



Government Accounting Standards Board (GASB) Pension Accounting Standards Update

Presented by Fran Lawrence

October 23, 2014

North Carolina Department of State Treasurer
Financial Operations



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GASB Pension Accounting Standards Update

Purpose:

- Update on pension accounting standards
 - Pre-mailing - Information included herein provides overview and status for GASB 67 and 68
 - Presentation at Board Meeting will provide an overview

Contents:

- GASB 67 Implementation
- GASB 68 Status
- GASB 67 and 68 Audit Update



GASB 67 “Financial Reporting for Pension Plans” Implementation

- Replaces GASB 25 and 50 for certain plans
- Implemented in the state’s June 30, 2014 Comprehensive Annual Financial Report (“CAFR”)
- Additional data from Buck Consulting in actuarial letters
- Impacts to disclosures:
 - Approximately four pages of additional disclosures, including actuarial and investment data
 - Most significant impacts to Note 12 and Required Supplementary Information (“RSI”) for all Defined Benefit Pension Plans
 - Four new tables in Note 12 and four new RSI tables
 - Disclosure of Net Pension Liability (Asset) for the first time



GASB 67 “Financial Reporting for Pension Plans” Implementation

Amounts represented below (in 0000's) as of June 30, 2014 were submitted to the Office of the State Controller in the 2014 CAFR Package:

Plan	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Teachers' and State Employees' Retirement System	\$66,788,196	\$65,615,775	\$1,172,421
Local Governmental Employees' Retirement System	\$22,375,668	\$22,927,586	\$(551,918)
Firefighters' and Rescue Squad Workers' Pension Fund	\$416,823	\$389,405	\$27,418
Registers of Deeds' Supplemental Pension Fund	\$24,143	\$46,809	\$(22,666)
Consolidated Judicial Retirement System	\$565,761	\$539,564	\$26,197
Legislative Retirement System	\$24,418	\$30,051	\$(5,633)
North Carolina National Guard Pension Fund	\$140,206	\$110,030	\$30,176



GASB 68 “Accounting and Financial Reporting for Pensions”

Status

- Replaces GASB 27 and 50 as they relate to employers that provide plans to employees
- Effective for the fiscal year ending June 30, 2015
- Implementation is in process
- GASB 68 Requirements:
 - No significant additional disclosure requirements
 - New items to be recorded by employers for the fiscal year ending June 30, 2015:
 - Net pension liability or asset
 - Pension expense
 - Net pension liability or asset and pension expense are determined and disclosed under GASB 67. Each participating employer, including the state, will recognize its proportionate share of the net pension liability for cost-sharing plans.
 - The state will recognize a liability for special funding situations (North Carolina National Guard Pension Fund and Firefighters’ and Rescue Squad Workers’ Pension Fund) and for its single-employer plans.



GASB 68 “Accounting and Financial Reporting for Pensions”

Status

- Successful implementation of GASB 67 in CAFR Package
- GASB 68 implementation on track, including:
 - The Department of State Treasurer is working with Buck Consultants on GASB 68 dry run in the fourth quarter of 2014 for at least one cost-sharing pension plans.
 - The dry run schedules will display, as required by GASB 68, the proportionate share of the pension liability, pension expense, and deferred inflows/outflows of pension resources by employer for cost-sharing plans.
 - Audited schedules to be provided to local governments and their auditors in sufficient time to be incorporated in their initial GASB 68 financial statements in the first quarter of 2015



GASB 68 “Accounting and Financial Reporting for Pensions”

Status

- Continued assistance will be provided to local governments and their auditors
- Focus on employers participating in the Local Governmental Employees’ Retirement System and the Teachers’ and State Employees’ Retirement System
 - Created a GASB 67/68 website with helpful information, including:
 - High level introductory memo for finance officers, staff, and their independent auditors – see Memorandum # 2014-12
 - Summary memo and Q&A for elected officials, citizens, and the press – see Memorandum # 2015-04
 - Audit guidance provided to employers selected by the Office of the State Auditor
 - In-depth memo for governmental finance officers, staff, and their independent auditors is in process
 - Presentations and webinars conducted:
 - North Carolina Government Finance Officers Association
 - North Carolina Association of Certified Public Accountants
 - North Carolina Association of School Business Officers
 - City and County Managers’ Conference



GASB 67 and 68 Audit Update

- June 30, 2014 CAFR Audit
 - Office of the State Auditor is in the process of auditing the 2014 CAFR package. This audit typically lasts into November and an audit report is issued in December.
 - Office of the State Auditor has contracted Cavanaugh Macdonald Consulting as its actuarial specialist to assist with its audit procedures.
- Audits of Local Governments
 - Office of the State Auditor selected a sample of employers from the Local Governmental Employees' Retirement System and the Teachers' and State Employees' Retirement System for census data testing.
 - Local auditors have been instructed (by Office of the State Auditor and the State and Local Government Finance Division) to provide assurance related to specific data elements.



GASB 67 and 68 Audit Update, continued

- GASB 68 Tables
 - The Financial Operations Division will provide GASB 68 tables, including a schedule of employer allocations and a schedule of pension amounts by employer, to the Office of the State Auditor to be audited in January 2015.
- June 30, 2015 CAFR Audit
 - Data provided to the Office of the State Controller will change with new GASB.
 - Content and timing to be determined with the Office of the State Controller and the Office of the State Auditor.





Thank You!

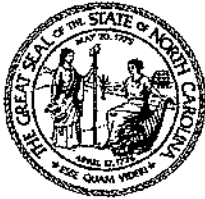
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NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

JANET COWELL
TREASURER

T. VANCE HOLLOMAN
DEPUTY TREASURER

Memorandum # 2014 - 12

TO: Finance Officers of North Carolina Local Governments and Public Authorities

FROM: Sharon Edmundson, Director, Fiscal Management Section

SUBJECT: New Reporting Standards for Defined Benefit Pension Plans and Participant Employers – GASB Statements 67 and 68

DATE: February 28, 2014

The Governmental Accounting Standards Board (GASB) has adopted two new reporting standards for pension plans and those employers that participate in those plans. GASB Statements 67 and 68 will fundamentally change the way defined benefit pension plans, liabilities, and expenses are reporting in both the plan financial statements and the statements of participant employers.

In North Carolina, we have four state-wide defined benefit pension plans in which local governments and public authorities participate; they are all cost-sharing multi-employer plans:

- Teachers and State Employees Retirement System (TSERS)
- Local Government Employees Retirement System (LGERS)
- Firefighters' and Rescue Squad Workers' Pension Fund (F&RS)
- Register of Deeds Supplemental Pension Plan

Retirement plans currently report an Unfunded Actuarial Accrued Liability in the notes to their financial statements, and use that figure to help determine funding. When GASB 67 is implemented, each plan will be required to calculate a net pension liability, and that amount will be reported in the notes to the financial statements for the plan.

impacted. It is likely that some additional audit work will need to be completed by the participant employer auditor with regards to the employer's participant data and records from its payroll system and employee files.

Certain circumstances represent what the new standards refer to as special funding situations. A special funding situation exists when someone other than the employer is legally obligated to make a pension contribution directly to the pension plan that is used to provide pensions to the employees of another entity or entities and either 1) the amount of contributions for which the non-employer entity is legally responsible is not dependent on one or more events or circumstances unrelated to the pensions; or 2) the non-employer entity is the only entity with a legal obligation to make contributions directly to a pension plan. We believe we have two pension plans for which special funding situations exist – the National Guard Pension Fund and the Firefighters' and Rescue Squad Workers' Pension Fund. The employers for members in these two pensions will report an additional pension expense for the amount contributed by the non-employer and a matching revenue.

GASB Statement 67 must be implemented for all fiscal years beginning after June 15, 2013 (plans with fiscal years ended June 30, 2014 or later in NC). Statement 68 must be implemented for employers that participate in a defined benefit pension plan for all fiscal years beginning after June 15, 2014 (units with fiscal year end June 30, 2015 or later in NC).

We continue to work through the nuances of these two standards and the available guidance on them. More information will be made available as we move forward, including illustrative statements for employer participants including required disclosures and sample calculations, and additional training will be offered. We have a dedicated web page for implementation of the standards; it can be accessed here: (insert link).

Please contact Sharon Edmundson with any questions at Sharon.edmundson@nctreasurer.com or (919) 807-2380.



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Memorandum # 2015 - 04

TO: Finance Officers of North Carolina Local Governments and Public
Authorities

FROM: Sharon Edmundson, Director, Fiscal Management Section

SUBJECT: Q&A on New Reporting Standards for Defined Benefit Pension Plans and
Participant Employers – GASB Statements 67 and 68

DATE: September 5, 2014

In Memorandum #2014-12, *New Reporting Standards for Defined Benefit Pension Plans*, we introduced you to GASB Statement Numbers 67 and 68 which affect the financial reporting of the plans and the employer participants in certain defined benefit pension plans. GASB Statements 67 and 68 will fundamentally change the way defined benefit pension plans, liabilities, and expenses are reported in both the plan financial statements and the statements of participant employers.

Retirement plans currently report an Unfunded Actuarial Accrued Liability in the notes to their financial statements, and use that figure to help determine funding. When GASB 67 is implemented, each plan will be required to calculate a net pension liability, and that amount will be reported in the notes to the financial statements for the plan. Net pension liability is calculated as the difference between total pension liability and the plan fiduciary net position as of the measurement date. Plan statements also will include significantly more disclosures about the plan, the net pension liability, and other information.

GASB 68 will require that cost-sharing multi-employer plans (such as TSERS and LGERS) apportion that net pension liability to the participant employers; each employer will then report its share on its full accrual financial statements, including any enterprise funds and participant component units. The participant employer in a single employer plan will report 100% of the plan liability. All participant employers will record their share (apportioned for participants in multi-employer plans or 100% for single employer) of pension expense and deferred inflows and outflows of resources.

Some components of the apportioned amounts will be amortized over a closed 5 year period with a new period beginning for each year's deferrals on each plan participant's financials, while others will be amortized over the remaining service life of the plan members.

In this memorandum we will address questions that have been raised by elected officials and others about how these standards will affect both the Teachers and State Employees' Retirement System and the Local Government Employees' Retirement System, as well the participant employers in each plan. If you have questions raised that are not included on this list, please forward them to us. We are developing a comprehensive FAQ document that will include specific reporting and auditing issues and will be adding to that list as questions come up.

Who is required to implement 67 & 68?

With regard to GASB 67, all defined benefit pension plans whose assets are maintained in trust as defined by GASB (irrevocable trust protected from the creditors of the units is a simplified definition) must implement this standard beginning in the year that starts after June 15, 2013. For the State of NC, this is the 2013-2014 fiscal year that started on July 1, 2013.

With regards to GASB 68, all employer participants of plans that were required to implement GASB 67 must implement GASB 68 beginning in the year that starts after June 15, 2014. For most of our local governments this will be the 2014-2015 fiscal year that started on July 1, 2014. We do have some entities with alternative year ends that will implement at later dates. Units with September 30 year ends will implement in the year that begins October 1, 2014; units with December 31 year ends will implement in the year that begins January 1, 2015, and units with March 31 year ends will implement in the year that begins April 1, 2015.

Does this standard affect employer participants and state agencies that are part of TSERS or is it just LGERS members that will have to implement GASB 68?

Any participant employer that is a member of one of the State's defined benefit plans will have to implement GASB 68, including local governments, public authorities, local school systems and charter schools.

Is there any exception for small units?

No. All units that are members of either a qualifying sole employer or multi-employer defined benefit plan must implement these standards for GAAP reporting purposes.

Does this standard affect every local government and public authority in NC?

No, only those that are part of a defined benefit plan that meets the requirements of GASB 67. Members of TSERS and LGERS will have to implement but also any units that may have their own defined benefit program.

Does the reporting for the Law Enforcement Officers Special Separation Allowance fall under these standards?

Only if a unit of government has established a trust that meets very specific criteria set by GASB. The trust must be holding assets for the payment of benefits under this plan; contributions to the plan must be irrevocable; and the assets must be protected from the creditors of the unit. Otherwise, no, these standards will not affect the reporting for the Special Separation Allowance.

Why did GASB believe the standards for pension reporting needed to be changed?

The current standards focus on funding levels of the pension plan as a basis for calculating the data included in financial statements. The new standards look at the fair value of assets held compared to the present value of benefits owed. Pension expense is tied to the period in which the benefit is earned rather than when it is paid out. The GASB believes the new standards will promote more transparency and consistency in reporting of pensions and improved comparability between plan and employer financial reports.

Has the employer liability been included in the financial statements before? How has pension expense been calculated prior to implementation of GASB 68?

Employer participants do not, under current reporting standards, record a liability related to the net pension liability of the plan as a whole. The only liability an employer participant records under current standards is for any contributions not yet paid at fiscal year-end. Pension expense, under current standards, is simply the amount of contribution made by the participant employer that was not withheld from employee paychecks.

What will be different for employer participants once the new standards are fully implemented?

Several things in employer participant financial reports will change. First, the employer will record its proportionate share of the net pension liability on its full accrual financial statements. (The full accrual statements are the government-wide statements as well as any enterprise or internal service funds to which the liability should be allocated.) Pension expense on these statements will be calculated differently as well, and will include the recognition of any change to the pension benefit that relates to retirees and past service of current employees. The note disclosures regarding the pension benefit will change to include a discussion of both the net pension liability and pension expense. Finally, as part of required supplemental information, participant employers will be required to include certain schedules of data that have not previously been required.

What will stay the same for participants and/or the Plans?

Employer participants will still make their contributions to the Plans as a percentage of eligible payroll each month, and will still have to budget only for those contributions made to the plan by the employer (including amounts withheld from employee paychecks). Benefits will still be paid out by the Plans from the assets on hand.

Does this standard change the way NC funds its pension plans?

No. The Retirement Services Division, in conjunction with the actuaries for the Plans, will continue to calculate the contributions needed to keep the Plans appropriately funded, just as they do now.

Does this standard require that we 100% fund our pensions?

No, although the lower the funded amount, the larger the net pension liability of each plan will be. North Carolina plans have a long tradition of being well funded and that will not change as a result of implementation of these new standards.

What is current funded ratio of the plans and will it change after new standards are implemented?

For the year ended December 31, 2012, the LGERS plan was 99.8% funded. The TSERS plan was funded at 94.2% for that same time frame. Implementation of GASB 67 will

require that the LGERS plan use a slightly different amortization method than is currently used. The TSERS plan percentage is currently being calculated using the required amortization method. This change plus the use of market values rather than a smoothed asset value may slightly change these percentages.

Do the Standards require the plans to use a specific rate of return when calculating the net pension liability of the plans?

In certain circumstances, yes, the rate of return is dictated by the Standards. One of the requirements of GASB 67 is for each plan to develop a long term cash flow projection for benefit payments compared to assets available to make those payments. As long as the calculations show that the Plan will have assets on hand to cover benefit payments, the Plan can use its long-term expected rate of return in calculating the present value of benefit payments. If at any point in the projection, it appears that the Plan will not have the resources it needs to satisfy the benefits, it must then use a blended rate to calculate the present value. The blended rate is based on the Plan's long-term expected rate of return and a tax-exempt high quality municipal bond rate. None of our plans here in North Carolina reach this "crossover" point based on our actuaries' calculations.

Will the implementation of these standards have an impact on the bond ratings of the State or our local governments?

Because of North Carolina's history of maintaining well-managed and well-funded pension plans, we do not expect the implementation of these standards to negatively impact the fiscal health of any of our participant employers.

Local governments and state agencies are told each year by the Retirement Services Division how much to pay in per employee (as a percentage of qualifying payroll). Does the fact that an agency or local government is now recording a liability for the pension plan on its books mean the agency or local government did not do something it was supposed to do with regards to those monthly payments? Will employer participants have to pay this liability to the retirement plans?

No. The liability represents each employer participant's share of the net pension liability. It is not a current liability of the employer that will be paid directly and it is not an indication that the employer is behind in any payments to the plan.

Will this standard affect my unit's budget?

No. This standard changes the way pensions are reported in the full accrual financial statements. Budgetary statements represent inflows and outflows of funds on the modified accrual basis of reporting. Nothing will change about how pensions are reported on that basis.

Will this standard affect my unit's fund balance available for appropriation?

No. Fund balance available is a modified accrual accounting calculation and again, these new standards do not affect the way pensions are reported on the modified accrual basis. The only fund statements that will potentially be affected by these standards are the full accrual fund statements for proprietary funds, including enterprise and internal service funds, in which employee salaries and benefits are reported.

Please contact Sharon Edmundson via email at Sharon.edmundson@nctreasurer.com or via telephone at (919) 807-2380 or Preeta Nayak via email at Preeta.nayak@nctreasurer.com or via telephone at (919) 807-2393.