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GASB Pension Fund Accounting and Financial Reporting Changes

- Two issues
  - Employers accounting for the costs of pensions
    - Significant changes
      - Especially for participation in “cost sharing” pension plans
  - Accounting and reporting by the Pension Plan
    - Not many changes
- Special funding situations
  - Significant changes
    - Further impacted by changes for “cost sharing” pension plans
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- GASB Pension Project
- Where are we today
  - Record payments made to SURS “on behalf of” your employees and related expense
  - Cost-sharing employer disclosures in the notes
  - No liability recorded
  - Both still effective today
GASB Pension Project
Where are we today
  GASB Statement No. 25 and No. 27
  • Allowed the use of 5 different actuarial cost methods
  • Amortization over at most 30 years (after initial 10 years)
  • Assets generally at fair value
  • Net Pension Obligation/Asset (NPO/NPA)
    • Annual Required Contribution (ARC) versus funded
    • ARC > funding = NPO; ARC < funding = NPA
    • State NPO (liability) for SURS
    • Unfunded Actuarial Accrued Liability in RSI
GASB Pension Project
Where are we today
  GASB Statement No. 25 and No. 27
    Methodology was very budget and funding friendly
    Consistent with the modified accrual basis of accounting
  GASB Statement No 50 (2007)
  Moved 1 year of funded status into the notes
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• GASB Pension Project
• Where are we today
  • Problem
    • Budget friendly, modified accrual basis
    • Accrual basis, liability when earned by employee, regardless of funding
    • Lack of comparability due to choices of actuarial valuations and assumptions
    • Not recognizing spikes, cost of retro benefits or true cost of pensions and any changes
    • Does not measure interperiod equity
    • Special funding situations did not disclose potential impact on the employer from changes in the special funding formula
GASB Pension Project

Where are we today

- Research agenda in January 2006
- Five roundtable discussions in 2007
- Current project agenda in April 2008
- Invitation to Comment (ITC) March 2009
- Preliminary Views (PV) June 2010
- Exposure Draft (ED) July 2011
- Final Pronouncements June 2012
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• GASB Pension Project
  • “The final statements relate to accounting and financial reporting, not to how governments approach the funding of their pension plans. Pension funding is a policy decision made by government officials”
  • GASB has “divorced” accounting from funding
GASB STATEMENT NO 68

• Issued June 2012
• Accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to employees and volunteers of state and local government employers plans
  • Employer reporting
  • Special funding non-employer situations
GASB STATEMENT NO 68

• Covers pension plans administered through trusts or similar arrangements if:
  • Contributions to the plan are irrevocable
  • Plan assets dedicated to providing pensions to plan members
  • Plan assets are protected from creditors and plan administrator
  • Otherwise continue to follow GASB S-27, S-50
GASB STATEMENT NO 68

• Effective for fiscal periods beginning after June 15, 2014
  • Fiscal year ending June 30, 2015 and thereafter
  • Early implementation allowed and encouraged
    • Work with SURS as soon as possible
      • SURS implementation is June 30, 2014
      • Comparative financial statements
      • Management’s Discussion & Analysis
GASB STATEMENT NO 68

- Defines types of defined benefit plans
  - Single employer
    - Police and Fire Pension plans in Illinois
  - Multiple employer
    - Agent
      - IMRF
    - Cost-sharing
      - SURS, TRS, IMRF in certain instances
GASB STATEMENT NO 68

• Special Funding Situations
  • Non-employer entity is legally required to be responsible for making contributions **directly** to a pension plan that provides pensions to employees of another entity or entities and either
    • Amount of non-employer contributions not dependent on occurrence of a future event unrelated to pensions, or
    • The non-employer entity is the only one legally required to contribute to the plan
  • SURS
    • Only “employer” contribution is from grant funds, state is responsible for the remainder
GASB STATEMENT NO 68

• Accrual basis, economic resources measurement focus financial statements (Entity-wide, enterprise funds)
• **Recognize and record a net pension liability**
  • Actuarial present value of projected benefit payments
    • Total pension liability
  • Less pension plans net position (net assets)
  • Measured as of employers fiscal year end or 1 year old, consistently
    • Timing of SURS
    • Roll forward of older valuation
  • Actuarial valuations performed at least biennially
    • Annually if significant changes in plan benefits or demographics
GASB STATEMENT NO 68

• Measuring the net pension liability
  • Projected benefit payments
    • Assumptions – Actuarial Standards of Practice
      • Projected benefit payments
      • Future salary increases (if part of the formula for benefits)
      • COLAs
      • Projected service credits
GASB STATEMENT NO 68

• Measuring the net pension liability
  • Projected benefit payments
    • Assumptions – Actuarial Standards of Practice
    • Discount rate – single rate that reflects
      • Long-term expected rate of return on plan investments to the extent that the plan’s net position is sufficient to make projected benefit payments, assuming assets are invested to achieve that return
      • Yield or index rate for 20 year, tax exempt GO municipal bond rated AA/aa or higher
GASB STATEMENT NO 68

- Measuring the net pension liability
  - Discount rate calculation
    - Projected cash inflows
      - Employer and employee contributions related to current employees, active and inactive
        - Based on five year history
    - Payments to existing retirees and future retirees (currently active or inactive)
  - Net position > benefit payments – Investment Rate
    - Otherwise blended rate impacted by borrowing rate
  - SURS will use a blended rate that may greatly increase the net pension liability
• Measuring the net pension liability
  • Entry age actuarial cost method is required
    • Attribution made on individual employee basis
    • Each employees service cost level as a percentage of projected pay
      • Inflation rate if no projected pay (e.g., volunteers)
    • Start as of date employees service credits begin to accrue
  • Report liability in all accrual based financial statements
GASB STATEMENT NO 68

- Report net pension liability (NPL) in all accrual based economic resource measurement focus financial statements
- Changes in the NPL recognized as pension expenses in the current period
  - Separate reporting
    - Current year service cost
    - Immediate expense recognition of spikes, retroactive benefits and other benefit enhancements
  - except for:
    - Difference between projected and actual investment rate of return – amortize over closed 5 years
    - Differences between expected and actual economic or demographic assumptions and/or changes in these assumptions – closed period reflecting remaining service lives
GASB STATEMENT NO 68

- Changes in the NPL recognized as pension expenses in the current period except for:
  - Difference not reported as pension expense of the current period are reported as deferred outflows or deferred inflows of resources related to pensions
  - Transactions recorded in consolidated financial statements
  - Not in Education fund or Uniform Financial Statements (current guidance)
  - Why do I care?
GASB STATEMENT NO 68

• Cost sharing plans (SURS)
  • Employer recognizes proportionate share of collective net pension liability
    • Employer contribution as a % of total contributions
      • Employer contributions include “on-behalf payments” made for your employees
  • Full Proportionate share of pension expense and deferred inflows/outflows related to pensions
• Special funding situations
  • Employer reports entire NPL, adjusted for legally required non-employer funding
  • Income statement recognizes “full cost”, regardless of funding source
GASB STATEMENT NO 68

- Greatly increased disclosures in employers report
- Required Supplementary information in employers report
  - Ten year schedules of the net pension liability
  - Ten year schedule of required contributions to the plan
- Communication between employer and plan administrators is critical for timing
  - More time for preparation
  - Timing of information
- Lack of compliance
  - Impact on bond rating