

Pension and OPEB Accounting – News and Updates

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Mary Beth Redding

BARTEL
ASSOCIATES, LLC

mbredding@bartel-associates.com

www.bartel-associates.com

Agenda

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GASB 68 CalPERS Reports



Funding ↔ GASB 68 Translation

Actuarial Valuation Terms

Funding (CalPERS)	GASB 68 Accounting
Present Value of Benefits (PVB or PVPB)	N/A
Normal Cost (NC)	Service Cost (SC)
Actuarial Accrued Liability (AAL)	Total Pension Liability (TPL)
Market Value of Assets (MVA)	Plan Fiduciary Net Position
Unfunded Actuarial Accrued Liability (UAAL)	Net Pension Liability
Amortization bases	Deferred Inflows/Outflows of Resources
Amortization payments	Recognition of deferred inflows/outflows of resources



GASB 68 Balance Equation

Fiscal Year:	6/30/14	14/15 Expense	6/30/15
Net pension liability	85,502,718		70,393,572
Deferred outflows			
Deferred inflows	0		13,901,672
Contributions after measurement date	<u>(6,449,302)</u>		<u>TBD</u>
Net pension effect	79,053,416		84,295,244
Change in pension effect			5,241,828
Pension expense		5,241,828	

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Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period.

	Increase (Decrease)		Net Pension Liability/(Asset) (c) = (a) - (b)
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	
Balance at: 6/30/2013 (VD) ¹	\$ 255,632,076	\$ 170,129,358	\$ 85,502,718
Changes Recognized for the Measurement Period:			
• Service Cost	4,962,237		4,962,237
• Interest on the Total Pension Liability	18,925,939		18,925,939
• Changes of Benefit Terms	0		0
• Differences between Expected and Actual Experience	0		0
• Changes of Assumptions	0		0
• Contributions from the Employer		6,449,302	(6,449,302)
• Contributions from Employees		2,592,457	(2,592,457)
• Net Investment Income ²		29,955,583	(29,955,583)
• Benefit Payments, Including Refunds of Employee Contributions	(11,634,695)	(11,634,695)	0
Net Changes during 2013-14	\$ 12,353,481	\$ 27,462,627	\$ (15,109,146)
Balance at: 6/30/2014 (MD) ¹	\$ 267,985,557	\$ 197,591,985	\$ 70,393,572

Schedule of differences between projected and actual earnings on pension plan investments

Measurement Period	Differences between Projected and Actual Earnings on Pension Plan Investments	Recognition Period (Years)	Increase (Decrease) in Pension Expense Arising from the Recognition of Differences between Projected and Actual Earnings on Pension Plan Investments (Measurement Periods)						
			2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 Thereafter	
2013-14	\$(17,377,090)	5.0	\$(3,475,418)	\$(3,475,418)	\$(3,475,418)	\$(3,475,418)	\$(3,475,418)	\$0	\$0
Net Increase (Decrease) in Pension Expense			\$(3,475,418)	\$(3,475,418)	\$(3,475,418)	\$(3,475,418)	\$(3,475,418)	\$0	\$0

Net investment income= 29,955,563 (page 7)
 Projected investment income = 12,578,473 (page B-2)
 Difference = 17,377,090 gain = deferred inflow of resources

Deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual earnings on pension plan investments

Measurement Period	Investment Earnings less than Projected (a)	Investment Earnings greater than Projected (b)	Amounts Recognized in Pension Expense through June 30, 2014 (c)	Balances at June 30, 2014	
				Deferred Outflows of Resources (a) - (c)	Deferred Inflows of Resources (b) - (c)
2013-14		\$(17,377,090)	\$(3,475,418)	\$0	\$(13,901,672)
				\$0	\$(13,901,672)

Page 9 and 10: Deferred Inflow/Outflow Note Disclosure

As of June 30, 2014, the CITY OF REDWOOD CITY has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 0	\$ 0
Changes of Assumptions	0	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	(13,901,672)
Total	\$ 0	\$(13,901,672)

The amounts above are net of outflows and inflows recognized in the 2013-14 measurement period expense.

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2015	\$ (3,475,418)
2016	(3,475,418)
2017	(3,475,418)
2018	(3,475,418)
2019	0
Thereafter	0

Pension Expense/(Income) for Measurement Period Ended June 30, 2014

Description		Amount	
Service Cost	\$	4,962,237	✓
Interest on the Total Pension Liability		18,925,939	✓
Changes of Benefit Terms		0	
Recognized Differences between Expected and Actual Experience		0	
Recognized Changes of Assumptions		0	
Employee Contributions		(2,592,457)	✓
Projected Earnings on Pension Plan Investments		(12,578,473)	✓
Recognized Differences between Projected and Actual Earnings on Plan Investments		(3,475,418)	
Other Changes in Fiduciary Net Position		0	
Total Pension Expense/(Income)	\$	5,241,828	

Note: Plan administrative expenses are not displayed in the above pension expense table. Since the expected investment return of 7.50 percent is net of administrative expenses, administrative expenses are excluded from the above table, but implicitly included as part of investment earnings.

Note: pension expense components are not separately disclosed

✓ Pension expense components except deferrals, for journal entry #4 = 8,717,246



Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at: 6/30/2013 (VD) ¹	\$ 255,632,076	\$ 170,129,358	\$ 85,502,718
Changes Recognized for the Measurement Period:			
• Service Cost	4,962,237		4,962,237
• Interest on the Total Pension Liability			18,925,939
• Changes of Benefit Terms			0
• Differences between Expected and Actual Experience			0
• Changes of Assumptions			0
• Contributions from the Employer			(6,449,302)
• Contributions from Employees			(2,592,457)
• Net Investment Income ²			(28,965,563)
• Benefit Payments, Including Refunds of Employee Contributions	(11,634,695)	(11,634,695)	0
Net Changes during 2013-14	\$ 12,353,481	\$ 27,462,027	\$ (15,109,146)
Balance at: 6/30/2014 (MD) ¹	\$ 267,985,557	\$ 197,591,985	\$ 70,393,572

Total changes in NPL except employer contribution = 8,659,844, for journal entry # 4



California Public Employees' Retirement System
 Agent Multiple-Employer Defined Benefit Pension Plan
 Schedule of Changes in Fiduciary Net Position
 by Rate Plan
 For the Fiscal Year Ended June 30, 2014

MGO Certified Public Accountants.



California Public Employees' Retirement System
 Agent Multiple-Employer Defined Benefit Pension Plan
 Schedule of Changes in Fiduciary Net Position by Rate Plan
 For the Fiscal Year Ended June 30, 2014

Employer Name:	CITY OF BEVERLY HILLS	CITY OF BEVERLY HILLS	CITY OF REDWOOD CITY	S.
Rate Plan Number:	1	2	3	
Additions:				
Contributions:				
Employer	\$ 9,059,681	\$ 8,602,358	\$ 6,449,303	\$
Plan Member	3,396,516	2,382,928	2,592,457	
Net Investment Income	37,472,279	46,198,246	30,205,565	
Deductions:				
Pension Benefits, Including Refunds	(13,121,431)	(20,796,479)	(11,534,696)	
Administrative Expenses	(305,558)	(388,892)	(250,002)	
Total Additions	36,501,487	35,998,161	27,462,627	
Net Position Restricted for Pension Benefits:				
Beginning of the Year	213,893,278	266,758,140	170,129,358	
End of Year	\$ 250,394,765	\$ 302,756,301	\$ 197,591,985	\$
Total Deductions				
Net Increase (Decrease)				

The accompanying notes are an integral part of this schedule.

Net investment income= 30,205,565 – 250,002 = 29,955,563



Cost Sharing Multiple-Employer Pensions

- For example, CalPERS risk pools
- Plan or risk pool's collective 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
 - CalPERS will determine proportion
 - Additional deferral: difference in contribution/proportion
- No special treatment for Side Funds

GASB 73 Overview

GASB 73 – Unfunded Pension Plans

- Effective FY Beginning > 6/15/16
- Everyone will recognize pension liability
 - Does not affect contributions (or require funding)
 - Discount rate will be 20 year Aa municipal bond rate
- Change in net pension liability => pension expense
- Additional note disclosures and RSI

Unfunded Pension Plans

- Unfunded single employer plans
 - Plans that provide pension benefits
 - Not funded, or funds not in Trust
 - Often small plans (limited number of people) or old plans

Unfunded Pension Plans

■ CalPERS Replacement Benefit Fund

- Benefits > IRS limit (\$210,000/yr in 2015)
- Retirees and non-retirees with large projected benefits
- No liability for these benefits valued by CalPERS for funding or GASB 68
- Who will value for GASB 73?
- Materiality?

GASB 74 Overview

GASB 74 – OPEB Plans

- Replaces GASB 43 Effective FY Beg. > 6/15/16
- Similar to GASB 67
- Reporting for OPEB funded plans
 - In the plan's financial statements
 - Stand-alone
 - Fiduciary fund in employer's financial statements
- Does not affect/require contributions

GASB 74 – OPEB Plans

- Additional note disclosures and RSI for single employer plans and cost-sharing plans
 - Net OPEB Liability
 - Funded status & contributions relative to payroll
 - Change in NOL
 - Investment return
 - Sensitivity of NOL to 1 % decrease and 1% decrease in:
 - Discount rate
 - Medical trend rate

GASB 74 – OPEB Plans

- New definition of OPEB Plan
- Arrangement through which:
 - OPEB is determined
 - Assets dedicated for OPEB (if any) are managed
 - Benefits are paid as they come due
- Consider the totality of the arrangement



GASB 75 Overview



GASB 75 – Employer OPEB Reporting

- Effective FY Beginning > 6/15/17
- Replaces GASB 45
 - Similar to GASB 68
 - Everyone will recognize OPEB liability
 - Change in net OPEB liability => OPEB expense
 - Additional note disclosures and RSI
- Does not affect contributions (or require funding)

GASB 75 – Employer OPEB Reporting

- “Crossover test” to determine discount rate
 - Not the same as % of ARC under GASB 45
- If plan assets are projected to cover benefit payments, discount rate = expected rate of return on assets
 - Provided assets invested so as to generate that return
- Contribution policy of full ARC, with reasonable amortization period should be OK
 - Look to last 5 years of actual contributions

GASB 75

- Unfunded and poorly funded plans use 20 year AA municipal bond discount rate
 - Variable rate will cause large changes in total OPEB liability

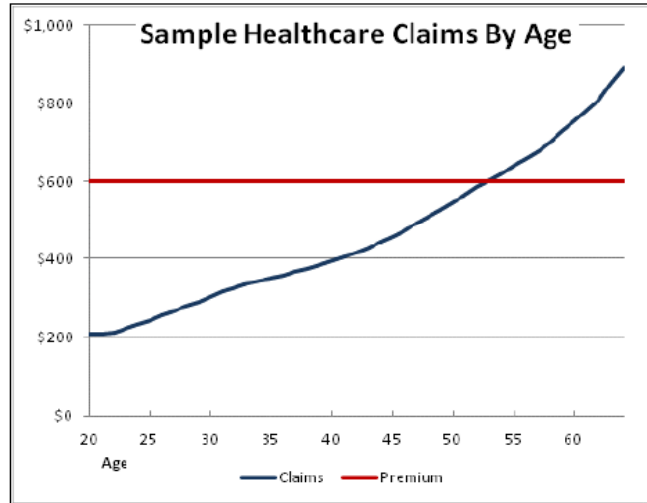
GASB 75

- All plans need biennial valuation
- Implied Subsidy required
- “Cadillac Tax” must be included
 - May affect CalPERS medical plans?
- “Insured plans”
 - Means plans where entire future OPEB obligation is transferred to insurer

GASB 75

- Implied Subsidy not required < 3/31/2015 for PEMHCA and other large pooled plans

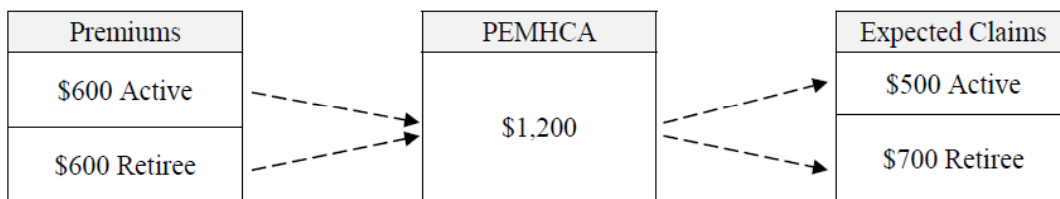
- Change in Actuarial Standards



GASB 75

- Implied Subsidy

- Retiree premiums < claims (benefits)



GASB 75

- Alternative Measurement Method (AMM) still permitted for small plans
- < 100 active and inactive employees
 - More complicated
 - More assumptions
 - Builds in equivalent of implied subsidy
 - Check with your auditor

GASB 75

- Audit issues may be fewer than with GASB 68 since employers generally control data
- Work with your actuary and auditor to:
 - Select measurement date
 - Choose valuation dates
 - CERBT may no longer collect valuation results
- Some employers may implement early

GASB 75

- Net OPEB liabilities may be similar in size to pension liabilities
 - Since pre-funding is not common
- We think these liabilities are not news to bond analysts
 - May be more of a surprise to Boards, Councils, ratepayers or taxpayers

CalPERS Upcoming Issues

CalPERS Upcoming Issues

- Contribution Policy Changes
- Risk Pool Changes
- Assumption Changes



Contribution Policy Changes New Method

- Designed to:
 - First pay off UAL and
 - Second smooth rates
- Uses MVA only so only one funded status/ratio
- Expect more volatility



Risk Pool Changes

- All Risk Pools combined into 2 Risk Pools
- Risk Pools UAL payment allocated based on liability & assets rather than payroll
 - Some agencies will see significant cost increases
- Collect payment on UAL as dollar amount
- Side Fund payoff no longer guaranteed savings!



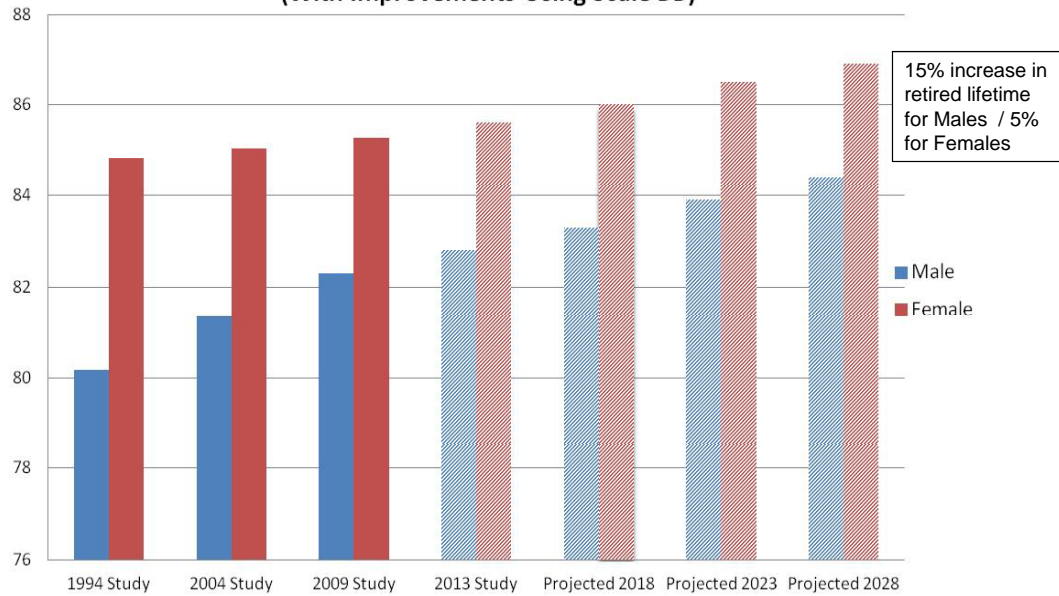
Assumption Changes

- No changes to economic assumptions
- Anticipate future mortality improvement
- Other



Assumption Study

Life Expectancy for a CalPERS Member Retiring at Age 55
(With Improvements Using Scale BB)



Slide from David Lamoureux, CalPERS Deputy Chief Actuary, CALPELRA presentation 11/2013

8/3/15



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Timing

	Valuation	First Impact	Full Impact
■ Contribution Policy	6/30/13	2015/16	2019/20
■ Risk Pool Changes	6/30/13	2015/16	2015/16
■ Assumption Changes	6/30/14	2016/17	2020/21

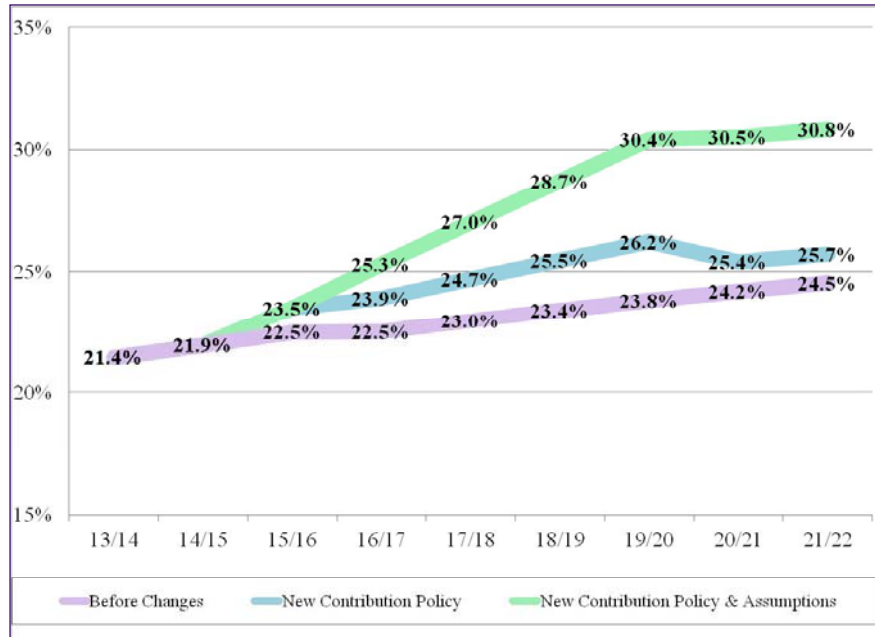
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Combined Changes



Paying Down CalPERS Unfunded Liability/Rate Stabilization Options

- Pension Obligation Bonds (POBs)
- Borrow from General Fund
- Shorter amortization period
- One time payments
- Internal Service Fund
- Irrevocable Supplemental (§115) Trust

POBs

- Interest arbitrage between expected CalPERS earnings and rate paid on POB
- No guaranteed savings
 - Including paying off CalPERS Side Fund

POBs

- Downside risks noted in GFOA Advisory
 - CalPERS investment earnings below expected means:
 - Both pension and bond payments due
 - Increase in Agency's overall debt
 - Uses up debt capacity
 - May extend repayment period, increasing overall costs

One Time Payments

- Council/Board resolution to use a portion (e.g. 50%) of one time money to reduce unfunded liability
- Council/Board commitment to fund more than required contribution for a period of time
 - CSMFO Webcast “Reducing Unfunded Liabilities” 5/13/15
- Discuss with your CalPERS actuary in advance

Establish Irrevocable Supplemental (§115) Trust

- Could be used for rate stabilization
- Reduces GASB 68 Net Pension Liability
- Investments significantly less restricted:
 - Designed for long term returns
 - Likely much higher (5%-7%) investment returns than non-trust

Establish Irrevocable Supplemental (§115) Trust

- Can only be used to :
 - Reimburse for CalPERS contributions
 - Make payments directly to CalPERS
- Assets can **not** be used by Council for other purposes
- PARS & PFM
- At least 2 Agencies adopted plus 1 implemented

Resources

- CCMA White Paper on California GASB 68 Implementation
 - <http://blogs.calcpa.org/buzz/files/2015/05/GASB-68-White-Paper.pdf>
- Public Retirement Journal & PERS PAC Alert
- Bartel Associates www.Bartel-Associates.com:
 - GASB 68, 73, 74, Implied Subsidy summaries
- Anthony T. Oliveira, *The Local Challenges of Pension Reform*
 - <http://www.tonytoliveira.com/Research.html>