

GASB 67 and 68: Pension Fund Reporting

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CERTIFIED PUBLIC ACCOUNTANTS

GASB 67/68 - Accounting and Financial Reporting for Pensions

- Topics for discussion
 - Employer reporting
 - Funding vs. accounting
 - Actuarial assumptions
 - Actuarial reporting
 - Funding policies



New Terminology

- Total Pension Liability (TPL)
 - Portion of PV of future projected benefit payments that is attributed to past periods of member service
- Net Pension Liability (NPL)
 - The liability of employers to plan members for benefits provided through the pension plan
 - $NPL = TPL - \text{plan's net position}$



GASB 67/68 Timing

- Pension plans implemented GASB 67 this past year
 - If separate audited financial statements GASB 67 implemented in Pension Plan's report
 - If NO separate audited financial statements GASB 67 implemented in Employer's report
- Employers will implement GASB 68 this year
 - New notes/required supplementary information
 - Actual recording of the Net Pension Liability
 - = Total Pension Liability – Plan Net Position



Impact of New Statements on Employers of Pension Plans

- IMRF, Police and Firefighter pension plans (and others in the state)
- Employer required to have additional notes to the financial statements related to pensions
- Employer required to have new 10 year required supplementary information
- Employer required to report the Net Pension Liability on the books (unfunded portion)



Impact of New Statements on Employers of Pension Plans

- Recording of Obligation
 - Increases liabilities
 - Decreases employer's net position (equity)



Separation of Funding and Accounting

- Actuaries will be issuing multiple sets of calculations
 - Funding Calculations
 - GASB 67/68 Calculations
 - State Minimum Calculations
- Previously, funding calculations and GASB calculations were more closely related – No longer true with new standards



Separation of Funding and Accounting – Continued

- Why should pension fund care about GASB 67/68 actuarial calculations
 - Assumption changes dictated by GASB?
 - Additional scrutiny of assumptions elected
 - Additional support of assumptions required to be disclosed in the employer's audit – why were assumptions elected?



Other Implications

■ Pension Plan investment policies

- Should specify the target allocation AND long-term expected real rate of return by asset class (e.g., fixed income, domestic equity, international equity, real estate, etc.)

■ Pension Plan investment advisors

- Contact to assist in obtaining the annual money-weighted rate of return, net of investment expense (See paragraphs 30b(4) and 32d of GASB 67) – required in pension plan reporting



New Actuarial Assumptions and Considerations

- Discount Rate
- Cash Flow Analysis
- Projected Benefit Payments
- Entry Age Normal Cost Method



New Actuarial Assumptions and Considerations – Continued

■ Discount Rate

- Discounting of projected benefit payments using SINGLE rate that reflects:
 - 1) long-term expected rate of return to the extent that fiduciary net position (cash flow analysis) is projected to be sufficient to pay benefits AND
 - 2) a tax-exempt, high-quality municipal bond rate to the extent that #1) is not met



New Actuarial Assumptions and Considerations – Continued

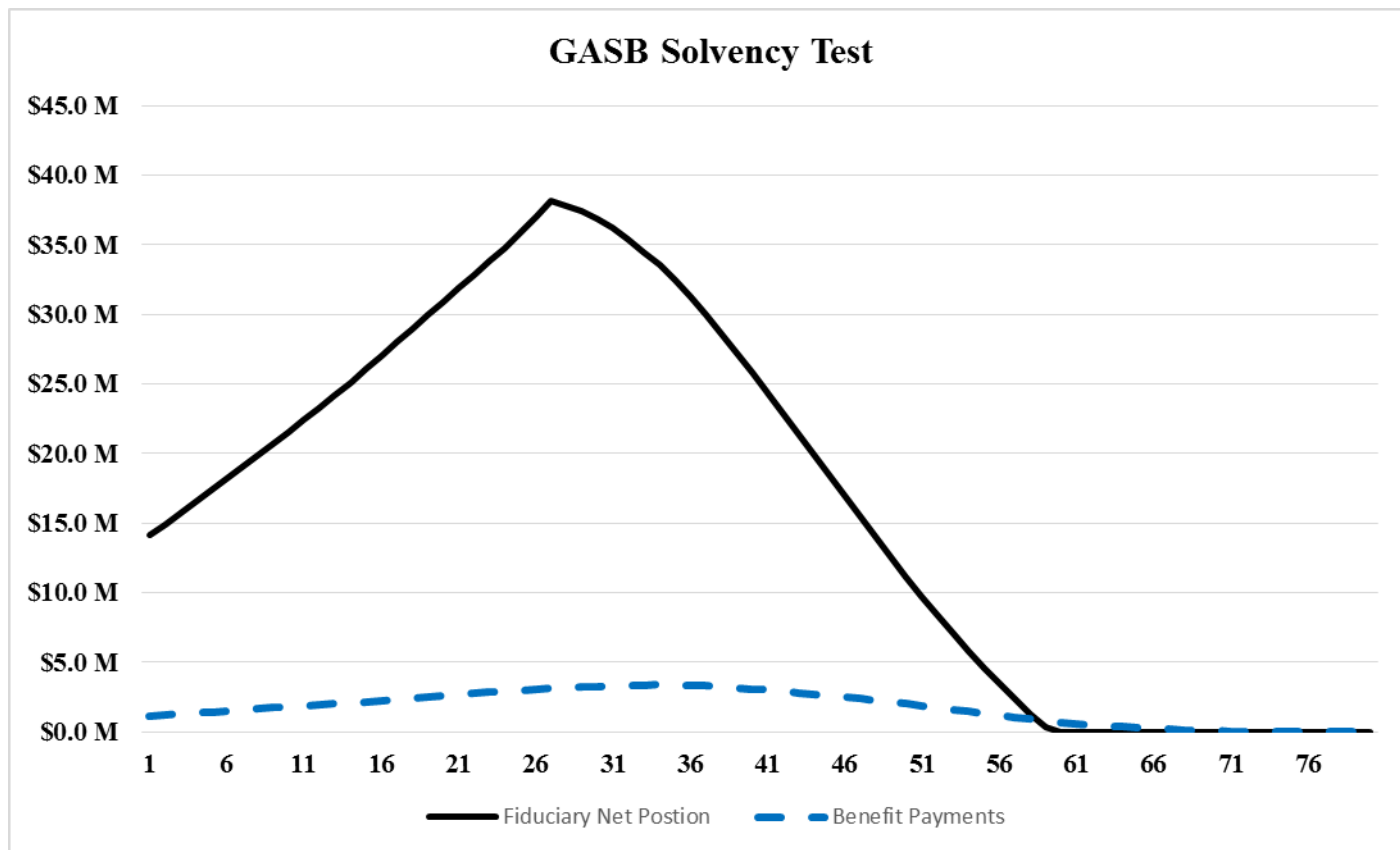
■ Cash Flow Analysis

- Inflows: Employer contributions, current employee contributions, investment earnings
- Outflows: Benefit payments and administrative expenses
- Looking for the “cross-over point” which is where net position no longer exists to meet benefit payments
- Professional judgment should be applied to project cash flows for contributions from the employer (funding policies – more to come)



Discount Rate for Accounting

■ Example



Discount Rate for Accounting

■ Caution

- Cash Flows do Not Include Future New Hires
- Dependent on Actual Funding
- Asset Growth - Volatile Process
- 80 Years – A lot can change
- Long-Term Results very Sensitive

Discount Rate for Accounting

- Municipal and Pension Board Trustees
 - Contribution projection - new part of the actuarial process
 - Long-term fund objectives
 - Pay benefits for all fund members
 - Do assets run out long-term? Do they last 10 years?
 - Important: impact of current decisions on funding going forward (not just back)

Pension Funding

- Still mandated under the Illinois Pension Code
- Could be based on a funding policy
 - Actuaries will be using for GASB 67/68 calculations if policy in place and being adhered to
 - If not – 5 year look back on funding



Actuary Report - Output

- Non-Disclosure Items for Discount Rate
 - Projection of contributions
 - Projection of Plan's Fiduciary Net Position
 - Actuarial Present Value of Projected Payments
- Other Non-Disclosure Items
 - Calculation details – Money Weighted return
 - Procedures used for roll-forward (if used)
- Non-Disclosure items for Employer/Fund/Auditor to review



Actuary Report - Output

- Disclosure Items – Financial Statements
 - Statement of Net Position
 - Statement of Changes in Net Position
- Disclosure Items – Notes to Financials
 - Net Pension Liability
 - Actuarial Assumptions (and BACKUP)
 - Determination of Expected Asset Return
 - Sensitivity of Net Pension Liability
 - +/- 1% on Discount Rate



Actuary Report - Output

- Disclosure Items – Required Supplementary Information
 - Changes in Net Pension Liability (10 Years)
 - Schedule of Contributions (10 years)
 - Includes basic ADEC parameters
 - Schedule of Investment Returns (10 years)
 - Deferred Outflows/Inflows (Including projected recognition)



Actuary Report - Assumptions

■ Discount Rate

- Must blend expected returns with bond rate
- Based on projection of fiduciary net position

■ Recent trends

■ Statement 67 and 68 Issues

- Must use same assumptions for same plan (fund level and employer level)
- Significant increase in disclosure of assumptions
 - Why are we using these assumptions?
 - When was the last experience study completed?





Other Actuarial Assumptions

- GASB does not dictate specific assumptions
 - Assumptions follow standards of practice – must be reasonable and sound
 - “...required to be made in conformity with Actuarial Standards of Practice by the Actuarial Standards Board.”
 - Actuarial Standards Board sets process
 - Same requirements as any actuarial exercise



Key Assumptions and Process

■ Economic Assumptions

□ Assumptions

- Asset returns, discount rate, pay increases, CPI

□ Process

- GASB Mandated Processes
- Professionals/Capital Markets
- Target Allocations
- Local Practices and Contracts



Key Assumptions and Process

■ Demographic Assumptions

□ Assumptions

- Mortality, Retirement, Disability, Termination

□ Process

- National Studies
- Sector Studies
- Local Practices
- Conservatism

Funding Policy

- State of Illinois

- How did we get here?
- History of Pension Reform

- Items Included in a Funding Policy

- Actuarial Cost Method
- Parameters to Pay Unfunded Liability
- Asset valuation Method
- Parameters for tracking/adherence
- Parameters for review of assumptions



Funding Policy

■ Formal Funding Policy

- Written document
- Joint effort between municipality and pension boards (only as good as adherence)
- Intergovernmental Agreements

■ Informal Funding Policy

- Rely on history (most recent 5 years contributions)
- Judgment as to “defined” policy based on history
- Percent of ADEC? Dollar amount?



Questions

- Contact Lauterbach & Amen, LLP

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