

Lessons Learned from GASB 68 Implementation and Planning for Next Year

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GASB 68 Lessons Learned

PRESENTED BY

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TYPE ATYPICAL

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Agenda



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GASB 68 Lessons Learned

- CalPERS Defined Benefit Plans
- Changes from Prior Year: CalPERS Public Agency Cost-Sharing Plan
- Changes from Prior Year: CalPERS Agent Multiple-Employer and Schools Cost-Sharing Plans
- CalPERS: General Information
- Lessons Learned – Implementation Year Observations
- Audit Matters and Reminders

CalPERS Defined Benefit Plans



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CalPERS administers three defined benefit pension plans:

- Agent multiple-employer plan
- Public agency cost-sharing plan
- Schools cost-sharing plan

Employers should be aware that:

- Employer rate plans may be moved from the agent plan to the public agency cost-sharing plan if active members fall below 100

Changes from Prior Year: CalPERS Public Agency Cost-Sharing Plan

New allocation methodology

Allocation Base	Source	Pension Amounts to be Applied to
Actuarial accrued liability	June 30, 2014 funding valuation	Total pension liability (miscellaneous or safety risk pool)
Plan market value of assets ⁽¹⁾	June 30, 2014 funding valuation	Fiduciary net position
Legally required contributions	My CalPERS	Pension expense Deferred outflows of resources Deferred inflows of resources

(1) Includes supplemental payments through June 30, 2014 and is adjusted for fiscal year 2014-15 supplemental payments (i.e. UAL contributions), which are not included in the June 30, 2014 funding valuation

Changes from Prior Year: CalPERS Public Agency Cost-Sharing Plan (Continued)



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CalPERS will prepare GASB 68 accounting valuation reports for the miscellaneous and safety risk pools

Plan auditor will opine on:

- Schedules of employer allocations
- Schedule of collective pension amounts
 - Employers will be responsible for determining employer-specific deferrals
 - Differences between actual and proportionate share of contributions
 - Changes in proportion

Changes from Prior Year: CalPERS Agent Multiple-Employer and Schools Cost-Sharing Plans

Agent multiple-employer plans

- CalPERS actuaries will prepare the following (unaudited) documents
 - GASB 68 Accounting Valuation Report by rate plan
 - Notes to the GASB 68 Accounting Valuation Report
- Plan auditor will opine on the schedule of changes in fiduciary net position by rate plan
 - No substantive changes to the audited schedule

Schools cost-sharing plans

- CalPERS will prepare a single GASB 68 Accounting Valuation Report
- Plan auditor will opine on:
 - Schedule of employer allocations
 - Schedule of collective pension amounts
 - No substantive changes to the audited schedules

CalPERS: General Information



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GASB 68 resources can be found on CalPERS website:

<https://www.calpers.ca.gov/page/employers/actuarial-services/gasb>

- Timing, cost and ordering instructions for GASB 68 information
- Required data and methodology for GASB 68 measurements
 - Audited schedules – all plans
 - Census Data File Layout
 - Crossover Test Report
 - Cost-Sharing Methodology Report
- A link to submit GASB 68 questions

Lessons Learned – Implementation Year Observations



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General observation: Tendency to “copy and paste” information provided by the plan

- Employers should understand GASB 68 requirements for their plan type(s) and report the appropriate information

Type and number of plans

- Different disclosures and required supplementary information depending on plan type
- Employers may sponsor more than one plan and/or participate in more than one plan type

Lessons Learned – Implementation Year Observations



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Employer-paid member contributions (EPMC)

- Current guidance: pension plans should report EPMC as member contributions if reported by the employer as salaries
- GASB Exposure Draft on Pension Issues proposes that EPMC be reported as member contributions
- Employee-paid employer contributions
 - Currently no formal guidance – Possible GAAC inquiry of GASB

Lessons Learned – Implementation Year Observations (Continued)



Required supplementary information

- Contributions toward actuarially or legally required contributions should be based on employer's fiscal year
- “Covered-employee payroll” is currently defined as “the payroll of employees that are provided with pensions through the pension plan”
 - Most plans report “covered payroll” (i.e. pensionable payroll or salaries) due to limitations on information available
 - GASB Exposure Draft on Pension Issues proposes to revert back to “covered payroll” definition
- Requirement to disclose “factors that significantly affect trends” in the amounts reported as RSI is often overlooked
 - Generally relates to changes in benefit terms, membership or actuarial assumptions

Lessons Learned – Implementation Year Observations (Continued)



Intra-entity allocations to funds/departments/component units

- **Component units**
 - A primary government and its component units should be considered to be one employer for purposes of classifying and presenting a defined benefit plan as single-employer or multiple-employer
- **Liability to enterprise funds**
 - Generally appropriate to use an allocation basis consistent with a cost-sharing plan
 - In a cost-sharing plan, if the allocation basis is different than the plan allocation, the group auditor will need additional assurance (i.e. separate audited schedule)
 - Intra-entity changes in proportion will need to be measured and reported, if material

Audit Matters and Reminders

Agent multiple-employer plans

- Employer and employer auditor are responsible for evaluating:
 - Actuary qualifications – Using the work of a management specialist (AU-C Section 500, Audit Evidence)
 - Active member census data - comparison of employer's records to data used by actuaries
 - Observation - differences in annual compensation and years of service as CalPERS' records reflect:
 - ✓ Annualized compensation based on the highest pay rate for the member's during the fiscal year
 - ✓ The member's years of service, including purchases of service credits
 - Appropriateness of actuarial assumptions and methods
 - Discount rate/depletion test

Audit Matters and Reminders (Continued)

Cost-Sharing Plans

- Employer and employer auditor are responsible for determining and evaluating:
 - Employer specific deferred outflows/inflows when the plan prepares a schedule of “collective pension amounts”
 - Difference between employer's actual and proportionate share of contributions
 - Differences in proportion
 - Employers should adjust pension expense reported by the plan to reflect the recognition of employer-specific deferrals
 - “Verifying” numerator in allocation percentage
 - Active member census data - comparison of employer’s records to data used by actuaries

Questions?
Let's Talk.



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GASB 68

1st Year Experience

GASB 68 1st Year Experience

- From an actuary's viewpoint, not that bad
 - CalPERS report timing
 - If more than one agency in a CalPERS plan
 - Don't hire another actuary to separate NPL
 - Generally allocate NPL on contributions
 - A few non-CalPERS plans were unprepared

GASB 68

CalPERS 2nd Year Reports

CalPERS 2nd Year Reports

■ FYE 6/30/16

● Measurement Date 6/30/15

- Asset values at 6/30/15

- Actuarial valuation and census data as of 6/30/14, rolled forward to 6/30/15

CalPERS 2nd Year Reports

- Discount rate ↑ 7.65%
 - No longer net of administrative expenses
 - Total pension liability (GASB 68) ≠
Funding Valuation Actuarial Accrued Liability

CalPERS 2nd Year Reports

- Deferred Inflows and Outflows
 - New “bases” for:
 - Experience (demographics, etc)
 - Change in assumptions
 - Investment return (loss)
 - Plus remaining amounts from 1st year

CalPERS 2nd Year Reports

- Cost-sharing plans (Risk Pools)
 - CalPERS will issue one report for each risk pool
 - Schedule of proportionate shares for each plan/tier
 - Expect to be similar to Schools report last year

CalPERS 2nd Year Reports

- Cost-sharing plans (Risk Pools)
 - Employers need to calculate their share of
 - Total pension liability
 - Fiduciary net position
 - Contributions
 - Deferred outflows and inflows
 - Pension expense

CalPERS 2nd Year Reports

- Cost-sharing plans (Risk Pools)
 - Employers maintain deferred inflow/outflow bases
 - Track amounts recognized and remaining
 - New bases for:
 - Differences in contribution from proportionate share
 - Change in employer's proportions between years
 - Adjustment to balance due to differences in proportions

GASB 68 Balance Equation

■ Balance equation:

$$\begin{aligned} &\text{Net Pension Liability @6/30/15} \\ &- \text{ER Contribution} \\ &+ \text{Pension expense (FY16)} \\ &\underline{+ \text{Change in deferred inflows \& outflows}^*} = \\ &\text{Net Pension Liability @6/30/16} \end{aligned}$$

*+6/30/16 Outflows – 6/30/16 Inflows – 6/30/15 Outflows +
6/30/15 Inflows (excluding deferred outflows from ER
contributions)

Irrevocable Supplemental (§115) Trust

- Employer creates a separate legal Trust to fund CalPERS benefits
- Can only be used to :
 - Reimburse for CalPERS contributions
 - Make payments directly to CalPERS
- Assets can **not** be used for other purposes
- Investments significantly less restricted than City assets

Irrevocable Supplemental (§115) Trust

- Reduces GASB 68 Net Pension Liability
 - No new actuarial calculations required
 - Discuss with your auditor
 - GASB 68 disclosures and accounting adjusted
 - Adjustments don't require an actuary
 - You may want an actuary to calculate the adjustments
 - Plan ahead!

Upcoming Accounting Standards: GASB 73, 74, and 75

GASB 73 – Unfunded Pension Plans

- Effective FY Beginning > 6/15/16
- Unfunded single employer plans
- CalPERS Replacement Benefit Fund
 - Benefits > IRS limit (\$210,000/yr in 2015)
 - Retirees and non-retirees with large projected benefits
 - Materiality?

GASB 73 – Unfunded Pension Plans

- Recognize pension liability
 - Does not affect contributions (or require funding)
 - Discount rate will be Aa municipal bond rate
- Change in net pension liability => pension expense
- Additional note disclosures and RSI

GASB 74 – OPEB Plans

- Replaces GASB 43 for Plan Years beg. > 6/15/16
- Similar to GASB 67
- Reporting for OPEB funded plans
 - In the plan's financial statements
 - Stand-alone
 - Fiduciary fund in employer's financial statements
 - Does not affect/require contributions
- Additional note disclosures and RSI

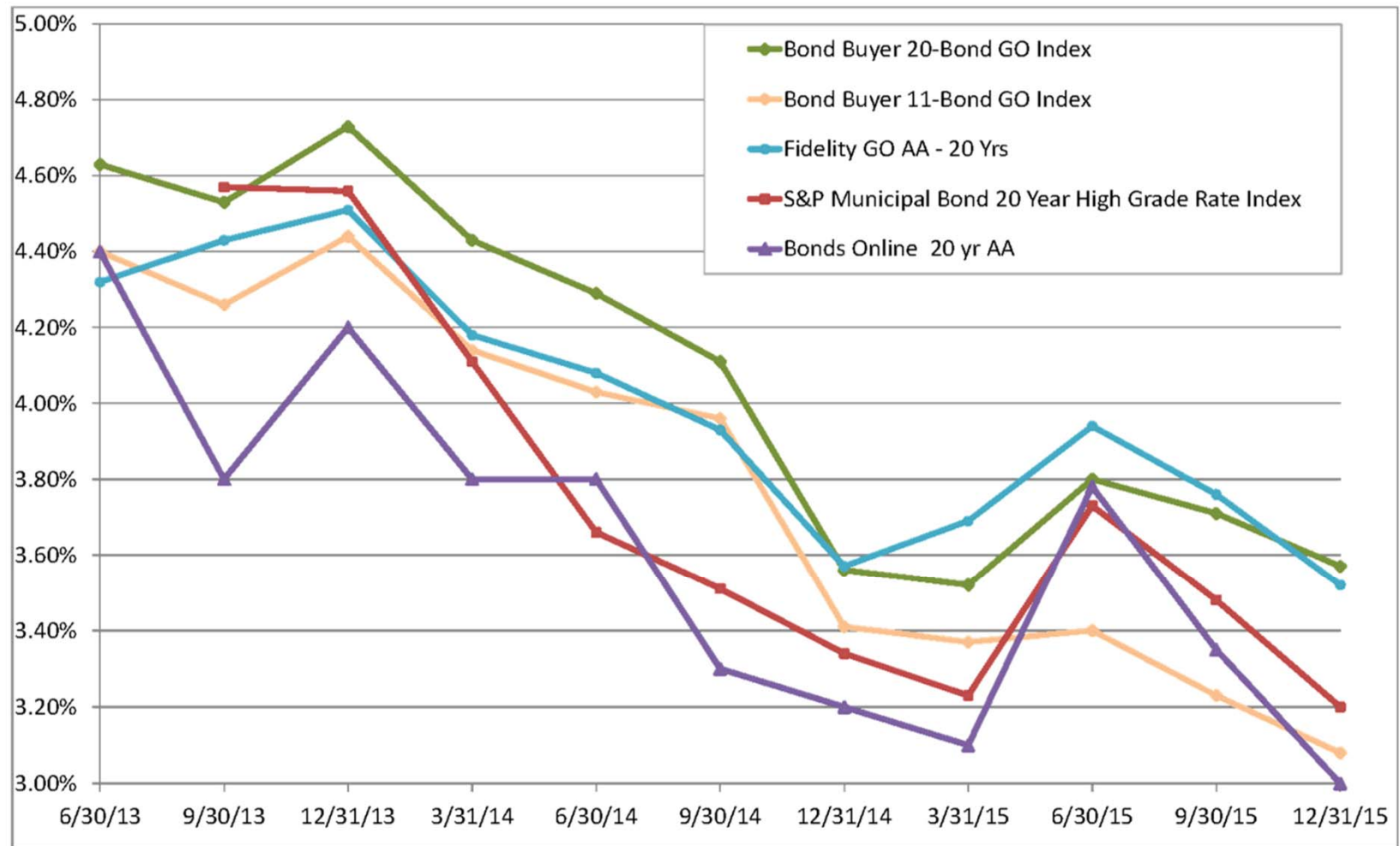
GASB 75 – Employer OPEB Reporting

- Effective FY beginning > 6/15/17
- Similar to GASB 68
- Everyone will recognize OPEB liability
 - Replaces GASB 45
 - Does not affect contributions (or require funding)
- Change in net OPEB liability => OPEB expense
- Additional note disclosures and RSI

GASB 75

- Unfunded and poorly funded plans use AA municipal bond discount rate
 - Rate is volatile
 - Net OPEB liability will be volatile
 - OPEB expense will be volatile
- GASB 75 does not specify which bond curve to use
 - <http://www.bartel-associates.com/resources/select-gasb-67-68-discount-rate-indices>
 - Track 5 rates we think are acceptable

GASB 75



GASB 75

- Alternative Measurement Method (AMM) still permitted for small plans
 - Check with your auditor
- Implied Subsidy required
- ACA “Cadillac Tax” required
- “Insured plans”
 - Means plans where entire future OPEB obligation is transferred to insurer

GASB 75

- Net OPEB liabilities may be similar in size to pension liabilities
 - Since pre-funding is fairly new
- Audit issues may be fewer than with GASB 68 since employers generally control data
- Some employers may implement early

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Employer Responsibility for Census Data

- Employers are responsible for the amounts presented in its financial statements
- The AICPA white paper defined measures that employers must take to fulfill those responsibilities
- The AICPA white paper was incorporated into the AICPA's 2015 edition of its Audit and Accounting Guide, *State and Local Governments*
- Verify the accuracy of all amounts in the audit reports used for your accounting and financial reporting, including employer contributions

Employer Responsibility for Census Data

- Agent Plans:

- Obtain on an annual basis the census data file submitted by the plan to the actuary and determine whether the census data is complete and accurate.
- In evaluating the census data file, compare the information to payroll records and the prior year census data file.
- Prepare a roll forward of the census data from one year to the next and a reconciliation for any significant differences.

Employer Responsibility for Census Data

- City of Sacramento experience
 - Active employee census data was incomplete
 - A group of employees had been transferred from active to separated
 - Effects deemed immaterial
 - A few minor variances
 - Some timing differences

Employer Responsibility for Agent Plans

- Communicate to the auditors your view regarding the reasonableness of the following assumptions that are reflected in your CalPERS actuarial valuation:
 - Long-term investment rate of return
 - Future salary increases
 - Mortality rates
 - Inflation
- If you disagree with any of the assumptions, and the impacts are material to your financial statements, your agency will need to independently engage an actuarial firm to re-perform the actuarial valuation (in order to receive an unmodified opinion)

Contribution Confusion

- Employer Paid Member Contributions
 - GASB addressing in new standard
- “Cost-sharing” employees paying a portion of employer contribution
 - How does the negotiated inflow from employees:
 - Affect pension expense?
 - Affect the total pension liability?
 - CalCPA Government Accounting and Auditing Committee asked GASB to address

GFOA Resources

Best practices (new searchable database)

- Sustainable Funding Practices for Defined Benefit Pensions and OPEB (2016)
- Ensuring OPEB Sustainability (2016)
- Defined Contribution Plan Fiduciary Responsibility (2015)
- Informing and Educating Employees about Retirement Benefit Adequacy (2015)
- Enhancing Reliability of Actuarial Valuations for Pension Plans (2014)

Advisories

- OPEB Bonds (2016)
- Pension Bonds (2015)

An Elected Official's Guide: The New Pension Accounting

GASB Exposure Draft

- Covered payroll
- EPMC
- Actuarial deviation

OPEB is next

- Use lessons learned
 - Employer is responsible for amounts in the financial statements
 - Census data quality is a key driver
- Trust fund
 - CERBT issue

GASB 68 Implementation White Paper

- California Committee on Municipal Accounting (CCMA) White Papers
 - California Society of Certified Public Accountants (CalCPA)
 - League of California Cities
 - California-specific accounting and financial reporting issues
- GASB 68 White Paper
 - <http://www.calcpa.org/members/technical-resources/gaa-white-papers>
 - Update in progress to address issues encountered

Questions?