

The State of Montana

Public Employee Retirement Administration (MPERA) Teachers' Retirement System (TRS)



GASB 68 **Implementation Series**



Guidance for Employers



GASB 68: TOPIC 4

NET PENSION LIABILITY



Presentations in the GASB 68 *Implementation Series*

1. Background
2. Types of Plans
3. Measurement & Reporting Dates
4. Net Pension Liability
5. Financial Statements



Recommendation



If you are new to the **GASB 68** material
we recommend you view
the **BACKGROUND** presentation first

Disclaimer

- This presentation is intended for information and educational purposes only;
 - *it is not a substitute for professional accounting, legal, or other advice*
- Information is based on materials publicly available from the Governmental Accounting Standards Board (GASB)
- We strongly recommend that you seek the advice of a qualified professional



Reminder

- GASB 68 relates *only* to accounting and financial reporting
 - *How pension costs and obligations are measured and reported in audited external financial reports*
- GASB 68 *does not* address how governments fund public pension systems
 - *GASB states it's "fundamental belief that funding is squarely a policy decision for elected officials to make as part of budget approval process "*



New Terminology

- Total Pension Liability (TPL)
 - *TPL is the present obligation of pension systems to pay deferred earned benefits (such as pensions)*

- Net Plan Position (NPP)
 - *NPP is the assets currently available to pay pension benefits*



New Terminology



- Net Pension Liability (NPL)
 - *If the pension system TPL exceeds the NPP, an NPL arises*

- Net Pension Asset (NPA)
 - *If the pension system TPL is less than the NPP, an NPA arises*

- $TPL - NPP =$
 - *NPL if negative*
 - *NPA if positive*

The GASB 68 Implementation Series will discuss only the NPL. At this time, only the Judges' Retirement System has an NPA.



Pension Liabilities

- Employers who participate in public pension systems are now required to report their share of the NPL in their annual GAAP financial statements
 - *The NPL will be calculated annually by TRS and MPERA actuaries and allocated to participating employers based on each employer's contributions to each of the pension systems*
 - *MPERA and TRS will supply the NPL information necessary for employers to report on their FY 2015 financial statements*



Measuring Pension Liability

- Three steps are used by the pension systems' actuaries in measuring the TPL
 1. *Projecting future benefit payments for current and former employees and their beneficiaries*
 2. *Discounting those payments to their present value*
 3. *Allocating the present value over past, present, and future periods of employee service*



Projecting Future Benefits

- Expectations of future employment-related events are incorporated into projections of pension benefit payments
 - *Examples: projected salary increases, projected years of service, automatic cost of living increases, automatic benefit changes*
- The pension systems' actuaries use this and other actuarial assumptions to determine the TPL
- All this information is publicly available in the pension systems' annual CAFR and actuarial valuation reports



Discount Rate

- The discount rate is used by actuaries to convert projected pension obligations to their present value
- Public pension systems are required to use a market-based method to determine their discount rate
 - *The discount rate is selected by looking at observable data in the financial markets on the measurement date*



Standard or Blended Discount Rate

- The long-term rate of return is used as the public pension's discount rate as long as the pension system's assets are expected to fully cover projected benefit payments
 - *Recommended by pension systems' actuaries and approved by pension systems' Boards*
 - *Both MPERA and TRS are currently using the long-term rate of return of 7.75%*
- If the pension system's net position and contributions are *not* projected to be at least equal to projected benefit payments, a blended rate would be calculated



Allocation

- Each employer in a multiple-employer plan will report based on their allocated share of the pension system's NPL (*see Type of Plan presentation for more information*)
- The allocated share is based on each employer's contributions to the pension system during the measurement period (*see Measurement Date presentation for more information*)
- The allocated share is determined by the pension systems' actuaries

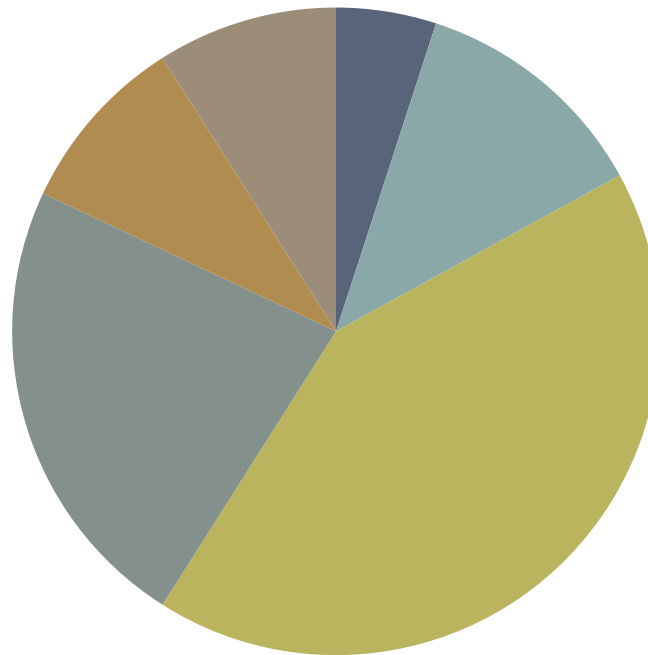


Allocation: *Example*



Each employer will report their share of the NPL based on their contributions to the pension system

NPL \$100,000



Note: If an employer contributes to more than one public pension system, they will report information from each pension system on their financial statements

- Employer 1: 5%
- Employer 2: 12%
- Employer 3: 42%
- Employer 4: 23%
- Employer 5: 9%
- Employer 6: 9%

Variability of NPL

- The NPL will vary year to year due to
 - *Actual earnings on pension system investments (using market value rates)*
 - *Employee compensation changes*
 - *Interest on outstanding pension liability*
 - *Contributions from employers and members*
 - *Significant economic and demographic changes*



Recognizing Pension Expense



- **Pension Expense**

- *The cost of the benefits provided to participants in the pension plan*
- New GASB standards are intended to align the recognition of pension expense with the period in which the related benefits are earned
- The effects will be to accelerate the expense recognition

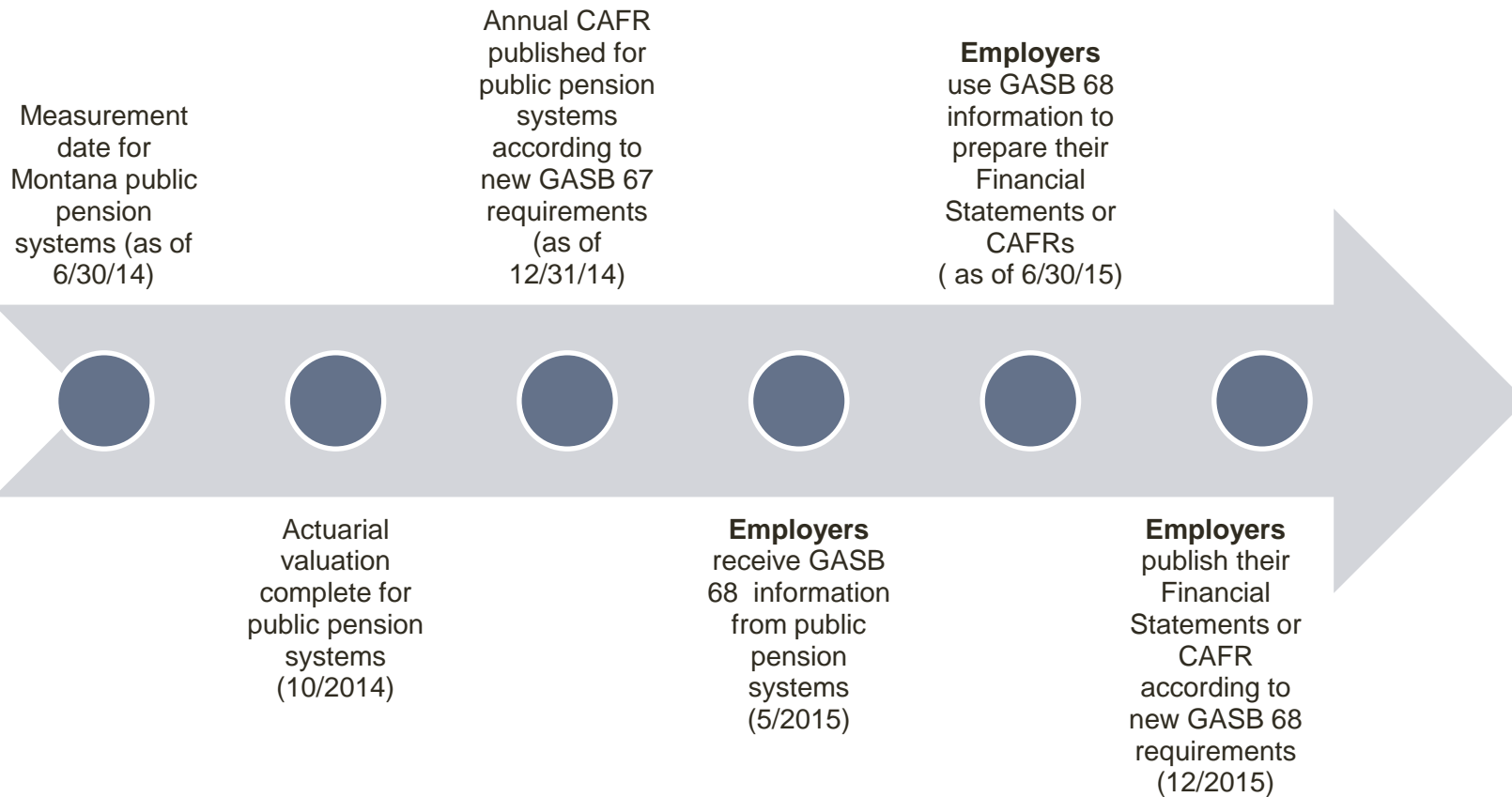


Recognizing Pension Expense

- Events that may cause the Pension Expense to change from year to year include:
 - *Benefits earned each year*
 - *Interest on the TPL*
 - *Changes in benefit terms*
 - *Actual earnings vs projected earnings on pension system investments*
 - *Change in pension system's net position from other than actuarial experience*



Timeline



Your Next Steps

- Review all the information in the GASB 68 Implementation series
- Take advantage of the resources on the MPERA and TRS websites
- Consult with your financial statement preparer



Our Next Steps



- Prepare appropriate resources for employers
- Release GASB 68 information to employers
 - *Disclosures*
 - *Schedules*
 - *May / June 2015*



| MAY | | | | | | | JUNE | | | | | | |
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| 18 | 19 | 20 | 21 | 22 | 23 | 24 | 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 25 | 26 | 27 | 28 | 29 | 30 | 31 | 29 | 30 | | | | | |

GASB Implementation Series



- MPERA and TRS have prepared a series of presentations for GASB:

- *Recommended Order*

1. Background
2. Types of Plans
3. Measurement Date v Reporting Date
4. Net Pension Liability Calculations
5. Financial Statements



GASB 68
IMPLEMENTATION

Guidance for MPERA and TRS Employers

Additional Resources

- Webpages dedicated to information from the Montana Public Pension systems on GASB
 - [MPERA](#)
 - [TRS](#)
- GASB website including
 - [GASB Statements 67 & 68](#)
 - [Implementation Toolkit](#)
 - [Implementation Guides](#)

