



Pension Reporting Changes—What Governments (You) Should Know



Arizona Office of the
Auditor General



is the
**Governmental
Accounting
Standards Board**



Arizona Office of the
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2014: Statement 67
Pension Plans

2015: Statement 68
Employer Governments



Arizona Office of the
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This is BIG

Paraphrased by David R. Bean,
GASB Director of Research and
Technical Activities, March 2011



**Arizona Office of the
Auditor General**

What you'll learn today

1 Who is being affected by the change

2 What changed and effect of change

3 Why a change and how to evaluate it

State Pension Headlines

Pandemic of pension woes is plaguing the nation

Pension debt more than doubles

State pension funds fall off a cliff

Attacks on state pension funding not over

WIAF States' Pensions

State	Funded Percentage	Pension Obligations
Arizona	70%	\$48 billion
California	78%	\$557 billion
Hawaii	60%	\$20 billion
Nevada	69%	\$37 billion

Source: U.S. Census Bureau Annual Survey of Public Pension Plans for FY 2011

Lowest Funded State Pensions

State	Funded Percentage	Pension Obligations
Illinois	51%	\$176 billion
Kentucky	53%	\$51 billion
Connecticut	54%	\$47 billion
Alabama	56%	\$40 billion

Source: U.S. Census Bureau Annual Survey of Public Pension Plans for FY 2011

Pension Basics

Defined contribution plans

Defined benefit plans



Pension Basics

Defined contribution plans

Deposit % of your salary



Your investments earn interest



Retire and take withdrawals until money runs out

Defined benefit plans

Deposit % of your salary



Plan's investments earn interest



Retire and earn a % of your salary until you...

Pension Basics

Saving for your retirement 101:

Simple example:

- Think you will save for 30 years and live for 30 years after you retire
- You want \$1,000 per week when retired (\$52 K per year)
- That's a total of \$1.56 million! :-/

Pension Basics

How much in total do you need to save?

- You expect **5%** interest earnings after retirement. How much should you have saved when you stop working?

\$ 800,000

- What if you thought you could earn **7.5%**?

\$ 620,000

23% Difference

Pension Basics

Before you retire—How much do you need to save every year?

- Expect **5%** interest before and after retirement:

\$ 12,000

- With **7.5%**?

\$ 6,000

50% Difference

Governmental Pension Plans

100's to 1,000's of governments

1,000's ++ of employees

Governmental Pension Plans

Plans have many factors

- ✓ Required contributions
- ✓ Employer contributions
- ✓ Employee contributions
- ✓ Retirement time frames/criteria
- ✓ Retirement benefit amounts
- ✓ Dependent transfer options
- ✓ Investment practices/laws
- ✓ Actuarial assumptions/laws

Governmental Pension Plans

Employees have differences

- ✓ Wages—current and future
- ✓ Years working
- ✓ Years living
- ✓ Benefits to dependents
- ✓ Quit early—withdraw or not



3 Main Changes

1

Reported net pension liability

2

Required factors to determine pension liability

3

More robust disclosures

Governmental Pension Plans

Why new liability?

- ✓ Employee benefits
- ✓ Earned as employees work
- ✓ Pay for benefits when earned

OR

- ✓ Incur a liability

Government Employers

States

Counties, Cities, Towns

Colleges and Universities

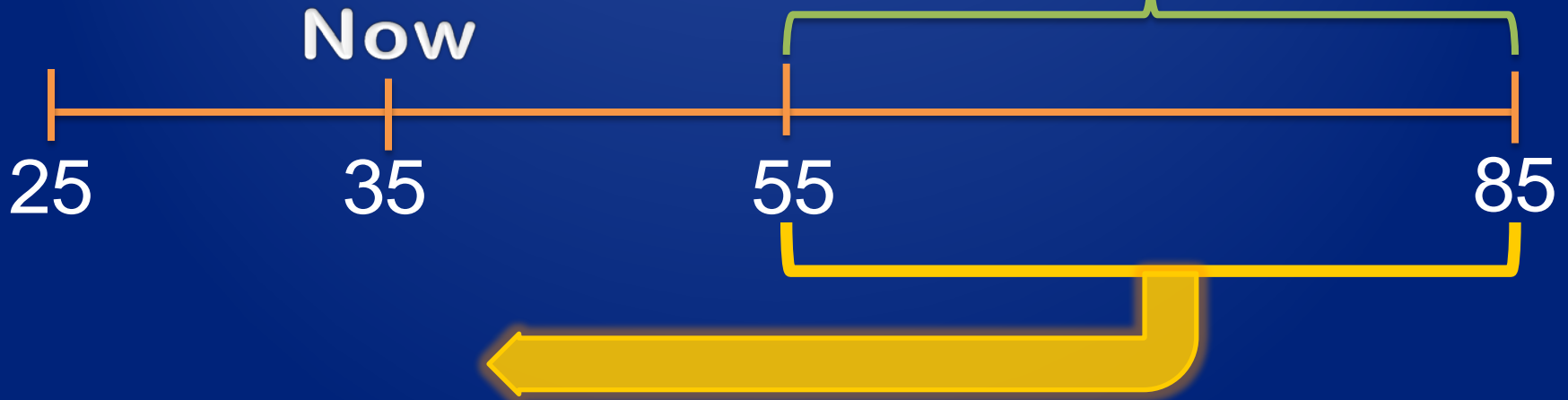
School Districts

Statement of Net Position Governmental Activities As of June 30, 2015

Assets:	
Investments	\$ 50,000
Receivables	<u>60,000</u>
Total assets	\$110,000
Liabilities	
Bonds payable	\$ 30,000
Net pension liability	<u>100,000</u>
Total liabilities	\$130,000
Net position	<u><u>\$(20,000)</u></u>

Three Main Steps

#1. Project benefits



#2. Discount benefits to present value



#3. Allocate PV to years earned: 10/30 or 33% earned to date

Three Main Steps

#1. Project benefits

- Plan terms
- Estimate salary and age at retirement
- Estimate years lived

#2. Discount benefits to PV

- Rate based on expected investment earnings
- 20-year tax-exempt muni bond rate if insufficient investments (~5%)



NEW

#3. Allocate PV to years earned

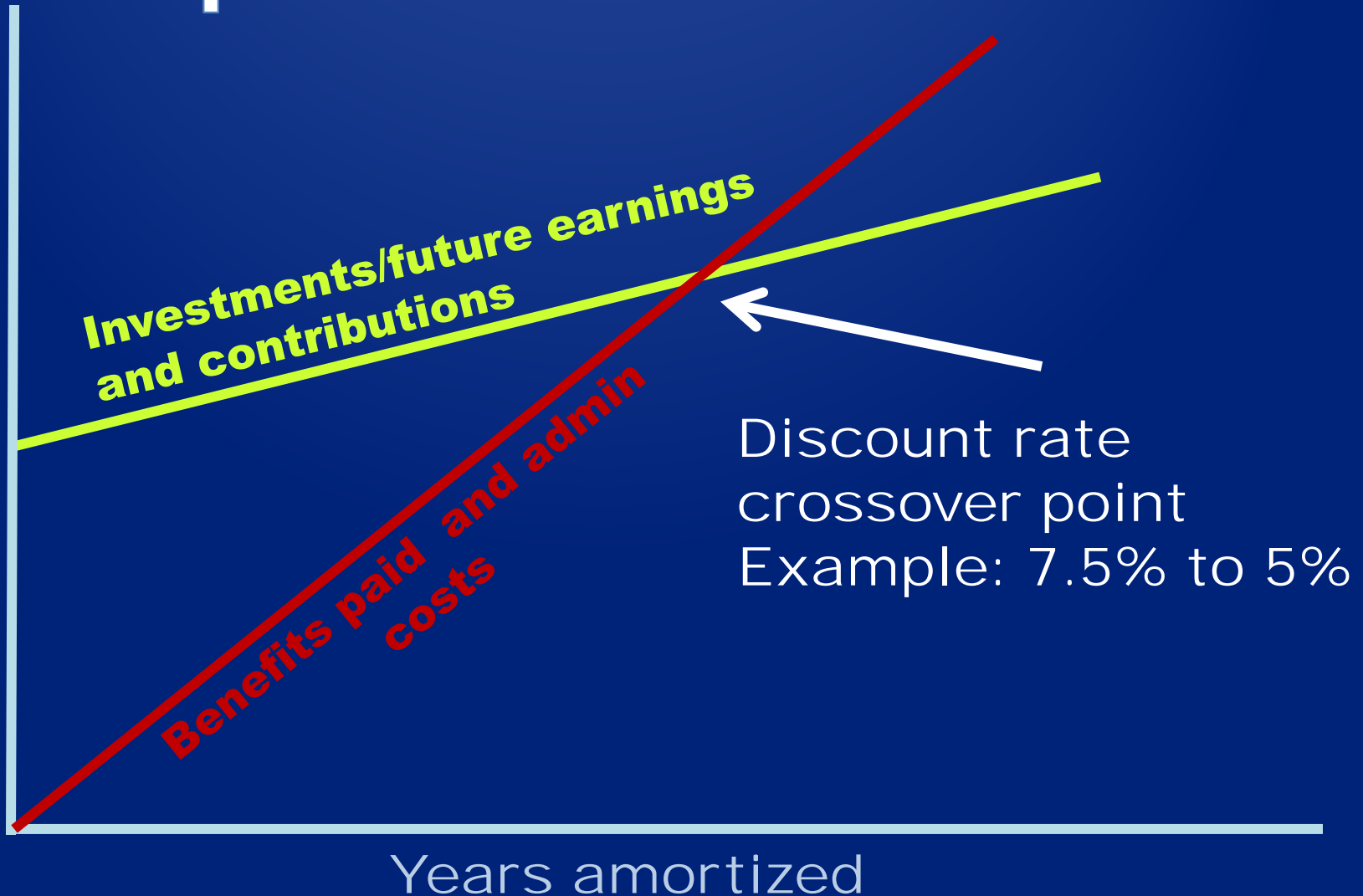
- Actuarial entry age cost method required
- Applied as level % of payroll



NEW

Pension Benefits: #2

Required discount rate



Recap: Pension Liability?

Employer governments:

Pay for earned benefits

-OR-

Owe them

NEW LIABILITY

Pension Liability

Net pension liability (unfunded future benefits):

Present value of benefits
allocated to years earned

minus

Asset value in plan trust funds

NEW



Pension Liability

Another change in calculating liability:

Asset value in plan trust funds

- ✓ Cannot “smooth” asset value changes to recognize them as though they performed as expected
- ✓ Must immediately recognize asset value changes



Pension Liability

Before new GASB standards

- ✓ Governments reported expenditures for required contributions
- ✓ Only reported liabilities for required contributions not paid when due

Pension Liability

Unfunded liability—increasing?

It depends

- ✓ Highly funded now—may not have to use lower discount rate
- ✓ Actuarial cost method used
- ✓ Asset smoothing
- ✓ GASB accounting versus actuarial funding

Funding vs. Accounting

Arizona State Retirement System

June 30, 2012 ESTIMATES

	PUC*	GASB
Actuarial Accrued Liability/ Total Pension Liability	\$39,952,371,191	\$42,157,689,999
Assets/Net Position	\$30,229,577,272	\$27,569,013,616
Unfunded Liability/Net Pension Liability	\$9,722,793,919	\$14,588,676,383
Funded Ratio	75.7%	65.4%

*Projected unit credit (PUC) actuarial cost method
Both methods use 8% expected L/T earnings discount rate

Funding vs. Accounting

And then came Moody's

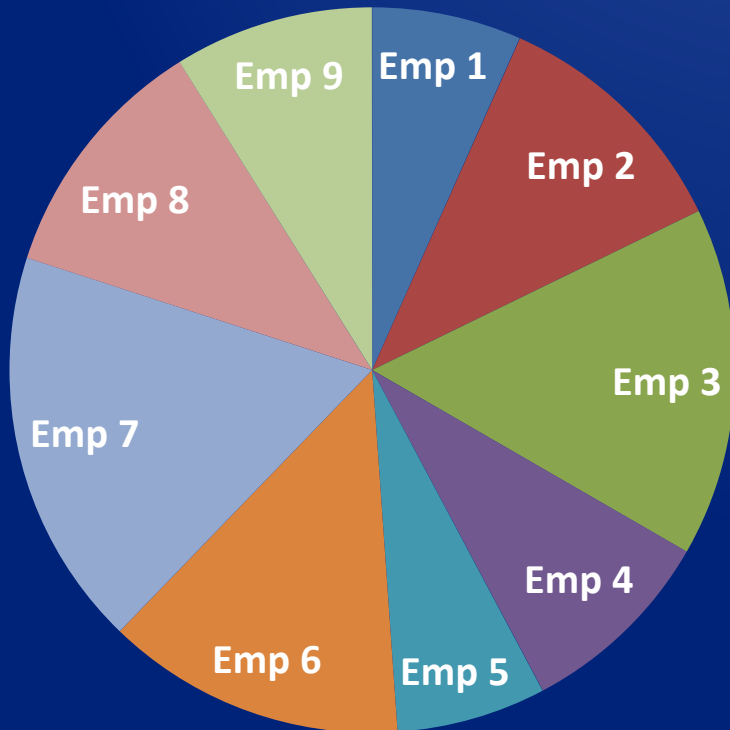
New approach to analyzing pensions:

- Discount rate—high-grade long-term taxable bond index discount rate = ~ 3 to 5%
- Net pension liability amortized over 20 years using level-dollar method

**How do government
employers know
their net pension
liabilities?**

Different Plan Types

Cost-sharing plan



**Everything
pooled for
all purposes**

Agent multiple- employer plan

	Emp 1	Emp 2	Emp 3	Emp 4	Emp 5
Liability	\$1	\$2	\$3	\$4	\$5
Investment assets	\$1	\$2	\$3	\$4	\$5

**Only assets are
pooled for
investment
purposes**

Different Plan Types

Cost-sharing plan

- Proportionate share of total liability
- Rational basis like contributions or payroll

Agent multiple-employer plan

- Each employer has separate account and distinct liability

More Information Reported

NTFS

Notes to the Financial Statements

- Current year sources of changes to pension liability
- Significant assumptions used in calculating pension liability
- Valuation date, changes in assumptions and benefit terms, basis for contributions, etc.

RSI

Required Supplementary Information

- 10-year sources of changes to net pension liability
- 10-year components of net pension liability and related ratios
- 10-year contributions to the plan and related ratios

Questions?