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OVERVIEW OF GASB PENSION STATEMENTS FOR COST-SHARING PLANS
KARL GREVE, CHIEF FINANCIAL OFFICER
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*
Agenda

» GASB timeline
  • Overview of new fundamental approach
  • PERA reporting agencies
» 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
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
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
Employer is primarily responsible for the unfunded pension obligation
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
» 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
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
GASB 27: Requires recognition of liability to the extent statutorily required contributions have not been paid
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.
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
» 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
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
» 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
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.
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
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
# Example Schedule of Employer Allocations

## Example Cost Sharing Pension Plan

**Schedule of Employer Allocations**

**June 30, 2015**

<table>
<thead>
<tr>
<th>Employer/Nonemployer (special funding situation)</th>
<th>2015 Actual Employer Contributions</th>
<th>Employer Allocation Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>State of Example</td>
<td>$2,143,842</td>
<td>38.9%</td>
</tr>
<tr>
<td>Employer 1</td>
<td>268,425</td>
<td>4.9</td>
</tr>
<tr>
<td>Employer 2</td>
<td>322,142</td>
<td>5.8</td>
</tr>
<tr>
<td>Employer 3</td>
<td>483,255</td>
<td>8.8</td>
</tr>
<tr>
<td>Employer 4</td>
<td>633,125</td>
<td>11.5</td>
</tr>
<tr>
<td>Employer 5</td>
<td>144,288</td>
<td>2.6</td>
</tr>
<tr>
<td>Employer 6</td>
<td>95,365</td>
<td>1.7</td>
</tr>
<tr>
<td>Employer 7</td>
<td>94,238</td>
<td>1.7</td>
</tr>
<tr>
<td>Employer 8</td>
<td>795,365</td>
<td>14.4</td>
</tr>
<tr>
<td>Employer 9</td>
<td>267,468</td>
<td>4.9</td>
</tr>
<tr>
<td>Employer 10</td>
<td>267,128</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,514,641</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>
PERA Defined Benefit Assets vs. Liabilities

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

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

<table>
<thead>
<tr>
<th>Trust Fund</th>
<th>Actuarial Accrued Liability</th>
<th>Market Value of Assets</th>
<th>Unfunded Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>$22,324</td>
<td>$12,766</td>
<td>$9,558</td>
</tr>
<tr>
<td>School</td>
<td>$34,427</td>
<td>$20,637</td>
<td>$13,790</td>
</tr>
<tr>
<td>Local Gov’t</td>
<td>$4,398</td>
<td>$3,155</td>
<td>$1,243</td>
</tr>
<tr>
<td>Judicial</td>
<td>$343</td>
<td>$243</td>
<td>$100</td>
</tr>
<tr>
<td>DPS</td>
<td>$3,676</td>
<td>$2,992</td>
<td>$684</td>
</tr>
</tbody>
</table>
» GASB 27: Statutory contributions related to current year’s salaries
» 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
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
Cost Sharing – Deferred Inflows and Outflows – GASB 27 vs. GASB 68

» GASB 27: None
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
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
## EXAMPLE COST SHARING PENSION PLAN

### Schedule of Pension Amounts

**June 30, 2015**

<table>
<thead>
<tr>
<th>Employer/Nonemployer (special funding situation)</th>
<th>Net Pension Liability</th>
<th>Economic Experience</th>
<th>Investment Earnings</th>
<th>Changes of Assumptions</th>
<th>Changes in Employer Proportion and Differences Between Contributions and Share of Pension Expense</th>
<th>Deferred Outflow of Resources</th>
<th>Changes in Employer Proportion and Differences Between Contributions and Share of Pension Expense</th>
<th>Deferred Inflow of Resources</th>
<th>Changes in Employer Proportion and Differences Between Contributions and Share of Pension Expense</th>
<th>Pension Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>State of Example</td>
<td>$38,589,135</td>
<td>428,768</td>
<td>2,058,088</td>
<td>1,500,690</td>
<td>782,365</td>
<td>380,371</td>
<td>380,371</td>
<td>1,063,285</td>
<td>–</td>
<td>584,365</td>
</tr>
<tr>
<td>Employer 1</td>
<td>4,831,647</td>
<td>53,685</td>
<td>257,688</td>
<td>187,898</td>
<td>96,633</td>
<td>47,625</td>
<td>133,131</td>
<td>47,625</td>
<td>133,131</td>
<td>–</td>
</tr>
<tr>
<td>Employer 2</td>
<td>5,798,553</td>
<td>64,428</td>
<td>309,256</td>
<td>225,499</td>
<td>115,971</td>
<td>57,156</td>
<td>159,773</td>
<td>57,156</td>
<td>159,773</td>
<td>–</td>
</tr>
<tr>
<td>Employer 3</td>
<td>8,698,585</td>
<td>96,651</td>
<td>463,925</td>
<td>338,279</td>
<td>173,972</td>
<td>85,742</td>
<td>239,681</td>
<td>85,742</td>
<td>239,681</td>
<td>–</td>
</tr>
<tr>
<td>Employer 4</td>
<td>11,396,244</td>
<td>126,625</td>
<td>607,800</td>
<td>443,188</td>
<td>227,925</td>
<td>112,332</td>
<td>314,012</td>
<td>112,332</td>
<td>314,012</td>
<td>–</td>
</tr>
<tr>
<td>Employer 5</td>
<td>2,597,183</td>
<td>28,858</td>
<td>138,516</td>
<td>101,002</td>
<td>51,944</td>
<td>25,600</td>
<td>71,563</td>
<td>25,600</td>
<td>71,563</td>
<td>–</td>
</tr>
<tr>
<td>Employer 6</td>
<td>1,716,569</td>
<td>19,073</td>
<td>91,550</td>
<td>66,756</td>
<td>34,321</td>
<td>16,920</td>
<td>47,298</td>
<td>16,920</td>
<td>47,298</td>
<td>–</td>
</tr>
<tr>
<td>Employer 7</td>
<td>1,696,283</td>
<td>18,848</td>
<td>90,468</td>
<td>65,967</td>
<td>33,926</td>
<td>16,720</td>
<td>46,739</td>
<td>16,720</td>
<td>46,739</td>
<td>–</td>
</tr>
<tr>
<td>Employer 8</td>
<td>14,316,562</td>
<td>159,073</td>
<td>763,550</td>
<td>556,756</td>
<td>286,486</td>
<td>141,118</td>
<td>394,478</td>
<td>141,118</td>
<td>394,478</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>$99,263,485</td>
<td>1,102,928</td>
<td>5,294,055</td>
<td>3,860,249</td>
<td>1,939,406</td>
<td>978,435</td>
<td>2,735,105</td>
<td>978,435</td>
<td>2,735,105</td>
<td>–</td>
</tr>
</tbody>
</table>
» **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.
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
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
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
» 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.
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