

**Seminar  
GASB's  
Proposed Revised Pension Standards (25/27)  
Actuarial Perspective**

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February 7, 2012

Marilyn M. Oliver, FSA

**B**ARTEL  
ASSOCIATES, LLC

**GASB's  
Proposed Revised  
Pension Standards: Actuarial Perspective**

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## **GASB's Proposed Revised Pension Standards: Overview**

- Exposure Drafts Issued July 2011
- Plan to issue final standards in June 2012
- Effective 2013/14 fiscal year for most agencies
- Similar views expected for OPEB



## **GASB's Proposed Revised Pension Standards : Overview**

- Re-writes Pension Standards:
  - # 25 – Financial Reporting by Pension Plans
  - # 27 – Pension Accounting and Financial Reporting by Employers
- Applies only to plans funded through trusts:
  - Single employer pension plans
  - Agent pension plans
    - Pool assets for investment but each employer asset share only for its employees
    - Example: CalPERS plans with individual agency valuations
  - Cost-sharing pension plans
    - Plan assets can be used to pay pensions of any participating employer
    - Example: CalPERS public agency pools



## **GASB's Proposed Revised Pension Standards : Overview**

- Breaks Links Between Contributions and Accounting
- Funding standards/guidance now up to:
  - System Boards, Public officials
  - Finance professionals
  - Actuaries:
    - California Actuarial Advisory Panel (CAAP)
    - Actuarial Standards of Practice (ASOPs)



## **GASB's Proposed Revised Pension Standards : Overview**

- Recognize a “Net Pension Liability” on Agency financial statements
  - Unfunded Actuarial Accrued Liability
  - Even if cost-sharing plan employer
- Measurement at Year of Reporting Period
  - Roll-forward for Liabilities
  - Actual Market Value for Assets



## GASB's Proposed Revised Pension Standards: Overview

- New Terminology
- New Requirements Regarding
  - Actuarial Assumptions
  - Actuarial Methods
  - Calculation of Expense
- Increased disclosure requirements
- Disclosure of Sensitivities



## Terminology

<b>Old Terminology</b>	<b>New Terminology</b>
<b>Actuarial Accrued Liability</b>	<b>Total Pension Liability</b>
<b><u>- Valuation Assets</u></b>	<b><u>- Plan Net Position</u></b>
<i>Unfunded AAL</i>	<i>Net Pension Liability</i>
<i>Normal Cost</i>	<i>Service Cost</i>



# Total Pension Liability

- Actuarial Accrued Liability
- Entry Age Normal Cost Method Prescribed
- Determined at fiscal year end of employer:
  - Valuation can be rolled forward up to 2 years
  - Significant changes
    - Recognize in roll-forward procedures
    - New valuation



# Total Pension Liability (Discount Rate)

- New Procedure
  - Return on Assets expected to be used to make pension payments
- Project future cash-flows for current participants
  - Exclude contributions for/of future hires
    - But future hires contribution rates may be paying towards UAL for past plan changes



## Total Pension Liability (Discount Rate)

- If current and projected Plan Net Position (Market Value Assets):
  - Sufficient to provide for projected benefit payments and plan assets have long-term investment strategy
    - Expected long term rate of return on plan assets
- CalPERS, '37 Act and most other open California pension systems:
  - Contribution levels designed to be sufficient and have long-term investment strategy



## Total Pension Liability (Discount Rate)

- To extent current and projected Plan Net Position (Market Value Assets):
  - Not sufficient to provide for projected benefit payments:
    - Current 30-year high-quality tax-exempt municipal bond rate for remaining benefit payments
- Develop single blended rate



## Plan Net Position

- Market Value of Plan Assets
- For employer reporting:
  - Must be at employer (not plan) fiscal year end
- Cannot be rolled forward from earlier date



## Net Pension Liability

- Total Pension Liability - Plan Net Position
- Employers in Cost-sharing Plans
  - Proportionate share of Plan Net Pension Liability
    - Based on employer's projected proportion of future contributions



# Net Pension Liability

## (Cost-sharing Employer: Example)

(All Calculations as of End of Employer Reporting Period)

Collective Total Pension Liability	\$39,502,000
<u>Collective Plan Net Position</u>	<u>-35,979,000</u>
Collective Net Pension Liability	3,523,000
City Share	0.20%
City Total Pension Liability	\$79,000
City Net Pension Liability	7,000



## Net Pension Liability

### ■ Employers in Cost-sharing Plans

#### □ Exposure Draft Comments by CalPERS/Others:

- Allow asset roll-forwards from plan to employer reporting dates
- Allow flexibility in Proportionate Shares methodology
  - Reflect basis for Plan's contribution allocation procedures
  - Allow use of liability employer responsible for (CalPERS: Based on Employer's Total Pension Liability)





# Pension Expense

- Immediate recognition of:
  - Service & interest cost
  - Changes in Total Plan Liability for:
    - Benefit changes
    - Inactive gains/losses & assumption changes



# Pension Expense

- Deferred recognition of:
  - Active gains/losses & assumption changes
    - Over liability-weighted future working lifetime
  - Asset gains/losses
    - 5 years
  - Amounts not recognized: Deferred outflows and inflows of resources related to pensions



# Pension Expense

- Cost-sharing Employers - Recognize Proportionate Share of:
  - Collective Expense for Employer's FY
  - Deferred Outflows and Inflows as of end of Employer's FY



# Actuarially Calculated Employer Contribution

- Recommended Contribution in Actuarial Valuation
- Not Used in Expense Calculation
- Not subject to GASB's assumption / method constraints
- Must comply with actuarial standards of practice



## Comparison: Current GASB 27

- Net Pension Obligation (NPO):
  - Accumulated contribution deficiency
  - Zero for most California public agencies
- Expense: (Net Pension Cost)
  - Generally Annual Required Contribution (ARC)
    - Amortization: Generally level % of payroll (Up to 30 years)
    - Assets: Generally not at market
  - Adjustment if NPO  $\neq$  0



## Comparison: Proposed Standard

- Recognition of Net Pension Liability” (Unfunded Actuarial Accrued Liability) on balance sheet
- Replaces Net Pension Obligation (NPO)
- Expense:
  - Generally same Service (Normal) Cost
  - More volatile
    - Treatment of gains and losses / assumption changes / plan changes
    - Assets at market



# Disclosure

## Plans: Notes to Financials

- As of End of Plan's Reporting Period
  - Total Pension Liability
  - Plan Net Position
  - Net Pension Liability
  - Ratio of Plan Net Position to Total Pension Liability
- Date of Actuarial Valuation
- If roll-forward of liabilities performed



# Disclosure

## Plans: Notes to Financials

- Detailed Information on Actuarial Assumptions
  - Dates of experience studies
  - Published sources used in deriving
- Particular Emphasis on Derivation of Discount rate
  - Assumptions about cash flows used in deriving rate
  - Details of derivation of long-term rate of return
    - Assumed asset allocation and capital market assumptions
  - Sensitivity of Net Pension Liability to +/- 1% change



# Disclosure Plans: RSI

- 10-year Schedules:
  - If Actuarially Calculated Employer Contribution calculated:
    - Actuarially Calculated Employer Contribution (ACEC)
    - Schedule of Employer Contributions related to ACEC
  - New: Reconciliation of beginning and ending:
    - Total Pension Liability
    - Plan Net Position on market value basis
    - Net Pension Liability
  - Schedule of Funding Progress
  - Rates of Return on plan investments



# Disclosure Employers: Notes to Financials

- Reconciliation of beginning and ending:
  - Employer's Total Pension Liability
  - Employer's Plan Net Position (market value)
  - Employer's Net Pension Liability
- Date of Actuarial Valuation
- If roll-forward of liabilities performed
- Information on benefit / assumption changes during year



# Disclosure

## Employers: Notes to Financials

- Components of Pension Expense
  - Service cost
  - Expected Interest on Net Pension Liability
  - Benefit Changes
  - Expensed Portions of Current-Period Gains/Losses, Assumption Changes
  - Portions of beginning of year Deferred Inflows and Outflows recognized during period
  - Administrative Expenses and Other
  - Reduction for amount paid by employee contributions
- Periods over which changes being recognized



# Disclosure

## Employers: RSI

- Pensions through Single or Agent Pension Plan
  - 10-year Schedules similar to those of the Plan except Fund Return omitted
- Pensions through Cost-sharing Plan
  - Both collective plan and employer portion as of end of employer's FY
    - Actuarially Calculated Employer Contribution (ACEC)
    - Schedule of Employer Contributions as related to ACEC
    - Schedule of Funding Progress
  - Collective Plan only as of end of employer's FY:
    - Reconciliation of beginning and ending:
      - Total Pension Liability
      - Plan Net Position on market value basis
      - Net Pension Liability



## Comments Received by GASB

- Effective date
- ARC not used in calculations
- Change deferred outflows/inflows treatment to reduce volatility
- Market Value Net Position
- Discount Rate
- Cost of Compliance



## Likely Implications

- Separation of Funding (cash) & Accrual
- Increased volatility in:
  - Expense
  - Funded ratios
- Explanations to Constituent Groups
- Additional work for Employers and Plans

