



Office of Retirement Services

Your partner in serving more than 530,000 customers

Michigan Public School Employees Retirement System *Communicating GASB 68 to your board and community* *MSBO Annual Conference*

What Is GASB 68?

- ◆ The Governmental Accounting Standards Board Statement 68 (GASB 68)
 - Sets accounting and reporting requirements for state and local government employers (replaces GASB 27).
 - In effect for all employers for fiscal years beginning after June 15, 2014.
 - Shifts focus of reporting from a ***funding-based*** approach to an ***accounting-based*** approach.

Why GASB 68?

- ◆ The new standards are intended to:
 - Enhance usefulness of employer-level pension information in financial reports.
 - Improve transparency — retirement system's liability is shared by all participants (employers) in the plan.
 - Make it easier to compare public pension plans by standardizing financial reporting requirements.

What does GASB 68 require?

- ◆ GASB 68 requires the annual *government-wide* financial statements of MPERS reporting units to include:
 - The proportionate share of **net pension liability**
 - The proportionate share of **pension expense**
 - Additional pension-related note disclosures
(Notes to Financial Statement)
 - Additional pension-related **Required Supplemental Information**

Net Pension Liability

- ◆ **Net pension liability** is the liability of employers for benefits provided to plan members through a defined benefit pension plan.
- ◆ Total Pension Liability (TPL) minus Market Value of Assets (MVA) equals **Net Pension Liability** (NPL)

$$TPL - MVA = NPL$$

- ◆ Based on *market value* (cash value of pension assets at a given time), not *actuarial value* (like UAAL).

Net Pension Liability

- ◆ **Liability is not new** — existed since the late 1990s.
 - Appeared on MPERS annual financial statements.
 - Has always been the shared responsibility of all participating employers.
- ◆ **New:** divided proportionately among employers and recorded on each employer's financial statements.
- ◆ Unlike other liabilities reported on a balance sheet:
 - Not immediately due.
 - Cannot be paid off under an accelerated schedule.

Same pizza, sliced up and shared

- ◆ Think of the retirement system's net pension liability reporting as a pizza.
- ◆ Size of pizza not changed, but now sliced up and shared with all its owners.
- ◆ For most employers, your "slice" is a small fraction of one percent of the whole pizza.



Total Pension Expense

GASB 68 also requires employers to recognize a new measure of the **total pension expense** on their financial statements.

- ◆ No longer equal to the contribution amount dictated by the contribution rate.
- ◆ Now represents the change in net pension liability from year to year.
- ◆ Can change materially from one year to the next.

How does ORS calculate proportionate share?

- ◆ Each reporting unit's proportionate share is a percentage based on its required pension contributions to the system.
- ◆ Each plan fiscal year, ORS will determine each reporting unit's proportionate share by calculating it as a percent of the total pension contributions required from all reporting units in the plan.
- ◆ Based on the **plan's** fiscal year (October 1 – September 30).

Proportionate Share – Example

ABC District's Proportionate Share of Net Pension Liability Fiscal Year Ending September 30, 2013

ABC District's required pension contributions (October 1, 2012 – September 30, 2013)	\$1,351,000
ORS's total pension contributions required from all reporting units (October 1, 2012 – September 30, 2013)	\$1,124,330,000
Calculation: Row 1 divided by row 2	0.0012 or 0.12%
MPSERS total net pension liability on September 30, 2013	\$23,824,188,000 (~\$23.8 billion)
ABC District's proportionate share of the liability	\$28,589,000

Communication and Education

- ◆ As with any significant public policy change, education is necessary to explain the impact to all stakeholders.
- ◆ ORS has been communicating with and educating employers on GASB 68 since around February 2014.
- ◆ In turn, you may be expected to communicate and educate your board members and/or the public regarding the new standards.

ORS and its external partners

- ◆ ORS's actuary
 - Performs valuations of the retirement system.
 - Instrumental in preparing the GASB 68 data.
- ◆ Michigan's Office of the Auditor General
 - Expected to attest to the accuracy and validity of the data provided by ORS and its actuary.
- ◆ All partners communicating/working together to plan implementation of GASB 68.

Most important points for boards and the public

- ◆ GASB 68 is a standard for preparing financial statements, not for funding.
- ◆ Contribution rates determined in the same manner as in the past.
- ◆ Employers will now be required to account for their share of the liability; **not** required to fund that liability beyond the rates established in accordance with statute.
- ◆ Rating agencies are aware of GASB 68 — not expected to change how they set an organization's credit rating.

How can our district reduce or pay off our net pension liability?

- ◆ Liability is shared — individual districts cannot “pay off” their proportionate share.
- ◆ System designed to eliminate the liability over time, like paying off a mortgage on a house.
- ◆ In the past, your reports showed your total mortgage **payments** for a year; now you will show the **remaining balance** on the mortgage.

Does GASB 68 affect our district's budgeting for next year or thereafter?

- ◆ **No.** GASB 68 data not used for budgeting purposes.
- ◆ The budgeting process (which determines what is actually charged on reported compensation) has not changed.
- ◆ Reminder: GASB 68 breaks the link between funding and financial accounting.

Why must we record this information on our financial statements?

- ◆ GASB sets rules on how accounting must be done for governmental organizations.
- ◆ GASB requires recording pension liability and pension expense starting with fiscal year 2014-2015 for all MPERS employers.
- ◆ Failure to comply with GASB 68 would be more risky (pose a greater risk to your credit rating) than any information you are required to report.

What about rating agencies?

- ◆ Rating agencies have been aware of the funding policies and status of governmental pension plans for years.
- ◆ Historically, agencies have incorporated that information into their analysis of an organization's ability to meet its debt obligations.

What about rating agencies?

- ◆ Standard and Poor's has stated that it doesn't anticipate significant revisions to ratings solely based on the GASB changes.

- ◆ Moody's report*:

“Our rating methodologies already consider unfunded pension liabilities as debt-like obligations. Thus, the new inclusion of GASB 68 net pension liabilities has no credit impact.”

* Report: “Moody's US Public Pension Analysis Mostly Unchanged By New GASB 67/68 Standards,” June 30, 2014

Must the State of Michigan record this liability on its financial statements?

- ◆ MPSERS is a multi-employer cost-sharing plan.
- ◆ GASB 68 requirements apply to participating employers (MPSERS = school districts, community colleges, etc.)
- ◆ State of Michigan (ORS) is administrator – has no employees in MPSERS
- ◆ GASB Statement **67** is for statements at the plan or system level. The *MPSERS 2014 Comprehensive Annual Financial Statement* (CAFR) complies with GASB 67.

Is this related to the rate stabilization we already are doing?

- ◆ No; rate stabilization:
 - relates to funding the pension system
 - deals with the Unfunded Actuarial Accrued Liability (UAAL).
- ◆ GASB 68 standards are related to preparing and reporting financial statements.

Will the data change each year? When will ORS provide it?

- ◆ The data will change every year, because
 - liability is paid off over time
 - market values fluctuate over time
 - reporting unit proportionate share can change
- ◆ ORS and its actuary will prepare data for all reporting units and provide it on our website in time to prepare fiscal year financial statements.

Will ORS provide all data we need for GASB 68?

- ◆ Almost all of the required data will be provided by ORS.
- ◆ Exception: ORS cannot provide “contributions subsequent to the measurement date”
 - Measurement date is MPSEERS’ plan fiscal year end, September 30 of each year.
 - Your contributions from 9/30 of one year until 6/30 of the next year must be included in one of the note disclosures.

Who can we contact with questions about GASB 68?

- ◆ ***Guide to Implementation of GASB 68:***
GASB.org
- ◆ Discuss GASB 68 with your accountant.
- ◆ ORS GASB 68 website: contact ORS Employer Reporting at (517) 636-0166 or
ORS_WebReporting@michigan.gov
- ◆ Kevin Kubacki, Office of Retirement Services
KubackiK@michigan.gov or (517) 322-6994

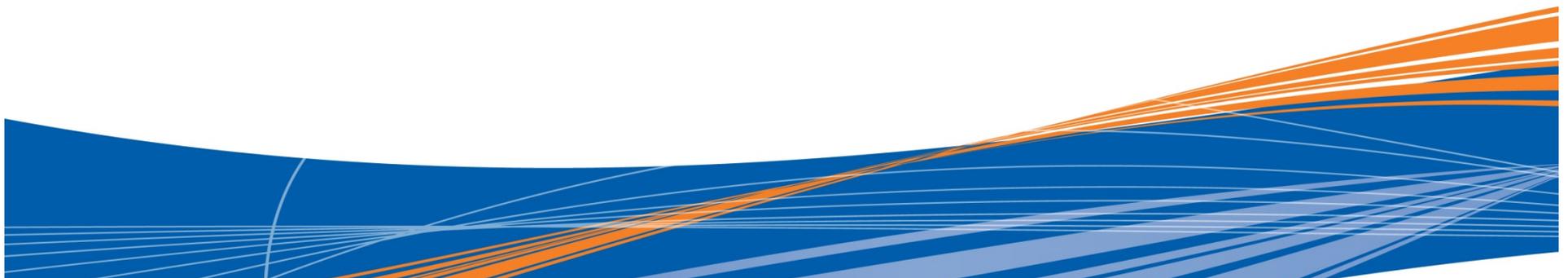
Questions?

ORS General Contact Info

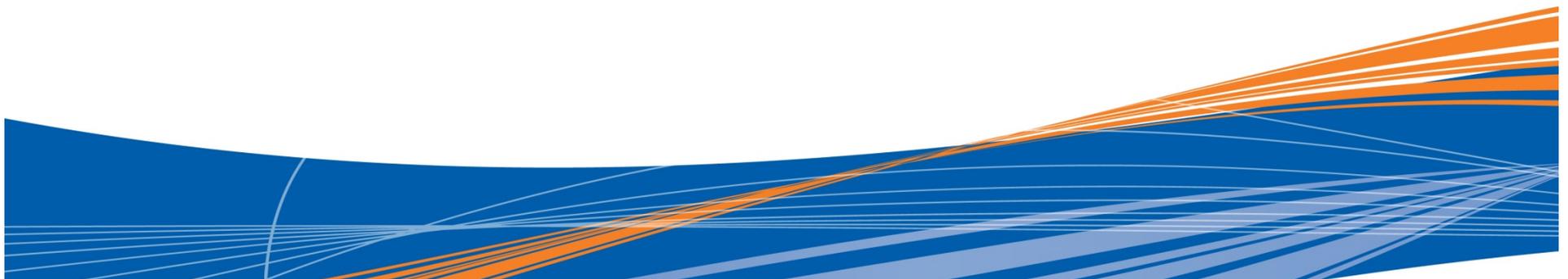
- ◆ Employer Reporting Questions
 - Website: www.michigan.gov/psru
 - Email: ORS_Web_Reporting@michigan.gov
 - Call Center: 517-636-0166
- ◆ Member Questions
 - Website: www.michigan.gov/orsschools
 - Call Center: 800-381-5111
 - www.michigan.gov/orsmiaccount

Communicating GASB 68 to Your Board and Community

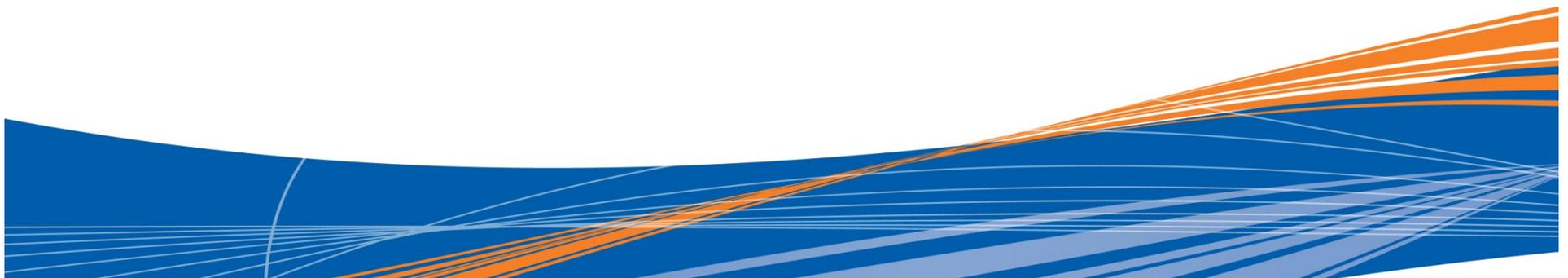
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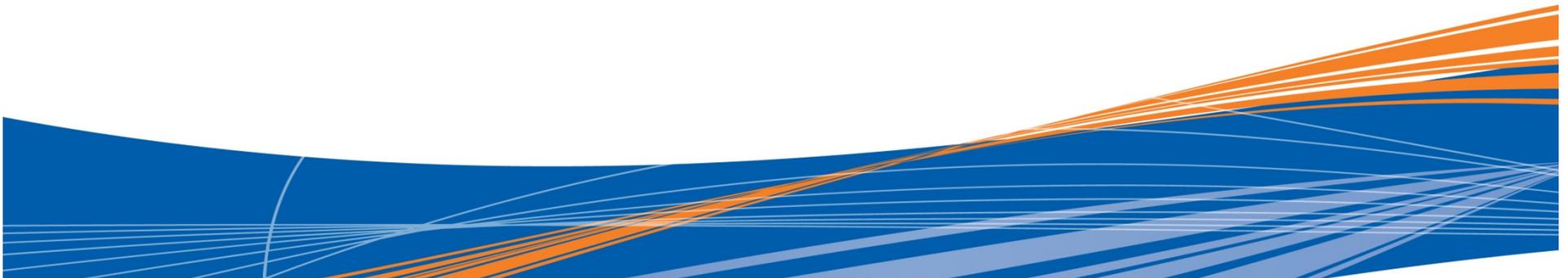
What new requirements regarding reporting for pension benefits will be implemented?



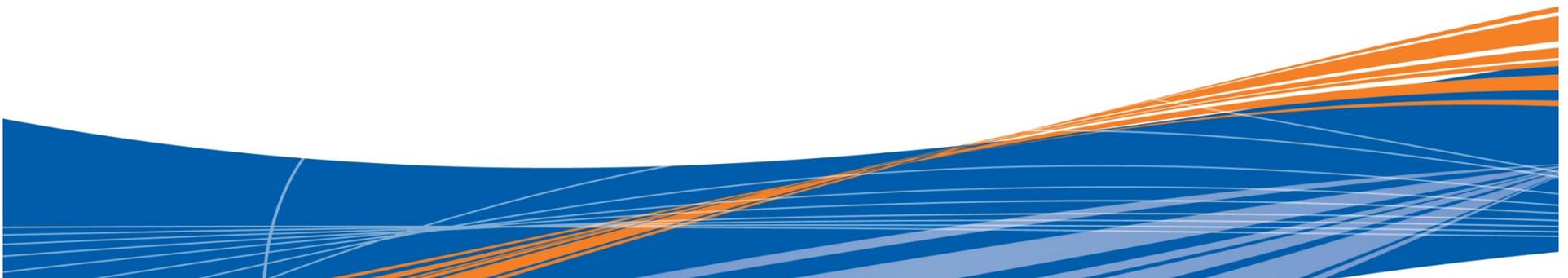
- Beginning in fiscal years ending June 30, 2015, and later
- Accounting and Financial Reporting for Pensions Benefits
- GASB approved in June 2012
- Changes how governments measure and report long term obligation and annual costs



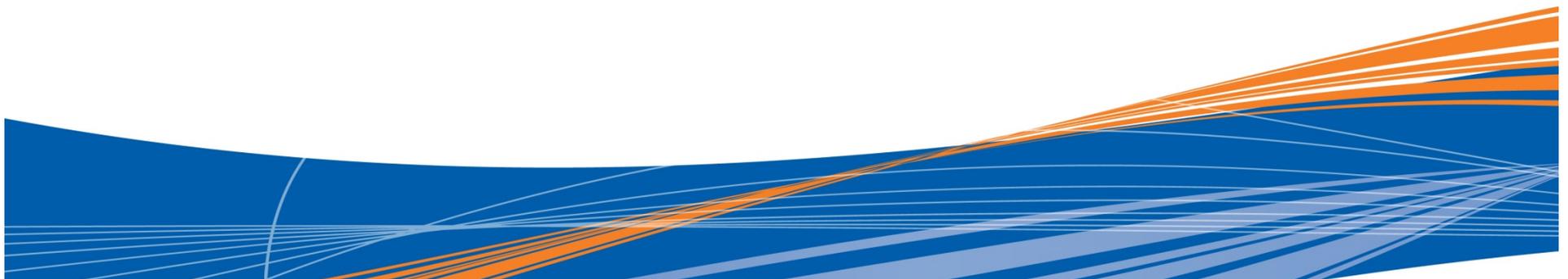
What is a cost-sharing multiple-employer defined benefit pension plan?



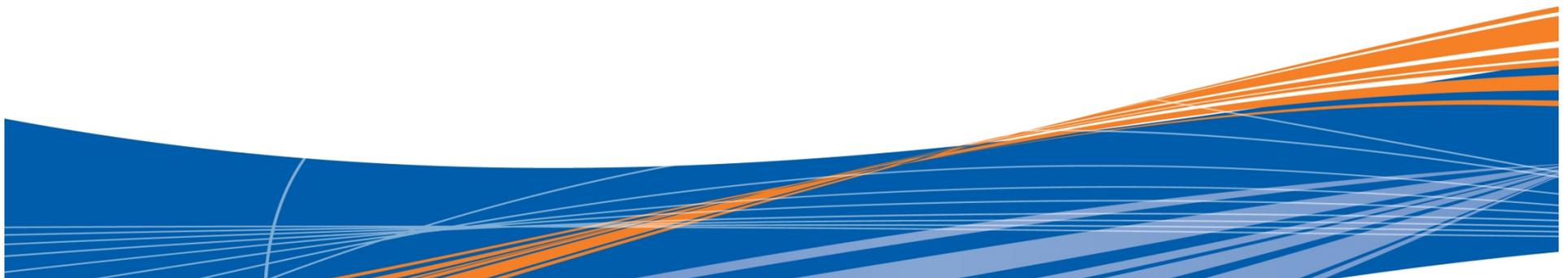
- Participating government employers pool
 - Assets
 - Obligations
- Provide defined benefit pensions
 - Plan assets can be used to pay the pensions of the retirees of any participating employer



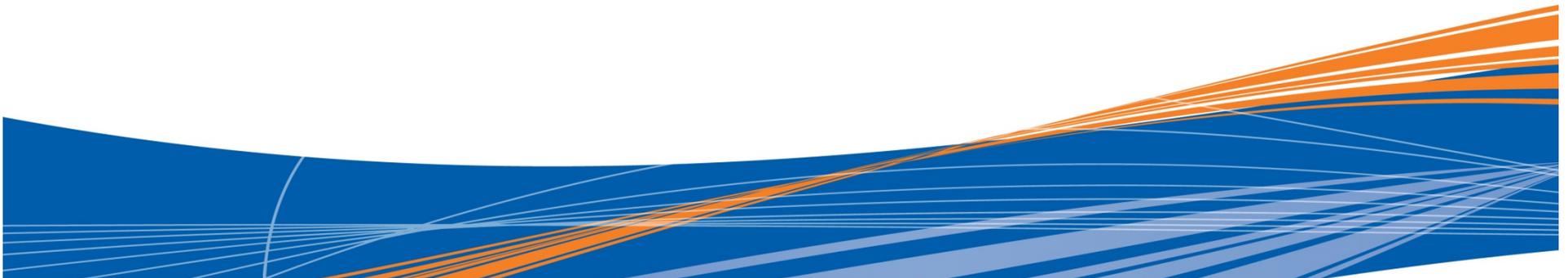
What is a net pension liability and why is it important?



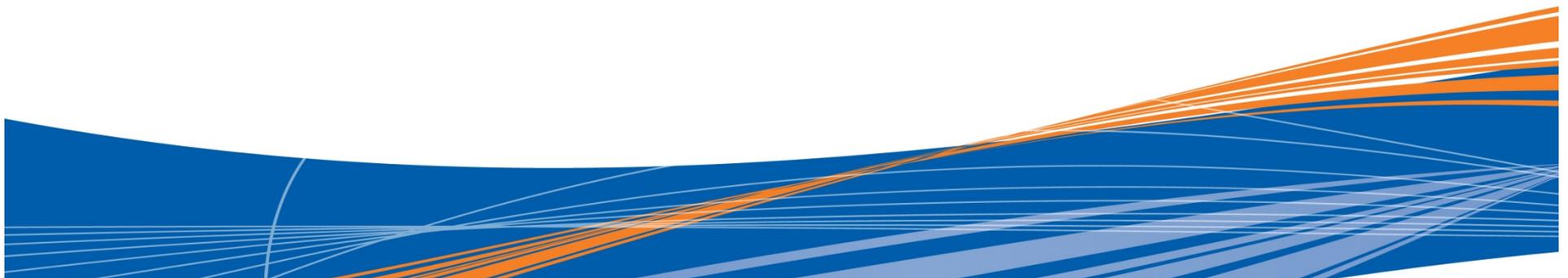
- Cumulative Long-term Obligation > Value of the Assets Available in the Pension Plan's Trust = Net Pension Liability
- Under Statement 68, liability reported on financial statements
 - Employer's proportionate share of the cumulative net pension liability
 - Under long-term liability



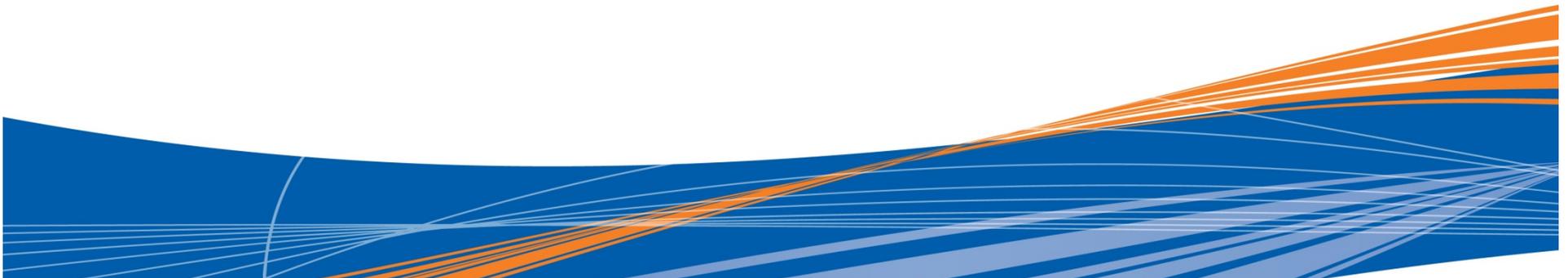
How will the amount of the total pension liability be determined?



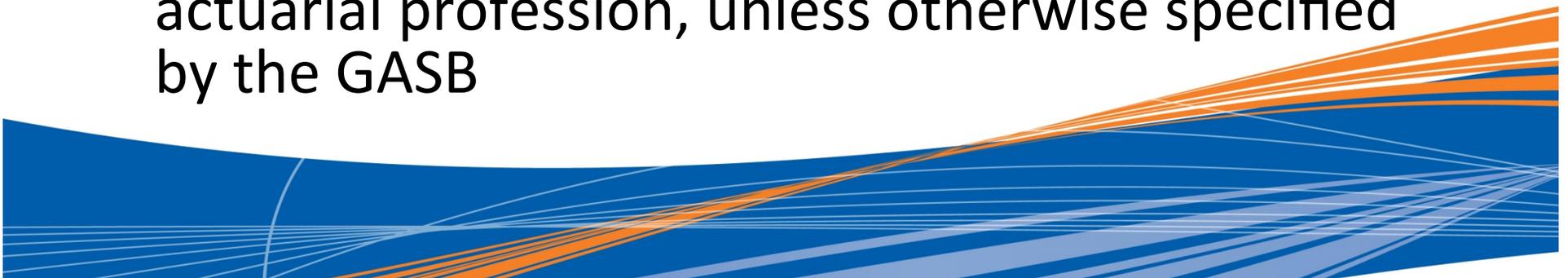
- Project total future pension benefit payments for current and former employees
- Discount the projected benefit payments to their value at the time of the measurement (present value)
- Attribute the present value of projected benefit payments to the periods when they were or will be earned—past and future



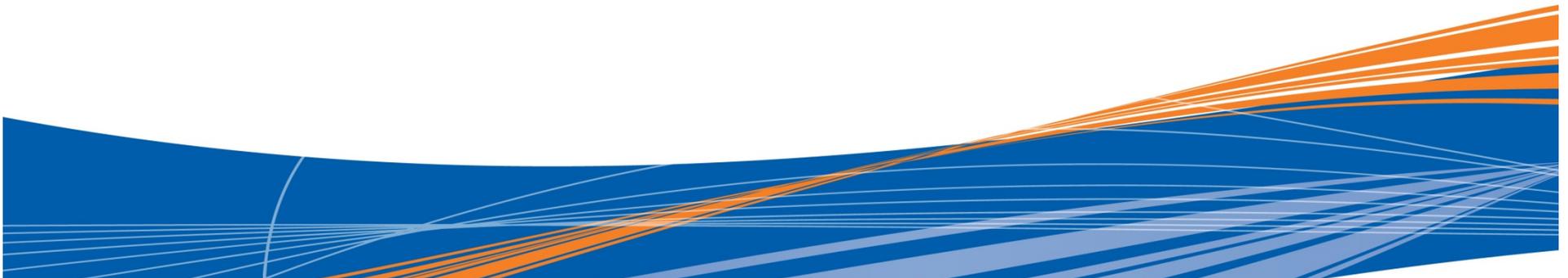
How will future payments be projected?



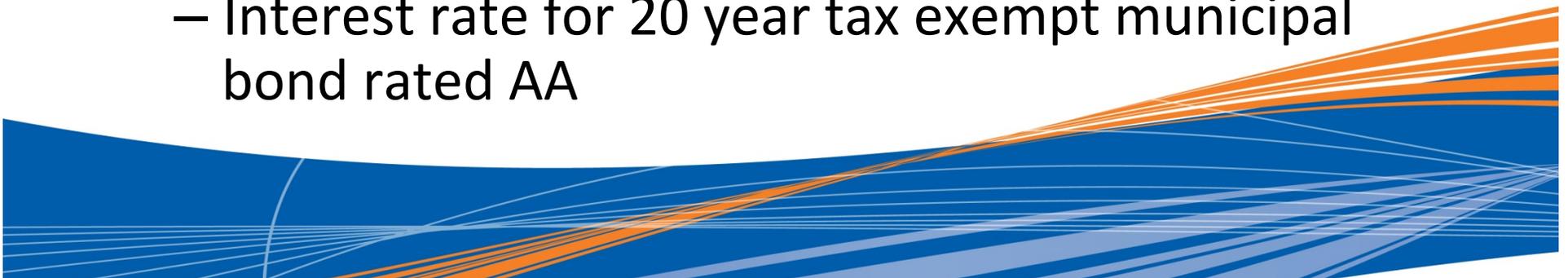
- Based on the terms of the plan
- Typically performed by an actuary engaged by the pension plan
 - Use assumptions about relevant factors such as how long employees are expected to work for the participating governments
 - What their salaries are expected to be
 - How long they are expected to collect benefits after retirement
- All assumptions conform to the standards of the actuarial profession, unless otherwise specified by the GASB



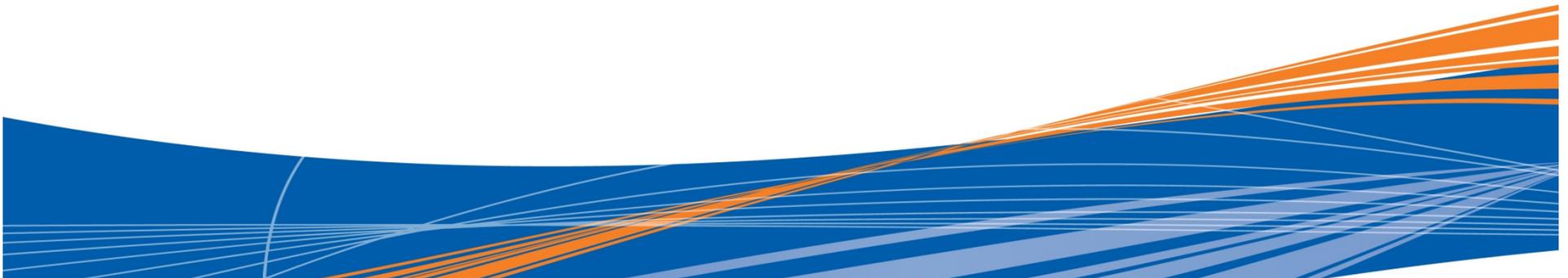
**How will projected benefit
payments be discounted?**



- Projected benefit payments to their present value
- Cost-sharing pension plans
 - Long-term expected rate of return or
 - Single rate based on combination of long-term rate & municipal bond index rate
- Crossover Point
 - Projected benefit payments exceed projected plan assets
 - Interest rate for 20 year tax exempt municipal bond rated AA

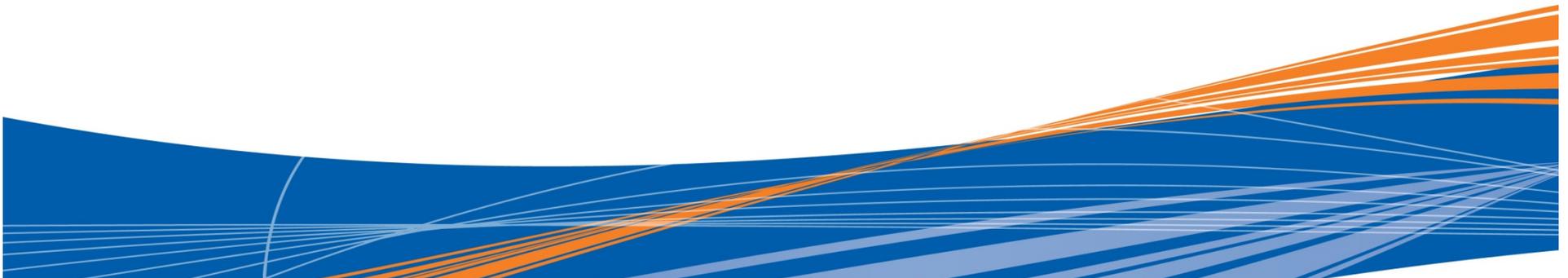


How will the present value of projected benefit payments be attributed to periods of employee service?

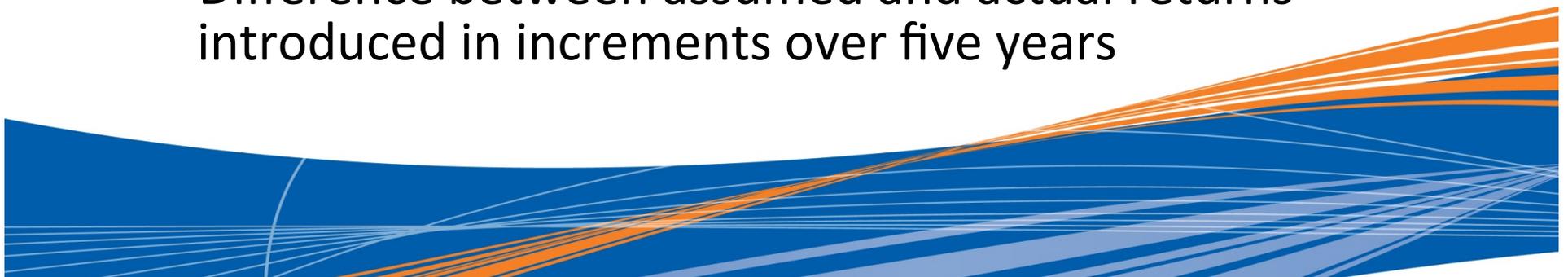


- Entry Age
 - Actuarial cost method
 - Apply it only as a level percentage of payroll
 - Calculation:
 - Portion of Present Value of Projected Payments that is Attributed to Past Periods = Total Pension Liability
 - Total Pension Liability - Value of Assets in Plan Trust = Cumulative Net Pension Liability
 - Cumulative Net Pension Liability divided among Participating Cost-sharing Employers
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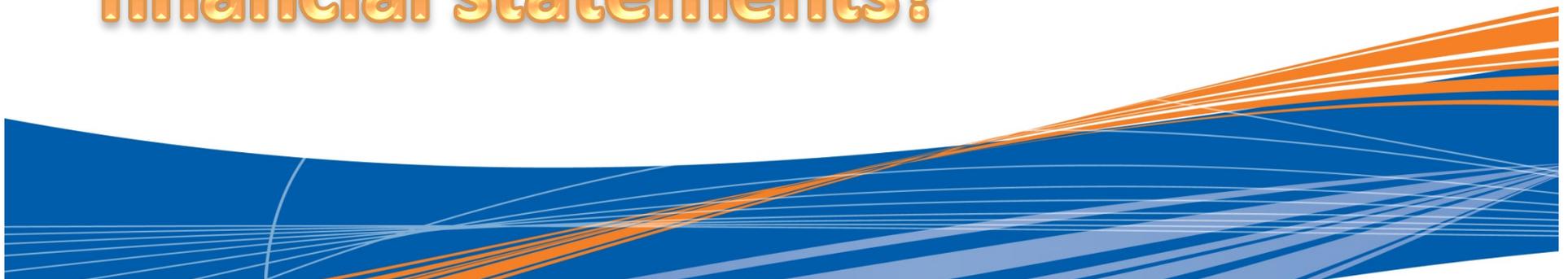
**How will the cost of pensions
(pension expense) be measured
for cost-sharing employers?**



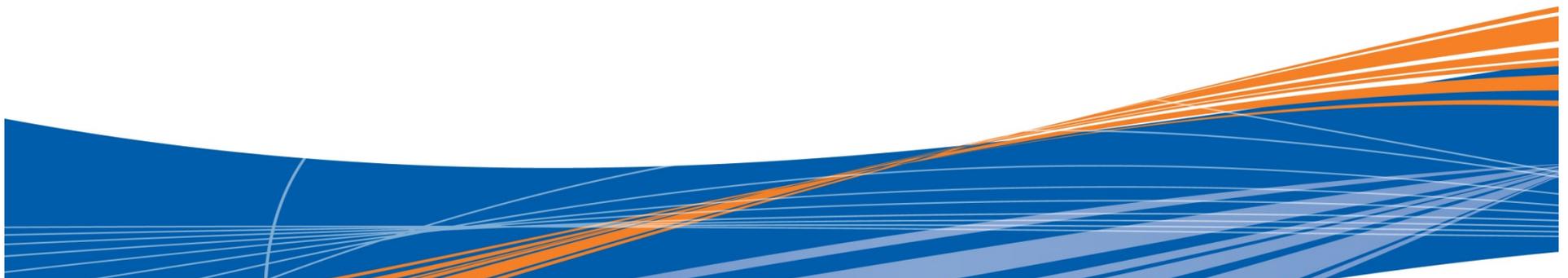
- Reported in year they occur
 - Service Cost
 - Interest on total Pension Liability
 - Changes in benefit terms
 - Assumed earnings
- Reported over a period
 - Effects of a change in the economic and demographic factors used to project, discount, and attribute benefit payments
 - Difference between what those factors were assumed to be and what they actually turned out to be (called experience gains and losses)
 - Difference between assumed and actual returns introduced in increments over five years



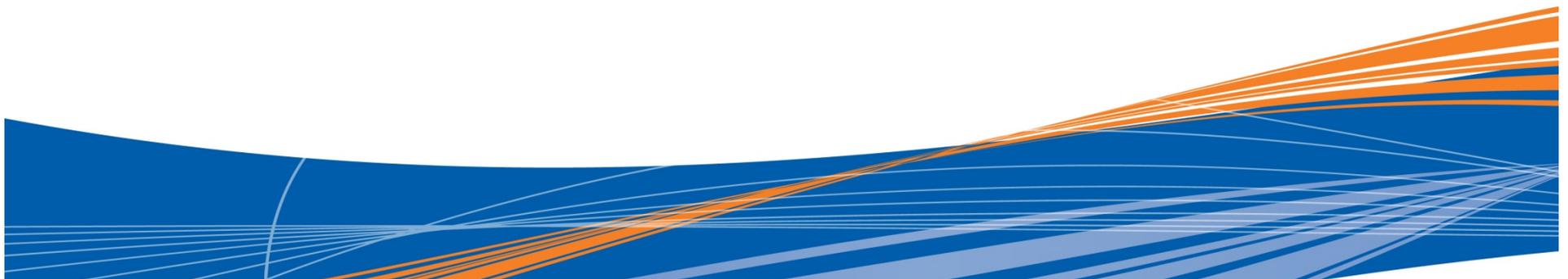
How will individual cost-sharing employers determine the portion of the cumulative net pension liability, pension expense & pension-related deferrals that they should recognize in their own financial statements?



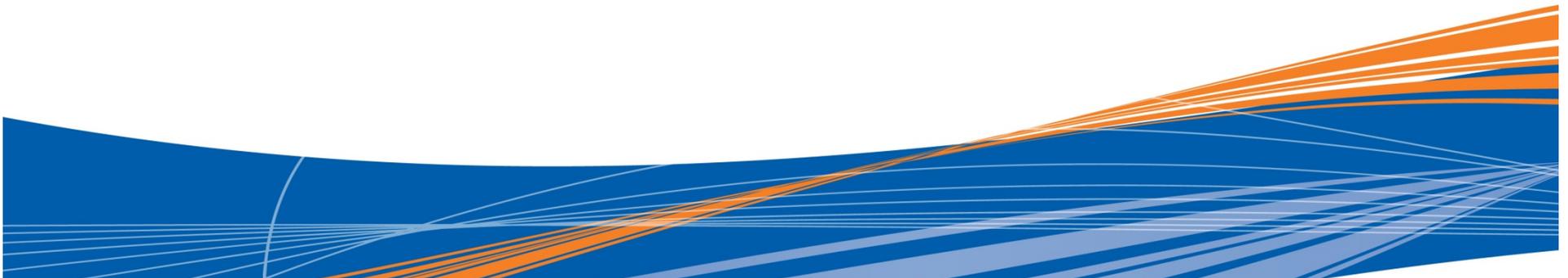
- Recommended Calculation:
 - Employer's projected long-term contributions to the plan divided by projected long-term contributions to the plan by all employers and other entities on behalf of those employers
- Alternative Calculation:
 - cumulative net pension liability, pension expense, and pension-related deferrals multiplied by the percentage



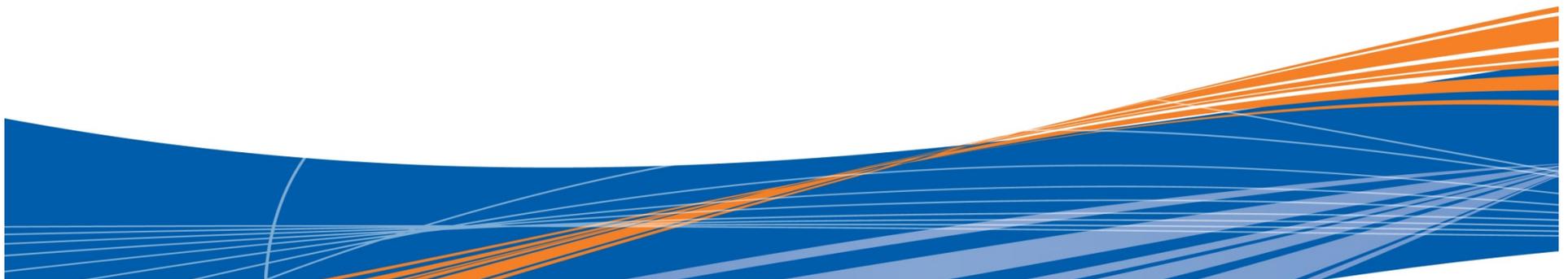
How is the reporting of the liability, expense and deferrals affected if another entity is responsible for a portion of a cost-sharing employer's pension obligation?



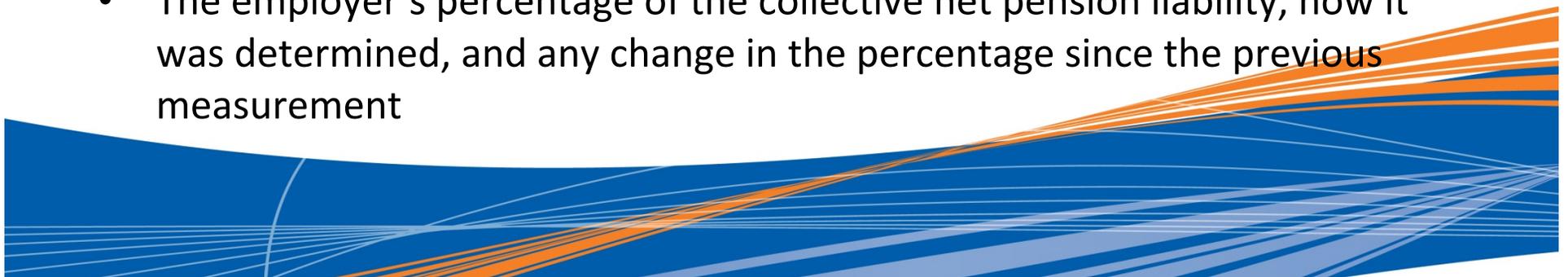
- Another entity responsible for some or all of the employer's obligation of pension benefits



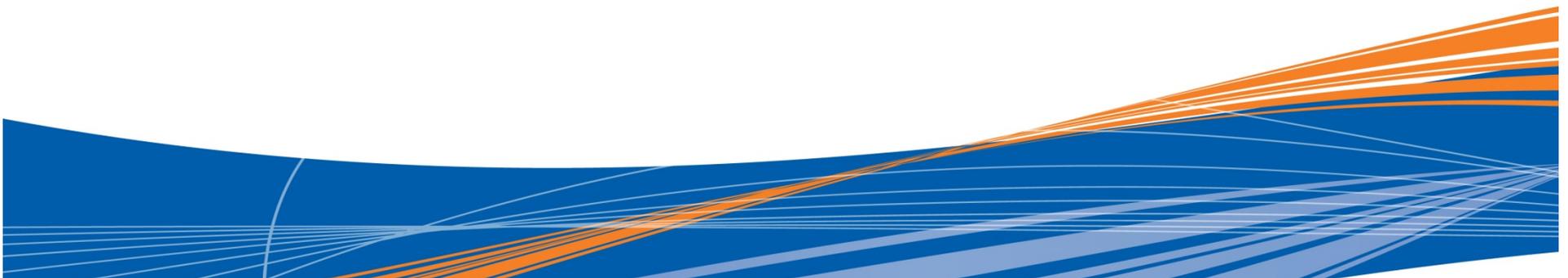
Apart from the liability, expense and deferrals reported in the financial statements, what other information will cost-sharing employers present?



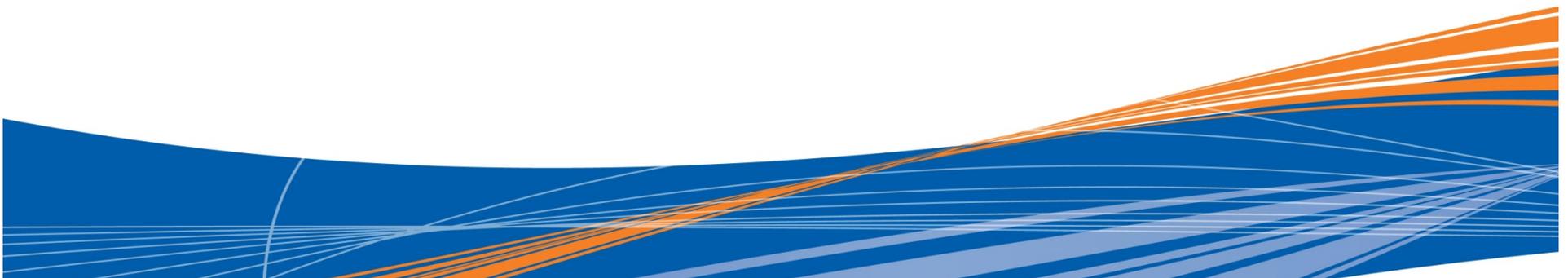
- Descriptions of the pension plan and benefits provided
- Disclosure of significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Disclosure of assumptions related to the discount rate
- Disclosure of what the employer's proportionate share of the net pension liability would be if a discount rate one percentage point higher and a rate one percentage point lower had been used
- The balances of deferred outflows of resources and deferred inflows of resources
- The net amount of deferred inflows and outflows that will be recognized as pension expense and the amount of deferred outflows that will reduce the net pension liability—for each of the next five years and in the aggregate thereafter
- The employer's percentage of the collective net pension liability, how it was determined, and any change in the percentage since the previous measurement



- First Schedule
 - Most recent 10 years
 - Employers proportionate share
 - Collective net pension liability
 - Payroll amount for current employees
 - Ratio of employers proportionate share of collective net pension liability divided by employer's covered payroll
 - Pension plan's net position as a percentage of total pension liability



- Schedule of required supplementary information covering the 10 most recent years
 - Statutorily or contractually required contribution
 - Employer's actual contributions
 - Difference between the actual and statutorily or contractually required contributions
 - Ratio of the actual contributions divided by employer's covered-employee payroll



Questions?

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