

Implementation of GASB 68

“I received my allocated net pension liability from the State, what do I do now?”



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MARYLAND GOVERNMENT FINANCE OFFICERS
ASSOCIATION

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Agenda for Discussion

- Opening remarks
- Why did GASB issue Statement 68?
- Some Maryland Cost Sharing Questions from Participating Governments
- Journal entries
- Required disclosures
- Required supplementary information
- Allocation to funds/departments
- Other topics and challenges
- Questions

Why Did GASB Issue Statement No. 68?

- Conceptually:
 - The government is responsible for the net obligation for pension benefits, and it should be reported as a liability on the government wide FS
 - Moved from a funding model to a cost model

Why Did GASB Issue Statement No. 68? (cont.)

Funding shortfall versus economic status of plan-

Schedule of Contributions from Employers and Other Contributing Entity
(Expressed in Thousands)

<u>Fiscal Years Ended June 30,</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Annual Shortfall</u>	<u>Cumulative Shortfall*</u>	<u>Percentage Contributed</u>
2004	\$ 710,632	\$ 632,462	\$ 78,170	\$ 78,170	89%
2005	805,564	668,618	136,946	215,116	83%
2006	874,079	716,745	157,334	372,450	82%
2007	1,025,972	831,037	194,935	567,385	81%
2008	1,183,765	1,053,551	130,214	697,599	89%
2009	1,313,560	1,109,564	203,996	901,595	84%
2010	1,519,980	1,308,920	211,060	1,112,655	86%
2011	2,035,401	1,512,473	522,928	1,635,583	74%
2012	2,146,624	1,521,761	624,863	2,260,446	71%
2013	2,149,985	1,643,101	506,884	2,767,330	76%

* Cumulative shortfall beginning fiscal year ended 2004.

Why Did GASB Issue Statement No. 68? (cont.)

Funding shortfall versus economic status of plan-

Maryland State Retirement and Pension System SCHEDULE OF FUNDING PROGRESS (Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL as a Percentage of Covered Payroll [(b - a) / c]
2004	\$ 33,484,657	\$ 36,325,704	\$2,841,047	92	\$8,069,481	35
2005	34,519,500	39,133,450	4,613,950	88	8,603,761	54
2006	35,795,025	43,243,492	7,448,467	83	9,287,576	80
2007	37,886,936	47,144,354	9,257,418	80	9,971,012	93
2008	39,504,284	50,244,047	10,739,763	79	10,542,806	102
2009	34,284,569	52,729,171	18,444,602	65	10,714,241	172
2010	34,688,346	54,085,081	19,396,735	64	10,657,944	182
2011	36,177,656	55,917,543	19,739,887	65	10,478,800	188
2012	37,248,401	57,869,145	20,620,744	64	10,336,537	199
2013	39,350,969	60,060,091	20,709,122	66	10,478,800	198

Some Maryland Cost Sharing Questions from Participating Governments

- What should be allocated?
 - Specific versus pooled?
 - System is one cost sharing plan-
 - The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits of the entire System. The System is legally authorized to use all assets accumulated for the payment of benefits to pay such obligations to any plan member or beneficiary as defined by the terms of the plan. As such, the System is accounted for as a single cost sharing plan as defined by GASB No. 67 and therefore a single total net pension liability is used for allocation purposes.
 - If use separate plans, investment allocation information may not be available for auditing and thus may result in a other than unmodified opinion
- Basis of contributions used for allocations
 - Factor for Boards of Education local funding for normal cost (transfer to State)
 - Factor for underfunding of pension contributions by the State
 - Use billings, with minor adjustments, for each PGU
 - Factor for new entrants
- Completed the mathematical calculations

Some Maryland Cost Sharing Questions from Participating Governments (cont.)

- Plan sponsor and participating government liability
 - Does not effect funding calculations
 - No receivable to be recorded
 - No look-back recalculation to be performed
- \$686,000,000 versus \$964,000,000 question
 - Differences in amortization time frames used to develop contributions

Some Maryland Cost Sharing Questions from Participating Governments (cont.)

- What about exit payments that are different than the amount on the schedule?
- GASB anticipated this-
 - 132. Q—Are all employers whose employees are provided with pensions through the same cost-sharing plan required to use the same basis to establish their proportions under paragraphs 48 and 49 of Statement 68?
 - A—No. An employer's selection of a basis for the establishment of its proportion under paragraphs 48 and 49 of Statement 68 is independent of the selection of a basis by other employers whose employees are provided with pensions through the cost-sharing plan
- Other options are available, discuss with your auditor.

Journal Entries

- ***Example Journal Entry***
- The following is a generic journal entry example to assist you in adopting GASB 68. Individual journal entries may be different based on individual facts and circumstances specific to you.
- The following entry is based on these assumptions:
 - June 30, 2014 PGU's Share of Net Pension Liability: \$50,000,000 (schedule)
 - Change in NPL factored for contributions: \$1,500,000 (schedule)
 - Deferred inflow for investment activity: \$(6,000,000) (schedule)
 - Deferred outflow for change in assumptions: \$800,000 (schedule)
 - Year end June 30, 2014 contributions: \$7,000,000 (your general ledger/schedule)
 - Year end June 30, 2015 contributions: \$8,000,000 (your general ledger)
- Note- the amounts above, except contributions, may be found on the schedule included in the website noted above. Contributions would come from your financial information.

Journal Entries (continued)

- The following is a summary of how the share of the June 30, 2014 NPL will be the NPL recorded on the financial statements as of June 30, 2015 and how you will roll backwards to the amount of the NPL to record as of June 30, 2014 which will be the restatement amount:

NPL to record on June 30, 2015 financial statements:	\$ 50,000,000
Year end June 30, 2014 contributions	7,000,000
Change in NPL factored for contributions	(1,500,000)
NPL to record on June 30, 2014 financial statements (restatement)	\$ 55,500,000

Journal Entries (continued)

Restatement Journal Entries

Entry 1:

Debit: Deferred financing outflow- \$7,000,000

Credit: Net Position - \$7,000,000

- *To record the opening deferred outflow for contributions per GASB 71*

Journal Entries (continued)

Restatement Journal Entries

Entry 2:

Debit: Net position – \$55,500,000

Credit: Net Pension Liability - \$55,500,000

- *To record opening net pension liability; calculated as June 30, 2014 Net Pension Liability (\$50,000,000) plus June 30, 2014 contributions (\$7,000,000) less change in NPL factored for contributions (\$1,500,000).*

Journal Entries (continued)

June 30, 2015 Journal Entries

Entry 3:

Debit: Pension expense - \$7,000,000

Credit: Deferred financing outflow - \$7,000,000

Debit: Deferred financing outflow - \$8,000,000

Credit: Pension expense (contributions) - \$8,000,000

- *To record the pension expense for measurement period (2014) in the current fiscal year related to contribution activity.*

Journal Entries (continued)

June 30, 2015 Journal Entries

Entry 4

Debit: Net Pension Liability: \$5,500,000

Credit: Pension expense: \$5,500,000

- *To record the change in the net pension liability (calculated as current year NPL (\$50,000,000) less beginning of year NPL (\$55,500,000)).*

Journal Entries (continued)

June 30, 2015 Journal Entries, continued

Entry 5

Debit: Deferred financing outflow: \$800,000

Credit: Pension expense: \$800,000

Debit: Pension expense: \$6,000,000

Credit: Deferred financing inflow: \$6,000,000

- *To record the deferred financing inflows and outflows related to items allowed to be amortized by GASB 68 (changes in actuarial assumptions and investment activity).*

Journal Entries (continued)

OLD FINANCIALS		NEW FINANCIALS	
Assets		Assets	
Cash	\$ 120,000,000	Cash	\$ 120,000,000
Accounts Receivable	6,100,000	Accounts Receivable	6,100,000
Total assets	<u>126,100,000</u>	Total assets	<u>126,100,000</u>
Liabilities		Deferred financing outflows	
A/P	3,000,000		8,800,000
Accrued Payroll	1,000,000	Liabilities	
Bonds Payable	22,100,000	A/P	3,000,000
Total liabilities	<u>26,100,000</u>	Accrued Payroll	1,000,000
		Net pension liability	50,000,000
Total net position	<u><u>\$ 100,000,000</u></u>	Bonds Payable	22,100,000
		Total liabilities	<u>76,100,000</u>
		Deferred financing inflows	
			6,000,000
		Total net position	
			<u><u>\$ 52,800,000</u></u>

Required Disclosures

- The total of the following (aggregate for all pensions):
 - Employer's pension liabilities
 - Pension assets
 - Deferred outflows of resources and deferred inflows of resources related to pensions
 - and pension expense/expenditures for the period associated with net pension liabilities

Required Disclosures (continued)

- Pension plan description:
 - Name of the plan/identification of the system; identify that it is a cost sharing plan
 - Brief description of benefit terms
 - Brief description of contribution requirements
 - Basis for determination of contributions
 - Identification of authority of contributions to be established or amended
 - Contribution rates (in dollars or percentage of covered payroll)
 - Amount of contributions recognized by the pension plan
 - Whether the pension plan issues a stand-alone financial report and how to obtain the report (link to the website); this allows for required fiduciary net position disclosures (paragraph 79)

Required Disclosures (continued)

- Assumptions and Other Inputs
 - Significant actuarial assumptions
 - Inflation, salary changes, mortality
 - Discount rate
 - Discount rate applied and any change in the rate
 - Assumptions made about projected cash flows
 - Long term expected rate of return, including incorporation of municipal bond rate and source
 - Periods of projected benefit payments to which long-term expected rate of return
 - Assumed asset allocation of portfolio
 - Sensitivity of discount rate (1% higher and 1% lower)

Required Disclosures (continued)

- Other Information
 - Employers proportionate share of collective NPL
 - Basis of determination of proportion
 - Change in proportion from prior measurement date
 - Measurement date of collective net pension liability
 - Date of actuarial valuation (not a roll-forward valuation)
 - Brief description of changes in assumptions or other inputs
 - Brief description of changes in benefit terms
 - Brief description of changes from measurement date to employer's reporting date and the expected change
 - Amount of pension expense recognized by the employer

Required Disclosures (continued)

- Other Information
 - Balance of deferred outflows and inflows classified as follows:
 - Differences between expected and actual experience
 - Changes in assumptions or other inputs
 - Net difference between projected and actual earnings
 - Changes in employer's proportion and differences in contributions to proportionate share of contributions
 - Employer's contributions to the pension plan subsequent to the measurement date
 - Amount of revenue recognized for support provided by nonemployer, if any
 - A schedule presenting the following:
 - Each of the subsequent five years and in aggregate thereafter, the net amounts of deferred outflows and inflows
 - Any amount of deferred outflows that is included as a reduction of the collective NPL

Required Supplementary Information

- Provide separate for each cost sharing plan
- A 10-year schedule of:
 - The employer's proportion percentage and amount of the NPL
 - The employer's covered-employee payroll
 - The employer's proportionate share of the NPL as a percentage of covered payroll
 - Pension plan's fiduciary net position as a percentage of the total pension liability
 - Required employer contributions
 - Amount of contributions recognized by the pension plan
 - Differences between the required contributions and recognized contributions
 - Employers covered-employee payroll
 - Amount of contributions as a percentage of the employer's covered employee payroll

Required Supplementary Information (continued)

- Notes to the required schedules
 - Information about factors that significant affect trends
 - Change in benefit terms
 - Changes in size or composition of the population
 - Use of different assumptions
 - Amounts presented for prior years should not be restated for the effects of changes

Allocation to Funds/Departments

- GASB 68 does not establish specific requirements
- Question 37 of the implementation guide states that consideration should be given to NCGA Statement 1- *“Long term liabilities directly related and expected to be paid from those funds be reported in such funds”*
- Generally use allocation methodology used in cost sharing plans (i.e., contributions or payroll)
- Allocation results in recognition of additional deferred outflows and inflows
- Auditing of allocations within a reporting unit with separate stand-alone reporting

Other Topics and Challenges

- Covered payroll versus pensionable wages
- New mortality tables
- Disclosures when plan financial statements are reported as fiduciary funds
 - Avoid unnecessary duplication
 - Consideration of measurement and reporting dates
 - Ensure separately issued statements are publically available

Conclusion

- That's it!
- Except....OPEBs are next
- Questions?

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- Information continued herein is of a general nature and is not intended nor does it address individual specific circumstances. We suggest you consult your independent auditor or accounting specialist.
 - Opinions provided herein reflect that of only the speakers and not Maryland State Retirement and Pension System, SB & Company, LLC or Maryland GFOA.