

An Overview of GASB Statement 68



Updated July 30, 2014

Overview

- GASB issued two new statements that will substantially change 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

- The most notable change is the separation of accounting calculations from funding calculations
- The statement does not apply to post-employment health benefits (GASB 45)

Summary of the Change

	Pre-GASB 68 (Statements 27 & 50)	Post-GASB 68
Balance Sheet (Government Wide Financial Statement)	Long-term liability was recorded in the footnotes of the financial statements	A new calculation of long-term liability, called Net Pension Liability , will be on the balance sheet and the footnotes will be more extensive
Income Statement (Government Wide)	Pension expense equaled the annual required contribution	Pension expense will now be calculated based on accrual accounting, thus it will not equal the annual required contribution
Deferred Outflows and Inflows		New requirement
Required Contributions	The annual actuarial valuation process calculates the required contributions	Same process

Unfunded Accrued Liability (UAL)

- Before GASB 68 statement, employers disclosed their long-term pension liability (UAL) in their footnotes
- This long-term pension liability was calculated the following way:

Actuarial Accrued Liability

- The total value of benefits earned by members under a plan to date
- This number uses the actuarial assumed rate of return, which is currently 8%

Actuarial Value of Assets

- The value of pension plan investments
- This calculation uses a smoothed asset value, which causes the amount to be different than the amount actually held in the trust for the plan (market value of assets)



UAL

A New Calculation

- After GASB 68 statement, employers will disclose a new calculation of their long-term pension liability on their balance sheet
- This new calculation, called Net Pension Liability is calculated the following way:

Total Pension Liability

- This number is similar to the Actuarial Accrued Liability, however for some plans the number will be calculated using a different discount rate

Fiduciary Net Position

- The actual amount of assets held in the pension trust for a plan at the measurement date (market value of assets)

NPL

More on Total Pension Liability / Discount Rate

- A key difference in the calculation of Total Pension Liability is the standard for how the **discount rate** is to be calculated
- Under the previous Statement 27, the long-term actuarial rate of return of 8% was used to discount the projected benefits back to the present value
- Under Statement 68, this actuarial rate of 8% will still be considered as long as certain conditions are present
 - At the point in which the net position (market value of assets) becomes insufficient to provide **current/inactive employee benefits** (called the crossover point) a blend of the actuarial rate of 8% and the 20-year municipal bond rate will be used
 - This estimation of net position **includes projections** of contributions (employee and employer), investment earnings, and projected benefits for a period that extends through the end the employees lifecycle
 - Plans that have large unfunded gaps will more rapidly reach the crossover point, resulting in a discount rate closer to the municipal bond rate
 - For the vast majority of MERS plans this point will not be reached unless they stop making their required contributions
 - MERS is actively managing the process to mitigate likelihood of triggering the discount rate

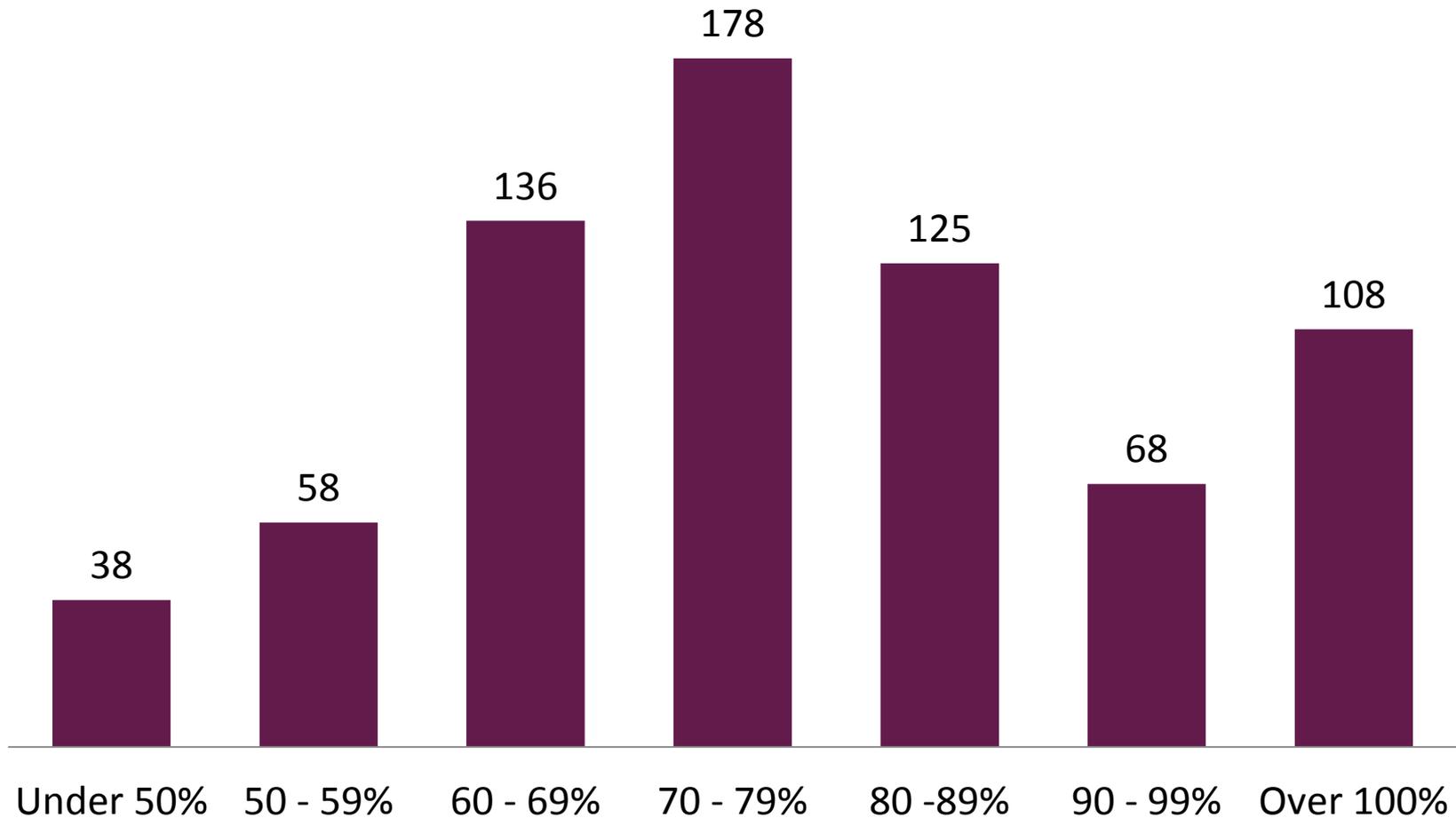
NPL Impact at 94% Funding

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
Total Assets	38,876,000	38,876,000
Liabilities		
Accounts Payable/Accrued Liabilities	552,000	552,000
Long Term Debt	19,630,000	19,630,000
Net Pension Liability		1,178,000
Total Liabilities	20,182,000	21,360,000
Net Position		
Invested in Capital Assets, net of debt	10,003,000	10,003,000
Unrestricted	8,691,000	7,513,000
Total Net Position	\$ 18,694,000	\$ 17,516,000

NPL Impact 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
Total Assets	49,170,200	49,170,200
Liabilities		
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
Total Liabilities	36,981,000	72,425,000
Net Position		
Invested in Capital Assets, net of debt	5,690,000	5,690,000
Unrestricted	6,499,200	-28,944,800
Total Net Position	\$ 12,189,200	\$ (23,254,800)

Distribution of Funding Percentages for MERS Municipalities



The Bottom Line

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

Pension Expense

- Before GASB 68 the pension expense that was recorded on the governmental wide income statement equaled the annual required contribution (ARC) that is reported in the annual actuarial valuation
- After GASB 68 the pension expense will be an accrual based calculation
 - Pension expense is the difference in Net Pension Liability from year to year, with some adjustments
 - It is projected that today's pension expense will likely be higher than ARC payments
 - This will affect any other income statements that the municipality may use accrual based accounting for

Sample Expense Calculation 12/31/15

Service Cost	2,075,134
Interest on Total Pension Liability <i>Over measurement period</i>	12,654,916
Expected Investment Return	(7,030,467)
Benefit Changes (COLA) <i>Recognized immediately</i>	19,869
Recognition of Experience Changes <i>One year expense</i>	104,804
Recognition of Assumption Changes <i>One year expense</i>	(135,344)
Recognition of Investment Gains/Losses (G/L) <i>One year of five</i>	(1,049,739)
Employee Contributions	(260,000)
Administrative Expense	340,000
Total Expense Recognized	6,719,173

NOTE: Employer contributions and benefit payments have NO direct impact on expense

Deferred Outflows and Inflows

- New financial reporting concept, not an asset or liability
 - Similar to depreciation, spread out over future years
 - First time using this concept for some employers
- Requires several multi-year spreadsheets maintained from now on
 - Differences between projected and actual experience
 - Changes in assumptions
 - Difference between projected and actual earnings
- Detailed accounting task

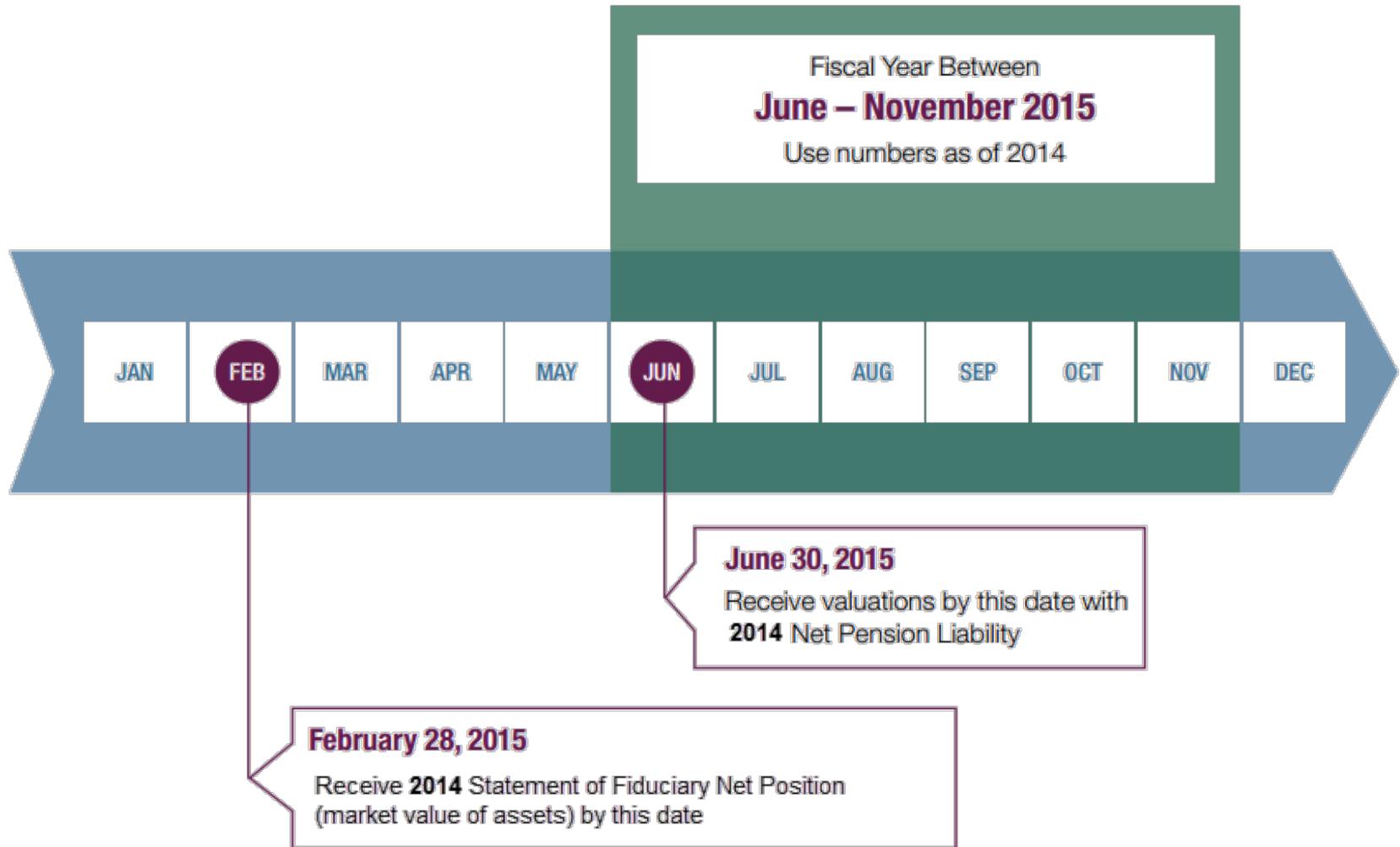
Proactive Service for Our Customers

- We are proactively completing a SOC-1 Type 2 audit for our customers so that their auditors can rely on the controls and information provided by MERS and its Actuaries
- The audit report will identify and report on the adequacy of the processes and controls that provide reasonable assurance of the reported contributions, net investment income, and pension payments
- This will be complete by year end

Implementation and Valuation Dates

- Will vary among 700+ employers based on their fiscal year end
- MERS will be flexible to offer best fit for each employer
- Some employers will need to choose which valuation date to use
 - Employers cannot change dates once date is selected (no switching back and forth)

June – November Fiscal Years



December Fiscal Years

Fiscal Year

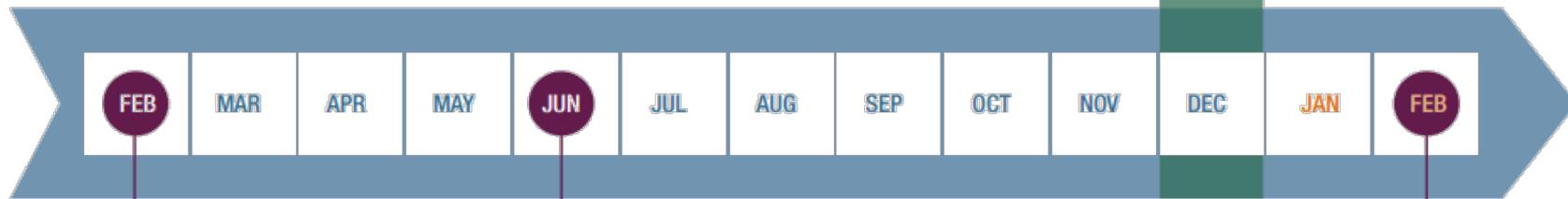
December 2015

Use either

1) 2014 numbers

– OR –

2) Roll forward to 2015



June 30, 2015

Receive valuations by this date with **2014** Net Pension Liability, the report will also include a "roll forward" projection of **2015** NPL.

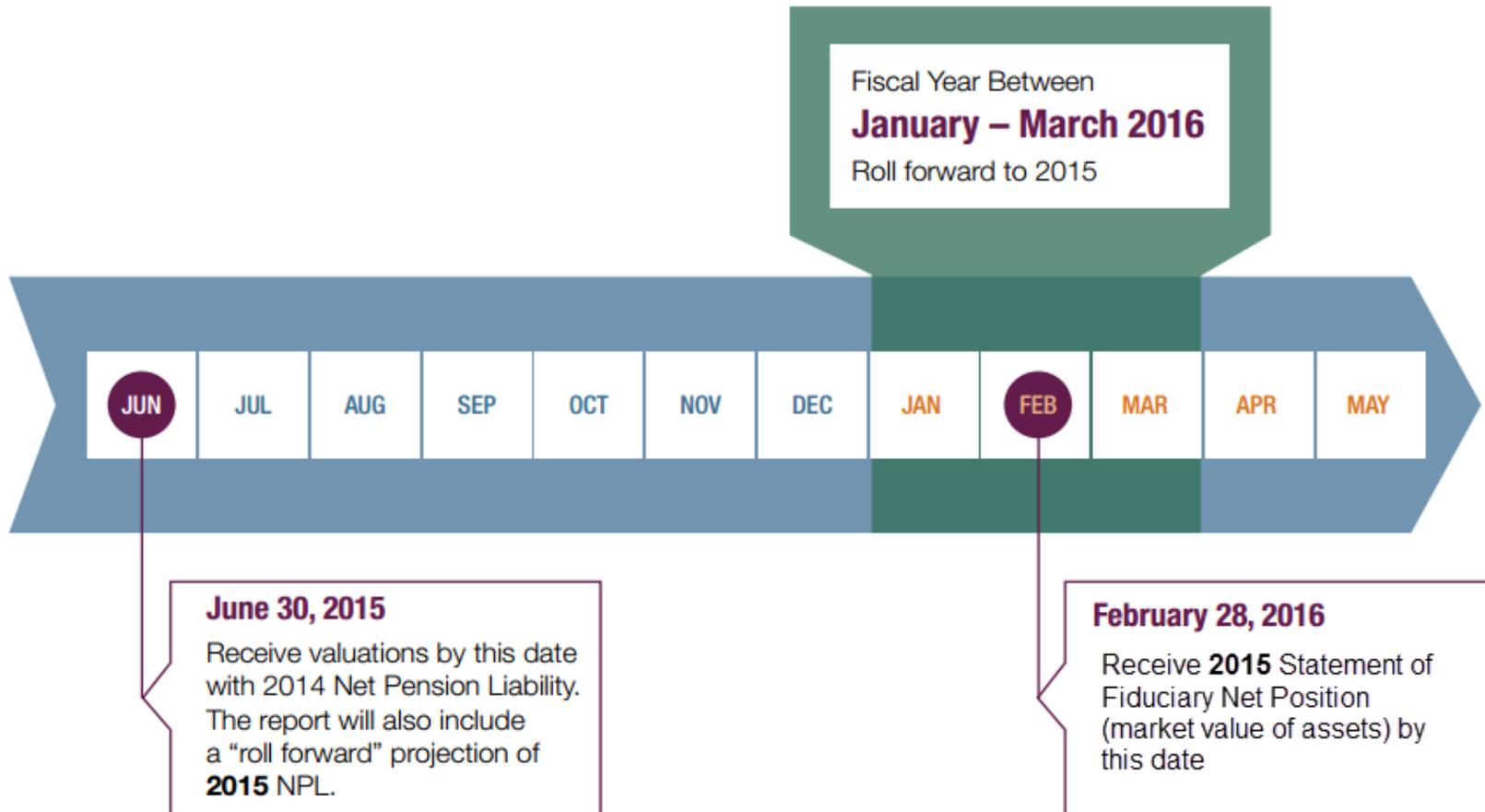
February 28, 2015

Receive **2014** Statement of Fiduciary Net Position (market value of assets) by this date

February 28, 2016

Receive **2015** Statement of Fiduciary Net Position (market value of assets) by this date

January – March Fiscal Years



April – May Fiscal Years

Fiscal Year Between

April – May 2016

MERS will work with the 3 groups that fall in this category (either work to complete these 2016 valuations first or use their roll forward numbers from their 2015 valuation).



June 30, 2015

Receive valuations by this date with 2014 Net Pension Liability. The report will also include a "roll forward" projection of **2015** NPL.

February 28, 2016

Receive **2015** Statement of Fiduciary Net Position (market value of assets) by this date

June 30, 2016

Receive valuations by this date with **2015** Net Pension Liability.



Communicating the Change



Communicating The Change

Learn

Collaborate

Implement

Communicate

Learn More About the Change

- Understand your implementation timeline, based on your fiscal year
- Use MERS resources:
 - GASB resource page
 - Attend MERS events such as the Annual meeting
 - Contact your Regional Manager



The screenshot shows the MERS website interface. At the top is the MERS logo with the text 'Municipal Employees' Retirement System'. Below the logo is a navigation bar with four tabs: 'EMPLOYEE', 'RETIREE', 'EMPLOYER' (which is highlighted), and 'MERS'. Underneath the navigation bar is a breadcrumb trail: 'Home » Employer » Work Scenarios » GASB 68'. The main content area features a heading: 'Here are resources to Learn, Collaborate, prepare to Communicate, and Implement these changes.' Below this heading are four boxes, each representing a category of resources:

- Learn**
 - Overview Presentation (pdf)
 - Glossary of Terms (pdf)
 - GASB Website
- Collaborate**
 - MERS Events
 - LinkedIn Group (coming soon)
- Communicate**
 - Communication Kit (coming soon)
 - Fact Sheet (coming soon)
- Implement**
 - Implementation Timeline (pdf)
 - Implementation Guide (coming 2015)

A grey arrow points from the 'GASB resource page' bullet point in the list on the left to the 'Learn' box in the screenshot.

Collaborate with Your Peers and Experts

MERS is launching a GASB 68 LinkedIn group to connect you to your peers across the state, the auditor community, MERS staff, and other stakeholders

- See handout on how to join the group

The screenshot shows the LinkedIn group page for "MERS of Michigan - GASB 68". The page header includes the MERS logo and the text "MERS of Michigan - GASB 68" with a lock icon and "16,463 members". Below the header, there are navigation tabs for "Discussions", "Promotions", "Jobs", "Members", and "Search". The main content area features a post by Leon Hank, MERS Chief Finance Officer, with a profile picture and a message: "Greetings from MERS! I'm Leon Hank and my team and I are here to help guide you through understanding and implementing the new GASB 68 guide lines. Feel free to post a question and we'll respond within three business days. We'll also be providing resources and information that will serve to help you navigate these changes. Thanks and enjoy...". Below this is a search bar and a "Your Activity" section. The next post is by Scott Urbanowski, asking "How are you explaining GASB 68 to your board members?". It has 3 likes and 1 comment. The next post is by Betsy Waldoofsky, titled "New GASB 68 Implementation Guide Released.", with 4 likes and 46 comments. The right sidebar shows "Top Contributors in this Group" with a photo of Luke Huelskamp, "Your group contribution level" with a progress bar, and "LinkedIn Groups Professional Women's Network" with a featured discussion and a "Join Group" button.

Communicating the Change

Inform decision makers and municipal leadership that there will be a change to the financial reporting and accounting for your pension plan

Key Points

- Though your pension numbers may seem different under the new requirement, the current financial situation of your retirement plan has not changed
- The new requirement does not change the methods and assumptions used to determine the contributions needed to fund your plan
- MERS will work closely with our members to provide all the information you need to comply with the new reporting rules

MERS is Your Communications Partner

- The GASB 68 change could present a range of communication and public relations challenges as local media outlets, the public and others try to understand how these changes affect local municipalities and why liability numbers appear to have changed from previous years
- MERS is here to help you answer these questions and support your efforts to communicate to the local media
- We encourage you to contact the MERS team before fielding any media inquiries related to the GASB 68 changes or other questions about MERS or unfunded liabilities

MERS Resources

- Communication Kit
 - Template slides that you can use with your audiences to communicate the change
 - GASB 68 fact sheet that can be used with broader audiences
- MERS will provide proactive and responsive media and legislative awareness
 - Media Kits are available
 - Statewide media awareness through webinar/phone conferences in 2015
 - Ongoing contact and awareness with key legislative contacts
 - Targeted media & legislative meetings based on areas where poorly funded municipalities reside and with consideration of the municipalities fiscal year since this determines their implementation date
 - Ongoing rapid media response

Media Best Practices

- Never feel pressured to answer questions immediately
 - It is good practice to take a message and follow up later so that you can be prepared
- If possible, ask reporters why they are calling, where you can reach them and tell them you'll call them back
 - You should also ask if they have a deadline so you can be sure to follow up with them before they write their story
- Contact the team at MERS - We'll help you answer tough questions and respond to media questions and concerns in the most effective manner:
 - Jennifer Mausolf
Marketing Director
(517) 703-9030 extension 326

Implementation - 2015

- To help you with the implementation, we are creating a step-by step implementation guide that includes the necessary templates for disclosures
- Ongoing use of LinkedIn to discuss key questions and topics
- Ongoing use of Morning Break regional meetings/webinars, etc.
- Partnering with other organizations, such as ORS, MML, MAC, MGFOA, MTA, CRAM and the auditor community to deliver you clear and consistent messages

Municipal Employees' Retirement System



- MERS is an independent, professional retirement services company that serves municipal members across the state of Michigan
- We manage 2,000 retirement and employee benefit plans for over 800 municipal members - with a combined value of nearly \$9 billion
- MERS proudly serves more than 100,000 participants

Contacting MERS

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