GASB 68 Webcast Script for ASRS Employers

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Welcome to the GASB 68 Webcast. Hi I'm Latoya, and I am your host for today's presentation. We're glad you're here. This is a casual environment, so sit back, relax and learn how the ASRS can help you implement GASB 68.

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Now I would like to introduce to you Nancy Bennett, who is the presenter for today. She's the Chief Financial Officer here at the Arizona State Retirement System.

Thanks LaToya. Hi. As Latoya said, I'm Nancy Bennett, and yes, I am the speaker for today. It may be hard to believe, but GASB 68, Accounting and Financial Reporting for Pensions, is almost here. As you know, it becomes effective for the June 30, 2015 financial statements issued by employers who participate in the ASRS. I, along with Liz Rozzell, our Controller and Erin Higbee, our Assistant Controller, have been quite immersed lately in GASB 68. We hope this presentation proves helpful for you as you begin your GASB 68 journey.

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The main purpose of my presentation today is to discuss how the collective net pension liability, as defined in GASB 68, will be calculated by the ASRS, how the ASRS recommends that participating employers' proportionate share of pension related transactions be calculated, and how the information you need to be in compliance with GASB 68 will be provided to you. I will also talk about employer census data audits that our external auditor will be undertaking based on the AICPA's Pension Whitepaper Series which was issued in February 2014. The end of this presentation provides a comparison between the GASB 68 accounting methodology used to calculate the ASRS' net pension liability and the ASRS' funding methodology used to calculate the unfunded actuarial accrued liability. There is a slide with the e-mail address to which you can send us questions and the last two slides of the presentation provide some links that might be helpful for you. My presentation today assumes that you have read GASB 68 and have a general understanding of its requirements. So I will first provide just a high level overview of GASB 68**.**

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Let's get started with the highlights of GASB 68.

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With the advent of GASB 68, as well as GASB 67, Financial Reporting for Pension Plans, the accounting and funding methodologies used to calculate pension related transactions have diverged. The GASB said it was only in the business of promulgating accounting requirements, not funding requirements. That makes sense as accounting and funding objectives are different. Accounting is concerned with consistent reporting among pension plans and recording pension related transactions when they occur. Funding on the other hand, is concerned with calculating contribution rates, keeping contribution rates relatively stable and reducing any unfunded actuarial accrued liability.

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While the ASRS will be focusing on all of the bulleted items on this slide, employers will be most concerned with the bullets below the line. The first thing to know about GASB 68, is it applies to only the ASRS Retirement Plan. It doesn't apply to the Health Benefit Supplement Plan nor does it apply to the Long Term Disability Plan. GASB 68 only allows the Entry Age Cost actuarial method for calculating the pension related transactions. In the past it accepted six different actuarial cost methods to account for pension related transactions. In addition, pension assets must be valued at market as opposed to an actuarial value. Unlike market valued assets which recognize an entire investment gain or loss in the year in which it occurs, actuarial asset values recognize investment gains and losses over time. If a plan's long term expected rate of return is projected to result in a plan fiduciary net position that is insufficient to cover long term projected benefit payments, then the interest rate for a municipal, 20-year tax-exempt, high grade general obligation bond must be "blended" with the plan's long term expected rate of return when calculating the total pension liability. A blended discount rate yields a larger total pension liability than does the long term expected rate of return. The ASRS retirement plan's long term expected rate of return, which is 8%, is expected to result in a fiduciary net position that is sufficient to cover long term projected benefit payments, so we will not have to use a blended discount rate to calculate the total pension liability.

As you know, the ASRS is a multiple employer cost-sharing government pension plan. So you, as a participating employer will now have to record your proportionate share of the net pension liability, deferred inflows and deferred outflows related to pension transactions and a new pension expense calculation on the face of your government's financial statements. That's right; the contributions you pay are no longer your pension expense. There are four possible deferred inflows and five possible deferred outflows that can show up on financial statements. Different recognition periods apply to each deferral, depending on the type of deferral. Lastly, there is a substantial amount of new financial statement note disclosures and required supplementary information related to pensions that employers will have to present in their June 30, 2015 financials.

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There are three dates that come into play when you calculate the collective net pension liability under GASB 68. There is a valuation date, a measurement date and a reporting date. For participating employers, all three of these dates can be different. The valuation date relates to the date of the actuarial valuation that is used to calculate the total pension liability. The valuation date can be no more than 30 months and one day earlier than the employer's current fiscal year end. The measurement date is the date the collective net pension liability is calculated. The collective net pension liability is calculated by subtracting the total pension liability from the plan's fiduciary net position. The measurement date can be no more than twelve months prior to the employer's current fiscal year end. Once the measurement date is chosen, it must be consistently applied from year to year. The reporting date is the employer's current fiscal year end and is the "as of" date for which the net pension liability is presented on the employer's financial statements.

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If the valuation date and the measurement date are different, roll forward procedures must be used to update the total pension liability to the measurement date. There is a benefit to having the measurement date lag the valuation date. That avoids delays to the actuary caused by having to wait for plan information. If the measurement date and the reporting date are different, contributions paid to the plan by employers must be recorded as a deferred outflow. There is also a benefit to having the reporting date lag the measurement date. That avoids delays to the employer caused by having to wait for plan information.

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Once the collective net pension liability, the total pension related deferred inflows and deferred outflows and total pension expense are calculated, if you are a multiple employer cost sharing plan, those amounts must be proportionately allocated to the participating employers. According to the GASB, the allocation method must be consistent with the manner in which contributions are determined. For example, if there are different contribution rates assessed to different tiers of employees within the same plan, the calculation of the proportionate share should reflect those different tiers. All participating ASRS employers pay the same contribution rate, so our allocation method will be fairly simple. In addition, the allocation percentages must be established as of the measurement date. And keep in mind that when we talk about allocating based on contributions, we are only talking about employer contributions, not employee contributions. GASB 68 allows for three acceptable allocation methods. We can allocate based on required long-term projected employer contributions, current period required employer contributions or average historical required employer contributions. However, the AICPA discourages allocating based on required long-term projected employer contributions as the future is extremely difficult to audit.

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Now that you have the basics of GASB 68 down, we are going to talk about the ASRS recommendations for the collective net pension liability calculation and the employer proportionate share calculation.

GASB 68 is silent as to whether it should be the cost-sharing multiple employer plans or the participating employers themselves who calculate the pension related transactions and the related proportionate allocations. So the AICPA, through its Pension Whitepaper Series, has stepped in and said that it makes the most sense for the plans to do that work. That promotes consistency in the calculations and reduces the total effort and cost involved. The ASRS, along with the majority of cost-sharing multiple employer plans we have spoken with, agrees with that assessment. We will be providing you with all of the information you need in order to be in compliance with GASB 68. You will reflect this information on your government wide financial statements.

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After consulting with our actuary and our external auditor, we are recommending that when our actuary calculates the net pension liability in accordance with GASB 68, we use a valuation date that is 24 months prior to our participating employers' reporting date and a measurement date that is 12 months prior to that same reporting date. This means that for the fiscal year end reporting date of June 30, 2015, we will use a June 30, 2013 valuation date and a June 30, 2014 measurement date. Because our measurement date will lag our valuation date, we will be required to perform roll forward procedures to roll the total pension liability to the measurement date. Our roll forward procedures will include the effects of any changes in the discount rate, cash flows, like contributions received and benefits paid, legislative changes, assumption changes and experience study changes that occur between the valuation date and the measurement date if they have a significant effect on the net pension liability calculation. From conversations we have had with other government pension plans; it appears that many of them will be using the same timing because it eliminates the possibility of either the actuary or employers having to wait on the plan for information. When we measure the net pension liability, we will include future permanent benefit increases, or PBI's, in the calculation. GASB 68 requires cost of living increases to be included in the net pension obligation calculation if they are considered to be substantively automatic. PBI's are similar to COLAs and even though the ASRS has not paid additional PBI's over the last few years, we do consider them to be substantively automatic because they must be paid in the event certain earnings conditions are met. All other assumptions used for actuarial funding calculations will be used in the GASB 68 net pension liability calculation. And don't forget contributions you remit after the measurement date will be recorded as deferred contributions.

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For the ASRS participating employers proportionate share calculation, we are recommending that we base the calculation on total required employer retirement contributions paid during the current period. When the reporting date lags the measurement date, the current period is the period that ends at the measurement date. That means we will determine employer proportionate share based on employer contributions paid during fiscal year 2013-14. Required retirement contributions will include Plan and System contributions for active and return to work members. We are recommending this allocation option because ASRS employers are statutorily required to pay the actuarial determined contribution rate and because it most closely reflects employers' actual proportionate share. In addition, current year contributions are easy to audit. And, using current year contributions is likely to eliminate the possibility of one deferral – the difference between employer contributions paid and proportionate share of contributions required to be paid. Again, based on conversations we have had with other government pension plans, this recommendation appears to be the option that many of them are also recommending.

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In addition to the AICPA recommending that multiple employer cost sharing plans provide GASB 68 information to participating employers, it also recommended a format in which the plans could provide that information. Let's take a look at the proposed format.

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The Schedule of Pension Amounts by Employer will provide all of the pension related transaction amounts that you will need for the face of your financial statements, with the exception of deferred contributions and your proportionate share of the prior period adjustment. Remember, you will have to track all contributions that you remit to us between the measurement date and the reporting date, which for the first year of implementation will be July 1, 2014 and June 30, 2015, respectively. Contributions paid between those dates will be recorded as deferred contributions. Because some deferred amounts must be recognized over the average expected remaining service lives of active and inactive members, we felt it made the most sense for our actuary to maintain the amortization schedules for all deferred amounts other than deferred contributions. The Schedule of Employer Allocations will provide you with your proportionate share percentage.

The ASRS's external auditors, Clifton Larson Allen, will issue an audit report on these schedules. The schedules and audit report will be available in spring 2015. Remember, the information from the schedules will be as of June 30, 2014 and will be used in your June 30, 2015 CAFR.

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Because GASB 68 is considered the implementation of a new accounting principle, there will be a prior period adjustment in the first year of implementation. Your June 30, 2015 financial statements will have a prior period adjustment related to the net pension liability. That adjustment will be your proportionate share of the June 30, 2013 collective net pension liability balance, plus the contributions you remitted to the plan during fiscal year 2013-14. We have tentatively decided that we can provide the June 30, 2013 collective net pension liability in either our June 30, 2014 RSI Schedule of Changes in the Net Pension Liability or the AICPA recommended Schedule of Pension Amounts by Employer if we slightly modify that report.

Financial statement note disclosures required under GASB 68, are very similar to GASB 67 note disclosures. You can refer to the ASRS June 30, 2014 CAFR note disclosures for the information you need for your notes. In addition, every year the Auditor General's Office issues financial statement reporting guidelines for Arizona counties, community college districts, and school districts. They will be posting financial statement reporting guidelines for GASB 68 in the near future. Those guidelines will be an additional helpful reference for you. Lastly, some of the information you will need for your financial statement notes will come from the AICPA recommended schedules that we will be issuing in the spring of 2015.

For the GASB 68 Required Supplementary Information, you can refer to the RSI in the ASRS June 30, 2014 CAFR, the Auditor General's financial statement reporting guidelines and the AICPA recommended schedules.

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This slide is taken directly from the AICPA's Pension White Paper Series. It is a sample of the Schedule of Pension Amounts by Employer that the AICPA is recommending that government multiple employer cost sharing pension plans give to participating employers. We intend to closely follow the format of this schedule.

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This slide is also taken directly from the AICPA's Pension White Paper Series. It is a sample of the Schedule of Employer Allocations that the AICPA is recommending that government multiple employer cost sharing pension plans give to participating employers. We also intend to closely follow the format of this schedule.

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Now, let's shift gears a bit and talk about employer census data audits.

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In its Pension White Paper Series, the AICPA notes that in the past, there has been no specific guidance given to cost-sharing plan auditors regarding their responsibility over census data. The AICPA issued its whitepaper relating to census data audits in response to the issuance of GASB 67 & 68. This whitepaper provides more specific audit guidance around auditing census data provided to plans by participating employers. As a result of that white paper guidance, Clifton Larson Allen, the ASRS' external auditors, will be auditing certain census data elements from a sample selection of 27 ASRS employers. Most of you should have already been contacted about this audit if you are one of the lucky employers selected for audit. With the assistance of our Internal Audit Division, Clifton Larson will be testing the birth dates, fiscal year **2013** salaries, and years of service for a sub-selection of employees from those 27 employers. They chose those elements to audit because they have the greatest effect on the collective net pension liability.

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At this point, you are probably wondering what the dollar amount is of the ASRS' total collective net pension liability and how that compares to the ASRS' unfunded actuarial accrued liability. Let's take a look.

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This slide compares the GASB 68 Accounting Methodology to the ASRS Funding Methodology. I would like to emphasize that these are un-audited numbers and are subject to change. The numbers will be final once we receive our auditors' report for our June 30, 2014 CAFR. As you can see, the main reason for the differences in the net pension liability calculated in accordance with GASB 68 and the unfunded actuarial accrued liability calculated in accordance with the ASRS funding methodology, relates to the actuarial method used, the valuation method for assets and the fact that PBI's must be included in the GASB 68 calculation. Remember, the ASRS actuarial asset value recognizes investment gains and losses over a ten year period which results in a smoothing process that helps keep contribution rates stable. Using the market value of assets as required by GASB 68 results in more volatile changes in the net pension liability as market values can fluctuate widely from day to day.

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We have created a specific e-mail address that we encourage you to use if you have any questions or comments about the ASRS' recommended collective net pension liability calculation or the ASRS' recommended proportionate share calculation.

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The e-mail address is shown on this slide. Please send your questions and comments to us by August 29, 2014. We will post the script of this presentation along with your questions and our answers on our website's GASB Information Page.

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The links that follow provide more information that might be of assistance to you as you implement GASB 68.

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The first link on this slide takes you to the ASRS's GASB 68 employer page.
The second link is actually the e-mail address for the Auditor General's Office. They have said that you are welcome to e-mail them with any GASB68 questions you may have.
The GASB 68 & 71 Implementation Took Kit for Governments is a series of videos, articles and podcasts prepared by the GASB that discuss GASB 68 in more detail.
The last link on this page will take you to the actual AICPA Pension Whitepapers.

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Lastly, the links on this slide take you to articles written by the major rating agencies. The articles talk about how the rating agencies plan to incorporate GASB 68 into their analysis of government bond offerings.

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Well, we've come to the end of our GASB 68 presentation. Thank you for taking the time to listen to this presentation. We look forward to hearing from you.