

# **GASB Statement No. 68 New Pension Standard**

---

February 22, 2013

John E. Bartel

**B**ARTEL  
ASSOCIATES, LLC

## **GASB 27 What Was It?**

- Recognize Net Pension Obligation (NPO) if Plan Sponsor did not contribute Annual Required Contribution (ARC)
- Pension Expense based on ARC, determined NPO
- Net Pension Obligation if Contribution < Pension Expense

# GASB 27

## What Was It?

- Used as contribution out of bounds marker:
  - 30 year amortization
- Pension Expense drives Obligation on Financial Statement

2/22/13

3



# GASB 68

## What Is It?

- Changes GASB 27
- Exposure Draft issued June 2011
- Final Standards Approved June 25<sup>th</sup> 2012
- Accounting only, **NOT** Contributions

2/22/13

4



# **GASB 68**

## **What Is It?**

- Recognize Net Pension Liability (asset) regardless of contributions
- Net Pension Liability drives Pension Expense
- Additional note disclosures and RSI
- Systems and plan sponsors will need to look elsewhere for contribution out of bounds markers
  - Actuaries?
  - GFOA?
  - Legislature?
  - Plan Sponsors?
  - Common sense?
  - Some combination!

2/22/13

5



## **California Actuarial Advisory Panel**

### **Funding Policies and Practices**

- General Funding Policy Objectives:
  1. Future contributions and assets should fund benefits
  2. Should reasonably allocate cost to service
  3. Manage and control contribution volatility
  4. Support general public policy goals of accountability and transparency
  5. Consider nature of public sector pension plans and their governance

2/22/13

6



# California Actuarial Advisory Panel

## Funding Policies and Practices

- Components:
  - Cost (allocation) method
  - Asset smoothing method(s)
  - Amortization policy:
    - Period
    - Payment increases

2/22/13

7



## GASB 68

### Who Does It Apply To?

- Employers with DB &/or DC pension plans administered through trusts in which assets are:
  - Irrevocable
  - Dedicated and used only to provide pensions to plan members
  - Protected from creditors
- Agencies participating in CalPERS & other California retirement systems/plans

2/22/13

8



# **GASB 68**

## **Effective Date**

- Fiscal years beginning after June 15, 2014
  - Generally FYE 2015
- Earlier adoption encouraged

2/22/13

9



# **GASB 68**

## **Three Categories of Plans**

- Single Employer pension plan
  - Benefits only employees of one employer
- Agent multiple-employer pension plan
  - Assets pooled for investment purposes
  - Separate accounts maintained for each employer
  - Each employer's share of pooled assets is legally available only to pay pensions of its employees

2/22/13

10



## Types of Plans (continued)

- Cost-sharing multiple-employer pension plan
  - Both assets and obligations to provide pensions are shared (pooled) by all employers
  - Plan assets can be used to pay employee pensions of any plan employer

2/22/13

11



## Total Pension Liability

- Measure of benefits deemed earned to date (“past service”)
- aka Actuarial Accrued Liability
- “Entry Age Normal” level percent of pay cost method
- Based on:
  - Benefit terms plus any legal agreements in force
  - Anticipated ad hoc COLAs and other changes to the extent considered substantively automatic
  - Significant changes between actuarial valuation date and measurement date

2/22/13

12



## Assumptions

- Generally based on Actuarial Standards of Practice
- Discount rate – single equivalent rate based on:
  - Long term rate of return on plan investments
    - Net of investment but not administrative expenses
    - To the extent:
      - Projected plan assets expected to be available to pay benefits and
      - Plan assets expected to be invested using long term strategy

2/22/13

13



## Assumptions

- Discount rate (continued):
  - 20-year high quality (AA/Aa or higher) tax exempt municipal bond rate:
    - To the extent:
      - benefit payments without (available projected) plan assets  
or
      - plan assets not expected to be invested using long term strategy
    - Currently  $\approx 3\%$

2/22/13

14



# Sample CalPERS Safety Plan

(Aa 20 Year Municipal Bond Rate = 3%)

- 15 Year Rolling Asset Smoothing
- 30 Year Rolling Amortization of Gains/Losses

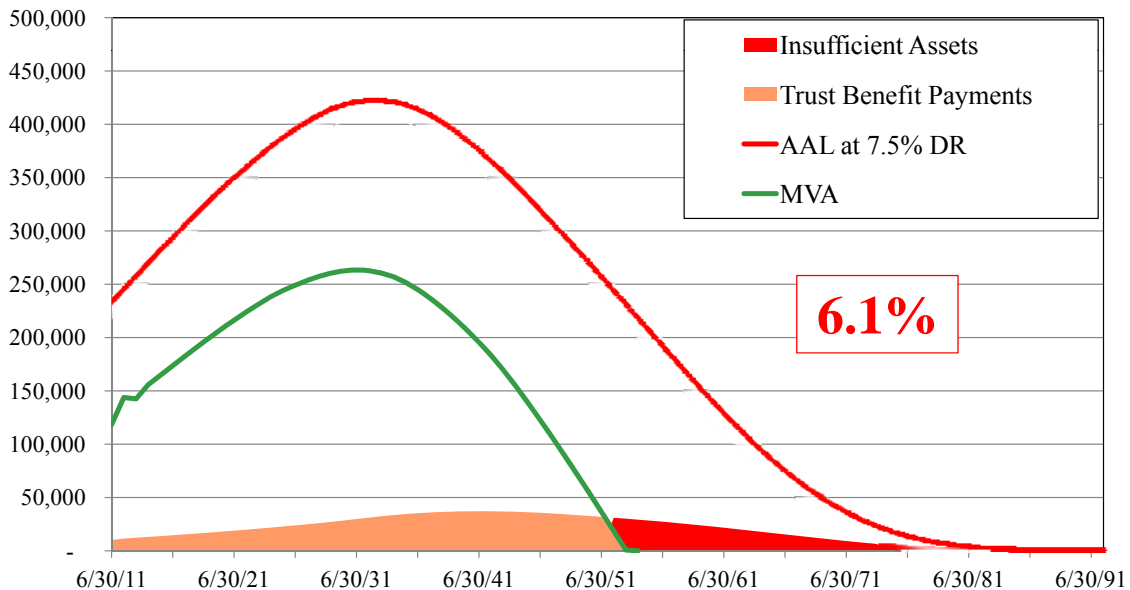
2/22/13

15



# Sample CalPERS Safety Plan

(Aa 20 Year Municipal Bond Rate = 3%)



2/22/13

16





# Sample CalPERS Safety Plan

(Aa 20 Year Municipal Bond Rate = 3%)

- Current Bases converted to Fixed Periods
- 5 Year Rolling Asset Smoothing
- 10 Year Fixed Amortization of Gains/Losses

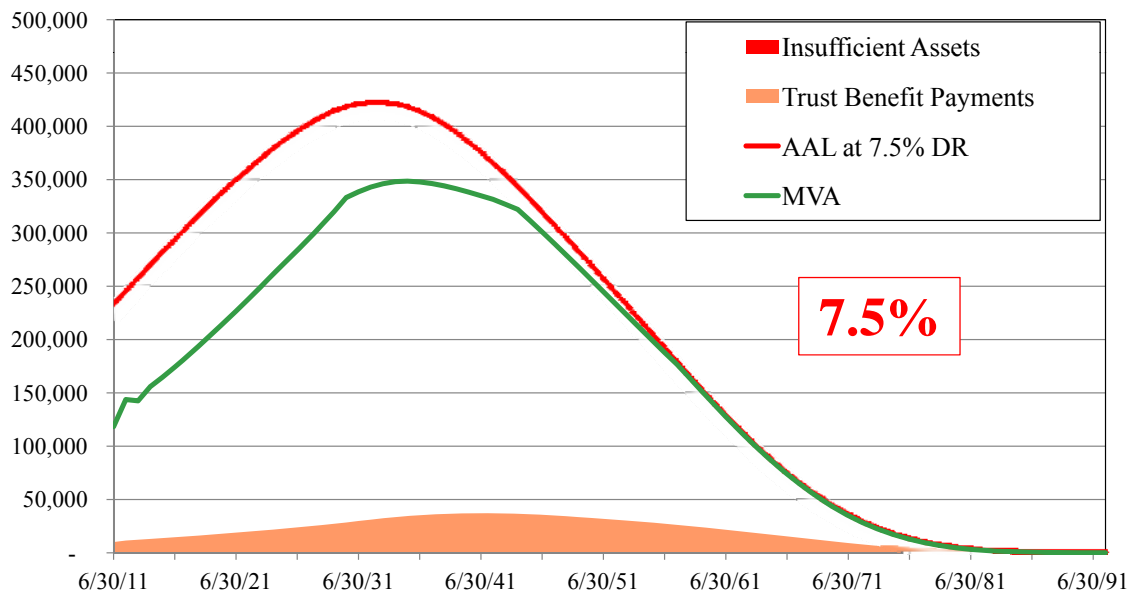
2/22/13

17



# Sample CalPERS Safety Plan

(Aa 20 Year Municipal Bond Rate = 3%)



2/22/13

18



# Sample CalPERS Safety Plan

(Aa 20 Year Municipal Bond Rate = 3%)

- Current Bases converted to Fixed Periods
- 5 Year Rolling Asset Smoothing
- 10 Year Fixed Amortization of Gains/Losses
- Increases employer contribution rate (excluding member rate) from 27% to over 37% over 10 years.
- Assumes no:
  - Investment gains/losses
  - Assumption changes

2/22/13

19



## Total Pension Liability

- GASB 68 Measurement Date:
  - Within 12 months of employer fiscal year end
  - OK to roll forward from a prior date within 30 months of employer fiscal year end
  - For example:

Employer Fiscal Year End	Earliest Measurement Date	Earliest Valuation Date
6/30/15	6/30/14	12/31/12
12/31/15	12/31/14	6/30/13

- Preference is for Measurement Date = FYE

2/22/13

20



## **Fiduciary Net Position - Assets**

- At measurement date
- Dedicated to provide pension benefits
- Fair market value, no smoothing

2/22/13

21



## **Single and Agent Employers Recognize Net Pension Liability/Asset**

- In financial statement
- Equal to:
  - Total Pension Liability  
net of
  - Fiduciary Net Position

2/22/13

22



## Pension Expense

- Change in Total Pension Liability (AAL)  
    minus
- Change in Fiduciary Net Position (MVA)  
    less
- Deferred Outflows and Inflows for the period  
    plus
- Portion of deferrals recognized in current period

2/22/13

23



## Deferred Outflows and Inflows

- Deferred outflows and inflows of resources related to pensions
- Cumulative changes in Net Pension Liability which have not yet been recognized in pension expense
  - Unamortized portions of gains & losses and assumption changes.
- Contributions made after the Measurement Date

2/22/13

24



## Change in Total Pension Liability Immediate Recognition

- Service Cost based on same method and assumptions as noted above
- Interest using blended single discount rate
- Benefit changes
- Other changes
  - Data adjustments/corrections
- Plan administration costs if paid from plan assets

2/22/13

25



## Change in Total Pension Liability Deferred Recognition

- Active & inactive gains/losses
- Assumption changes
- Recognized over closed period based on average of active and inactive remaining future service
  - Likely ≈5-8 years
    - Shorter for plans with high ratio of retirees and
    - Longer for plans with high ratio of actives
  - May be level \$ or level % of pay

2/22/13

26



# Change in Fiduciary Net Position

- Immediate recognition for
  - Expected investment earnings
  - Contributions, benefit payments
- Deferred recognition for
  - Investment gains/losses on MVA
  - Over five year closed period

2/22/13

27



# Cost Sharing Multiple-Employer Pensions

- For example, CalPERS Risk Pools
- Plan or Risk Pool's net pension liability calculated same as for single and agent employers
- Agency reports & recognizes proportionate share of Plan's or Risk Pool's net pension liability
  - Any reasonable method to determine proportion
  - Should be consistent with contribution determination

2/22/13

28



# Cost Sharing Multiple-Employer Pensions

## Deferred Recognition

- Closed period based on
  - Average remaining future service of Plan's active & inactive employees
- Gains/losses & assumption changes
- Effect of change in employer's proportion
- Effect of differences between
  - Actual contribution and
  - Expected proportionate share of contributions

2/22/13

29



## GASB 68 - Other Issues

- Special funding situations
  - Apply to entities other than employer that are legally required to contribute to the employer's plan
- Pension plans not funded through qualified trusts:
  - Will be addressed later and
  - Should continue to apply Statement Nos. 27/50

2/22/13

30



## GASB 68 - Other Issues

- Defined Contribution Pensions, Recognize:
  - Expense for contributions for period as defined by plan's terms
  - Cash expenditures for amounts contributed
  - Liability for difference
- OPEB:
  - Will be addressed later and
  - Continue to apply Statement No. 45

