GASB 67 and 68: Accounting and Reporting for Pensions

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Today’s Agenda

- New pension standards
- Overview of changes
- GASB 67
- GASB 68
- Implementation strategy for WRS
- Implementation strategy for IMRF
- Questions
New Pension Standards

> GASB Statement 67 – Financial Reporting for Pension Plans an amendment of GASB 25
  - Applies to the pension plan

> GASB Statement 68 – Accounting and Financial Reporting for Pensions an amendment of GASB 27
  - Applies to employers that use GAAP reporting
Overview of Changes

Currently

- Accounting liabilities are generally identical to the funding liabilities
- Funding and accounting numbers are married!
- A municipality records as a liability on their books the cumulative difference between what the actuary says is the required contribution (ARC) versus what the municipality actually contributes
  » For actuarially determined contribution plans, it is likely that the municipality currently records a $0 liability
  » For fixed contribution rate plans, it will depend upon the amortization period
- Actuarial valuation numbers are used for accounting and funding purposes
Overview of Changes

New Standards

> More prominent disclosure
  – Funded status moves from the footnotes to the balance sheet
  – Additional footnote and RSI disclosures

> Move from income statement focus to balance sheet focus
  – Was “Are we making adequate ARC contributions?”
  – Now “How big is our Net Pension Liability?”
New Standards

- Funding measures still valid and essential but no longer reported in financial reports
- Accounting and funding are no longer linked
- Strictly accounting/reporting changes
  - Underlying economic activity will stay the same
What is the Impact?

> Accounting liabilities will likely be higher than funding liabilities

> Accounting liability may need to be recorded for the first time
  - Might cause employer to rethink defined benefit plan
  - May impact credit ratings

> We have new terminology
What is the Impact?

> Will not increase contribution rates
> Will increase complexity to a complex topic
> Might bring increased scrutiny to the plan
> Most trend information won’t carry over
> Most likely increased third party fees
When does this go into effect?

> GASB 67 Plan Reporting
  - Effective for fiscal years beginning after June 15, 2013
  - For plans with a December 31 fiscal year end, December 31, 2014 financial statements

> GASB 68 Employer Reporting
  - Effective for fiscal years beginning after June 15, 2014
  - For employers with a December 31 fiscal year end, December 31, 2015 financial statements
Basic Terminology Changes

> Total Pension Liability (TPL)
  - Actuarial present value of projected benefit payments allocated during past periods of employee service

> Net Pension Liability (NPL)
  - Total pension liability minus the pension plan’s fiduciary net position
  - Fiduciary net position = market value of assets
Basic Terminology Changes (cont.)

> Pension Expense (PE)
  - The difference between the NPL from the prior fiscal year to the current fiscal year, with some adjustments
Old – GASB 25 / 27

Calculations based upon methods and assumptions blessed by GASB

- Six (6) allowable actuarial cost methods
- Long term expected rate of return on assets is the discount rate
- Amortizations of any kind (gains/losses, assumption changes, benefit changes, etc.) over a maximum of thirty (30) years
New – GASB 67 / 68

- Total Pension Liability (TPL) – like the Actuarial Accrued Liability (AAL) except:
  - Must use Entry Age Normal Cost Method
  - May require use of a blended discount rate (between long-term expected rate of return and municipal bond rate)
Overview of Changes

New – GASB 67 / 68 (cont.)

Net Pension Liability (NPL) – equals the TPL less the plan’s fiduciary net position:
– Must also report NPL using a discount rate +/- 1%
– Cost sharing plans are on the hook for “proportionate share”
Overview of Changes

New – GASB 67 / 68 (cont.)

> Pension Expense (PE)
  
  – Also based upon blended discount rate and Entry Age Normal actuarial cost method
  
  – Shorter amortization periods (no longer up to 30 years)
    » Five (5) years for investment gains/losses
    » Average future working lifetime for other gains/losses or assumption changes
  
  – Cost sharing plans are on the hook for “proportionate share”
GASB Statement No. 67 – Financial Reporting for Pension Plans an amendment of GASB 25
Applicable for state and local government pension plans administered through a trust or equivalent arrangement

- Contributions are irrevocable
- Assets are dedicated to providing pension benefits
- Assets are beyond the reach of creditors

Defined benefit plans

- Single employer
- Agent multiple employer
- Cost sharing multiple employer

Defined contribution plans
GASB Nos. 25 and 50 remain applicable for pension plans not administered through a trust.

Few changes to the financial statements from the requirements of GASB 25.

Most changes are to note disclosures and RSI.

Changes the method of determining the total pension liability and net pension liability for employers and non-employer contributing entities.
> Required financial statements
- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Prepared on the accrual basis of accounting
- Notes to financial statements
- Required supplementary information
Statement of Fiduciary Net Position

- Assets
  - Reported at fair value
- Deferred outflows of resources
- Liabilities
- Deferred inflows of resources
- Net position
  - Assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources
  - Restricted for pensions
Statement of Changes in Fiduciary Net Position

- Additions
  - Contributions
  - Investment income
  - Investment expense
- Deductions
  - Benefit payments
  - Administrative expense
- Net increase (decrease) in fiduciary net position
  - Difference between total additions and total deductions
Notes to Financial Statements

- Plan description
- Pension plan investments
- Receivables
- Allocated insurance contracts excluded from plan assets
- Reserves
- Deferred retirement option program, if any
- Components of the liability of the employers
- Significant assumptions used to measure the TPL
- Information regarding the discount rate
- Date of the actuarial valuation
Required Supplementary Information (RSI)

- Ten (10) years of information required
- Schedule of changes in the net pension liability
- Schedule of components of the net pension liability and related ratios
- Schedule of actuarially determined contributions
- Schedule of the annual money-weighted rate of return on plan investments
- Notes to RSI
Measurement of net pension liability (NPL)

- Total pension liability (TPL)
- Less the fiduciary net position of the pension plan
- Equals net pension liability

Notes:
- TPL is the actuarial present value of projected benefit payments
- NPL should be measured as of the pension plan’s most recent fiscal year end
Actuarial valuations

- TPL should be determined by
  » An actuarial valuation as of the plan’s most recent year-end
  » A roll forward to the recent year-end from a previous actuarial valuation
- Required every two (2) years (minimum)
- More frequent valuations are encouraged
- All assumptions must follow Actuarial Standards of Practice issued by the Actuarial Standards Board
Actuarial cost method

- Entry age actuarial cost method required
- Service cost based on a level percentage of pay
- Apply to each individual employee
- Begins the first period employee’s service accrues benefits
- Ends at expected retirement for employee
A big change is the value for discounting the projected benefits. That single value reflects:

- Long-term expected rate of return on pension plan investments that are expected to finance the payment of benefits to the extent that
  - The pension plan’s fiduciary net position is projected to be sufficient to make projected benefit payments and pension plan assets are expected to be invested using a strategy to achieve that return.
  - A yield or index rate for 20 year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale) to the extent that the conditions above are not met.
Illustrative Projected Benefits and Projected Plan Net Position

- Projected Benefits
- Projected Plan Net Position

This portion of projected benefits is discounted using the long-term expected rate of return
This portion of projected benefits is discounted using a tax-exempt municipal bond index rate

Source: GFOA
Key Dates

> Reporting Date (RD) – plan’s fiscal year end

> Measurement Date (MD) – date as of which TPL, FNP and NPL are determined – is the RD

> Valuation Date (VD) – date as of which total pension liability (TPL) is determined
  - Actuarial valuations must be at least biennial
  - No earlier than 24 months from RD
  - If VD before RD then TPL is rolled forward to RD
Effective for plan fiscal years beginning after June 15, 2013
GASB Statement No. 68 –
Accounting and Financial Reporting for Pensions
an amendment of GASB 27
GASB 68

> Applicable to employer sponsored pension plans administered through a trust or equivalent arrangement

> Revises recognition, measurement and disclosure requirements for employers
Choosing a measurement date will be key

- Generally will be the pension plan’s fiscal year end
  » Expect that the required information would be available
- Can be no earlier than the end of the employer’s prior fiscal year
- Must be consistently applied from year to year
Defined benefit pension plans – two potential liabilities to report

- Liability to pension plan
  » Contributions payable at year end

- Liability to employees
  » Net pension liability (NPL)
  » Single agent employers recognize 100% of NPL
  » Cost sharing employers recognize their proportionate share of NPL
> Establishes approach for measuring the NPL
  - Fewer alternative methods and assumptions than GASB 27
  - Single discount rate
    » Long-term expected rate of return on pension plan assets if certain conditions are met or
    » Rate for 20-year, tax-exempt general obligation municipal bonds if above conditions are not met
Actuarial Present Value of Projected Benefit Payments

- Entry age normal actuarial cost method
- Level percentage of pay
- Apply to each individual employee
- Begins the 1st period employee’s service accrues pension benefits
- Ends at expected retirement for employee
Changes to the NPL

- Components of pension expense for full accrual statements relates to the changes in the NPL as a result of:
  » Current period service cost
  » Interest on the TPL
  » Changes in benefit terms
  » Projected interest earnings on plan assets (offsetting)
Changes to the NPL (cont.)

- Recognized as pension expense in the current reporting period except for:
  » Difference between expected and actual experience in measuring the TPL
  » Changes in assumptions in measuring the TPL
  » Difference between projected and actual earnings on pension plan investments
  » Employer contributions (reported as a reduction of liability unless paid subsequent to measurement date, then deferred outflow of resources)
  » Employee contributions (reported as revenue)
Changes to the NPL – TPL exceptions

- Expense in current and future periods
  - Systematic and rational method
  - Closed period
  - Over the average of expected remaining service lives of all employees

- Amounts not recognized are reported as deferred outflows of resources or deferred inflows of resources related to pensions
Changes to the NPL – investment earnings exception

- Expense in current and future periods
  » Systematic and rational method
  » Closed period, 5 years
- Amounts not recognized are reported as deferred outflows of resources or deferred inflows of resources related to pensions (report net if multiple measurement periods)
Cost-sharing employers

- Recognize their proportionate share of collective balances:
  - NPL
  - Pension expense
  - Deferred outflows of resources
  - Deferred inflows of resources

- Proportion is in relationship of the employer to the total of all contributing entities
Cost-sharing employers (cont.)

- Changes in proportion since prior measurement date
  - Net effect of the change in proportion of the previously listed items as of the beginning of the measurement period reported as a deferred outflow of resources or deferred inflow of resources
  - Amortize using a systematic and rational method
  - Amortize over a closed period of the average expected remaining service lives of the plan participants
> Cost-sharing employers (cont.)

- Employer contributions subsequent to the measurement date
  » Report as a deferred outflow of resources
Note disclosures – all plans

- Descriptive information
- Significant assumptions and inputs for TPL
- Pension plan’s fiduciary net position or reference to report
- Current year sources of changes to the NPL
  » Measurement and actuarial valuation dates
  » Changes in assumptions or other inputs
  » Changes subsequent to measurement date
  » Pension expense for current period
Note disclosures – all plans (cont.)

- Deferred outflows / inflows of resources
  » Balance by source
  » Net impact on pension expense for next 5 years and thereafter in the aggregate
  » Amount of deferred outflows that will be a reduction of the NPL
> **Note disclosures – single / agent plans only**
- Number of employees covered
- Allocated insurance contracts
- Schedule of changes in the NPL by source

> **Note disclosures – cost-sharing plans only**
- Employer’s proportion, basis and change, if any
- Employer’s proportionate share of collective NPL
Required supplementary information

- 10 years of information
- Notes to RSI with significant changes
- Single / agent plans
  » Changes in NPL by source
  » Components of NPL and related ratios
  » Actuarially determined contributions
- Cost-sharing plans
  » Employers proportionate share of NPL, payroll, net position, etc.
Key Dates

> Reporting Date (RD) – employer’s fiscal year end
> Measurement Date (MD) – date as of which TPL, FNP, NPL, PE and DI/O are determined
  - No earlier than previous fiscal year end
  - NPL and PE reported on RD without adjustment
> Valuation Date (VD) – date as of which total pension liability (TPL) is determined
  - Actuarial valuations must be at least biennial
  - No earlier than 30 months plus 1 day from RD
  - If VD before MD then TPL is rolled forward to MD
Key Dates (cont.)

> Timing is to be consistently applied
> Effective for employer fiscal years beginning after June 15, 2014
Wisconsin Retirement System Reporting
GASB 67 & 68 Accounting and Financial Reporting for Pensions

Source: Wisconsin Government Finance Officers Association’s Fall Conference / WRS presentation
The WRS will implement GASB 67 no later than December 31, 2014. Data may be available for employees wishing to early implement, but that is not certain at this time.

- Discount Rate
- Actuarial Cost Method
- Timing of Actuarial Valuation
- Selection of Measurement Date
- Allocation Methodology
- Audit of Allocations
- Notes and RSI
- Effective Dates
- Cost to Implement
Valuation results have confirmed that the WRS will be able to discount future benefit payments using the long-term expected rate of return on pension plan investments.
The WRS uses an Entry Age variant for funding purposes, but will use the Entry Age actuarial cost method for determining the Net Pension Liability, Pension Expense, etc...
The WRS performs an annual actuarial valuation as of December 31 of each year.

Valuation results are available by June following year-end.
The WRS will provide the Net Pension Liability using a measurement date no earlier than the end of the employer's prior fiscal year.
The WRS will allocate the Net Pension Liability to all employers based on their proportionate share of employer contributions.
Who is responsible for the accuracy and verifiability of the collective net pension liability and the allocation of proportionate shares?

– Plan?
– Employers?
The collective Net Pension Liability and the basis for allocation will be audited by the WRS' auditor prior to distribution.
The WRS will provide suggested language and appropriate data to meet the disclosure requirements.
Actuarial data needed to meet GASB 68 reporting requirements will be provided by the WRS consulting actuary and paid for by the WRS trust fund. There will be no special assessment to employees for this service.
Illinois Municipal Retirement Fund Reporting
GASB 67 & 68 Accounting and Financial Reporting for Pensions
> IMRF Funding Policy available on IMRF website
> IMRF will continue to set contribution rates as it has in the past
IMRF GASB 68 Impact

IMRF is working with its actuaries to develop the information employers will need to comply with the accounting and reporting requirements of GASB 68.

- Calculation of net pension obligation
- Calculation of pension expense
- Identification of pension related deferred inflows and outflows
- Required footnote disclosure
- Required supplemental information
> Dry Run - IMRF is working to provide employers with a preliminary calculation of their GASB 68 NPO for 2012 by end of this month or early next month.

> IMRF is gathering contact information on who at the employer is responsible for financial reporting as well as a contact for their independent auditors.
> IMRF is working with its independent auditors to develop a reporting mechanism which will meet the auditing requirements of the employers’ auditors.

> IMRF’s valuation date and measurement date are December 31st of the same year.

> There will be no need to roll forward the actuarial information.
Goal will be to furnish all the required GASB 68 information by March 31st of the year following the measurement date.

While IMRF will be in a position to meet the implementation requirements of June 15, 2014, it does not seem likely that early implementation will be an option.
Resources

> GASB 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25
> GASB 68 – Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No.27

Available on www.GASB.org
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