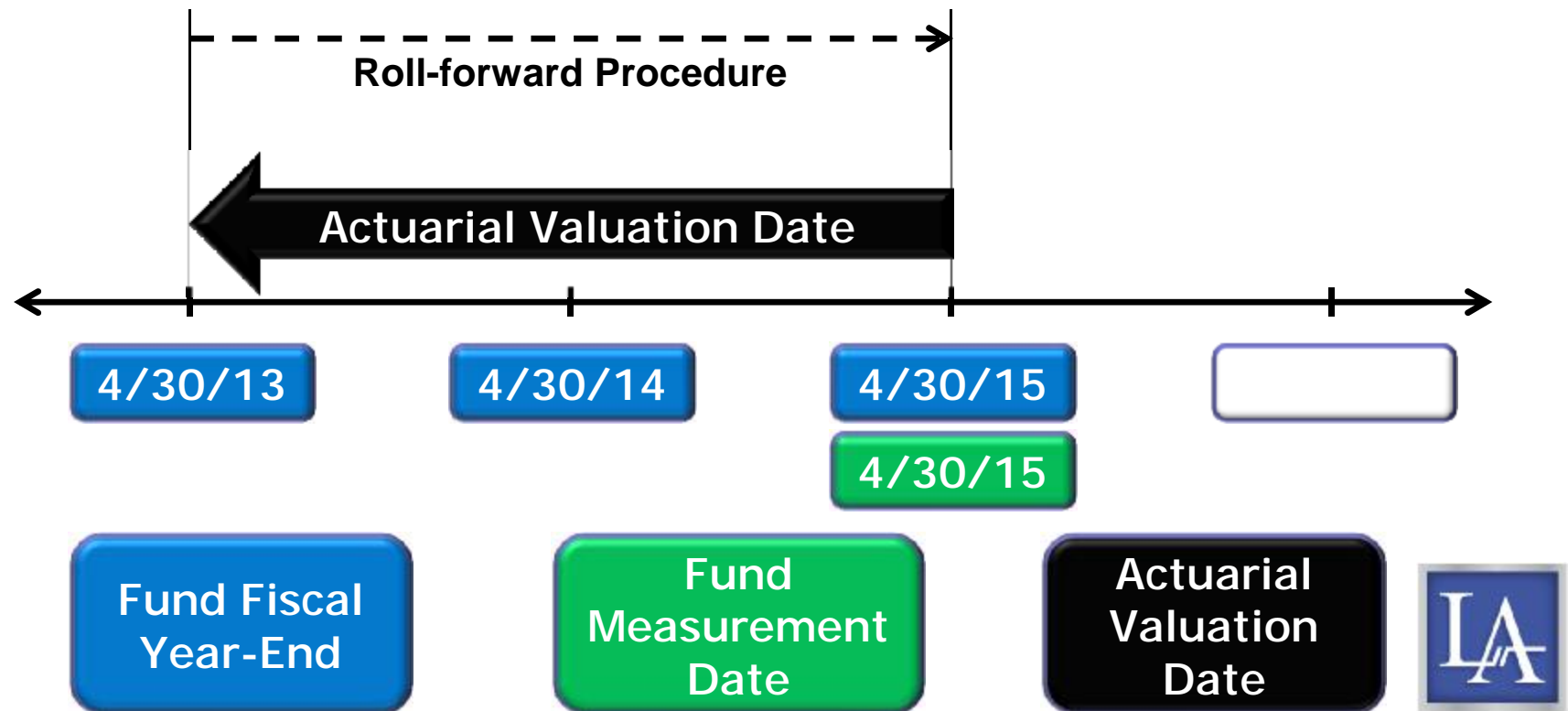


Measurement Timing – Fund Level (Statement 67)

- n** Implementation – One year EARLIER
- n** Measurement date
 - TPL and NPL must be reported as of the current FYE
- n** Actuarial Valuation Date
 - Up to 24 months prior to FYE
 - Roll forward procedures used to bring measurements to the Measurement Date



Measurement Timing – Fund Level (Statement 67)





Timing – Practical Considerations

n Actuarial Valuation Date

- Statement 67/68 reports will take time to complete
 - n** Expanded disclosure
 - n** Additional schedules for preparation
 - n** Less leveraging off funding/levy valuations
 - n** Input from investment professionals
- Actuarial Valuation Date = Fiscal Year-End?
 - n** Allowable
 - n** Most current information
 - n** Likely impractical
 - n** Not typically being used for Statement 25/27 Reporting





Actuary Report - Assumptions

n Discount Rate

- Must blend expected returns with bond rate
- Based on projection of fiduciary net position

n Statement 67 and 68 Issues

- Must use same assumptions for same plan (fund level and employer level)
- Significant increase in disclosure of assumptions
 - n** Why are we using these assumptions?
 - n** When was the last experience study completed?





Funding Policy

n Items Included in a Funding Policy

- Actuarial Cost Method
- Parameters to Pay Unfunded Liability
- Asset valuation Method
- Parameters for tracking/adherence
- Parameters for review of assumptions





Funding Policy – GASB

n Discount Rate Determination

- Funding Policy defines contributions
- Actuary projects future contribution to determine if fiduciary net position goes to \$0. Impacts NPL

n Actuarially Determined Contributions (ADEC)

- Notes to financial statements
- Schedule of funding contributions (tax levy) determined compared actual contributions
- Display item – no direct impact on NPL
- Illustrates commitment to funding





Funding Policy

n Formal Funding Policy

- Written document
- Joint effort between municipality and pension boards (only as good as adherence)
- Intergovernmental Agreements

n Informal Funding Policy

- Rely on history (most recent 5 years contributions)
- Judgment as to “defined” policy based on history
- Percent of ADEC? Dollar amount?





Questions

n Contact Lauterbach & Amen, LLP

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