

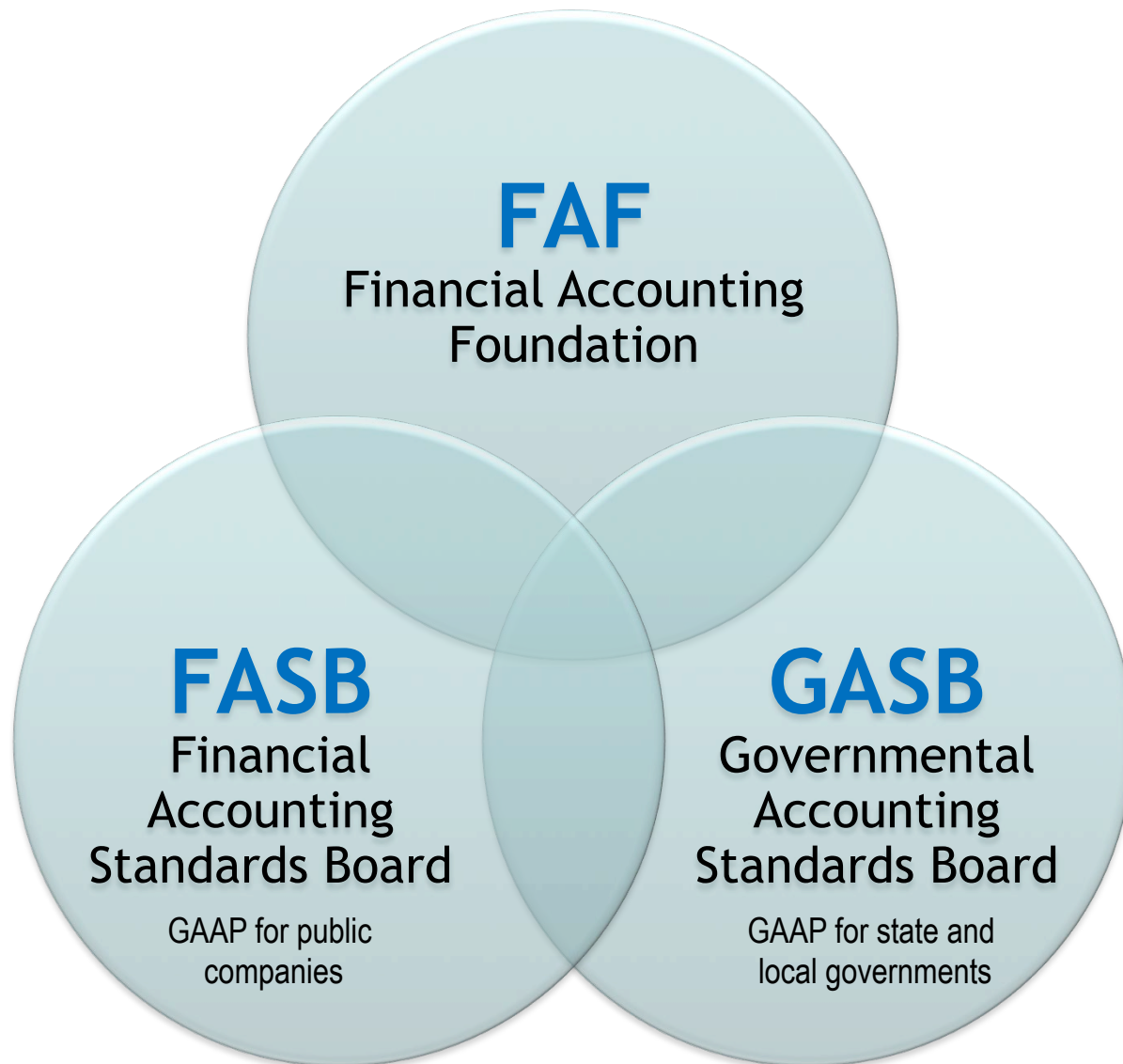


Pension Reporting

What you need to know about GASB 67 and 68

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Generally Accepted Accounting Principles



- **More news about growing, unfunded pension liabilities**
- **GASB wants more transparency around unfunded pension liabilities**
- **GASB believes that a net pension liability is a liability for employers**
- **GASB is putting more emphasis on discount rate**
- **GASB is separating accounting from funding decisions**

- **STRS Ohio will implement for the year ending June 30, 2014**
- **GASB 67 replaces GASB 25**
- **New language introduced**
 - **Total pension liability and net pension liability**
- **Greater sensitivity around discount rates used**
- **More disclosure about investment rates of return and return expectations**
- **Changes due to GASB 67 are reflected in STRS Ohio footnotes and supporting schedules**

- **Total Pension Liability**
 - Sum of prior year total pension liability plus or minus service cost, interest, changes of benefit terms, difference between expected and actual experience, changes in assumptions, benefit payments and refunds
- **Plan Net Position**
 - Fair value of assets
- **Net Pension Liability**
 - Total pension liability minus the plan net position

Example of GASB 67 Disclosure



	(Dollars amounts in thousands)
Service Cost	\$ 2,506,787
Interest	6,666,082
Differences between Expected and Actual Experience	15,255
Changes in Assumptions	525,678
Differences Between Expected and Actual Investment Earnings	-325,119
Benefit Payments and Refunds	-5,017,169
Net Change in Total Pension Liability	4,371,514
Total Pension Liability at the Beginning of the Year	91,015,736
Total Pension Liability at the End of the Year	95,387,250
Plan Net Position at the End of the Year	66,272,199
Net Pension Liability	\$ 29,115,051
Ratio of Plan Net Position to Total Pension Liability	69%
Covered Payroll	\$ 10,341,512
Net Pension Liability as a Percentage of Covered Payroll	282%

- **STRS Ohio uses a 7.75% discount rate**
- **If projected cash flows are not sufficient to pay all projected future benefit payments, a rate lower than the discount rate must be used in the actuarial analysis – called the “Single Discount Rate”**
- **Disclosure will reflect net pension liability and +/-1% from the single rate calculation**
 - 6.75%:\$41 billion 7.75%:\$29 billion 8.75%:\$20 billion
- **Investment expected and actual rates of return disclosed**

- **Employers will implement for the year ending June 30, 2015**
- **GASB 68 replaces GASB 27**
- **Net pension liability is required to be recorded in the financial statements of sponsoring employers**
- **Some deferral of expense recognition allowed**

GASB 68 – Net Pension Liability and Proportionate Share



- **Essence of GASB 68 is how to allocate net pension liability to employers**
- **STRS Ohio will allocate based on covered payroll information**
- **Proportionate share number shown on the balance sheet will be very large**

Example of GASB 68



(Dollars amounts in thousands)

	Pension System	Employer A Proportionate Share 0.30%
Service Cost	\$ 2,506,787	\$ 7,520
Interest	6,666,082	19,998
Differences between Expected and Actual Experience	15,255	46
Changes in Assumptions	525,678	1,577
Differences Between Expected and Actual Investment Earnings	-325,119	-975
Benefit Payments and Refunds	-5,017,169	-15,052
Net Change in Total Pension Liability	4,371,514	13,115
Total Pension Liability at the Beginning of the Year	91,015,736	273,047
Total Pension Liability at the End of the Year	95,387,250	286,162
Plan Net Position at the End of the Year	66,272,199	198,817
Net Pension Liability	\$ 29,115,051	\$ 87,345
Ratio of Plan Net Position to Total Pension Liability	69%	69%
Covered Payroll	\$ 10,341,512	\$ 31,025
Net Pension Liability as a Percentage of Covered Payroll	282%	282%

- Actuarial assumptions
- Investment allocation and expected returns
- Discount rate/single rate
- Sensitivity to changes in the single rate
 - +/- 1%, i.e. if 7.75% is the single rate, will show what the net pension liability is at 6.75% and 8.75%
- Schedule of deferred inflows and outflows

- **10-year table of proportionate share of the net pension liability**
- **10-year table of the district's actual versus contractually required contributions**

Example of District's Proportionate Share

	201(X+1)	201X
District's proportion of the net pension liability	0.30%	0.31%
District's proportionate share of the net pension liability	\$ 87,345	\$ 93,267
District's covered payroll	\$ 31,025	\$ 30,675
District's proportionate share of the net pension liability as a percentage of covered payroll	282%	304%
Plan net position as a percentage of the total pension liability	69%	65%

- **Some pension expense recognition is deferred**
- **Difference between expected and actual experience on economic and demographic factors and changes in actuarial assumptions – spread over expected remaining service lives of all employees**
- **Difference between expected and actual investment earnings – spread over five years**

- **Communications**
 - **Talk to your stakeholders**
 - **GASB 68 Implementation Guide to be issued in early 2014**
 - **Talk to your auditors**

- Time is near to implement
- Prepare for big numbers to hit financial statements
 - What will the fallout be from financial statement readers?
- Timing of fiscal year audits and when information is available will be challenging
- Maintenance of deferred inflows and outflows adds complexity
- Communicate

