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OVERVIEW OF GASB PENSION STATEMENTS FOR COST-SHARING PLANS

KARL GREVE, CHIEF FINANCIAL OFFICER

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Focus of Discussion

» GASB has issued two pension statements

- Statement No. 67, *Financial Reporting for Pension Plans*
- **Statement No. 68, *Accounting and Financial Reporting for Pensions***

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Agenda

- GASB timeline
  - Overview of new fundamental approach
  - PERA reporting agencies

Agenda
(continued)

- What's it all about
  - Liabilities and deferrals
  - Pension expense
  - Note disclosures
- Implementation challenges

GASB Pension Project Timetable 2006–2012

- Research project
  - Initiated–2006
  - Research Report–2008
- Active agenda project
  - Invitation to Comment–2009
  - Preliminary Views–2010
  - Exposure Drafts–2011
  - Final Statements–2012

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GASB Pension Project Timetable 2013–2015

- Implementation Guides
  - Statement No. 67: Pension Plans–June 2013
  - Statement No. 68: Employer and Nonemployer Contributing Entities–January 2014

GASB Pension Project Timetable 2013–2015

- GASB 68 effective date
  - For financial periods beginning after June 15, 2014

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Fundamental New Approach by GASB

» Pensions are part of the employee/employer exchange
  - Pension plans are part of total compensation
  - Employer incurs a pension obligation as a result of “employment exchange”
  - Pension expense should be recognized in period services are provided

Fundamental New Approach by GASB
(continued)

- Employer is primarily responsible for the unfunded pension obligation

Fundamental New Approach by GASB
(continued)

- For employers who prepare their financial statements using the economic resources measurement focus and accrual basis of accounting, the new Statements will require employers to:
  - Report their proportionate share of the collective amounts for the pension plan, including:
    - net pension liability
    - pension expense
    - pension-related deferred inflows and outflows of resources
- Report the net pension liability based on PERA's actuarial assumptions

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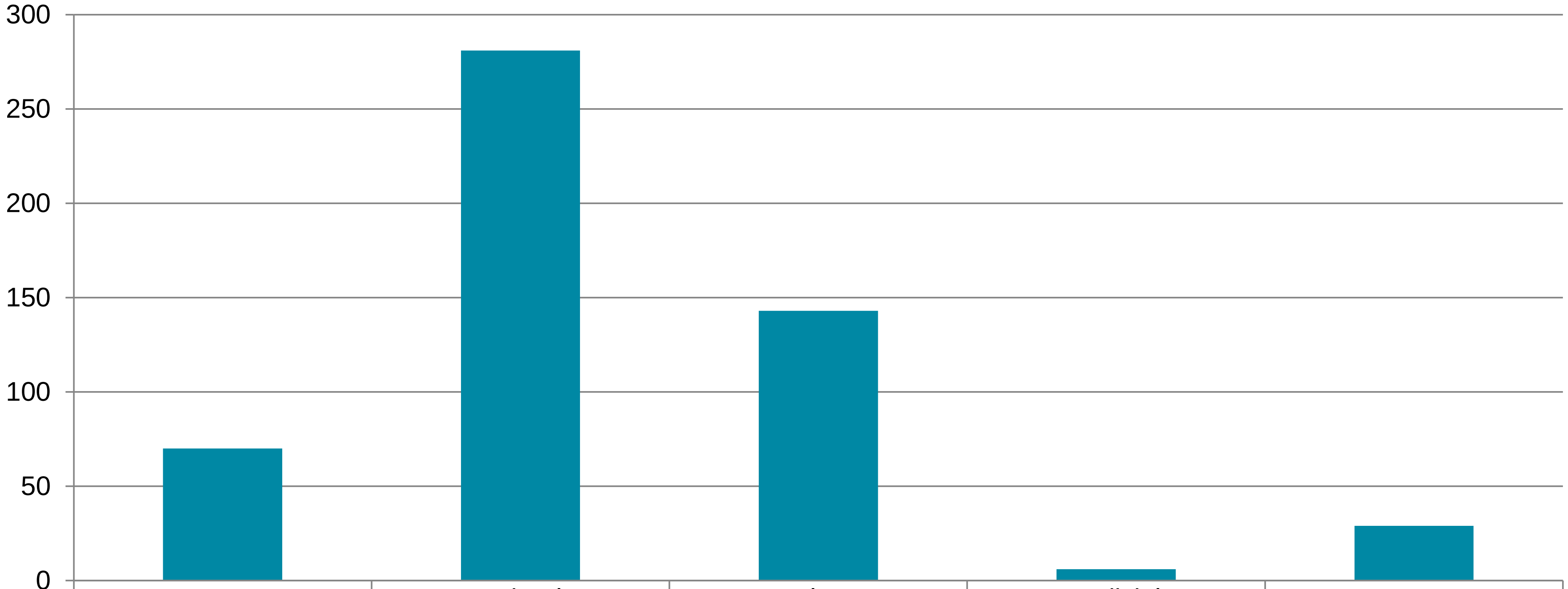
Fundamental New Approach by GASB
(continued)

- The new Statements will require employers to:
  - Include significantly more pension-related information in the notes and required supplementary information to their financial statements
- PERA will assist employers in the development of the required information

PERA Reporting Agencies



	State	School	Local Gov't	Judicial	DPS
Agencies	70	281	143	6	29

Each reporting agency may encompass one or more employer

PERA Reporting Agencies
(continued)

- PERA can only provide proportionate share information at the reporting agency level
  - May require reporting agency/employer to further allocate plan-provided information
  - May require reporting agency/employer to accumulate information for multiple agencies

Liability – GASB 27 vs. GASB 68

- GASB 27: Requires recognition of liability to the extent statutorily required contributions have not been paid

Liability – GASB 27 vs. GASB 68
(continued)

- GASB 68: Requires employers to report their proportionate share of the net pension liability (similar to current unfunded actuarial accrued liability) for the pension plan

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GASB Statement 68 – Cost Sharing Net Pension Liability

- Net Pension Liability (NPL)
  - Total pension liability minus the plan's net position at market value
  - Measured as of a date no earlier than the end of the employer's prior fiscal year–PERA year-end is December 31
    - Example: Employer with a June 30, 2015, year-end could use information from PERA December 31, 2014, measurement and actuarial valuation date

GASB Statement 68 – Cost Sharing Net Pension Liability *(continued)*

» NPL

- Proportionate share of NPL is required to be reported on the employer’s statement of net position
- Liabilities for NPLs associated with different plans may be displayed in aggregate

GASB Statement 68 – Discount Rate

- Discount Rate – Blended Single Rate
  - Long-term expected rate of return on plan investments to the extent that the plan net position is projected to be sufficient to make projected benefit payments

GASB Statement 68 – Discount Rate

» Discount Rate – Blended Single Rate

- A yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher, to the extent that plan net position is projected to no longer be available to make projected benefit payments
- 2014 PERA long-term expected rate of return is 7.5 percent

GASB Statement 68 – Proportionate Share

- The employer’s proportionate share is the factor used to allocate the pension plan’s collective net pension liability, deferrals, and pension expense to each participating employer

GASB Statement 68 – Proportionate Share *(continued)*

» Employer's proportionate share of the net pension liability should be determined consistent with the manner in which contributions to the pension plan are determined

- Example: Current year employer's contributions as a percentage of the current year total contributions

Proportionate Share Challenges

- Audited financial statements of the plan may not include necessary information to calculate allocation percentages

GASB 68 – Proportionate Share Challenges

- Statement provides flexibility in approach to determining allocations
- American Institute of CPAs (AICPA) proposed approach would help address some challenges
  - Audited schedule would be prepared by PERA

AICPA – Example Schedule of Employer Allocations

EXAMPLE COST SHARING PENSION PLAN

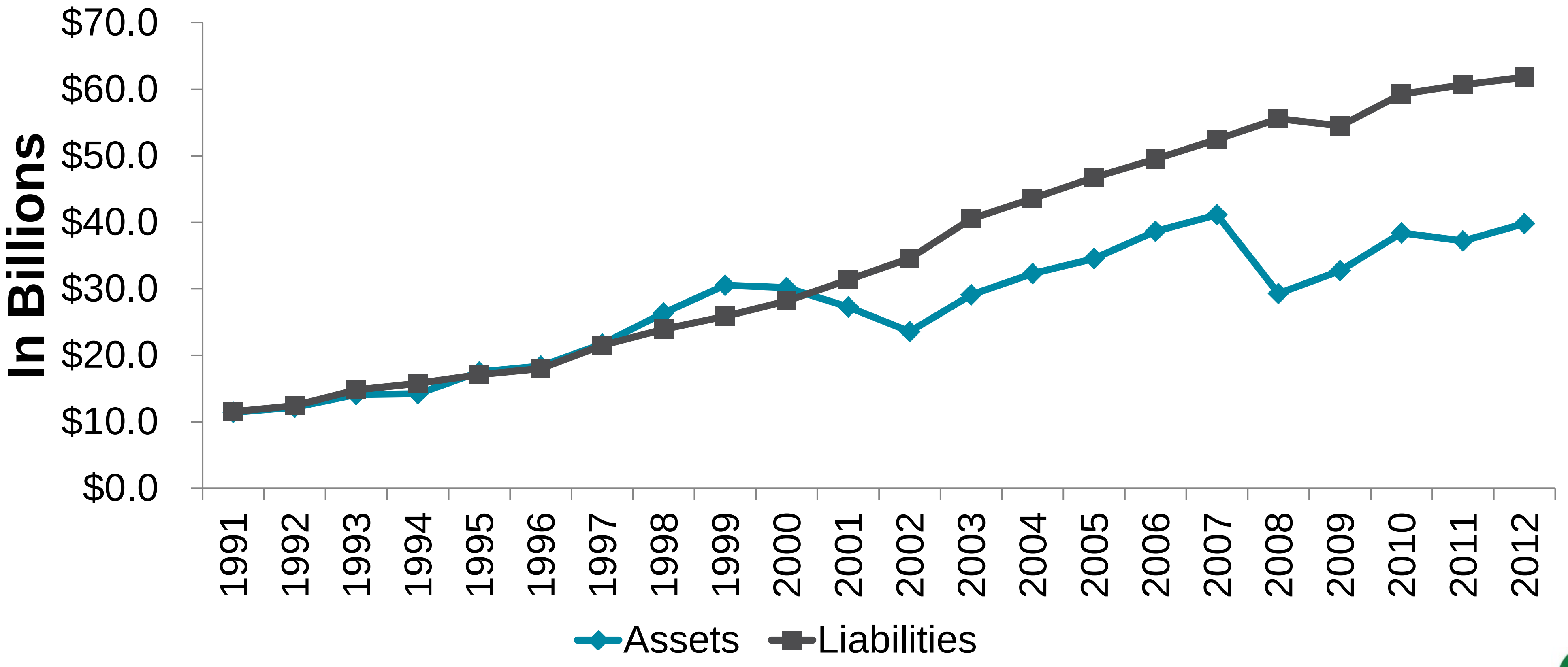
Schedule of Employer Allocations

June 30, 2015

Employer/ Nonmployer (special funding situation)	2015 Actual Employer Contributions	Employer Allocation Percentage
State of Example	$ 2,143,842	38.9 %
Employer 1	268,425	4.9
Employer 2	322,142	5.8
Employer 3	483,255	8.8
Employer 4	633,125	11.5
Employer 5	144,288	2.6
Employer 6	95,365	1.7
Employer 7	94,238	1.7
Employer 8	795,365	14.4
Employer 9	267,468	4.9
Employer 10	267,128	4.8
Total	$ 5,514,641	100.0

PERA Defined Benefit Assets vs. Liabilities

Market Value as of December 31 for each year
2012 Funded Ratio at Market Value = 63.1 Percent



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PERA as of December 31, 2012

(Amounts shown in millions of dollars)
Investment return assumption 7.5 percent, Inflation 3.5 percent

Trust Fund	Actuarial Accrued Liability	Market Value of Assets	Unfunded Liability
State	$22,324	$12,766	$9,558
School	$34,427	$20,637	$13,790
Local Gov't	$4,398	$3,155	$1,243
Judicial	$343	$243	$100
DPS	$3,676	$2,992	$684

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Cost Sharing – Pension Expense – GASB 27 vs. GASB 68

- GASB 27: Statutory contributions related to current year's salaries

Cost Sharing – Pension Expense – GASB 27 vs. GASB 68

- GASB 68: Annual changes in NPL will generally be reported as pension expense as they occur **except** as follows:
  - Plan level (provided by PERA):
    - Annual amortization of experience gain/loss and assumption changes
    - Annual amortization of difference between assumed and actual investment return on market value

Cost Sharing – Pension Expense – GASB 27 vs. GASB 68

- GASB 68: Annual changes in NPL will generally be reported as pension expense as they occur **except** as follows:
  - Employer level (maintained by employer):
    - Annual amortization of changes in NPL and deferred inflows and outflows due to change in allocation percentage (proportion)
    - Annual amortization of difference between actual contributions and proportionate share of contributions calculated using allocation method

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Cost Sharing – Deferred Inflows and Outflows – GASB 27 vs. GASB 68

- GASB 27: None

Cost Sharing – Deferred Inflows and Outflows – GASB 27 vs. GASB 68

- GASB 68: Deferred portion would be reported as deferred inflows or deferred outflows – unamortized portion of the following:
  - Plan level (provided by PERA):
    - Experience gain/loss and assumption changes amortized over average future service life of all actives and inactives
    - Difference between assumed (7.5 percent) and actual investment return on market value is recognized over a five-year period

Cost Sharing – Deferred Inflows and Outflows – GASB 27 vs. GASB 68

- GASB 68: Deferred portion would be reported as deferred inflows or deferred outflows – unamortized portion of the following:
  - Employer level (maintained by employer):
    - Changes in proportionate share amortized over average future service life of all actives and inactives
    - Difference between actual contributions and proportionate share of contributions calculated using allocation method amortized over average future service life of all actives and inactives

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AICPA – Example Schedule of Employer Pension Amounts

EXAMPLE COST SHARING PENSION PLAN
Schedule of Pension Amounts
June 30, 2015

Employer/ Nonmployer (special funding situation)	Net Pension Liability	Deferred Outflow of Resources: Differences Between Expected and Actual Economic Experience	Deferred Outflow of Resources: Differences Between Projected and Actual Investment Earnings	Deferred Outflow of Resources: Changes of Assumptions	Deferred Outflow of Resources: Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Deferred Inflows of Resources: Differences Between Expected and Actual Economic Experience	Deferred Inflows of Resources: Differences Between Actual and Projected Investment Earnings	Deferred Inflows of Resources: Changes of Assumptions	Deferred Inflows of Resources: Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Pension Expense: Proportionate Share of Plan Pension Expense	Pension Expense: Net Amortization of Deferred Amounts from Changes in Propotion and Proportionate Share of Pension Expense
State of Example	$ 38,589,135	428,768	2,058,088	1,500,690	782,365	380,371	1,063,285	–	584,365	1,878,717	12,375
Employer 1	4,831,647	53,685	257,688	187,898	96,633	47,625	133,131	–	125,325	235,229	(1,793)
Employer 2	5,798,553	64,428	309,256	225,499	115,971	57,156	159,773	–	245,386	282,303	(8,088)
Employer 3	8,698,585	96,651	463,925	338,279	173,972	85,742	239,681	–	125,632	423,492	3,021
Employer 4	11,396,244	126,625	607,800	443,188	227,925	112,332	314,012	–	386,325	554,828	(9,900)
Employer 5	2,597,183	28,858	138,516	101,002	51,944	25,600	71,563	–	42,358	126,444	599
Employer 6	1,716,569	19,073	91,550	66,756	34,331	16,920	47,298	–	24,325	83,571	625
Employer 7	1,696,283	18,848	90,468	65,967	33,926	16,720	46,739	–	125,325	82,584	(5,712)
Employer 8	14,316,562	159,073	763,550	556,756	286,486	141,118	394,478	–	152,005	697,004	8,405
Employer 9	4,814,421	53,494	256,769	187,228	68,325	47,456	132,657	–	87,325	234,391	(1,188)
Employer 10	4,808,301	53,426	256,443	186,990	67,528	47,395	132,488	–	41,035	234,093	1,656
Total	$ 99,263,485	1,102,928	5,294,055	3,860,249	1,939,406	978,435	2,735,105	–	1,939,406	4,832,655	–

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Cost Sharing – Note Disclosures – GASB 27 vs. GASB 68

- **GASB 27 Note X. Defined Benefit Pension Plan**
- **Plan Description.** The XYZ School District contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The SDTF provides retirement and disability, post-retirement annual increases, and death benefits for members or their beneficiaries. All employees of XYZ School District are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), as amended, assigns the authority to establish benefit provisions to the state Legislature. PERA issues a publicly available *Comprehensive Annual Financial Report* that includes financial statements and required supplementary information for the SDTF. That report may be obtained online at www.copera.org or by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).
- **Funding Policy.** The XYZ School District is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the XYZ School District are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The contribution rate for members is 8.0 percent and for the XYZ School District it is 10.15 percent of covered salary. A portion of the XYZ District's contribution (1.02 percent of covered salary) is allocated to the Health Care Trust Fund (see Note Y). The XYZ School District is also required to pay an amortization equalization disbursement (AED) equal to 2.20 percent of the total payroll for the calendar year 2010 (1.70 percent of total payroll for the calendar year 2009, and 1.40 percent of total payroll for the calendar year 2008). Additionally, the XYZ School District is required to pay a supplemental amortization equalization disbursement (SAED) equal to 1.50 percent of the total payroll for the calendar year 2010 (1.00 percent of total payroll for the calendar year 2009, and 0.50 percent of total payroll for the calendar year ended 2008). If the XYZ School District rehires a PERA retiree as an employee or under any other work arrangement, it is required to report and pay employer contributions (including the AED and SAED) on the amounts paid for the retiree; however no member contributions are required. For the years ending June 30, 2008, 2009,
  and 2010, the XYZ School District's employer contributions to the SDTF were $x,xxx, $x,xxx, and $x,xxx, respectively, equal to their required contributions for each year.

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Cost Sharing – Note Disclosures – GASB 27 vs. GASB 68 *(continued)*

- GASB 68: Extensive note disclosures, which include the following:
  - Description of benefits: terms, policies, and authority
  - Contribution requirements: basis, authority, and rates
  - Link to PERA financial statements https://www.copera.org/pera/formspubs/reports.htm

Cost Sharing – Note Disclosures – GASB 27 vs. GASB 68 *(continued)*

» GASB 68: Extensive note disclosures, which include the following:
- Assumptions used to measure the total pension liability (including discount rate) and the source of the assumptions
- NPL using discount rate of +/-1 percentage point
- Employers proportion (percentage) and proportionate share (allocated amount) of collective NPL

Cost Sharing – Note Disclosures – GASB 27 vs. GASB 68 *(continued)*

» GASB 68: Extensive note disclosures, which include the following:

- Deferred outflows/inflows of resources related to pensions and pension expense/expenditures recognized for current year
- Date of the actuarial valuation
- Description of changes in assumptions and benefit terms

Cost Sharing – Required Supplemental Information – GASB 27 vs. GASB 68

- GASB 27: None

Cost Sharing – Required Supplemental Information – GASB 27 vs. GASB 68

» GASB 68
- 10-year Schedule of Proportionate Share of the Net Pension Liability
- 10-year Schedule of Contributions
- Additional notes to RSI are required

Implementation Challenges

- Allocation methodology
- Data availability at level employer reports on financial statements
- Audit challenges between plan and employer

Implementation Challenges

- Timeliness
- Education

What You Can Do

- Review plain-language documentation on GASB Web site
  - New GASB Pension Statements to Bring About Major Improvements in Financial Reporting
- Review Statement No. 68 (Cost-sharing plans) on GASB Web site

What You Can Do
(continued)

- Participate in future PERA educational forums and Webcasts
  - Details will be on the PERA Web site and will be forwarded to employer GASB contacts
- Contact us at GASBMail@copera.org with questions, ideas, concerns, etc.

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Get Engaged – Stay Involved

- PERA – GASB Reporting Standards Web address
  - https://www.copera.org/pera/employer/gasb.htm
- PERA – GASB Reporting Standards e-mail
  - GASBMail@copera.org

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