

Michigan Public School Employees' Retirement System – *Updates*

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Agenda

- Current Operating Expenditures (COE)
- Financial Highlights and System Funding
- GASB 75
- Questions

UAAL Calculation in FY 2019



Employer Contributions - UAAL

- Effective FY 2019, percent change in Current Operating Expenditures (COE) from one year to the next will be used to adjust the payroll on which the UAAL rate is charged.



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Employer Contributions - UAAL

- FY 2017 reported payroll will be adjusted by the percent change in COE from 2016 to 2017 to establish the FY19 **adjusted** payroll.
 - Capped UAAL rate of 20.96% continues to be used in the calculation.
- UAAL contributions will no longer be calculated on member wages reported throughout the FY.

Year 1: COE Adjusted Payroll Calculation

1

Calculate **adjusted** FY 2019 payroll

- Calculate the percent change in COE from FY 2016 to FY 2017.
- Apply the percentage difference to the **actual** FY 2017 payroll.

FY 2019 Required UAAL Determination

2

- Multiply 20.96% by your **adjusted** FY 2019 payroll from Step 1.

FY 2019 Required UAAL Payment Process

3

- The contributions due from Step 2 will be spread out over all Employer Statements in State FY 2019 (October 2018 through September 2019).



Adjusted Payroll Calculation

Formulas:

$$\text{Yr. 1: Payroll}_{17} \times (\% \Delta \text{COE}_{16-17}) = \text{Adj Pyrl}_{19}$$

$$\text{Yr. 2: Adj Pyrl}_{19} \times (\% \Delta \text{COE}_{17-18}) = \text{Adj Pyrl}_{20}$$

$$\text{Yr. 3: Adj Pyrl}_{20} \times (\% \Delta \text{COE}_{18-19}) = \text{Adj Pyrl}_{21}$$

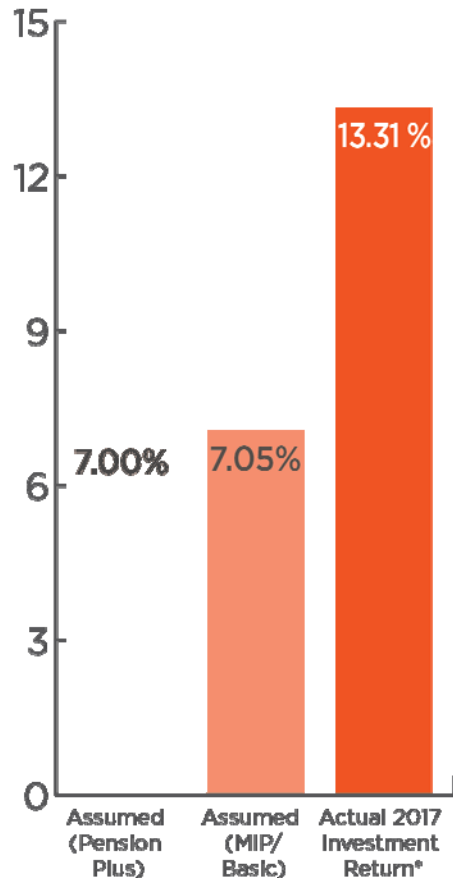
Financial Highlights



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2017 Investment Results



- 2017 was a great investment year.
- Actual returns exceeded the 7.5% assumption by nearly 6%.
- Excess was used to reduce future risk in the plan.

Investment Results and Dedicated Gains

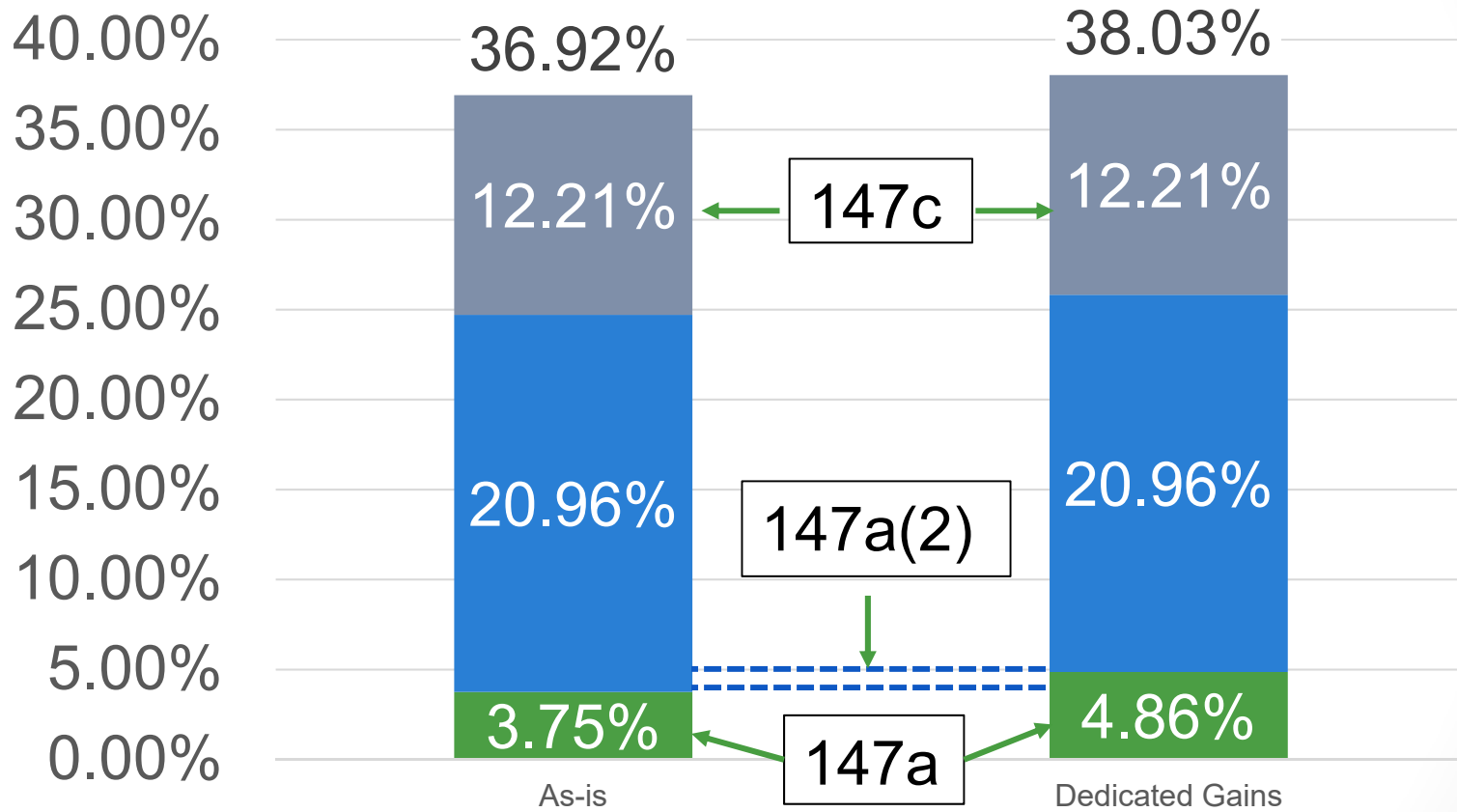
- In August the DTMB-Director and MPERS board adopted the “Dedicated Gains” policy where investment earnings above the assumed rate of return (AROR) are “dedicated” to reducing the AROR.
- Actual 2017 return exceeded the AROR by 5.89%.
 - This was an excess investment gain of nearly \$3B for pension resulting in a 45 basis point reduction in the AROR.
 - \$260M excess investment gain for OPEB resulting in a 35 basis point reduction in the AROR.

Investment Results and Dedicated Gains

- Reducing the AROR increases the actuarial accrued liability (AAL) in the plan, but the immediate recognition of the investment gains means there is a corresponding increase in the assets.
- Effect on contribution rates
 - Normal cost rates will increase (contributions expected to earn less investment income in the future)
 - UAAL rate will stay approximately level (can't go down due to PA 92 contribution rate floor).



Effect of Lowering AROR on 2019 Pension Contribution Rates



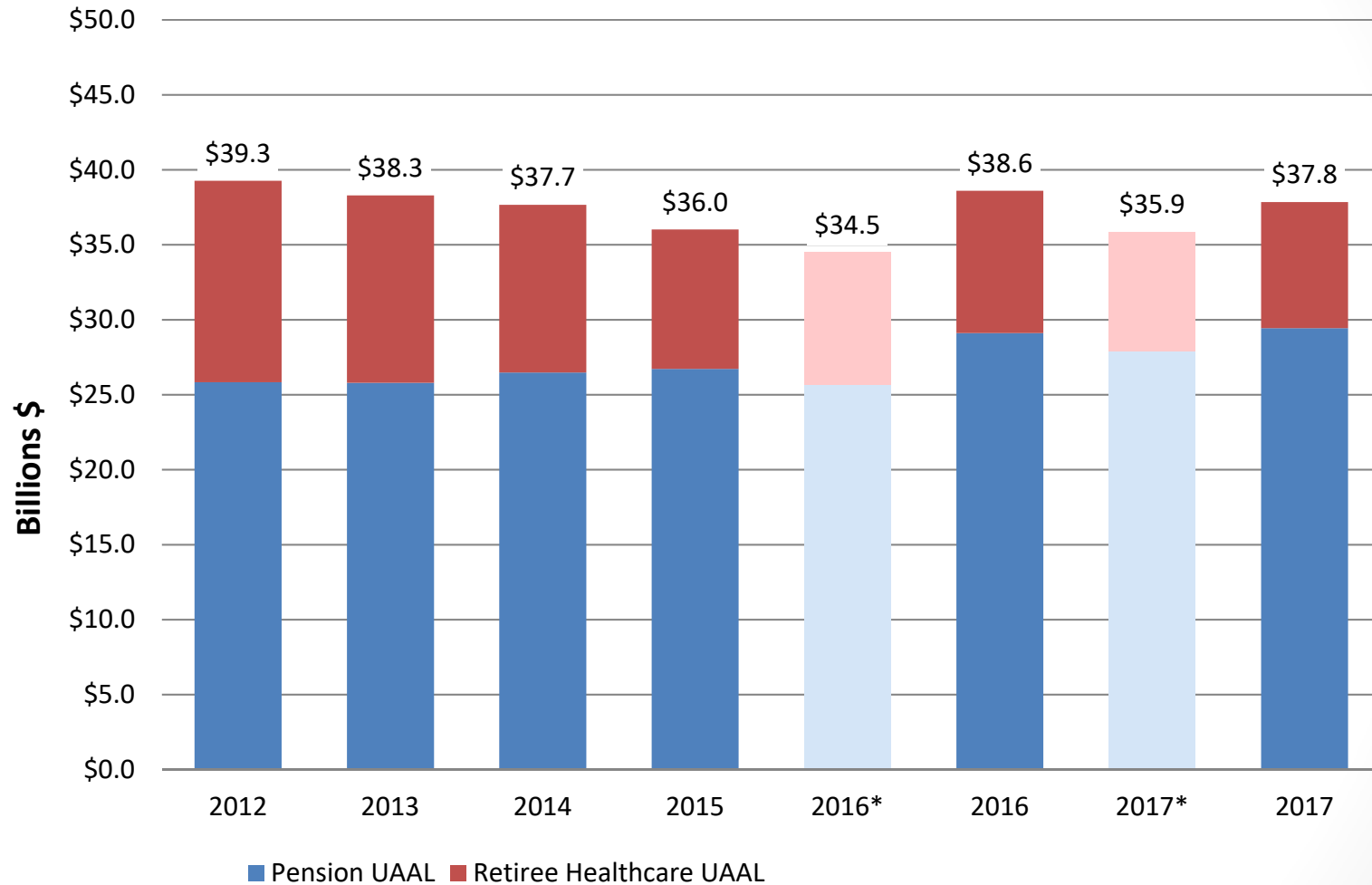
■ Normal Cost
 ■ District UAAL
 ■ 147c.



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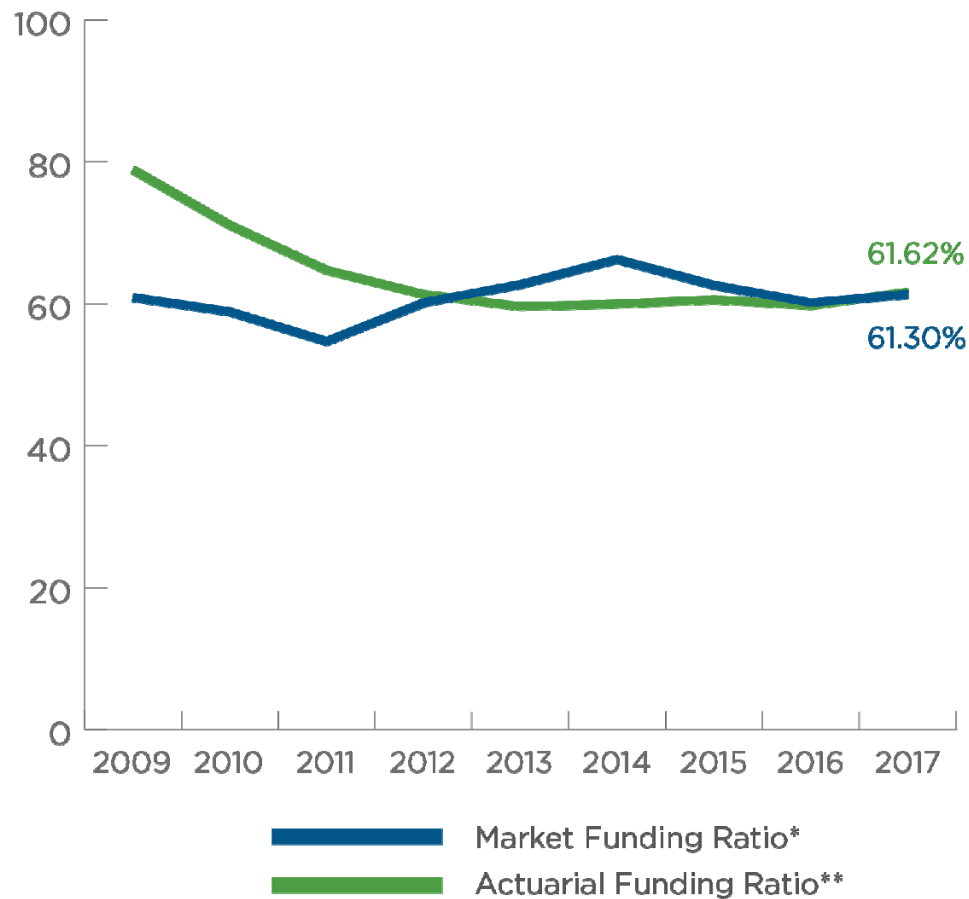
Unfunded Actuarial Accrued Liabilities



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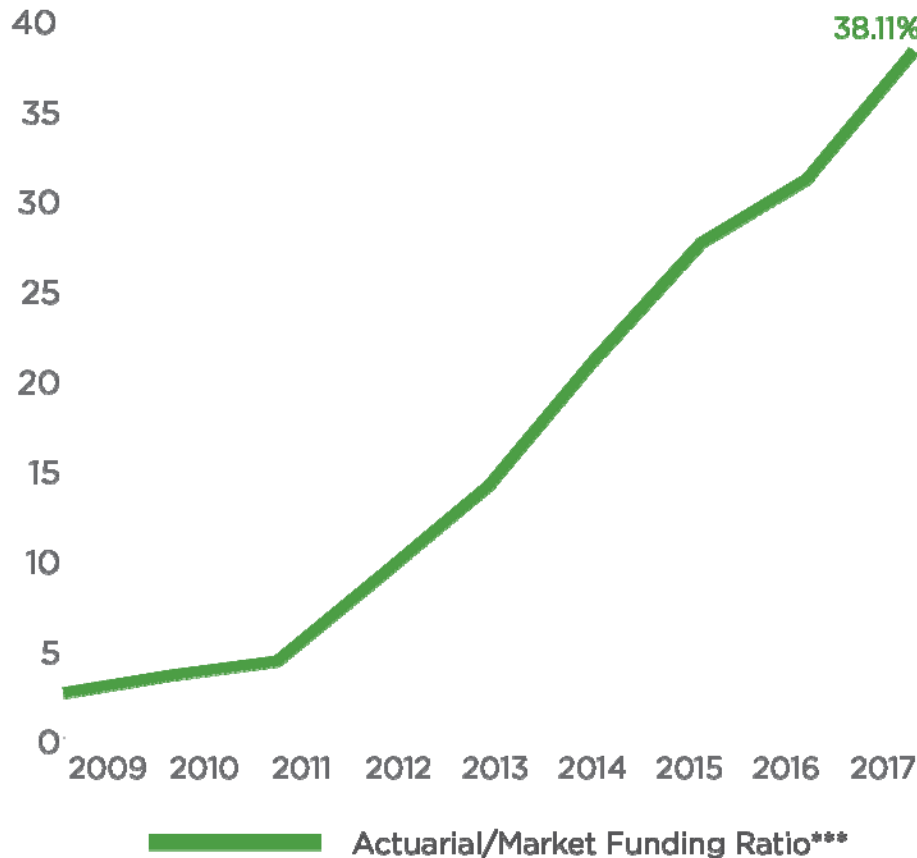
System Funding – Pension



- Pension funding ratio for legacy Defined Benefit plans is 61.30%
- Pension Plus is 100% funded.

Source: Annual Supplemental Report FY 2017

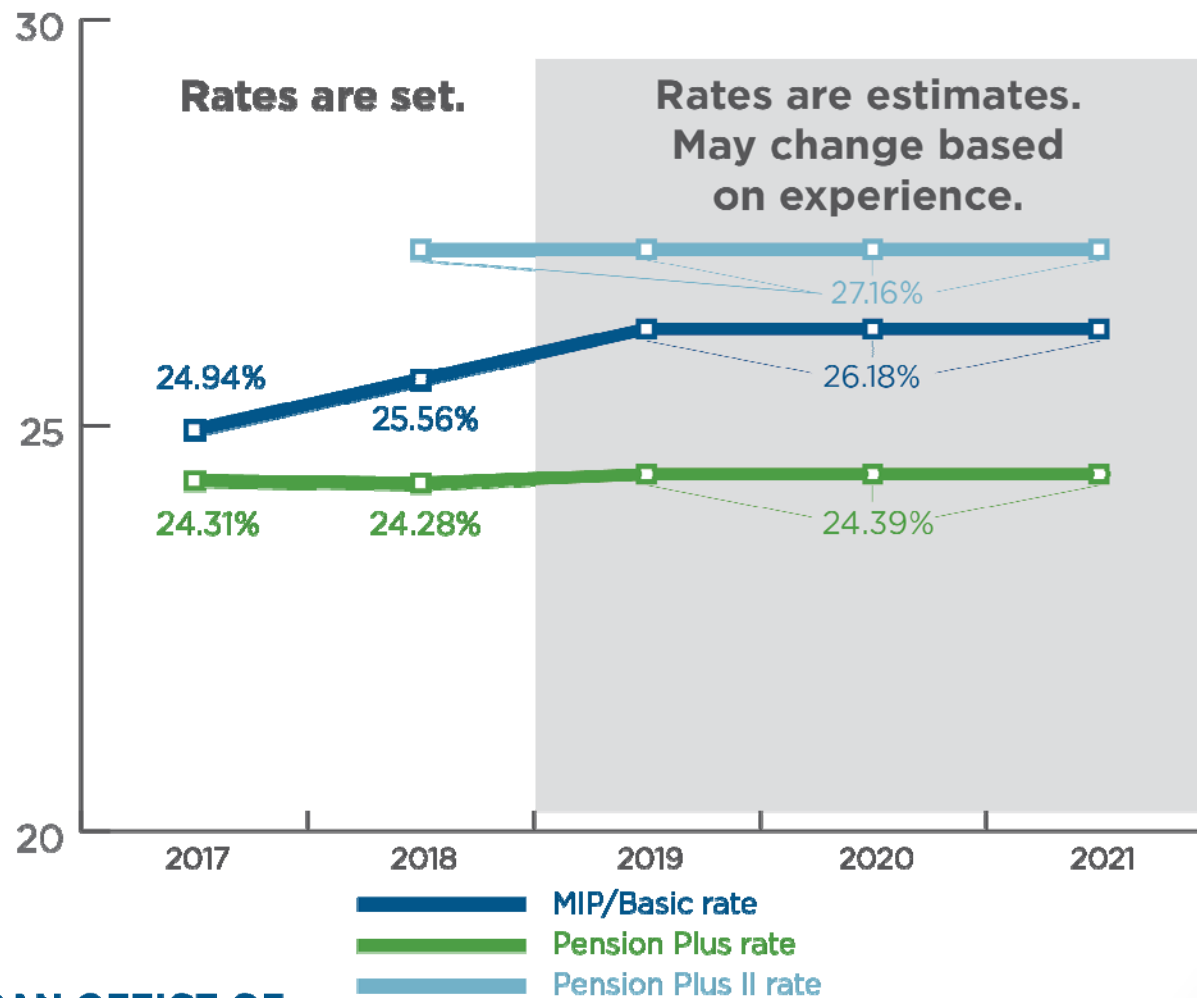
System Funding – Retiree Healthcare



- Retiree Healthcare funding ratio is 38.11%
- The retirement system began pre-funding healthcare in FY 2013.

Source: Annual Supplemental Report FY 2017

Pension Contribution Rates 2017-21



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FY 2018 State School Aid Retirement Appropriations

K-12, ISD, PSA Above the Cap Funding Towards UAAL

- **147c. – \$960M**
 - Amount applied towards UAAL amortization payment.
 - Beginning in FY2018, 100% applied to pension.
- **147c.(2) – \$200M**
 - Pre-payment of the final two years early retirement incentive from 2010.

FY 2018 State School Aid Retirement Appropriations

K-12, ISD, and PSA Retirement Cost Off-set Appropriations

- **147a. – \$100M**
 - Offsets a portion of the retirement contributions owed by the district for the fiscal year in which it is received.
- **147a.(2) – \$48.9M**
 - Offsets increase in normal cost rates charged to districts as a result of reductions in the AROR.
- **147e. – \$23.1M**
 - Appropriation to offset the increase in employer normal cost due to PA 92 of 2017



System Funding

ORS continues to take all steps to ensure responsible funding of all retirement systems.

- Annual actuarial valuations
- Experience study every five years
- Committed to paying off UAAL by 2038
- Full payments ensured through detailed analyses and a robust reconciliation process
- Lowering the AROR from 8% to 7.05% for pension and 7.15% for OPEB.

GASB 67/68



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GASB 68

- Key take away – ORS and OAG products are consistent with last year!
- Release of data tables and ORS Schedules Report (with audited data) targeted for mid-July
- Information provided on Employer Information website (mi.gov/psru)
- OAG audits of selected reporting units are underway

GASB: Employer Information Website

The GASB 68 section of Employer Information website (mi.gov/psru) similar to last year will provide:

- **Data Tables** (universities and non-universities)
- **Notes to Financial Statements** – sample language
- **Required Supplemental Information (RSI)** – sample schedules and *some* data for these schedules
- **Report:** ORS Schedules of Employer Allocations and Schedule of Collective Pension Amounts (with OAG opinion letter)
- Additional resources (FAQ, Glossary)

GASB 68: Data Tables

- **Table 1:** Schedule of Pension Amounts by Employer
- **Table 2:** Schedule of Deferred Resources by Year by Employer
- **Table 3:** Schedule of Recognition of Outflow (Inflow) of Resources Due to Differences Between Actual and Expected Employer Contributions
- **Table 4:** Schedule of Recognition of Outflow (Inflow) of Resources Due to Changes in Proportion
- **Table 5:** Schedule of Covered-Employee Payroll as of 9/30/17 and 6/30/18 (For use in RSI schedules; *estimated availability: August 1.*)



ORS Report with Audited Data

- Report consists of:
 - OAG opinion letter (“Independent Auditor’s Report”).
 - Schedules of OAG-audited data
 - Notes
- OAG will audit some but not all data
 - Nothing after the measurement date, 9/30/17
 - Some data audited at the **reporting unit** level
 - Some data audited at the **plan** level only
- Schedules:
 - Schedules of Employer Allocations
 - Proportionate share % for employers as of 9/30/17
 - Non-University and University on separate schedules
 - Schedule of Collective Pension Amounts (plan-level)
 - 9/30/17 balances for NPL
 - Total deferred inflows/outflows
 - Pension expense
 - To Do – focus on what the auditor’s report covers, it does not cover everything on the ORS data tables!



GASB 68 – Specific Elements

- Contribution After Measurement Date
 - Determining/recording ending deferred outflows for defined benefit plan MPERS contributions (made by Districts) after September 30, 2017 measurement date
 - Reversing beginning of year deferred outflow
- 147c1 contribution treatment
 - Considered part of statutorily required contribution
 - May be a challenge to reconcile activity/amounts when including 147c1 contributions
- 147c1 revenue treatment on government-wide statements
 - These amounts must be determined by each individual district and audited by district auditors.
 - For measurement period portion is pension and portion is OPEB
 - OPEB portion will be part of prior period adjustment for GASB 75



GASB 68 – Recording and Reporting

Recording and reporting issues consistent with prior years

Other than the prior period adjustment pension and OPEB basic requirements are similar.

Specifics are discussed in GASB 75 section

GASB 68 – System-level numbers

- Expected Remaining Service Life of all Employees – Non-University (in years): **4.5188**
- Expected Remaining Service Life of all Employees – University (in years): **1.1222**
- Recognition Period For Assets (in years): **5.0000**
- Total Net Pension Liability – Non-University: **\$25.9 billion**
- Total Net Pension Liability – University: **\$575 million**
- Section 147(c) payments
 - **72.88%** of FY 2017 147(c1) payments is for pension
 - **100%** of FY 2018 147(c1) payments is for pension

GASB 74/75



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What Does GASB 75 Require?

- GASB 75, like GASB 68 (Pension), adds:
 - Liability called “Net OPEB liability” impacting government-wide and full accrual funds (generally enterprise funds)
 - Deferred Inflows/Outflows
 - OPEB expense under full accrual
 - Segregations of contributions between defined benefit plans and defined contribution plans
 - MORE disclosures
 - 2 more RSI schedules
 - Prior Period Adjustment as of July 1, 2017 for:
 - Net OPEB Liability
 - Deferred outflow for contributions subsequent to Sept. 30, 2016
 - Deferred inflow for 147c1 OPEB related revenues subsequent to Sept 30, 2016
- Modified accrual funds continue to expense as contributions are paid/accrued

GASB 75

Overview of Impact

- MPSERS manages OPEB plan for Michigan school districts
- Net OPEB liability allocated to each participating government
- Allocation based on Statutory Required Contribution to the OPEB plan
- Structure similar to GASB 68 but not the same!
- ORS creating a separate section of web site for GASB 75, similar to 68
- OAG expected to issue data tables and reports around the end of July 2018
- Annual reporting at same time as GASB 68 information
- NOTE – some districts provide district level plan – impact will need to be assessed
 - Examples – paid insurance, supplemental benefits – its more than health care!



GASB 75

Basic Formula

Participating employers will now record the NET OPEB liability on the full accrual statements



These amounts will be measured as of the “measurement date”

Cost-sharing employers record their proportionate share of the net OPEB liability

GASB 75

Reporting Unit Liability

- Report proportionate share of collective net OPEB liability, OPEB expense, and deferred outflows/inflows of resources related to OPEB
- How is proportionate share determined?
 - Consistent with the manner in which contributions to the OPEB plan are determined (essentially the statutory required contribution)
 - ORS presumes it will result in reasonable allocation
- Multiply collective net OPEB liability and proportion % to determine employer's proportionate share
 - Statewide liability approx. \$8.9 billion as of 9.30.17
 - ORS provides tables similar to GASB 68
- For 6/30/18 District will record beginning of year and end of year liability (similar to GASB 68 adoption), prior period adjustment
- DB Employer's contributions subsequent to measurement date (since plan year different than the fiscal year end) – deferred outflow (similar to GASB 68)
- DC contributions are not deferred and remain in expense



GASB 75 CAFR OPEB Summary

Net OPEB Liability (in thousands)	
Total OPEB Liability	\$14,175,547
Plan Fiduciary Net Position	5,177,775
Net OPEB Liability	<u>\$8,997,773</u>
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	36.53%
Net OPEB Liability as a percentage of Covered Employee Payroll	106.44%
Total Covered Employee Payroll	\$8,452,983

GASB 75

Implementation details

- OPEB includes a DC plan and a DB plan
- Obligation is focused on DB plan
- Note, DC participants have a small DB benefit
- UAAL –effective 11/1/17 the UAAL (147c1) amount is 100% pension
- Reporting Issues
 - OAG report, likely 1 report with separate columns for pension and OPEB
 - ORS data tables similar to GASB 68
 - 2 sets of District disclosures for 68 and 75. Some elements may be combined
 - Allocate pension expense to activities in Statement of Activities
 - Unrestricted net position becomes a bigger negative amount
 - Net Position deficit likely grows
 - No change in fund level expense recognition

GASB 75

To Do List

- Obtain ORS data tables, plan information, and OAG report
- Capture district level contribution information and participant wage information
- Ensure census information on employee elections is available
 - 9/30/17 obligation uses 9/30/16 participant data
- Discuss audit test requirements with auditor

GASB 75

Compiling Information

- Compiling information for District footnotes—information needs for 68 and 75 (See sample language on ORS website)
 - 68 Deferred inflow/outflow table
 - 68 5-year amortization table
 - 75 Deferred inflow/outflow table
 - 75 5-year amortization table
 - Investment allocation tables for 68 and 75
 - 1% change in discount rate tables for 68 and 75
 - Plan description and assumptions for 68
 - Plan description and assumptions for 75
 - Deferred inflow for 147c1 for 68 and 75
 - Contributions for 68 and 75
 - Covered payroll (reportable compensation) likely the same for 68 and 75
 - Payable to MPSERS under 68 and 75



GASB 75

Audit Requirements

- AICPA State and Local Audit Guide
 - OPEB audit scope addressed in part 3 of new chapter: Cost-Sharing Employers Administered Through a Qualifying Trust
- Auditor tests
 - Obtain/validate OAG audit of the allocations to Data Tables, similar to GASB 68
 - Assess OAG assumptions, shared with the SD auditor
 - Evaluate OAG assessment of actuary SD auditor
 - Validate Statutory Required Contribution
 - Validate Government-wide and full accrual expense recognized
 - Validate allocation of OPEB obligation to elements of Net Position
 - Validate proportionate share of Plan deferred inflows/outflows



GASB 75

Audit Requirements

- Auditor tests
 - Validate post measurement period deferred inflows/outflows, including 147c1
 - Validate payroll data
 - Assess completeness of disclosures
 - Verify/agree RSI data
 - Validate beginning Net OPEB liability
 - Prior Period Adjustment, report letter modifications, change of accounting disclosure
 - Communicate emphasis of matter, planning letter and end of audit letter
 - Reconciliation between GASB 68 data and GASB 75 data
 - Use of a specialist assessment
 - Consideration of independence under Government Auditing Standards



GASB 75

Key Questions

- Key question: is key census data accurately reported to the actuary?
 - When should District level census testing start? What should be tested?
 - 9/30/15 census used for actuarial determined amount which is rolled forward to 9/30/16 (beginning balance)
 - How can GASB 68 tests be leveraged?

GASB 75 – Audit Issues

Significant census elements may include (similar to GASB 68):

- a. Name
- b. Social Security number
- c. Date of birth
- d. Date of hire
- e. Marital status
- f. Gender
- g. Dependents
- h. Spouse's date of birth
- i. Class of employee
- j. Service credits (periods of time worked)
- k. Position or job code (or both)
- l. Date of termination or retirement
- m. Plan election of employee
- n. Contributions from inactive members receiving benefits
- o. Employment status (active, deferred, retired).



GASB 75

Questions

- What covered payroll number do we use?
 - Since all participants in Pension have a contributed amount to OPEB, reportable compensation is the same as for GASB 68
- Is Census testing required?
 - YES, but it may be able to be combined with the GASB 68 tests. It would need to consider the correct OPEB participation
 - 2018 AICPA State and Local Audit Guide includes outline of procedures to address
- What about 147a2, 147c2, 147e; how are those contributions handled?
 - Amounts related to these sections do not directly impact the statutory required contributions
 - 147a2 – No deferral, similar to 147a1
 - 147c2 – Not tied to contribution rate, essentially a pay down of the ERIP liability
 - 147e – Will be small in 2018, related to DC/Pension Plus 2 plans, helps cover added cost of plans



GASB 75

Questions

- What contribution rate do we use to recalculate contribution?
 - Unlike Pension the rate differential between employee elections is not significant. An average rate will likely be sufficient
- How do I record beginning balance?
 - Recorded as a prior period adjustment for initial OPEB liability, no deferred inflows/outflows other than deferred outflow for contributions subsequent to the measurement date and 147c1 deferred inflow
 - Government-wide statements and full accrual statements where payroll as an expenditure
 - Emphasis of matter in audit opinion, accounting change footnote



GASB 75 Questions

- What reports will I need to complete GASB 75 information?
 - ORS retirement rate sheets 10.1.16 to 9.30.17, 10.1.17 to 1.31.18 and 2.1.18 to 9.30.18
 - OAG audit report on proportionate share
 - ORS data tables (similar to GASB 68)
 - Download Detail 2 reports
 - ORS CAFR on GASB 68 and 75 (useful for disclosures)
 - Internal reports for reportable compensation and contributions made
 - 941s (or other documents) to verify compensation data



GASB 75

Post 1/31/2018 Contribution Requirements

- The updated FY 2017-18 MPERS Contribution Rates due on members' wages paid between February 1, 2018 and September 30, 2018, go into effect on February 1, 2018.
- These rates apply to K-12 school districts, intermediate school districts, community colleges, district libraries, charter schools, and public school academies.
- Updates include:
 - Member rates are now included for DB (Defined Benefit) and DC (Defined Contribution)
 - Active rates and retiree rates are all on one page
 - Pension Plus 2 rates were added
 - Employee DC matching changes for employees who are DC PHF
 - UAAL Rate Stabilization table is now on a separate page



<u>ASSETS</u>	<u>Ending amounts</u>
Cash and cash equivalents	\$ 13,518,186
Investments	25,929,622
Receivables (net)	15,085,177
Capital assets (net of accumulated depreciation)	
Depreciable assets:	81,769,640
Non-depreciable assets:	88,253,120
TOTAL ASSETS	224,555,745
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows related to pensions	1,050,000
Deferred outflows related to OPEB	980,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,030,000
<u>LIABILITIES</u>	
Accounts Payable	6,538,206
Non-current liabilities:	
Current portion of long-term debt	1,680,000
Long-term debt (net of current portion)	21,660,000
Net pension liability	24,589,000
Net OPEB liability	19,875,654
TOTAL LIABILITIES	74,342,860
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred inflows related to pensions	6,589,000
Deferred inflows related to OPEB	3,569,782
TOTAL DEFERRED INFLOWS OF RESOURCES	10,158,782
<u>NET POSITION</u>	
Net investment in capital assets	146,682,760
Restricted for:	
Capital projects	11,705,864
Debt service	11,046,053
Unrestricted	(27,350,574)
TOTAL NET POSITION	\$ 142,084,103



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GASB 75 - RSI Table Example

- 10-year schedules

- Employer's proportion (%), proportionate share (amount) of collective net OPEB liability, covered-employee payroll, proportionate share as % of covered-employee payroll, OPEB plan's net position as % of total OPEB liability

- Example (5 of 10 required years shown):

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>	<u>20X5</u>
District's proportion of the net OPEB liability	1.85%	1.85%	1.85%	1.85%	1.85%
District's proportionate share of the net OPEB liability (asset)	\$ 24,528	\$ 40,456	\$ 48,169	\$ 24,127	\$ (27,843)
District's covered-employee payroll	\$ 106,129	\$ 105,949	\$ 103,026	\$ 100,774	\$ 97,601
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	23.11%	38.18%	46.75%	23.94%	(28.53)%
Plan fiduciary net position as a percentage of the total OPEB liability	94.31%	90.01%	87.47%	93.06%	108.60%



GASB 75 - RSI Table Example

- 10-year schedules (cont.)
 - If statutory or contractual contribution requirements
 - Required contribution, contributions in relation to required, difference, covered-employee payroll, contributions as % of covered-employee payroll
 - Example (5 of 10 required years shown):

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>	<u>20X5</u>
Contractually required contribution	\$ 10,117	\$ 9,949	\$ 10,721	\$ 9,780	\$ 8,588
Contributions in relation to the contractually required contribution	<u>(10,117)</u>	<u>(9,949)</u>	<u>(10,721)</u>	<u>(9,780)</u>	<u>(8,588)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 106,039	\$ 104,488	\$ 101,900	\$ 99,188	\$ 96,765
Contributions as a percentage of covered-employee payroll	9.54%	9.52%	10.52%	9.86%	8.88%

- Notes to RSI on significant trends

GASB 75 and 68

Key Take Aways

- ORS data tables key starting point, information expected near end of July
- OAG report covers statutory required contributions and some of the totals from the ORS data tables
- Auditors must audit the data, verify district recorded correctly
- Focus on PPA and communication requirements in report and with those charged with governance
- Document consideration of assumptions, including OAG assessments
- Create needed disclosures, addressing all the “unique” plan offerings and contribution requirements
- Audit elements of the disclosures
- Review/incorporate AICPA 2018 state & local audit guide requirements in audit programs



Questions?



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