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# GASB 68 - New Pension Standard Are You Prepared?


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GASB 68 – New Pension Standard: Are You Prepared?

## Agenda

- GASB 68 – New Pension Standard
  - Highlights
  - Accounting Treatment
  - Note Disclosures
  - Required Supplementary Information
  - Effective Date and Transition
- Questions



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## Highlights

### Key Changes from GASB 27

- Separates accounting from funding
- Elimination of the Annual Required Contribution concept for recognizing pension expense
- Introduces the Net Pension Liability
- Significant increase in disclosures and information reported as Required Supplementary Information



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## Highlights

### The net pension liability (NPL)

- Is the unfunded pension obligation a government (employer) is responsible to pay
- Equals total pension liability less plan net position (primarily investments reported at fair value)
- Replaces the current cumulative difference between the annual pension cost and contributions made (NPO)
- Will be reported on the face of a government's accrual basis financial statements and will substantially increase the liabilities reported for most governments



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## Highlights

Measuring the Total Pension Liability involves –

1. Projecting future benefit payments
2. Discounting projected future benefits to present value
3. Attributing present value of projected future benefits to periods of employee service

Timing and Frequency

- Measurement Date (within 1 year of government's current fiscal year-end)
- Valuation Date (for update procedures, no more than 30 months + 1 day from government's current fiscal year-end)



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## Accounting Treatment

- Net pension liability changes annually due to:
  - Employees work and earn more benefits
  - Employee compensation changes
  - Outstanding liability accrues interest
  - Contributions to the plan increase/decrease
  - Actual economic and demographic assumptions are different from actuarial assumptions
  - Changes made to economic and demographic assumptions
  - Changes to plan provisions
  - Value of plan investments change



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## Accounting Treatment

GASB 68 - Appendix C: Illustration 2

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
<b>Balances at 6/30/X8</b>	<b>\$ 2,853,455</b>	<b>\$ 2,052,589</b>	<b>\$ 800,866</b>
<b>Changes for the year:</b>			
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)
<b>Net changes</b>	<b>135,406</b>	<b>184,519</b>	<b>(49,113)</b>
<b>Balances at 6/30/X9</b>	<b>\$ 2,988,861</b>	<b>\$ 2,237,108</b>	<b>\$ 751,753</b>



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## Accounting Treatment

- Immediate current year expense includes:
  - Benefits that are earned each year
  - Interest cost on the total pension liability
  - Changes in benefit terms
  - Projected earnings on plan investments
  - Changes in the value of plan net position from other than investments



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## Accounting Treatment

- Deferral of expenses should be amortized over a closed period equal to the average of the remaining services lives of employees, include:
  - The effect of differences between expected economic and demographic assumptions and actual experience
  - The effect of changes in economic and demographic assumptions
- The difference between projected and actual earnings on pension plan investments should be amortized over a closed 5 year period
- Contributions after Measurement Date of NPL



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## Accounting Treatment

GASB 68 - Appendix C: Illustration 3

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
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 District contributions and proportionate share of contributions	747	153
District contributions subsequent to the measurement date	1,065	-
Total	<u>\$ 6,183</u>	<u>\$ 2,613</u>



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## Accounting Treatment

GASB 68 - Appendix C: Illustration 3

\$1,065 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 20Y0. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

20Y0	\$ (269)
20Y1	161
20Y2	217
20Y3	545
20Y4	551
Thereafter	1,300



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## Accounting Treatment

### Considerations for Cost-Sharing Plans:

- For those in cost-sharing plans, must report a liability, expense, and deferred outflows/inflows of resources that is equivalent to its proportionate share of the collective amounts for all employers in the cost-sharing plan
- Basis for “proportionate share” are the employer’s contributions relative to that of all cost-sharing employers’ contributions
- Deferrals of contributions are in order under some circumstances



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## Note Disclosures

- Requirements for all governments -
  - Descriptions of pension plans
    - Name of plan
    - Identification of PERS or other administrator
    - Type of plan (single employer, agent, cost-sharing)
    - Benefit terms
    - Contribution requirements
    - Availability of financial report and how to obtain it
  - Assumptions and other inputs



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## Note Disclosures

- Discount rate
  - Discount rate applied and change since last measurement date
  - Assumptions about projected cash flows
  - Long-term expected rate of return and how derived
  - Municipal bond rate and source (if applicable)
  - Periods of projected benefit payments and related rates
  - Assumed asset allocation of portfolio, long-term expected “real rate of return” by major asset class (and whether presented as arithmetic or geometric means)
  - Measures of NPL using discount rate plus/minus 1%



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## Note Disclosures

GASB 68 - Appendix C: Illustration 2

*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.



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## Note Disclosures

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

GASB 68 - Appendix C: Illustration 2

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	28%	1.3%
Domestic equity	31	5.4
International equity	21	5.6
Real estate	10	5.0
Private equity	7	7.4
Commodities	1	2.3
Cash	2	0.0
Total	100%	



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## Note Disclosures

GASB 68 - Appendix C: Illustration 2

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District'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%)	Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 16,476	\$ 14,910	\$ 13,091



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## Note Disclosures

- Requirements for single and agent plans -
  - Change in the total pension liability, plan assets, and net pension liability during the current period
  - Components of the current period pension expense
  - Reconciliation of the beginning and ending balances of deferred outflows and inflows during the current period
- Requirements for cost-sharing plans -
  - Employer's proportion, basis for proportion and change in proportion
  - Employer's proportionate share of NPL
    - Further considerations for special funding situation



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## Note Disclosures

GASB 68 - Appendix C: Illustration 2

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
<b>Balances at 6/30/X8</b>	<b>\$ 2,853,455</b>	<b>\$ 2,052,589</b>	<b>\$ 800,866</b>
<b>Changes for the year:</b>			
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)
<b>Net changes</b>	<b>135,406</b>	<b>184,519</b>	<b>(49,113)</b>
<b>Balances at 6/30/X9</b>	<b>\$ 2,988,861</b>	<b>\$ 2,237,108</b>	<b>\$ 751,753</b>



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## Note Disclosures

GASB 68 - Appendix C: Illustration 2

For the year ended June 30, 20X9, the County recognized pension expense of \$158,356. At June 30, 20X9, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,329	\$ 53,995
Changes of assumptions	62,949	-
Net difference between projected and actual earnings on pension plan investments	133,976	-
<b>Total</b>	<b>\$ 230,254</b>	<b>\$ 53,995</b>

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:

<b>Year ended June 30:</b>	
20Y0	\$ 57,966
20Y1	86,466
20Y2	43,069
20Y3	(1,778)
20Y4	1,465
Thereafter	(10,929)



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## Note Disclosures

GASB 68 - Appendix C: Illustration 3

At June 30, 20X9, the District reported a liability of \$14,910 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 20X8, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At December 31, 20X8, the District's proportion was 0.20 percent, which was an increase of 0.01 from its proportion measured as of December 31, 20X7.



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## Required Supplementary Information

- 10-year RSI schedules containing information about -
  - Changes in NPL by source
  - TPL, pension plan fiduciary net position, NPL, covered payroll and certain ratios
  - Information regarding actuarially determined employer contributions, statutory contributions, or contractual contributions (if applicable)
  - Notes to the schedules (i.e., methods and assumptions)
- Cost-sharing plans report information about proportionate share of NPL, rather than first two bullets above



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## Required Supplementary Information

GASB 68 - Appendix C:  
Illustration 3

This schedule is  
to present 10  
years, however,  
only 5 are shown

	20X9	20X8	20X7	20X6	20X5
<b>Total pension liability</b>					
Service cost	\$ 75,864	\$ 74,276	\$ 71,157	\$ 69,344	\$ 66,875
Interest	216,515	205,038	188,845	174,694	162,509
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	(37,539)	(15,211)	(3,562)	38,438	19,927
Changes of assumptions	-	-	61,011	-	-
Benefit payments, including refunds of employee	(119,434)	(112,603)	(104,403)	(95,376)	(88,790)
<b>Net change in total pension liability</b>	<u>135,406</u>	<u>151,500</u>	<u>213,048</u>	<u>187,100</u>	<u>160,521</u>
<b>Total pension liability—beginning</b>	<u>2,853,455</u>	<u>2,701,955</u>	<u>2,488,907</u>	<u>2,301,807</u>	<u>2,141,286</u>
<b>Total pension liability—ending (a)</b>	<u>\$2,988,861</u>	<u>\$2,853,455</u>	<u>\$2,701,955</u>	<u>\$2,488,907</u>	<u>\$2,301,807</u>
<b>Plan fiduciary net position</b>					
Contributions—employer	\$ 79,713	\$ 86,607	\$ 89,828	\$ 91,963	\$ 93,541
Contributions—employee	31,451	30,550	29,137	28,547	27,743
Net investment income	196,154	(44,099)	(16,138)	298,260	166,826
Benefit payments, including refunds of employee	(119,434)	(112,603)	(104,403)	(95,376)	(88,790)
Administrative expense	(3,373)	(3,287)	(2,774)	(2,582)	(2,086)
Other	8	(83)	173	(175)	9
<b>Net change in plan fiduciary net position</b>	<u>184,519</u>	<u>(42,915)</u>	<u>(4,177)</u>	<u>320,637</u>	<u>197,243</u>
<b>Plan fiduciary net position—beginning</b>	<u>2,052,589</u>	<u>2,095,504</u>	<u>2,099,681</u>	<u>1,779,044</u>	<u>1,581,801</u>
<b>Plan fiduciary net position—ending (b)</b>	<u>\$2,237,108</u>	<u>\$2,052,589</u>	<u>\$2,095,504</u>	<u>\$2,099,681</u>	<u>\$1,779,044</u>
<b>County's net pension liability—ending (a) – (b)</b>	<u>\$ 751,753</u>	<u>\$ 800,866</u>	<u>\$ 606,451</u>	<u>\$ 389,226</u>	<u>\$ 522,763</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	74.85%	71.93%	77.56%	84.36%	77.29%
<b>Covered-employee payroll</b>	<u>\$ 449,293</u>	<u>\$ 436,424</u>	<u>\$ 416,243</u>	<u>\$ 407,812</u>	<u>\$ 396,332</u>
<b>County's net pension liability as a percentage of covered-employee payroll</b>	167.32%	183.51%	145.70%	95.44%	131.90%



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## Required Supplementary Information

GASB 68 - Appendix C: Illustration 3

This schedule is  
to present 10  
years, however,  
only 5 are shown

	20X9	20X8	20X7	20X6	20X5
Actuarially determined contribution	\$ 79,713	\$ 86,607	\$ 89,828	\$ 91,963	\$ 93,541
Contributions in relation to the actuarially determined contribution	<u>79,713</u>	<u>86,607</u>	<u>89,828</u>	<u>91,963</u>	<u>93,541</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 449,293	\$ 436,424	\$ 416,243	\$ 407,812	\$ 396,332
Contributions as a percentage of covered-employee payroll	17.74%	19.84%	21.58%	22.55%	23.60%



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## Effective Date and Transition

- Effective for fiscal years beginning after June 15, 2014 (i.e., FY 2014/15 for most)
- Employers would be required to **restate** prior financial statements under the new rules if practical
  - If restating beginning deferred inflows and outflows is not practical, start with a zero beginning balance
  - If restatement of all prior periods is not practical, cumulative effect of applying GASB 68 to beginning balances
- For 10 year trend information in RSI ... all 10 years may not be readily available. During the transition period, present as many years as are available



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# Now For Questions.

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