

# **GASB Statement No. 68**

## **New Pension Standard**

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# **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 liability on Financial Statement

# 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

# 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 & plan sponsors will need to look elsewhere for contribution “out of bounds” markers
  - Actuaries?
  - GFOA?
  - Legislature?
  - Plan Sponsors?
  - Common sense?
  - Some combination!

# 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/taxpayers
  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

# California Actuarial Advisory Panel

## Funding Policies and Practices

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

# GASB 68

## Who Does It Apply To?

- Employers with DB and/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
- Includes Agencies participating in CalPERS & other California retirement systems/plans



# GASB 68

## Effective Date

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

# GASB 68

## Three Types of Plans

- Single Employer pension plan
  - Benefits only employees of one employer
  - Examples:
    - '37 Act County Plans
    - Charter Cities
    - Supplemental Plans
    - Other
  - GASB 67 also applies, for FYE 2014

## 3 Types of Plans (continued)

- 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
  - Examples:
    - CalPERS, not risk pools

## 3 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
  - Examples:
    - CalPERS risk pools

# 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

# 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
    - Determine as of Valuation Date

# 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
    - Varied from 3% to 4% in the past year
    - Determine as of Measurement Date

# Sample CalPERS Safety Plan

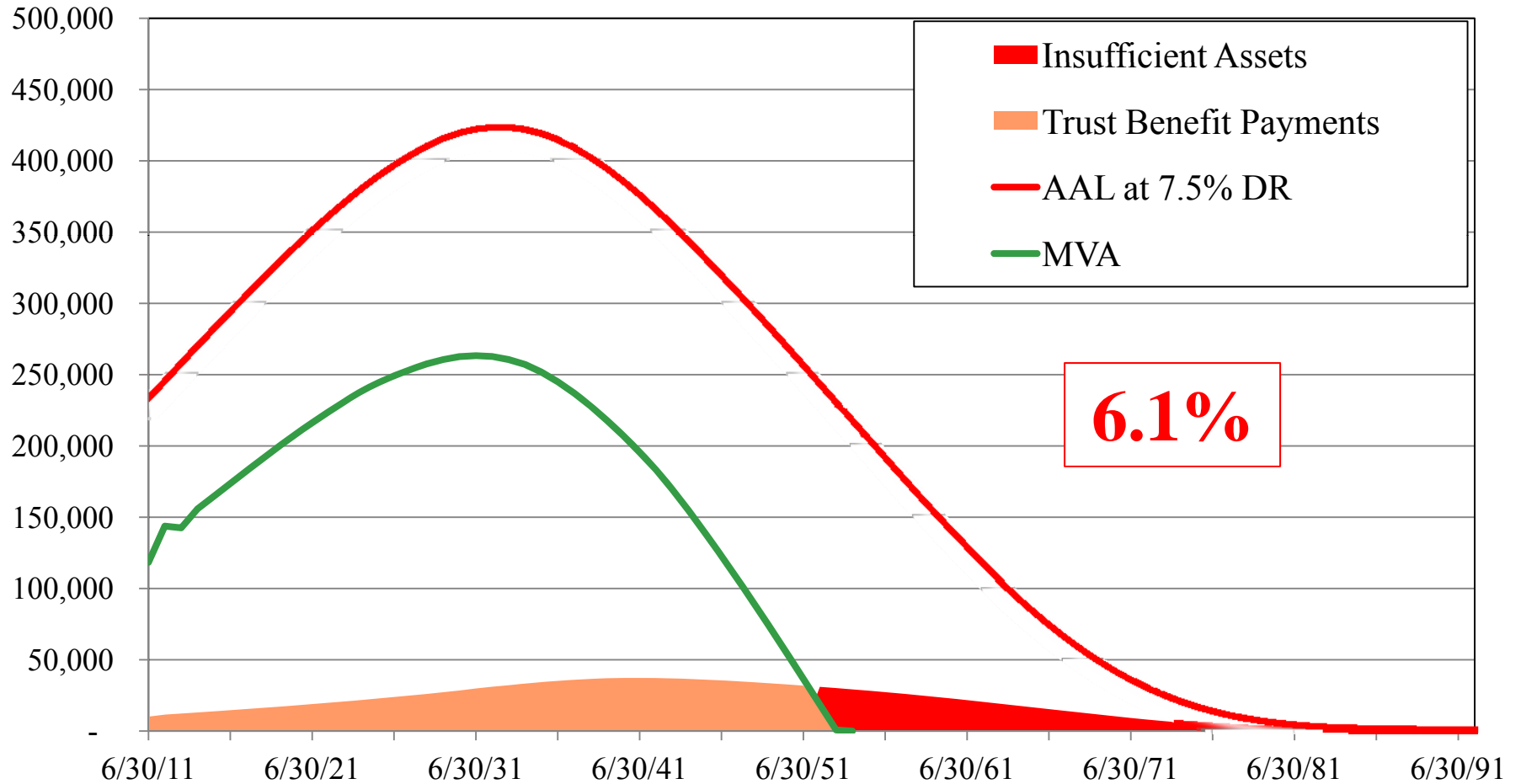
(Aa 20 Year Municipal Bond Rate = 3%)

- Before CalPERS April Board Changes
- 15 Year Rolling Asset Smoothing
- 30 Year Rolling Amortization of Gains/Losses



# Sample CalPERS Safety Plan

(Aa 20 Year Municipal Bond Rate = 3%)



8/12/13

17



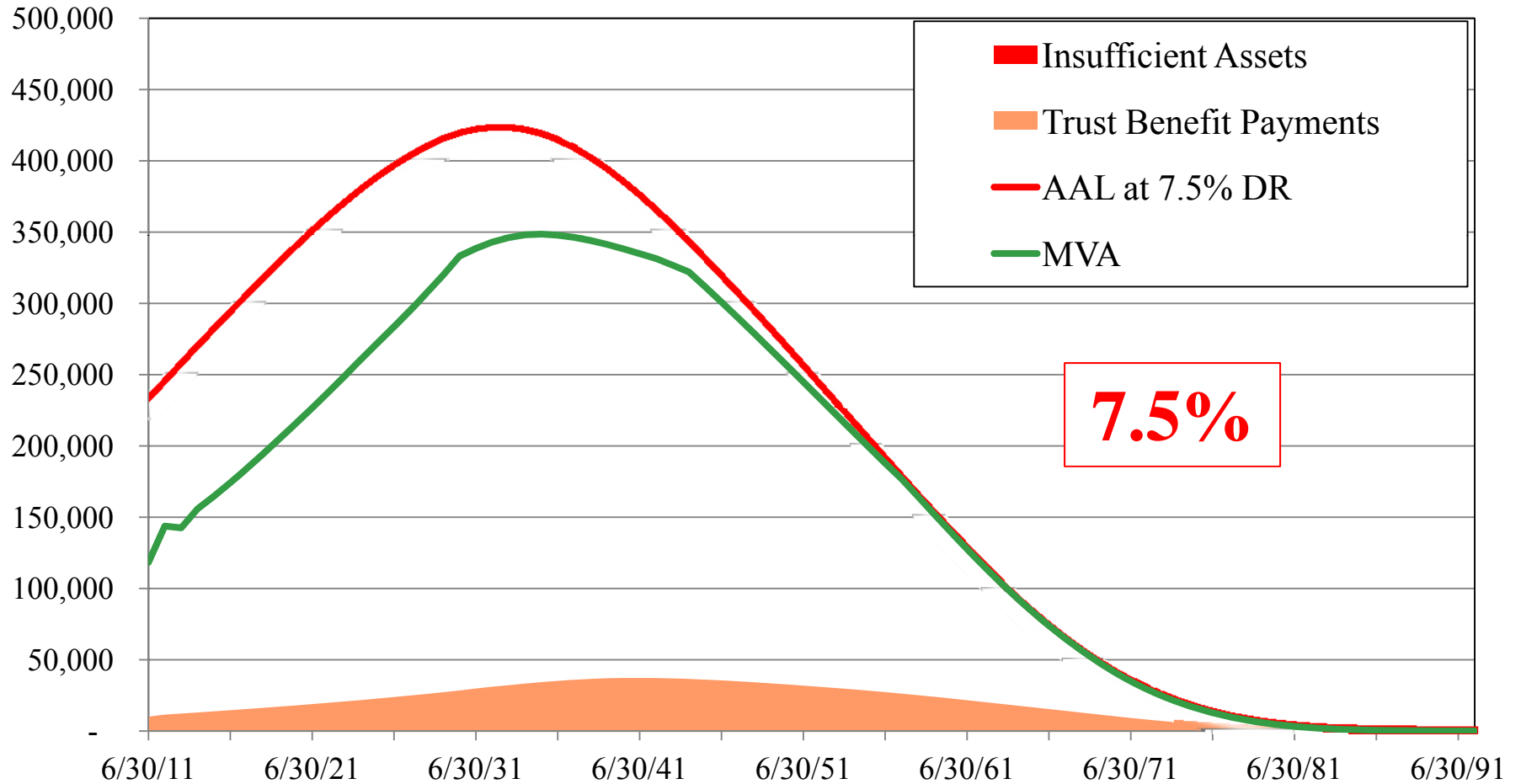
# Sample CalPERS Safety Plan

(Aa 20 Year Municipal Bond Rate = 3%)

- After CalPERS April Board Meeting
- Current Bases converted to Fixed Periods
- New “Direct Rate Smoothing”

# Sample CalPERS Safety Plan

(Aa 20 Year Municipal Bond Rate = 3%)



# Total Pension Liability

- GASB 68 Measurement Date:
  - No adjustment to liability between Measurement Date and FYE (unless significant change)
  - Within 12 months of employer fiscal year end
  - OK to roll forward from a valuation date within 30 months of employer fiscal year end

# Total Pension Liability

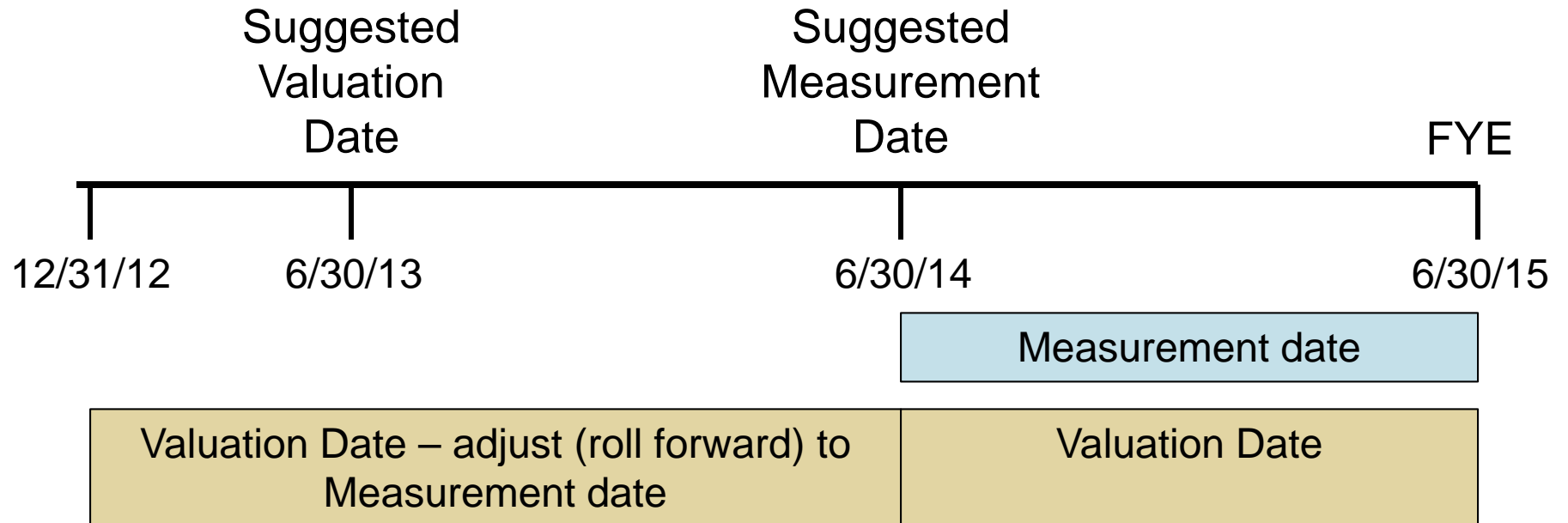
## ■ GASB 68 Measurement Date:

- 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

- GASB Preference is for Measurement Date = FYE
- CalPERS Preference is for Measurement Date < FYE

# Total Pension Liability - Timing



# Fiduciary Net Position - Assets

- At Measurement Date
- Dedicated to provide pension benefits
- Fair market value, no smoothing
- Adjust for contributions between Measurement Date and FYE
  - Contributions paid to Trust after FYE don't count unless Legally Enforceable

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

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

\* Similar for Cost-Sharing Multiple Employer



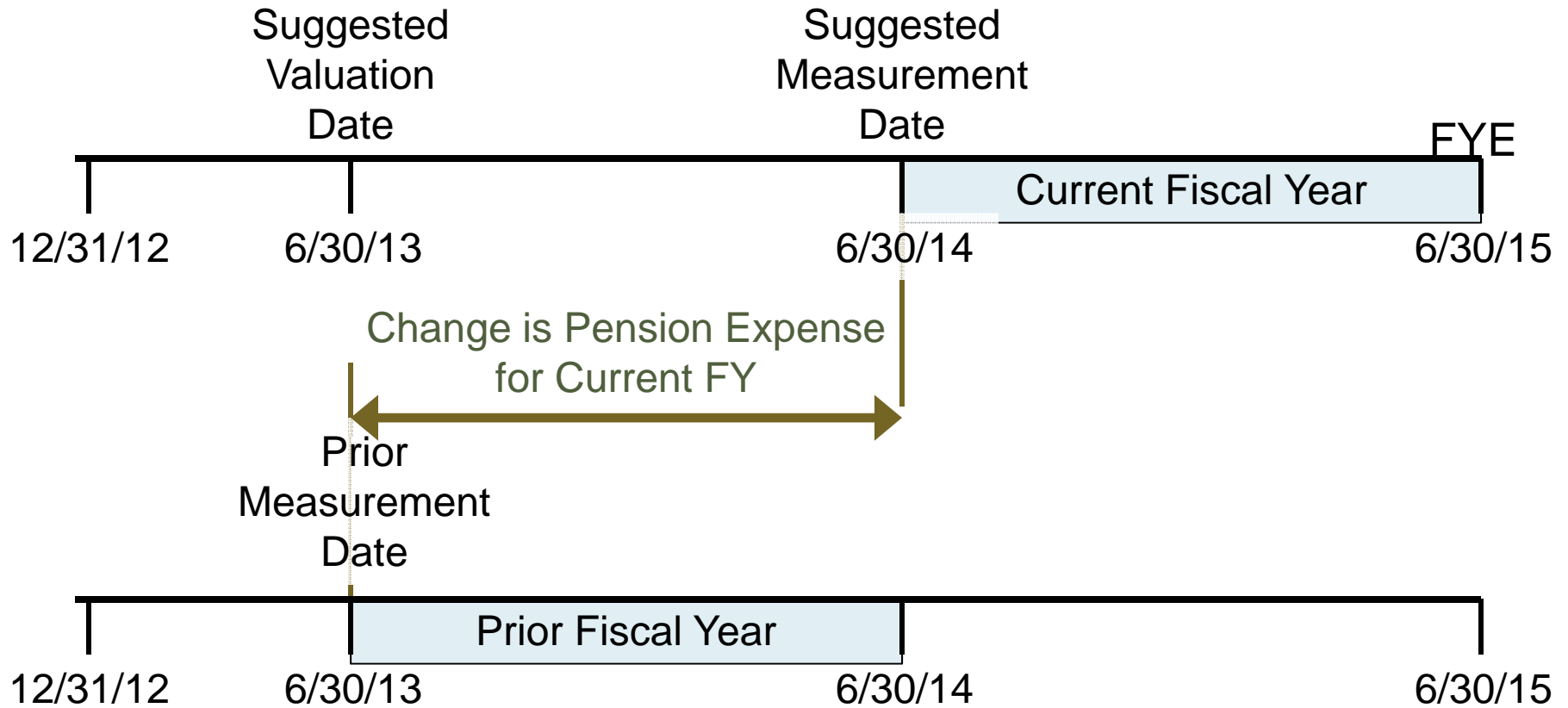
# Pension Expense

- Change in Total Pension Liability (AAL)
  - Between Current and Prior Measurement Dates

minus
- Change in Fiduciary Net Position (MVA)

less
- Deferred Outflows and Inflows for the period
- Portion of deferrals recognized in current period

# Pension Expense - Timing



Valuation Date:  
After 12/30/2011  
Adjust to 6/30/13



# 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

# 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

# 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  $\approx$ 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

# 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

# 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

# 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



# 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
  - Should continue to apply Statement Nos. 27/50

# 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 (expected publication June 2015)
  - Continue to apply Statement No. 45

# CalPERS Upcoming Issues

# What Is CalPERS Looking At?

- Contribution Policy
- Demographic Assumptions
- Discount Rate

# Why Change Contribution Policy?

- GASB 68 encourages faster funding by requiring a lower discount rate for slower funding
- Asset corridor generates volatility when extreme events happen
- Slow progress towards increased funded status
- Current method needs improved transparency

# What Changes Did CalPERS Make in Contribution Policy?

- No asset corridor or asset smoothing
- Shorter, fixed, amortization periods
- “Direct rate smoothing” based on:
  - Amortization: 5 year ramp up, 20 years full payment, 5 year ramp down
  - Convert all existing rolling amortization to fixed
  - No cap on rate increases each year

# Timing For Funding Policy Changes?

- Approved by CalPERS Board in April
- Included in 6/30/13 valuation (15/16 rates)
- Estimated impact included in 6/30/12 valuation

# Other Changes?

## ■ Assumption study:

- Will likely recommend generational mortality improvement

## ■ Asset allocation study:

- Likely recommend a .25% margin
- Likely also recommend .25% reduction in real rate of return
  - need to wait for asset allocation study



# Other Changes?

## ■ Timing:

- Default will be to include demographic & discount rate in 6/30/13 valuation (15/16 rates)
- CalPERS Board may delay until 6/30/14 valuation

# Safety Plan

## Contribution Projection Assumptions

### ■ Market Value Investment Return

■ June 30, 2012 0.1%

■ June 30, 2013 13.9%

### ■ June 30, 2013 - 2017

● Poor (25<sup>th</sup> percentile) Investment Return:  $\approx$  0.2% - 3.4%

● Expected Investment Return:  $\approx$  7.50%

● Good (75<sup>th</sup> percentile) Investment Return:  $\approx$  11.6% - 15.1%

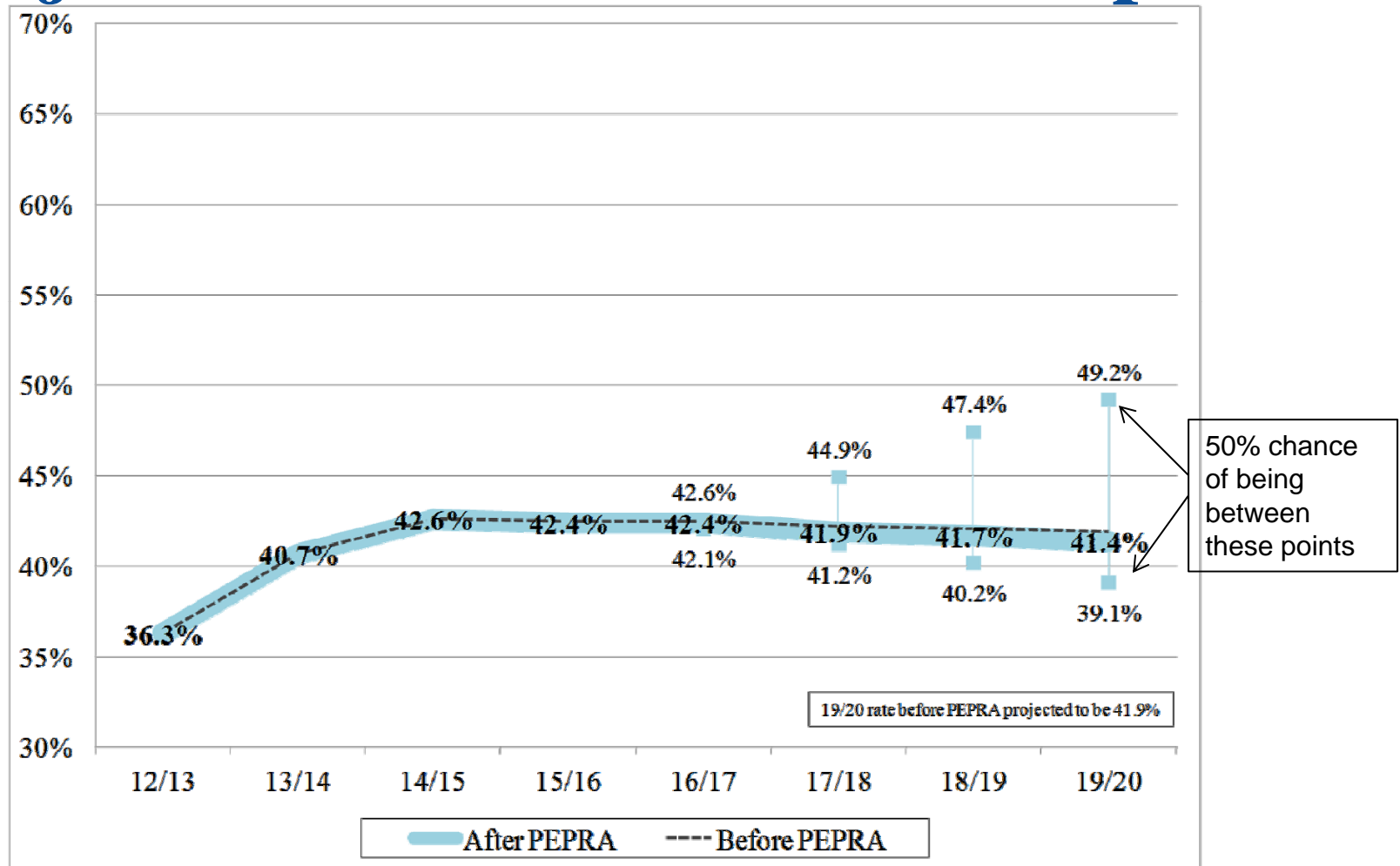
# Safety Plan

## Contribution Projection Assumptions

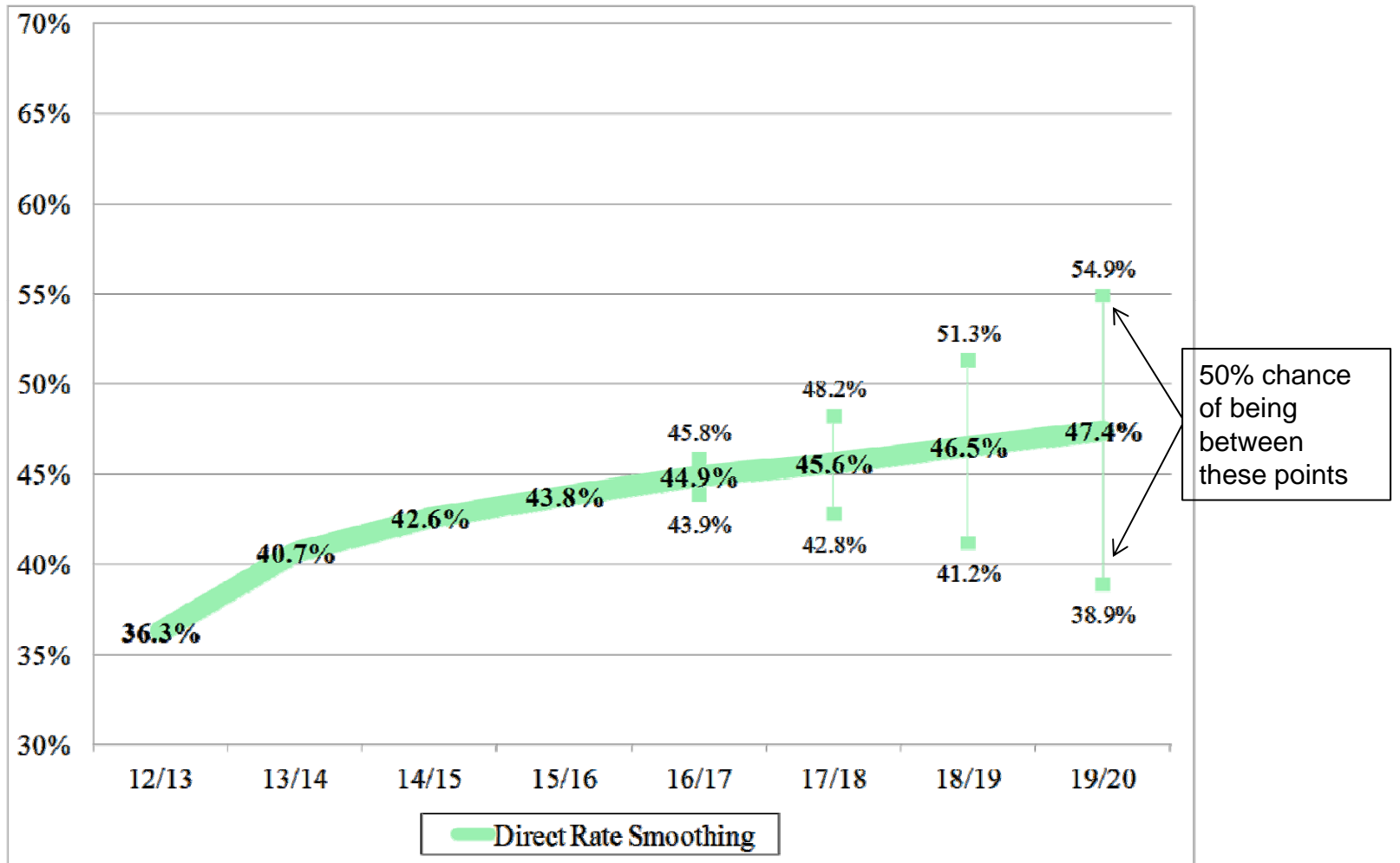
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Excludes Employer Paid Member Contributions (EPMC)
- New hire assumptions:
  - 50% of 2013 new hires will be Classic Members (Lateral) & 50% will be New Members.
  - Classic Member will decrease from 50% to 0% of new hires over 10 years.

# Current Contribution Policy

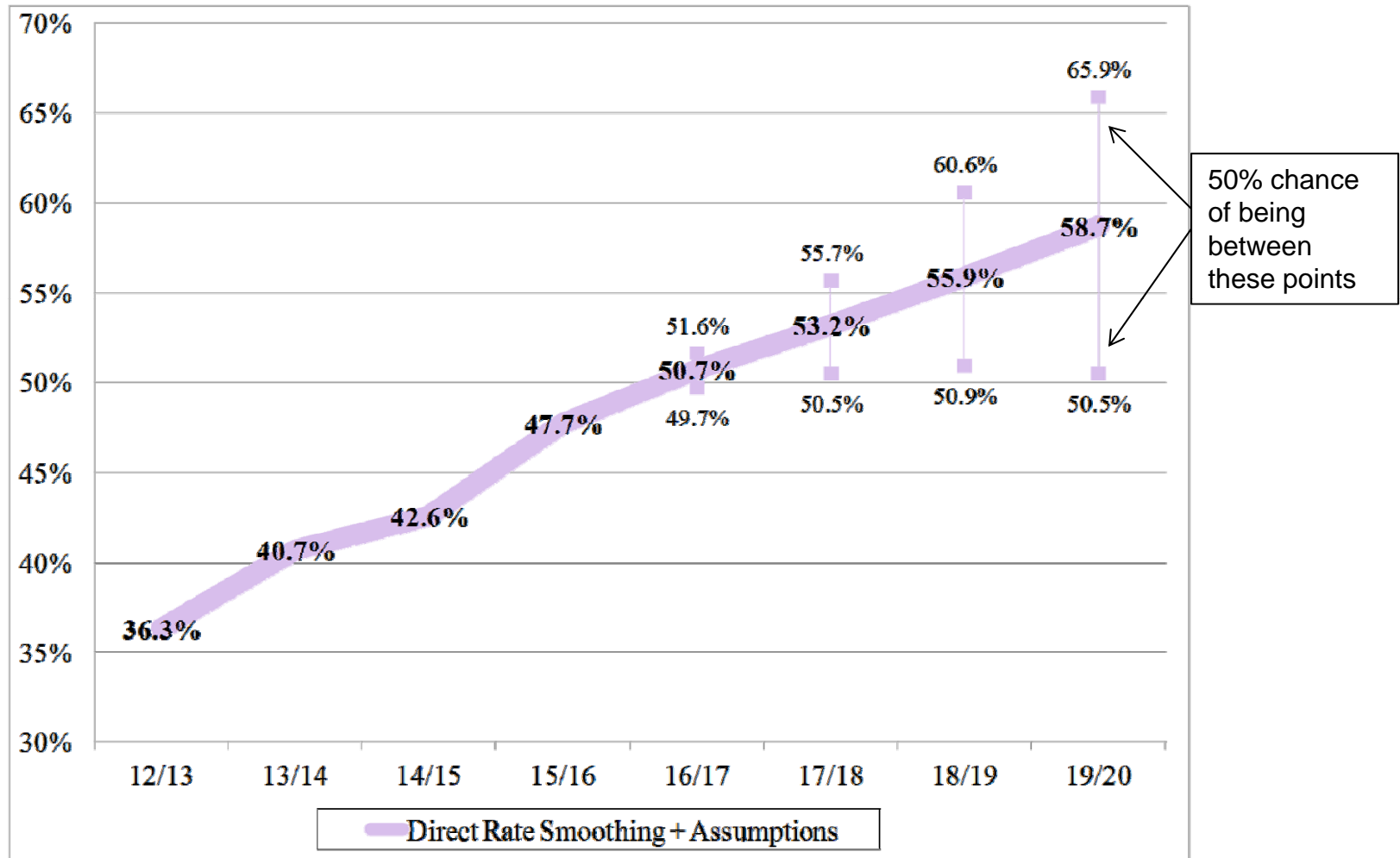
## Projections Include PEPRA Impact



# New Contribution Policy



# New Contribution Policy With Mort. & 1/4% Discount Rate



# Comparative Rates

(50<sup>th</sup> percentile)

