Wednesday's News You Can Use

Joel Black & Miller Edwards

Mauldin & Jenkins

GASB 68

Allocation of the Net Pension Liability and Required Note Disclosures

Carl Vinson Institute of Government, The University of Georgia

GGFOA Georgia Government Finance Officers Association

Today's Presenters

Joel Black, CPA , is a partner with Mauldin & Jenkins LLC specializing in serving local and state governmental and non-profit entities throughout the Southeast. Joel serves on the firm's Accounting and Audit Committee and has served on the Executive Committee of the AICPA's Government Audit Quality Center. He was recently appointed to the AICPA's State and Local Government Expert Panel. He has 20 years of experience providing attestation, consulting and instructional services – serving many major governments in the Southeast. Joel has a B.B.A. in Accounting from Georgia State University.

Miller Edwards, CPA, is a partner with Mauldin & Jenkins, LLC and is the industry leader for the firm's governmental practice. He is a member of Mauldin & Jenkins' Executive Committee and Accounting and Audit Committee. Since joining Mauldin & Jenkins in 1986, Miller has gained substantial experience serving clients in the federal, state, and local governmental sector, and currently spends 100% of his time serving governments. Miller teaches for the University of Georgia's Carl Vinson Institute of Government on an annual basis. Miller has been recognized in past years by the GGFOA for outstanding service to that organization and to the governmental industry as a whole. Miller received his B.B.A. with dual majors in Accounting and Risk Management & Insurance from the University of Georgia.

Learning Objectives

Upon successful completion of this session, you should be able to:

- Recall the provisions of GASB 68 and related terminology
- Discuss allocation of the Net Pension Liability to the financial statements
- Explain required Note Disclosures and Required Supplementary Information reporting requirements

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

An amendment of GASB Statement No. 27

Effective for periods beginning after June 15, 2014
(fiscal years 6/30/15 and 12/31/15)

Refresher on New Standard

- GASB 68 - Revises recognition, measurement, disclosure requirements for all employers
  - Liability
    - Measured net of pension plan's fiduciary net position
    - Fully recognized in accrual-basis financial statements
  - Changes in the liability
    - Some recognized as expense in the period of the change
    - Others recognized as deferred outflows/inflows of resources with expense recognized over defined future periods
  - Applicable to all types of defined benefit plans - single employer, agent multiple employer, and cost-sharing multiple employer

Types of Plans

- Single-employer defined benefit (DB) pension plan
  - A defined benefit pension plan that is used to provide pensions to employees of only one employer.
- Agent multiple-employer DB pension plan
  - A multiple-employer defined benefit pension plan in which pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that **each employer's share of the pooled assets is legally available to pay the benefits of only its employees**.
- Cost-sharing multiple-employer DB pension plan
  - A multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and **pension plan assets can be used to pay the benefits of the employees of any employer** that provides pensions through the pension plan.

Definitions

- **Total Pension Liability (TPL)** - actuarial present value of projected benefit payments attributed to past periods.
- **Fiduciary Net Position** – this the fund equity (or net position) of the pension plan itself.
- **Net Pension Liability (NPL)** – equal to the TPL less the fiduciary net position.
- **Measurement Date** – date on which the value of the TPL, fiduciary net position, and NPL is determined and then reported in the employer financial statements. Can be, but doesn't have to be, the employer fiscal year end.
  - Must be on or within one year in advance of employer fiscal year end.

Definitions

- **Deferred Inflows of Resources/Deferred Outflows of Resources**– not all changes in the NPL are recognized through expense - several types of changes are deferred and recognized into expense over time.
- **Long-term Expected Rate of Return (LTeRoR)** – this is the return on investments that the pension trust expects to achieve (and thus help fund future benefit payments).
- **Discount Rate** – this it the rate used by the actuary to determine the present value of the future benefits payments expected to be made to retirees. This starts at the LTeRoR but may need to be lower if assets are not expected to be available (based on current position and contribution rates) to make all of the future payments.

Example NPL Recording

	Total Pension Liability (a)		Plan Fiduciary Net Position (b)		Net Pension Liability (a) - (b)	
Balances at 6/30/14	$	16,659,415	$	14,134,719	$	2,524,696
Changes for the year:						
Service cost		296,403				296,403
Interest		1,265,285				1,265,285
Differences between expected and actual experience		141,414				141,414
Amortization of Experience Diffs						
Assumption Changes		(511,569)				(511,569)
Amortization of Assumption Changes						
Contributions—employer				355,014		(355,014)
Contributions subsequent to plan year						
Contributions—employee				-		-
Net investment income				1,604,126		(1,604,126)
Amortization of Investment Earnings Differences						
Benefit payments, including refunds of employee contributions		(666,319)		(666,319)		—
Administrative expense				(22,024)		22,024
Other changes				-		-
Net changes		525,214		1,270,797		(745,583)
Balances at 6/30/15	$	17,184,629	$	15,405,516	$	1,779,113

Allocation

GASB 68 Implementation Guide Question on Allocation

- 36 *Q*—What guidance does Statement 68 provide regarding recognizing a portion of the net pension liability in fund financial statements if a portion of the net pension liability of a single or agent employer will be paid from an enterprise, internal service, or fiduciary fund?
  - ***A—***Except for blended component units, which are discussed in Questions 34 and 35, Statement 68 does not establish specific requirements for allocation of the net pension liability or other pension-related measures to individual funds. However, for proprietary and fiduciary funds, consideration should be given to National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*, paragraph 42, as amended, which requires that long-term liabilities that are **"directly related to and expected to be paid from"** those funds be reported in the statement of net position or statement of fiduciary net position, respectively.

So Do I Allocate?

- Recording of the NPL is only a full accrual concept therefore allocation to individual funds is only potentially applicable to funds that utilize full accrual accounting - primarily **enterprise** and/or **internal service funds**.
- Based upon discussions with GASB staff members, "directly related to and expected to be paid from" translates to - if pension contributions are made by the fund (and these pension contributions have some component of amortization of the unfunded liability) then these funds are "paying" on the liability.
  - In most cases an actuarial determined contribution will include a component for amortization of the unfunded liability. It not, the contribution would only include amounts for current year service cost and interest and the liability would never really go down.
- **If funds are "paying" on the NPL then they should be allocated a portion**.

Alternatives to Allocation

- If you do not want to allocate the NPL to proprietary funds, then you have the following options:
  - Option 1 - Have the actuary prepare a special contribution rate which would only include that year's service cost and interest on the total pension liability and then apply that special rate only to the pensionable payroll of the proprietary funds.
    - The actuary would then have to have a higher contribution rate for the governmental funds to include all of the amortization of the unfunded liability in that rate – which you would then apply to the pensionable payroll of the governmental funds.

Alternatives to Allocation

- If you do not want to allocate the NPL to proprietary funds, then you have the following options (cont.):
  - Option 2 - For the fund(s) that you do not want to have to allocate a portion of the NPL to - don't require the fund(s) to make any pension contributions. That would then increase the contributions required in the remaining funds so that you continue to meet your recommended actuarial contributions entity-wide.
    - Under this option, it is acceptable to increase transfers out in the fund that is no longer paying the pension contributions – with the corresponding transfer in going to the fund(s) that are making the pension contributions – unless the transfer is somehow legally tied to being a pension contribution.

Alternatives to Allocation

- Example of Option 2:
  - Assume an enterprise fund annually made $1 million worth of transfers to the General Fund and was also annually making $400,000 in pension contributions. If that fund decided to no longer make any pension contributions, but increased the transfer to the General Fund by the amount they had typically made in pension contributions (thus making a $1,400,000 transfer to the General Fund), and the General Fund increased its pension contributions by $400,000 (so that total pension contributions were still what they needed to be entity-wide), then the result of this scenario would be that the enterprise fund is not making any pension contributions and would not be allocated any of the pension liability. The General Fund would be making all the pension contributions and would be allocated all of the NPL (in the GW statements – not governmental fund statements).

Allocation

- GASB is silent on how to allocate between funds.
  - As a result we should look at similar transactions for which GASB has issued guidance. The allocation of an NPL between funds is very similar to the allocation of the collective NPL to the respective employers participating in a cost-sharing plan.
  - Cost-sharing accounting is discussed in GASB 68, p 48-71.

Allocation

- Accounting for Allocation Summary
  - The NPL and all its related components (deferred inflows, deferred outflows, and pension expense) are allocated based on a proportionate share.
  - The proportionate share should be determined consistent with the manner in which contributions to the Plan are determined.
  - GASB prefers that the long-term contribution efforts be considered when determining this percentage, however many large cost-sharing plans in the southeast are basing the proportionate allocation on actual contributions for the year.
  - Let’s go to City of Sample example in Excel – which uses contributions.

Allocation

- Going Forward
  - Each year's allocation would look similar to the City of Sample example, with the exceptions that:
    - all deferrals would have beginning balances, and
    - if the percentage of contributions (allocation) changes – then the NPL (and all related deferred inflows and outflows) automatically change by offsetting amounts (still same amounts in total only the allocation changes). The resulting changes would be run through pension expense for that year in each fund – or if the difference is material, then these changes can create a new deferred inflow or outflow (depending on which way it goes), and be amortized over the remaining service life of all plan members. These deferred inflows and outflows should net to zero entity wide.

Note Disclosures and RSI

NPL: Note disclosures—employers

- Descriptive information
  - Type of plan, identification of administrator
  - Benefit terms—types of benefits, key elements of benefit formula, classes of employees covered, legal authority
  - Contributions—basis, authority, rates ($ or % of pay), contributions in reporting period
  - Availability of plan report
- Significant assumptions/other inputs in TPL
  - Inflation, salary changes, postemployment benefit changes, mortality assumptions, dates of experience studies
  - Discount rate—rate, assumptions re: cash flows, how LTeRoR determined, municipal bond rate (if applicable), periods to which each rate applied, assumed asset allocation/expected real rates of return, NPL at discount rate +/- 1%

Discount rate disclosures—example

(without LTeRoR description & asset allocation information)

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability	$ 16,476	$ 14,910	$ 13,091

NPL: Note disclosures—employers (cont.)

- Info re: pension plan's fiduciary net position or reference to plan report – i.e policies for how the net position is determined or changed.
  - If the Plan issues separate, stand-alone financial statements which are publically available the include the following in employer notes:
    - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Sample Retirement Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
  - If this isn't the case, then the employer needs to include accounting policies related to these amounts – such as valuation of investment, how contributions are recognized by the plan, how disbursements are recognized by the plan, etc.

NPL: Note disclosures—employers (cont.)

- Measurement date, actuarial valuation date
- Changes of assumptions/other inputs and changes of benefit terms
- Changes subsequent to measurement date

NPL: Note disclosures—employers (cont.)

- Pension expense in current reporting period
- Deferred outflows/deferred inflows of resources
  - Balances by source
  - Net impact on pension expense in each of the next 5 years and thereafter in the aggregate
  - Amount that will be reduction of NPL

Expense and deferred outflows/inflows of resources

For the year ended December 31, 20X9, the City recognized pension expense of $2,395. At December 31, 20X9, the City reported deferred outflows of resources and deferred inflows of resource related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,657	$ 142
Changes of assumptions	1,714	130
Net difference between projected and actual earnings on pension plan investments	—	2,188
Changes in proportion and differences between City contributions and proportionate share of contributions	747	153
City contributions subsequent to the measurement date	1,065	—
Total	$ 6,183	$ 2,613

$1,065 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 20Y0. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as shown at right:

Year ended December 31:	
20Y0	$ (269)
20Y1	161
20Y2	217
20Y3	545
20Y4	551
Thereafter	1,300

Note disclosures (NPL)—employers (cont.)

- Single/agent only
  - Number of employees covered—inactive receiving benefits, inactive not receiving benefits, active
  - Allocated insurance contracts
  - Schedule of changes in NPL by source for current period
    - Service cost, interest, benefit changes, contributions by source, plan investment income, etc.
    - If special funding situation:
      - Amounts in schedule for collective NPL
      - Nonemployer contributing entity's proportionate share (amount) of collective NPL
      - Employer's proportionate share of collective NPL

Changes in NPL by source—example

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) – (b)**
Balances at 6/30/X8	$ 2,853,455	$ 2,052,589	$ 800,866
Changes for the year:			
Service cost	75,864		75,864
Interest	216,515		216,515
Differences 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)	-
Administrative expense		(3,373)	3,373
Other changes		8	(8)
Net changes	135,406	184,519	(49,113)
Balances at 6/30/X9	$ 2,988,861	$ 2,237,108	$ 751,753

Note disclosures (NPL)—employers (cont.)

- Cost-sharing only
  - Employer’s proportion, basis for proportion, change in proportion
  - Employer’s proportionate share (amount) of collective NPL
    - If special funding situation:
      - Nonemployer contributing entity’s proportionate share
      - Total of employer’s and nonemployer entity’s proportionate shares

NPL: RSI—single/agent employers

- 10-year schedules
  - Changes in NPL by source
  - TPL, pension plan fiduciary net position, NPL, plan net position as % of TPL, covered-employee payroll, NPL as % of covered-employee payroll
    - May be presented with changes in NPL by source
  - If actuarially determined employer contribution (ADEC)
    - ADEC, contributions in relation to the ADEC, difference, covered-employee payroll, contributions as % of covered-employee payroll
  - If no ADEC, but statutory or contractual contribution requirements, schedule similar to ADEC schedule
- Notes to RSI with methods and assumptions for ADEC and significant changes

NPL: RSI—cost-sharing employers

- 10-year schedules
  - Employer's proportion (%), proportionate share (amount) of collective NPL, covered-employee payroll, proportionate share as % of covered-employee payroll, pension plan's net position as % of TPL
    - If special funding situation, also (1) nonemployer contributing entity's proportionate share and (2) total of employer's and nonemployer entity's proportionate shares
  - If statutory or contractual contribution requirements
    - Required contribution, contributions in relation to required, difference, covered-employee payroll, contributions as % of covered-employee payroll
- Notes to RSI with significant changes

NPL: Note disclosures/RSI—nonemployer contributing entities in SFS

- Required information depends on how much of the NPL is recognized by the nonemployer entity
  - If substantial proportion, disclosures similar to cost-sharing employer
  - If less-than-substantial proportion, reduced information
    - Notes
      - Type of pension plan, identification of administrator
      - Contribution basis, authority, amount in reporting period
      - Proportionate share (amount) of collective NPL, proportion (%), basis for proportion, change in proportion, expense, and deferred outflows/deferred inflows of resources
    - RSI (10 years)—entity's proportionate share (amount) of collective NPL, amount of contributions

Disclosures and RSI

- View Example Notes and RSI
  - Example is for an agent plan.
  - Disclosures for single plan would not be significantly different, although if it is a pension trust fund that does not issue stand alone plan statements then all of GASB 67 disclosures and RSI should be included, although duplication should be avoided.
    - For Single employers, plan disclosures are as of plan year-end so is this does not equal the measurement date then you'll have two sets of NPL disclosures.

GASB 68 Implementation Guide Questions

- 100 *Q*—Should all contributions made to the pension plan by a single or agent employer during the employer's fiscal year be included in the amount of contributions that paragraph 40d of Statement 68 requires to be disclosed?
  - ***A***—No. For purposes of paragraph 40d of Statement 68, contributions should include only (a) the amount of actual contributions, which are cash contributions from the employer to the pension plan that would be recognized as additions from contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the employer's fiscal year, and (b) the amount of contributions from the employer to the pension plan that would be recognized by the pension plan as a current receivable during the period that coincides with the employer's fiscal year. This would exclude, for example, payments made to satisfy employer payables to the pension plan that arose in an earlier fiscal year.

GASB 68 Implementation Guide Questions

- 102 *Q*—If a single or agent employer's employees are provided with pensions through a defined benefit plan for which financial statements are not publicly available on the Internet, what information should be disclosed in the employer's financial statements regarding the pension plan's fiduciary net position?
  - ***A*—**The single or agent employer should apply paragraph 43 of Statement 68 regarding note disclosures about the pension plan's fiduciary net position. That paragraph requires that the employer disclose all information required by Statement 68 and other standards about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position. Therefore, the employer would have to include information in its financial statements to comply with all note disclosure requirements applicable to the pension plan. This information includes the information required by Statement 67, as well as information required by other Statements. For example, the employer would be required to present information to comply with disclosure requirements related to pension plan deposits and investments, including information required by Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and No. 40, *Deposit and Investment Risk Disclosures*, as amended, as applicable.

GASB 68 Implementation Guide Questions

- 107 *Q*—The measurement date of a single or agent employer's net pension liability is December 31, 20X4, and is different from its fiscal year-end, which is June 30, 20X5. For purposes of presenting information about the employer's covered-employee payroll in the schedules of RSI required by paragraph 46 of Statement 68, which measure(s) of covered-employee payroll should be used?
  - ***A***—In the employer's schedule of RSI that presents the components of the net pension liability and related ratios as required by **paragraph 46b of Statement 68**, the amount of covered-employee payroll presented should be the annual covered-employee payroll during the measurement period that ends on the measurement date of the net pension liability—that is, the period from January 1, 20X4, to December 31, 20X4. If the employer presents a contribution-related schedule in conformity with **paragraph 46c** or **paragraph 46d of Statement 68**, the measure of covered-employee payroll included in that schedule should be the annual covered-employee payroll during the employer's fiscal year—that is, the period from July 1, 20X4, to June 30, 20X5.

GASB 68 Implementation Guide Questions

- 112 *Q*—If an actuarially determined contribution is calculated for the pension plan's fiscal year and the employer's fiscal year does not coincide with the fiscal year of the plan, what amount should be reported in the contribution-related schedule required by paragraph 46c of Statement 68?
  - ***A***—Information reported in the contribution schedule required by paragraph 46c of Statement 68 should be the amounts that are applicable to each of the employer's fiscal years presented. If the actuarially determined contribution is not calculated for the employer's fiscal year, the amount to be included in the schedule would be determined as the aggregate of the actuarially determined contributions for the portions of the plan's fiscal years that overlap the employer's fiscal year. For example, an employer's fiscal year is from July 1 to June 30, and the plan's fiscal year is from January 1 to December 31. The actuarially determined contribution applicable to the employer's fiscal year ended June 30, 20X6, would be the actuarially determined contribution for the last six months of the plan's fiscal year 20X5 (because that fiscal year overlapped the first six months of the employer's fiscal year) plus the actuarially determined contribution for the first six months of the plan's fiscal year 20X6 (because that fiscal year overlapped the last six months of the employer's fiscal year).

Other Issues

GASB 68 Accumulation of Data

- For Employers we have audited to date (June 30, 2015) below is some average information:

Type of Plan	Average Discount Rate	Average Funded Ratio	Average Prior Period Restatement	Average Restatement as a % of Total Net Position	Average Restatement as a % of Unrestricted Net Position
Single Employer	7.45%	83%	(5,143,986)	-16.80%	-151.30%
Agent Multi-Employer	7.63%	85%	(4,238,706)	-7.80%	-45.60%
Cost-Sharing Multi-Employer	7.48%	80%	(89,019,293)	-51.90%	-467.90%
Average of All	7.51%	82%	(52,612,008)	-32.70%	-279.80%
109 Plans at 89 Entities					

Other Multiple Employer Plans

- Other Plans You May Have Run Across:
  - Georgia Firefighters Pension Fund
  - Sheriff's Retirement Fund of Georgia
  - Peace Officers' Annuity and Benefit Fund
  - Judges of the Probate Retirement Fund of Georgia
  - Superior Court Clerks' Retirement Fund of Georgia
  - Magistrates Retirement Fund

Other Multiple Employer Plans

- Except for the Firefighters' plan, these other multiple employer cost sharing plans are funded with:
  - Voluntary employee contributions.
  - Fees attached to various court fines, filings, or permits which are collected originally by the courts (and ultimately distributed to the State).
  - The Firefighters' plan is funded by voluntary employee contributions and a tax (collected by the State) on insurance companies writing fire insurance in your jurisdiction.

Other Multiple Employer Plans

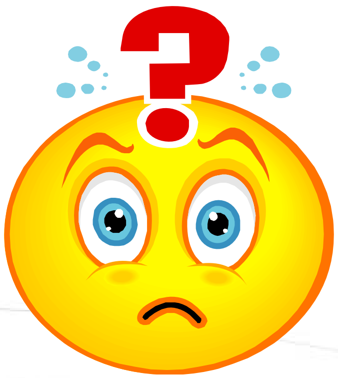
- If employees covered under the plan(s) are your employees, then GASB 68 says that the cost of the plan should be expensed by those local governments.
- **<u>However</u>**, since State law created each of the plans and the State is legally required to collect these revenue items and make the contribution to the plans, then a ***special funding situation*** is created.
- In a special funding situation, any NPL created is to be shared between those who would be legally responsible for funding.
- Since the State is legally responsible for 100% of the funding of the plans then they take on 100% of any NPL which may exist related to them.
- **<u>Local govts. will not record any liability for these plans</u>.**

Other Multiple Employer Plans

- GASB 68 requires the cost of the benefits provided to your employees be included in your expenses.
- As a result, **<u>local governments will annually need to record their share of the cost</u>** of each of these plans, in which you have employees who participate, but also **<u>record an on-behalf revenue</u>** from the State (which will offset the expense in full).
- The entry will only be recorded in your government-wide financial statements. Additionally, you will also need to <u>disclose details of the plans</u> and <u>details of the special funding situation</u> with the State.
- **<u>Consider materiality at all times.</u>**

GASB 68

Questions ????



Joel Black – jmblack@mjcpa.com

Miller Edwards – medwards@mjcpa.com