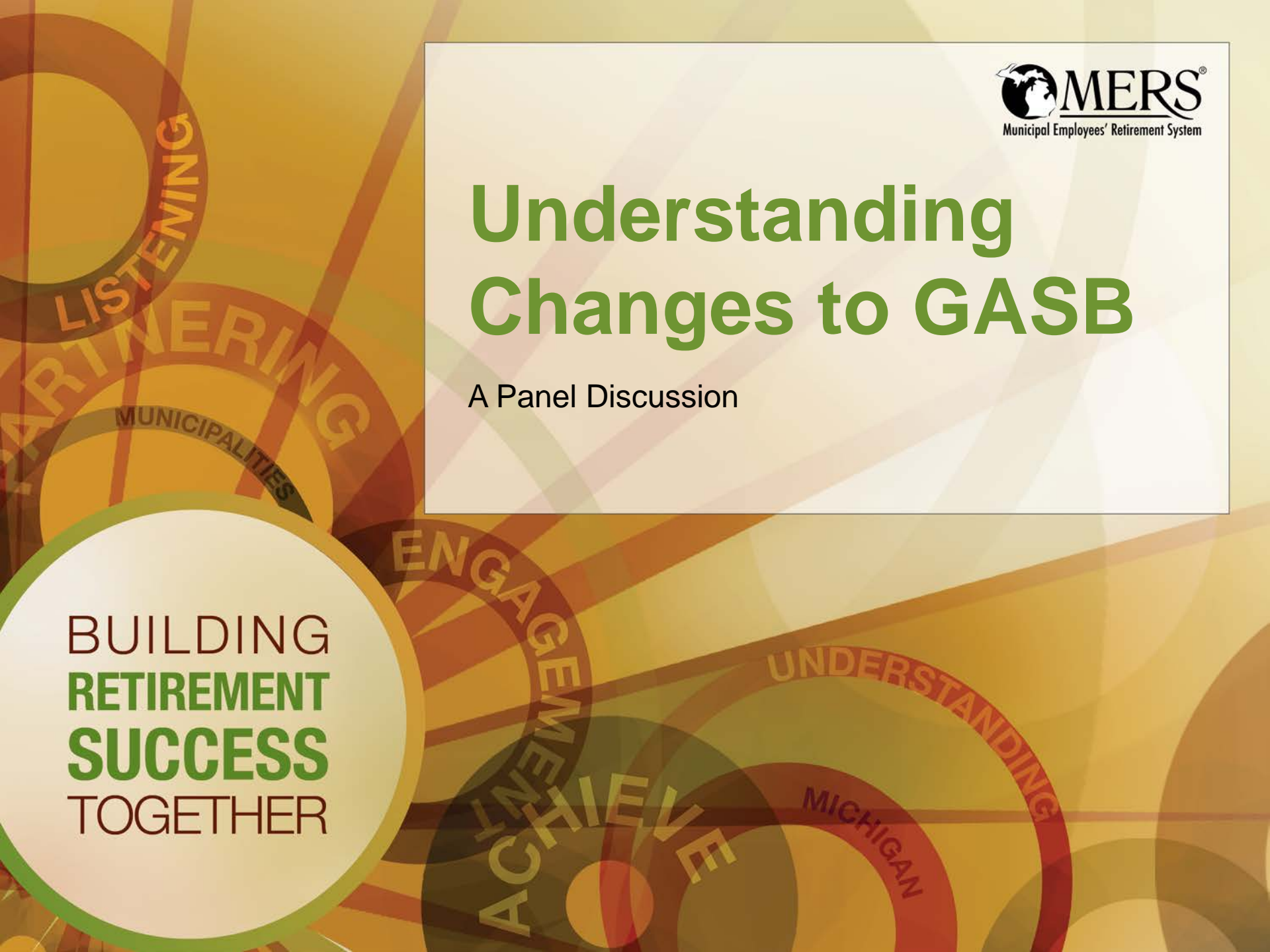


# Understanding Changes to GASB

A Panel Discussion

BUILDING  
RETIREMENT  
**SUCCESS**  
TOGETHER



# Moderator

- **Leon Hank**, MERS Chief Financial Officer

# Panelists

- **Luke Huelskamp**, MERS Senior Finance Manager
- **Tony Minghine**, Associate Executive Director & COO, Michigan Municipal League
- **David Sabuda**, Finance Director/Treasurer, City of Berkley
- **Jim Koss**, MERS Senior Actuary
- **Joe Heffernan**, Partner, Plante Moran

# New Pension Reporting Standards

- The Governmental Accounting Standards Board (GASB) issued two new standards that will substantially change the accounting and financial reporting of public employee pensions

## Statement No. 67 - *Financial Reporting for Pension Plans*

- Revises existing guidance for the financial reports of most pension plans

## Statement No. 68 - *Accounting and Financial Reporting for Pensions*

- Revises and establishes **new financial reporting requirements** for most governments that provide their employees with pension benefits

# Key Changes for 2015

- Net Pension Liability (NPL)
- Net Pension Expense
- Discount Rate
- Deferred Outflows and Inflows
- Valuation Dates and Roll-Forwards

# What's Not Changing?

- Annual Actuarial Valuation process
- Required Contributions
- Notes and Required Supplemental Information (RSI)
  - Similar, but more

# Summary of the Change

Today	Future
Focus is on the Unfunded Accrued Liability (UAL)	Focus will be on the Net Pension Liability (NPL)
Liabilities are recorded in the footnotes	Liabilities will be on the balance sheet and footnotes will now be extensive
ARC and Pension Expense are the same	ARC and Pension Expense will be different
Public pension plans use the rate of return they expect on their investments, typically around 8%	Now severely underfunded plans that are not making contributions must use a lower rate for some of their obligations

# Separate Pension Numbers

	Books	Bonds	Budgets
<b>Source of Calculation</b>	Accounting standards set by GASB	Credit rating agencies	Annual Actuarial Valuations
<b>Methodology</b>	Pensions are accounted for through the computation of a Net Pension Liability	Varies by rating agency Pensions are just one of many metrics used to determine a bond rating	MERS uses entry age normal cost method
<b>What's changing</b>	The Net Pension Liability is a new figure that will be placed on basic government financial statements and is expected to create unprecedented volatility and, in some cases, could dwarf other items on the financial statement	Some ratings agencies have announced that in their credit analytics, they will adjust pension data using uniform, generally more conservative assumptions regarding amortization periods and investment returns	New GASB standards will no longer include parameters for calculating an annual required contribution



**What will municipalities  
actually see?**



# What is Net Pension Liability?



# The Bottom Line

- If your pension is well-funded (95%), the liability is likely small
- If your plan is less well-funded (60%), the new liability could be the largest number on your balance sheet
- These new rules may make local governments appear weaker

# NPL Effects at 94% Funding

Assets	2012	2012 with GASB
Cash and Equivalents	\$ 1,320,000	\$ 1,320,000
Receivables, net	10,114,000	10,114,000
Capital Assets	27,442,000	27,442,000
<b>Total assets</b>	<b>38,876,000</b>	<b>38,876,000</b>
<b>Liabilities</b>		
Accounts Payable/Accrued Liabilities	552,000	552,000
Long Term Debt	19,630,000	19,630,000
Net pension liability		1,178,000
<b>Total liabilities</b>	<b>20,182,000</b>	<b>21,360,000</b>
<b>Net Position</b>		
Invested in capital assets, net of debt	10,003,000	10,003,000
Unrestricted	8,691,000	7,513,000
<b>Total Net Position</b>	<b>\$ 18,694,000</b>	<b>\$ 17,516,000</b>

# NPL Effects at 79% Funding

Assets		2012	2012 with GASB
Cash and Equivalents	\$	6,711,000	\$ 6,711,000
Receivables, net		25,870,000	25,870,000
Capital Assets, net		18,240,000	18,240,000
<b>Total assets</b>		<b>50,821,000</b>	<b>50,821,000</b>
Liabilities			
Accounts Payable/Accrued Liabilities		8,433,000	8,433,000
Unearned revenue		6,171,000	6,171,000
Long Term Debt		12,342,000	12,342,000
Net pension liability			14,792,000
<b>Total liabilities</b>		<b>26,946,000</b>	<b>41,738,000</b>
Net Position			
Invested in capital assets, net of debt		5,690,000	5,690,000
Unrestricted		18,185,000	3,393,000
<b>Total Net Position</b>	<b>\$</b>	<b>23,875,000</b>	<b>\$ 9,083,000</b>

# NPL Effects at 63% Funding

Assets	2012	2012 with GASB
Cash and Equivalents	\$ 9,900,200	\$ 9,900,200
Receivables, net	24,300,000	24,300,000
Capital Assets, net	14,970,000	14,970,000
<b>Total assets</b>	<b>49,170,200</b>	<b>49,170,200</b>
<b>Liabilities</b>		
Accounts Payable/Accrued Liabilities	5,590,000	5,590,000
Unearned revenue	5,011,000	5,011,000
Long Term Debt	26,380,000	26,380,000
Net pension liability		35,444,000
<b>Total liabilities</b>	<b>36,981,000</b>	<b>72,425,000</b>
<b>Net Position</b>		
Invested in capital assets, net of debt	5,690,000	5,690,000
Unrestricted	6,499,200	-28,944,800
<b>Total Net Position</b>	<b>\$ 12,189,200</b>	<b>\$ (23,254,800)</b>

**What is the buzz around the State regarding awareness and impact for municipal officials?**

**What's the reaction of one  
governmental official after  
working on the GASB impact?**

***City of Berkley Example***



# City of Berkley Profile

*This just a draft estimate*

## 2012 Government Wide Statements

\$39 M total assets  
\$14 M total liabilities

\$25 M net assets

## Actuarial Profile

71% funded  
\$6M UAL  
ARC of \$522K

## GASB Impact

\$39 M total assets  
\$22 M total liabilities: \$8 M NPL (58% ↑)

\$17 M net assets (32% ↓)

Pension Expense \$768K  
(48% ↑ of ARC)

Record new  
outflows/inflows of \$937K

**Draft Estimates**

**When do I start discussions with my auditors on GASB 68?**

**What are the audit issues we will face?**

**Will municipalities need to  
budget for this increase?**

**What are the effective dates for the new standards?**

**Will the new standards impact plans for bonding or compliance with bond covenants for outstanding bonds?**

**My municipality has post-employment retiree health care. Will the new standards also apply to OPEB?**

**Other Questions?**



# Next Steps

- Collaboration with Auditors and Actuaries
- MERS has been partnering with our municipalities to do scenario testing

# Please take time to fill in your survey

There are session surveys in the back of your book. Please take the time to fill in the survey to assist us in planning future events!



# Contact Us

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