

Sink or Swim Preparing for GASB 68's First Year

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Agenda

- Overview of GASB 68
- CalPERS Plans
- Non-CalPERS Plans
- Employer Responsibilities – Dennis Kauffman
- Audit Firm Responsibilities – Ken Al-Imam
- “To Do” List

GASB 68 Overview

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GASB 27 What Was It?

- Employer Accounting for Pensions
- Recognize net pension obligation (NPO) if plan sponsor (employer) did not contribute Annual Required Contribution (ARC)
- Pension Expense based on ARC/Contribution

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GASB 68

- **Everyone** will recognize pension liability (asset)
 - Employers with DB pension plans administered through irrevocable trusts
 - Agencies participating in CalPERS & other California retirement systems/plans
 - Does not affect contributions (funding)
- Net pension liability drives pension expense
- Additional note disclosures and RSI

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Three Types of Plans

- Single Employer pension plan
- Agent multiple-employer pension plan
 - Each employer's share of pooled assets is legally available only to pay pensions of its employees
 - Example: CalPERS non-risk pools
- Cost-sharing multiple-employer pension plan
 - Plan assets pay pensions of any employer
 - Example: CalPERS risk pools

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Total Pension Liability

- Measure of benefits deemed earned to date (“past service”)
 - aka Actuarial Accrued Liability (AAL)
- Discount rate – single equivalent rate based on long term rate of return of plan investments
 - Use Municipal Bond rate if projected assets less than benefit payments
 - CalPERS assets are projected to cover benefit payments under their new contribution methodology

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Measurement Date

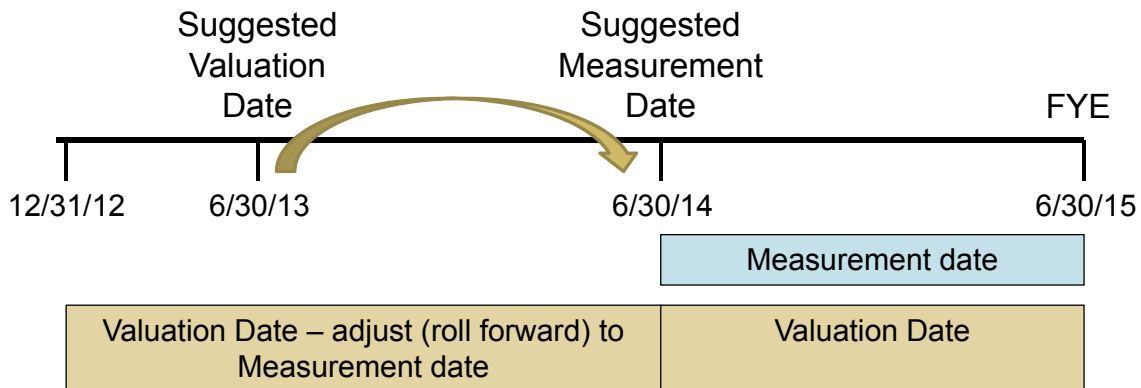
- Measure assets and liabilities
 - Within 12 months of employer fiscal year end
 - CalPERS will use measurement date of 6/30/14 (1-year lag)
 - No adjustment between measurement date and FYE
 - OK to roll forward pension liability, not assets, from a valuation date within 30 months of employer FYE to measurement date

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Total Pension Liability - Timing



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Fiduciary Net Position (Assets)

- At Measurement Date
- Fair market value, no smoothing
- Adjust for contributions between measurement date and FYE as deferred outflow
 - Contributions paid to Trust after FYE don't count unless legally enforceable

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Recognize Net Pension Liability/Asset

- Equal to:
 - Total pension liability less fiduciary net position
- Equivalent to unfunded actuarial liability (UAL) using market value of assets
- Don't recognize deferred inflows and outflows of resources related to pensions
 - Unamortized portions of gains & losses and assumption changes occurring after implementation

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Pension Expense

- Changes in net pension liability between FYEs
- Include a portion of deferred inflows and outflows of resources related to pensions (“amortization”)
 - Actuarial (demographic) & investment gains & losses
 - Assumption changes
 - Plan changes are recognized immediately

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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
- No special treatment for Side Funds

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CalPERS plans

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GASB 68 & CalPERS

- CalPERS will provide GASB 68 information
 - On request, through My|CalPERS
 - For a fee, not payable from plan assets
 - Will provide census listing
 - Includes use of CalPERS' external auditors to issue an audit opinion
 - Targeting report completion spring/early summer 2015

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GASB 68 & CalPERS

- Each CalPERS funding report = 1 plan.
- Same fee charged for only asset & census data

	CalPERS Fee Per Plan
Public Agencies – Pooled (Cost sharing multiple employer)	\$850
Public Agencies – Non-pooled (Agency multiple employer)	\$2,500
Schools (Cost sharing multiple employer) No separate report; list of contributions only	\$350

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More Than One CalPERS Plan

- Separate GASB 68 report for each funding valuation
- Employer will need to consolidate
- Miscellaneous/Safety?
- Cost Sharing/Agent (risk pools/non-risk pools)
 - Different required footnotes and RSI

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Non 6/30 FYE

FYE	6/30/15	9/30/15 A	9/30/15 B	12/31/15
CalPERS Valuation Date	6/30/13	6/30/13	6/30/14	6/30/14
CalPERS funding reports completed	10/31/14	10/31/14	9/30/15	9/30/15
Measurement Date	6/30/14 (Roll forward)	6/30/14 (Roll forward)	6/30/15 (Roll forward)	6/30/15 (Roll forward)
FYE	6/30/15	9/30/15	9/30/15	12/31/15
Meet Requirements?	OK	Fail	OK	OK

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Non-CalPERS Plans

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Supplemental Plans

- Many employers have other pension plans
 - DB (defined benefit) plans vs DC (defined contribution)
 - Closed plans with retirees only
- If not funded at all, may still be covered by GASB 68 if trust has been established for plan
- GASB 67 covers reporting by the Plan
 - Stand-alone plan financial statements
 - Employer financial statements reporting a pension trust fiduciary fund (only if no separate plan financial statements)

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Supplemental Plans - Timing

- May want to follow CalPERS time schedule for Measurement Date
 - Different plans can use different measurement dates
- Allows work to be done well in advance
- If plan reported as Fiduciary Fund, GASB 67 could result in 2 different values in the financial statements:

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Supplemental Plans - Timing

- FYE 2015: Two different values could be reported for net pension liability

	Net Pension Liability Measured	Financial Statement Reporting Date
GASB 67 – Plan reporting as fiduciary fund (<u>note disclosure only</u> and only required for <u>single employer plans</u>)	6/30/15	6/30/15
GASB 68 – Employer reporting	6/30/14	6/30/15

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Supplemental Trust

- Employer creates a separate legal Trust to fund CalPERS benefits
- Part of GASB accounting for plan; needs to be in GASB 68 disclosures and accounting
- Should be able to avoid a new actuarial valuation
- Expected return on assets for additional Trust?

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Employer Responsibilities

Dennis Kauffman

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Employer Responsibilities: GASB 68 Pension Accounting

- How will you record this activity in your financial system?
- How will you allocate the expense and liability between your funds and in your government-wide statements?
- Use the CCMA whitepaper as a resource
- Start discussions now with your auditors
- Be consistent with process and allocation methodology from year to year

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Employer Responsibilities: Cost-Sharing Plans

Verify and recalculate amounts in the audited allocation schedules that are specific to that employer, including:

- That the employer's contribution amount that was used in the allocation agrees with the employer's records
- Recalculate the percentage used in these schedules for that employer
- Recalculate the application of that percentage to the various amounts in the schedules

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Employer Responsibilities: Agent Plans

- General principle – the local government (“employer”) is responsible for the amounts presented in its financial statements
- The AICPA white paper precisely defines the measures that the employer must take to fulfill those responsibilities
- Verify the accuracy of all amounts in the audit reports that pertain to that employer

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Employer Responsibilities: Agent Plans

- Management should obtain on an annual basis the census data file submitted by the plan to the actuary and determine whether the census data is complete and accurate.
- In evaluating the census data file, the employer should compare the information to underlying payroll records and the prior year census data file.
- The employer should prepare a roll forward of the census data from one year to the next and review a reconciliation for any significant differences.

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Employer Responsibilities: Agent Plans

■ City of Sacramento experience

- Data request process
- Data
- Preliminary tests and conclusions

■ City of Riverside experience

- Data request process
- Preliminary tests and conclusions

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Employer Responsibilities: Agent Plans

■ Communicate to the auditors your view regarding the reasonableness of the following assumptions that are reflected in your CalPERS actuarial valuation:

- Long-term investment rate of return
- Future salary increases
- Mortality rates
- Inflation

■ If you disagree with any of the assumptions, and the impacts are material to your financial statements, your agency will need to independently engage an actuarial firm to re-perform the actuarial valuation (in order to receive an unmodified opinion)

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Employer Responsibilities: Agent Plans

- Agree the “employer contributions” amount that is presented in that employer’s column in the multi-columnar “Schedule of Changes in Fiduciary Net Position by Employer” that CalPERS will be providing

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Employer Audit Firm Responsibilities

Ken Al-Imam, CPA
Mayer Hoffman McCann P.C.

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Employer Audit Firm Responsibilities

- The employer audit firm responsibilities are very different depending upon the type of plan.
- For purposes of this presentation we have divided pension plans into the following two categories:
 - Cost-sharing plans (i.e., cost-sharing multiple-employer defined benefit plans)
 - Agent plans (i.e., agent multiple-employer defined benefit plans)

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Employer Audit Firm: Cost-Sharing Plans (Pools)

- For cost-sharing plans, most of the audit work will be addressed by the Plan auditor
- Obtain and read audit report of Plan auditor (look for problems/issues identified, etc.)
- Consider competence and independence of Plan auditor
- In allocation schedules for pool, trace to employer records the amounts that relate to that employer
- Recalculate percentages for that employer



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Employer Audit Firm: Agent Plans

■ Census Data Testing for Actives:

- There are three tests that need to be performed:
- Test **Plan Records**  **Employer Records**
- Test **Employer Records**  **Plan Records**
- Test **New Members** identified in plan records were added during the year


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Employer Audit Firm: Agent Plans

■ Census Data Testing for Actives:

- Test **Plan Records**  **Employer Records**
 - Select a sample of members from all active members identified in the census data obtained from the plan
 - Trace data from the plan records to the employer's records:
 - Covered payroll for that year, service credits earned that year, birth date, hire date, gender, marital status, and period of service


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Employer Audit Firm: Agent Plans

■ Census Data Testing for Actives:

- Test **Employer Records**  **Plan Records**
 - Select a sample of employees from all employees in the employer's payroll system
 - If they were eligible to be a plan member, were they listed as a covered member in the data obtained from the plan
 - If they were not eligible to be a plan member, were they excluded from the covered members identified in the data received from the plan

Employer Audit Firm: Agent Plans

■ Census Data Testing for Actives:

- Test **New Members** identified in plan records were added during the year:
 - From the data received from the plan, select a sample of **new members** added to the Plan during the year
 - Were they eligible to be a covered member of the Plan?
 - Does Plan data agree with Employer files (birth date, hire date, covered payroll, gender, marital status, and period of service)?

Agent Plans – Employer’s Audit Firm

- Using the census data that was provided to the actuary, reconcile key totals (number of members and covered compensation) to relevant amounts in the actuarial report
- Compare summary census data for the valuation year to that of the previous year and evaluate for reasonableness:
 - A large increase or decrease in the number of members from the prior valuation period
 - A large increase or decrease in the amount of covered payroll from the prior valuation period
 - A significant change in the percentage of members to employees from the prior valuation period

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Agent Plans – Employer’s Audit Firm (continued)

- Test the employer contribution amounts in the multi-columnar “Schedule of Changes in Fiduciary Net Position” for that employer
- Test whether the percentage of investment income and administrative expense for that employer is the same as that for the plan as a whole
- Test whether any change in the amount of benefit payments shown in this schedule from prior year amounts is reasonable (and investigate the cause of any major fluctuations)

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Agent Plans – Employer’s Audit Firm

■ Evaluate competence of Plan Actuary:

- Document the competencies of Plan’s actuaries
- Review the actuarial report for general conformity to the requirements of GASB No. 68



Agent Plans – Employer’s Audit Firm

■ Evaluate competence of Plan’s Audit Firm:

- Review the plan auditor’s report for any opinion modifications or other matters that might have a bearing on the reliability of the information that was addressed by the audit work of the plan’s auditor
- Document the plan auditor’s independence and competence.



“To Do” List

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List of Things To Do Now for a successful transition

- Identify any supplemental, closed, etc plans. Discuss with your auditor/actuary
- Tell CalPERS if non-6/30 fiscal year
- Investigate data availability/methods to confirm census data
- Coordinate audit firm testing for census data
- Decide on internal allocation method
- Review loan covenants
- Discuss with City Council/Board

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