

**GASB 67/68 –
Preparing for New
Pension Reporting**



Agenda

- Background
- Effective Dates
- Summary of Provisions
- Net Pension Liability
- Pension Expense
- Footnotes
- What KRS Will Provide
- Audit Awareness



Glossary

GASB – Governmental Accounting Standards Board.
(<http://www.gasb.org>)

Discount Rate—A blended or single rate (expressed as a percentage) that reflects (1) the long-term expected rate of return on pension plan investments to the extent (a) this rate will support projected benefit payments of the plan, and, (b) assets will be invested using the current allocation targeted to achieve that return, and (2) for the period of benefit payments not supported, will incorporate an index rate for 20-year tax-exempt municipal bonds



Glossary

Fiduciary Net Position (FNP) — plan net assets at market value

Net Pension Liability (NPL)—A plan's collective Total Pension Liability (TPL), based on the Entry Age Normal actuarial funding method, less the plan's Fiduciary Net Position (FNP), i.e., the market value of plan assets.

Pension Expense (PE) —The change in Net Pension Liability from the previous fiscal year to the current fiscal year, less adjustments

Proportionate Share —Measures of the collective Net Pension Liability, collective Pension Expense and other disclosure items of the plan related to pensions—attributable to a specific employer, based on the Employer's Proportion.



Glossary

Total Pension Liability (TPL) – The collective actuarial present value of projected benefit payments attributed to past periods of employee (active, inactive and retired) service. (Formerly – actuarial accrued liability or AAL.)



Background

- Kentucky Retirement Systems administers both multiple-employer, cost sharing pension plans (KERS and CERS) and a single employer pension plan (SPRS), with over 1,450 participating agencies. The new GASB standards apply to both types of plans.
- Under new GASB standards, agencies will record their share of the net pension liability and pension expense based on the proportion of contributions paid to KRS.



Background

GASB 67 (replaces GASB 25)

- Issued June 2012
- Establishes financial accounting and reporting standards for multiple employer, cost sharing and single employer defined benefit pension plans like KRS
- Effective for the 2013-2014 Fiscal Year for KRS



Background

GASB 68 (replaces GASB 27)

- Establishes financial accounting and reporting standards for pensions by participating employers
- Effective for fiscal years beginning after 6/15/2014 (i.e., FY 2014-15)



Background

There are several reasons GASB made changes to pension accounting and reporting standards:

- GASB 34 required employers to develop full accrual government-wide financial statements;
- GASB concept statement 4 defined liabilities that need to be shown on the face of the financial statements;
- Users of financial statements requested more information about unfunded pension liabilities; and
- GASB's emphasis is on comparability between reporting entities and the use of similar accounting standards with the international/corporate community



Effective Dates

GASB 67, *Financial Reporting for Pension Plans*, is effective for FY 2014 for KRS

GASB 68, *Accounting and Financial Reporting for Pensions*, is effective for participating employers for FY 2015



Current Standards (GASB 27)

- Pension costs are directly related to funding
- Pension Expense is equal to an employer's contributions paid to KRS
- A Pension Liability is only noted if the employer's required contributions were not fully paid
- KRS' unfunded liability is disclosed in KRS' Comprehensive Annual Financial Report (CAFR)



Changing Focus

- Current actuarial valuation numbers are used for accounting and funding purposes
- Funding measures are still valid and essential, but a plan's funding policy need only be explained in a financial statement footnote
- The new standards change the way pension obligations are reported in financial reports
- **Accounting and funding are no longer linked**



Summary of Provisions (GASB 68)

- The Net Pension Liability (NPL) replaces the Unfunded Actuarial Accrued Liability (UAAL)
- The NPL is calculated differently than how we calculate the UAAL
- The balance sheet of employers will reflect the funded status of the plan:
 - On Market Value basis
 - Calculated using the Entry Age Normal Cost Method
 - Discount rate may be different than funding discount rate
- Additional financial statement notes and supplementary information are required



Summary of Provisions

- Employers must include their proportional share of the NPL and Pension Expense on the face of their government-wide financial statements
- Each employer's proportional share will be determined based on contributions paid to KRS during the measurement period
- Two new Required Supplementary Information schedules will be required:
 - 10 Year Proportionate Share of NPL
 - 10 Year Schedule of Contributions



Net Pension Liability (NPL)

- Added to all employer balance sheets
- Replaces Net Pension Obligation (NPO)
- Assets based on market value of assets (not actuarial value)
- Proportionate share of plan NPL allocated to all participating Employers
- The allocation method will be based on employer's contributions paid to KRS in relationship to all employer contributions received



NPL

- Discount Rate equal to expected investment rate of return, except for-
 - Benefit payments not expected to be funded which will be discounted at a high quality 20-year tax-exempt municipal bond index rate
- Volatile from year to year due to fluctuating market value of assets



NPL

- Calculated as of a “Measurement Date” which will always be June 30, KRS’ fiscal year end
- Measurement Date must be no earlier than the end of the employer’s prior fiscal year
- The initial Measurement Period will be from July 1 2013, through June 30, 2014



Pension Expense (PE)

- No longer tied to funding (contributions)
- Directly tied to changes in the NPL from one year to the next
- Must be calculated by KRS' actuary
- Will likely be very volatile
- May be a negative expense (i.e., revenue positive)



PE

- Calculated during the “Measurement Period” ending on the Measurement Date, always June 30th of a given year (end of the fiscal year)
- The Initial Measurement Period will be from July 1 2013, through June 30, 2014



PE

- Pension Expense is not an annual contribution or funding amount
- Pension Expense is equal to:
 - Service Cost, which is equal to the normal cost for the year determined under Entry Age Normal cost method,
 - Interest on the NPL, less
 - Expected investment return on the Market Value of Assets (MVA), plus (or minus)
 - Recognition of changes for:
 - Liability gain/loss
 - Asset gain/loss
 - Plan changes
 - Assumption changes



Allocation of NPL and PE

Reasonable allocation of proportionate employer share of NPL and PE for Cost-Sharing plans allowed including:

- Ratio of current employer contributions or payroll to plan total
- Ratio of average employer contributions or payroll to plan total over a number of past years
- Ratio based on the present value of projected future employer payroll to present value of projected future plan total payroll
- Method of allocating plan liabilities and assets by employer, if the plan has one



How Net Pension Liability is Determined

Total payroll of Retirement System in this example - \$8,000,000,000

<u>Entity</u>	<u>Entity Contributions</u>	<u>Percentage of Total</u>
Employer 1	\$4,123,456,789	51.54%
Employer 2	\$1,212,454,121	15.16%
Employer 3	\$12,457,832	0.16%
Employer 4	\$89,451,245	1.12%
Employer 5	\$984,541,245	12.31%
Employer 6	\$1,000,145,445	12.50%
Employer 7	\$300,000,000	3.75%
Employer 8	\$114,784,514	1.43%
Employer 9	\$162,708,809	2.03%

**rounded to two percentage points*



How Net Pension Liability is Determined

NPL of Retirement System in this example - \$3,598,495,759

<u>Entity</u>	<u>Percentage of Total NPL</u>	<u>Amount of NPL To Employer*</u>
Employer 1	51.54%	\$1,854,780,221
Employer 2	15.16%	\$545,376,377
Employer 3	0.16%	\$5,603,682
Employer 4	1.12%	\$40,236,241
Employer 5	12.31%	\$442,858,437
Employer 6	12.50%	\$449,877,393
Employer 7	3.75%	\$134,943,591
Employer 8	1.43%	\$51,631,448
Employer 9	2.03%	\$73,188,370

**rounded to nearest dollar*



Employer Contributions

During the measurement period

- Directly reduce NPL (no expense impact)

Subsequent to measurement date

- Deferred outflow of resources related to pensions
- Directly reduce NPL in next reporting period



Required Supplementary Information (RSI)

- Two 10-year schedules
- May be built prospectively for employers, but plan is required to build retroactively
- Separate schedules for each pension plan
 - Kentucky Employees Retirement System (Hazardous/Nonhazardous)
 - State Police Retirement System
 - County Employees Retirement System (Hazardous/Nonhazardous)
- Notes to RSI will include significant changes in actuarial assumptions, benefit provisions, etc. that affect the identification of trends in RSI schedules



What Will KRS Provide?*

- Total Pension Liability
- KRS' Fiduciary Net Position
- Total Net Pension Liability
- Total Pension Expense/Deferred Inflows & Outflows
- Proportionate Share for Each Employer and change in proportionate share
- Employer Contributions (Individual and Collective)

**timing to be determined*



Audit Awareness

- The Net Pension Liability, Pension Expense, and other pension costs will come from KRS
- Allocation of employer proportional shares is not a schedule that is required to be audited by KRS's auditor as part of the financial statements
- Employer comfort level that these amounts as of the measurement date are accurate and verifiable



Summary

- GASB 67 & 68 require changes in financial accounting and reporting for both KRS and participating Employers
- New accounting numbers are unrelated to funding
- Contribution rates will continue to be set by KRS Board of Trustees under a funding policy adopted by the KRS Board



Thank You

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