MERS®

Municipal Employees' Retirement System

GASB - FAQ

Why is there a difference between my Net Pension Liability (NPL) and my Actuarial Accrued Liability (AAL)?

There are two components that make up the difference between the NPL and AAL.

The first component is that the actuarial accrued liability uses a smoothing procedure for the assets that is different from the market value of assets in the net pension liability calculation. At the end of 2014, the actuarial value of assets is 106% of market value. This would result in the net pension liability being higher than the actuarial accrued liability. This difference will fluctuate over time.

The second component is that GASB requires that the total pension liability be calculated using a rate of return that is net of investment expenses but not of administrative expenses. The actuary uses a rate of return that is net of investment and administrative expenses for funding purposes. This results in the net pension liability being lower than the actuarial accrued liability.

These are the primary differences. How much the difference is between the NPL and AAL will depend on your municipality's unique circumstances. The AAL calculation can be found in Table 6 of the 2014 actuarial valuation under the column labeled Unfunded (Overfunded) Accrued Liabilities. The NPL calculation can be found by using the GASB 68 Information Table in the 2014 actuarial valuation. Find the Total Pension Liability amount and then subtract the market value of assets found on the MERS Statement of Fiduciary Net Position for 12/31/14.

Example

Comparison of Unfunded Accrued Liability and Net Pension Liability as of 12/31/14 for a municipality

Actuary	Amount	GASB	Amount	Difference	% Difference
Actuarial Accrued Liability*	4,161,587	Total Pension Liability	4,059,142	102,445	2%
Actuarial Assets**	2,888,733	Market Value of Assets	2,725,389	163,344	6%
Unfunded Accrued Liability	1,272,854	Net Pension Liability	1,333,753	-60,899	-5%

*Actuarial and Total Pension Liability differences arise from the Actuary using an 8% assumed rate of return for funding purposes and GASB requiring an 8.25% assumed rate of return to be used, reflecting the long term expected rate of return, net of investment expenses but gross of administrative expenses. The actuary rate of return is calculated at the long term expected rate of return, net of investment and administrative expenses.

**Actuarial and Market Value difference arises from the actuarial values of assets being recorded at 1.059937 times the market value of assets due to smoothing of prior asset gains and losses.