GASB 67 & 68

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new statements that change the accounting and financial reporting for public pension plans and employers who participate in those plans. The new statements separate the accounting and financial reporting requirements for employer financial statements from the funding policies used by the pension plan to determine the annual contribution rates.

GASB Statement No. 67

GASB Statement No. 67, *Financial Reporting for Pension Plans*, builds upon the existing framework for annual financial reports produced by defined benefit pension plans such as MCERA. GASB 67 requires MCERA to include two new measurements in its annual financial statements: Total Pension Liability (TPL) and Net Pension Liability (NPL).

For MCERA, the TPL is the Plan's projected liability rolled forward from the most recent annual actuarial valuation. The NPL represents the difference between the assets held by the Plan on the measurement date (June 30, 2015) and the liability for the future expected benefit payments that have been earned based on service through the measurement date by current members and retirees. This amount is then allocated among the employers based on their share of the unfunded liability measured in the annual actuarial valuation report.

The liability amount is generally based on the same assumptions used in the prior year's actuarial valuation, most notably the discount rate, which for MCERA is based on the Plan's expected rate of return on the assets in the trust. The use of the expected rate of return is required under GASB 67/68 because a projection performed by the Actuary shows that the assets of the Plan (both current assets and those from future contributions) are anticipated to be sufficient to cover the expected benefit payments to the current members.

GASB Statement No. 68

GASB Statement 68, *Accounting and Financial Reporting for Pensions*, establishes new financial reporting requirements for employers. Employers are required to include the new schedules and amounts effective in their financial statements for fiscal years beginning after June 15, 2014.

GASB now requires, for purposes of governmental financial reporting, that a portion of the total Net Pension Liability be reflected on each employer's balance sheet along with the annual Pension Expense. MCERA's Actuary calculates the Pension Expense each sponsor must report in their financial statements as their portion of the accounting cost associated with pension plan.

Prior to the new GASB 67/68 standards, this amount was equal to the annual contribution that each employer made to the Plan, which was based on the amount determined by the Board of Retirement through the Annual Actuarial Valuation. Under the new standards, the Pension Expense represents the change in Net Pension Liability for each employer from one year to the next with adjustments for deferred inflows and outflows. Deferred inflows are changes in the employers' financial position that will be deferred until future years, based on gains on assets as a result of positive investment returns or reductions in the liabilities as a result of assumption changes or experience gains from changes in the plan demographics. Deferred outflows are the deferred changes from investment losses or changes in the actuarial assumptions or experience losses that increase liabilities.

At their November 4, 2015 meeting, the MCERA Board of Retirement adopted the report that includes the financial disclosures and supplemental schedules for MCERA's annual financial statements for the fiscal year ended June 30, 2015. The report also includes information necessary for employers to meet their reporting requirements under GASB Statement No. 68.

FREQUENTLY ASKED QUESTIONS

1. When do these new standards go into effect?
Statement No. 67 is effective for MCERA beginning in the fiscal year ending June 30, 2014. MCERA included these new requirements in its Annual Financial Statements for the year ending June 30, 2014.

The reporting requirements in Statement No. 68 apply to financial statements of employers and are effective for fiscal years beginning after June 15, 2014.

2. What do these new standards mean for employers?
GASB now requires, for purposes of governmental financial reporting, that a proportionate share of the total Net Pension Liability be shown on the face of each employer's financial statements. Similarly, a proportionate share of the total Pension Expense and collective Deferred Outflows of resources and Deferred Inflows of resources of the MCERA plan will also be shown on the face of each employer's financial statements. In addition, these standards will require employers to include additional note disclosures about the pension plan in their financial statements.

3. Is this liability due and payable immediately?
No, the Net Pension Liability is similar to other long-term liabilities reported on an employer's balance sheet, in that it is not immediately due. Contribution rates are set by MCERA Board of Retirement annually.

4. Do the new pension standards change employers' contribution rates paid to MCERA?
No. The Board of Retirement has the authority to set the contribution rates. Determining required contributions is a funding issue, and the new standards relate only to how employers account for and report pension costs (accounting and financial reporting requirements).

5. Do the new GASB statements establish requirements for how governments should fund their pensions?

No. GASB concluded that it is not within the scope of its activities to set standards that appear to establish a specific method of funding pensions or to regulate a government's compliance with its financing policy or requirements. The new reporting standards break the link between actuarial funding and financial accounting for pensions. Previous GASB standards required pension plans to calculate the annual required contribution (ARC) and report payments toward the ARC. This measured the plan's funding of the pension obligation. The new standards consider only how systems account for and report pension costs.

6. Why are two sets of numbers needed?

The numbers are intended to tell the story of pension-related activities from two different perspectives. The accounting numbers primarily relate to the determination of pension expense for the reporting period and the pension obligation that was incurred as of a point in time. The funding numbers address how pension obligations are funded each year.

7. How will MCERA determine the Total Pension Liability (TPL)?

MCERA's independent Actuary will determine the projected total future pension benefit payments owed for current and retired members. The Actuary will consider plan assumptions such as projections for salary increases, and retirement and mortality rates. Next, the projected benefit payments will be discounted to their value at the time of measurement (their present value at a specific date). MCERA will use the long-term expected rate of return on their investments to the extent the rate supports projected benefit payments over the life of the plan. Finally, the present value of projected benefit payments will be attributed to the periods when they were or will be earned. This is determined by the Actuary using an entry age actuarial cost method, applied as a level percentage of payroll. The portion of the present value of projected benefit payments that is attributed to past periods of employee service is the Total Pension Liability.

8. What is the Net Pension Liability (NPL)?

The Total Plan Liability minus the Plan Net Position (the value of the assets in the pension trust fund that can be used to make benefit payments) equals the cumulative Net Pension Liability (NPL). The NPL is apportioned to each employer to report in their own financial statements. There will be some differences between the liability shown in the GASB 67/68 report and that shown in the Annual Actuarial Valuation, because the GASB 67/68 liability number is based on the member data from the prior year, rolled forward to the fiscal year end, while the funding valuation (which generally doesn't get issued until several months after the GASB 67/68 report), is based on actual member data as of the fiscal year end.

9. How is the proportionate share determined for each participating employer?

An employer's proportionate share of the NPL would equal its proportion multiplied by the collective NPL for the pension fund as a whole. For MCERA the proportionate share is based on the share of the Unfunded Actuarial Liability (UAL) from the Annual Actuarial Valuation.

10. Where can I find additional information about the new pension reporting standards?
The new reporting pronouncements are available on the GASB website. GASB also published a plain language document covering these pronouncements which may prove helpful.

GLOSSARY

Discount Rate | A single rate of return, expressed as a percentage, that reflects the long-term expected rate of return on pension plan investments to the extent that this rate will support projected benefit payments of the plan, and that assets will be invested using the current allocation targeted to achieve that return.

GASB | Governmental Accounting Standards Board. An independent organization that establishes and improves standards of accounting and financial reporting and is recognized as the official source of generally accepted accounting principles (GAAP) for U.S. state and local governments.

Measurement Date | The date the Total Pension Liability, Fiduciary Net Position and Net Pension Liability are determined. Generally it is the pension plan's fiscal year end and, can be no earlier than the end of the employer's prior fiscal year and must be consistently applied from year to year.

Net Pension Liability (NPL) | The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service determined under the Entry Age Actuarial Cost Method calculated using the discount rate.

Pension Expense | Represents changes in MCERA's Net Pension Liability, recognized in the current reporting period. There are some exceptions that include changes due to differences between expected and actual experience, changes in economic and demographic assumptions, and the difference between projected and actual earnings on pension plan investments.

Proportionate Share | An allocation of the collective Net Pension Liability and Pension Expense attributable to a specific employer, based on the employer's proportion.

Total Pension Liability (TPL) | Each employer's share of the unfunded liability (Total Pension Liability minus the Pension Plan's Fiduciary Net Position) associated with their employees who participate in MCERA.