



STEVE BULLOCK, GOVERNOR

## STATE OF MONTANA

**Date:** May 30, 2014

**To:** Employers reporting to Montana public retirement systems

**From:** Nolan Brilz, Fiscal Manager, *Montana Teachers' Retirement System (TRS)*  
Barbara Quinn, Fiscal Manager, *Montana Public Employees' Retirement Administration (MPERA)*

**RE:** Changes in Financial Reporting Requirements  
GASB 67 and 68

MPERA and TRS have been working closely with the Department of Administration State Financial Services Division, including both the Local Government Services Bureau and State Accounting Bureau, and the Office of Public Instruction to document some of the upcoming changes in financial reporting requirements as a result of Governmental Accounting Standards Board (GASB) 67 and 68. Although there are still some decisions to be made, this memo is intended to provide TRS and MPERA employers with a description of the upcoming changes as well as an update on how MPERA and TRS plan to approach these changes. Within this memo, we have provided information on:

- [Background of the GASB changes](#)
- [General information you will need to prepare for financial reporting](#)
- [Information specific to GASB 67: Applicable to Retirement Systems](#)
  - [Appendix A](#)
- [Information specific to GASB 68: Applicable to Employers](#)
  - [Appendix B](#)
- [Next steps to consider](#)
- [Glossary of terms](#)
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## Background

In June 2012, GASB issued two new standards changing the accounting and financial reporting requirements for public pensions. The stated intent of the standards is:

- to enhance the pension-related information in financial reports by providing greater transparency, and
- to standardize the valuation practices from entity to entity.

Simply put, the new standards require:

- separation of funding and accounting for financial reporting, and
- employers to recognize a net pension liability on their financial statements.

These are new accounting and financial standards for reporting purposes, and will not impact the current employer contribution requirements.

From the GASB perspective, pension benefits are a component of the compensation package and employment relationship between the employer and employee. Therefore, to the extent the pension system is not 100% funded, under the new standards, employers will be required to report a liability for the unfunded portion of the pension benefits earned by employees.

Under Montana law, the employer contributions are statutorily required. While GASB will be requiring employers to present this new unfunded liability on their financial statements along with additional disclosures; the employer's responsibility to pay employer contributions will remain the same per statute.

Please understand that the Montana public pensions systems did not create these standards and we are all required to adhere to the new standards.

*GASB Statement No. 67* revises existing guidance for the financial reports of most pension systems for state and local governments – **MPERA and TRS**. Statement No. 67 will take effect for pension systems in fiscal years beginning after June 15, 2013 (that is, for years ended June 30, 2014 or later).

*GASB Statement No. 68* revises and establishes new financial reporting requirements for most state and local governments that provide their employees with pension benefits – **MPERA Employers and TRS Employers**. Statement No.68 will take effect for governments in fiscal years beginning after June 15, 2014 (that is, for years ended June 30, 2015 or later).

## General Information

### Actuarial Assumptions

MPERA and TRS each contracts with a separate, independent actuarial firm to perform annual valuations of the pension systems. In addition, each pension periodically requests their actuary to perform an experience study which includes an examination of the demographic traits of the systems population and a study of the economic factors that impact the systems. Based on the annual valuations and experience studies, the actuary recommends appropriate assumptions for funding.

We are already aware that there will be some assumption changes in FY 2014 due to GASB 67.

For MPERA, two new assumptions will be added beginning with the FY 2014 valuation

1. administrative expense of the systems will be a component of normal cost (not investment expense) to comply with GASB 67 paragraph 44, and
2. adopting the Bond Buyer GO 20-Year Bond Municipal Bond Index to use if a blended rate is necessary.

You can find the MPERA demographic and economic assumptions in Appendix B of each system's valuation on their website at

- <http://mpera.mt.gov/actuarialvaluations.shtml>

The TRS actuary is currently conducting an experience study and the TRS Board will adopt any new or amended assumptions prior to the FY 2014 valuation. You can find the TRS demographic and economic assumptions in Appendix A of the TRS valuation on their website at:

- <http://trs.mt.gov/Board/ActuarialValuations/ActuarialValuations.asp> (through April 30, 2014)
- <http://trs.mt.gov> Click on TRS Annual Reports under Popular Links in the right hand menu.
  - (beginning May 19, 2014).

## **Census Data**

Census data consists of demographic data, including wages and contributions, submitted to the retirement system by each employer. The retirement systems send account statements to their members on an annual basis to substantiate the accuracy of the member data. If members identify any changes, they contact the retirement system administrator to have the matter investigated and corrected, if appropriate. Although the retirement systems have these controls in place, the data submitted to the retirement system by the employers is the responsibility of the employer. This data is extracted by the retirement system administrator and forwarded to the actuary for the purpose of performing the annual valuation. The valuation is primarily focused on the data for active, vested, and retired members.

The retirement systems' auditors and the employers' auditors both have the responsibility of auditing census data. The retirement systems and the employers must inform and instruct their respective auditors regarding those procedures.

The Legislative Audit Division (LAD) will be conducting census data audits for FY 2014. LAD will select a sample of employers to perform on site reviews over controls and accuracy of data. Each employer selected for an onsite review will receive notification directly from LAD. Additional information regarding LAD's process for selection of employers and timing of onsite audits will be distributed by MPERA and TRS as it becomes available.

## **Cost of Disclosures for Employers**

Many employers are wondering how the cost of the new GASB disclosures may impact their budgets.

MPERA and TRS are working with their actuaries to determine which schedules will be provided and what the preparation of those schedules will cost. MPERA and TRS will treat the costs from the actuary as administrative expenses of the retirement systems and the employers will not incur direct costs as a result of the expense incurred in preparing the disclosures.

Employers will be responsible for any additional costs if they choose to utilize a methodology for determining the liability and preparation of disclosures other than that provided by the retirement systems.

## **Schedule of Employer Allocation**

The State administers *multiple-employer cost-sharing* pension systems and *single-employer* pension systems. Each employer shares a portion of the retirement system's unfunded liability; the portion of the unfunded liability to employers is referred to as a *Schedule of Employer Allocation*.

Employers will have to record their respective liability. Liabilities/Expense will be allocated based on the percentages calculated in the *Schedule of Employer Allocation*.

This proportion should represent the relationship of the individual employer to all other contributing entities of the retirement system at the measurement date. The proportion should also be consistent with the manner in which contributions to the pension system are determined.

Although GASB 68 does not specify who is responsible for this determination of the employer allocation, the pension system is in the best position to make this determination because they have access to the necessary system data. GASB 68 allows for allocations to be determined based on historical measures such as actual

contributions or covered payroll as of the measurement date. MPERA and TRS anticipate using actual contributions as the allocation methodology for determining each employer's allocation percentage. This methodology will also account for non-employer contributions (e.g. special funding situations and State of Montana statutory contributions).

### **Timing of Schedules and Information for Disclosures**

For GASB 68 purposes, the initial measurement date for the retirement systems will be June 30, 2014.

The retirement systems expect to have the GASB 68 employer schedules and disclosures available in May 2015. Employers will use these schedules and disclosures as of the measurement date for the fiscal year ending June 30, 2015.

For employers with fiscal year ends other than June 30<sup>th</sup>, different procedures will be used. Please contact the appropriate retirement administration if you have a FYE other than June 30<sup>th</sup>.

### **GASB 67: Applicable to Retirement Plan Administrations**

*GASB Statement No. 67* revises existing guidance for the financial reports of pension systems for state and local governments: **MPERA and TRS**. Statement 67 will take effect for pension systems in fiscal years beginning after June 15, 2013 (that is, for years ended June 30, 2014 or later).

### **GASB 67 Disclosures**

The new GASB standards introduce several major changes to pension system financial reporting which will require a significant amount of additional work to be performed by the actuaries of each system. GASB 67 requires additional footnote disclosures including target asset class and long term expected rate of return and sensitivity of the pension liability to the discount rate.

In addition, GASB 67 requires changes to the supplementary information including

- schedule of the employers' net pension liability
- schedule of changes in the employers' net pension liability
- schedule of employer contributions
- schedule of money-weighted investment return
- use of the entry age normal cost method

Net Pension Liability (formerly UAAL) is calculated using the market value of assets instead of the actuarial value. Actuaries will determine whether or not the retirement system should use the long term actuarial rate of return assumption or a blended earnings assumption.

Given the materials required and the timing of the information, we expect our actuaries to issue a completely separate report to meet the GASB 67 reporting requirements. A detailed description of the additional calculations and schedules that are anticipated to be provided by the actuaries for GASB 67 can be viewed in [Appendix A](#).

### **GASB 68: Applicable to Employers**

*GASB Statement No. 68* revises and establishes new financial reporting requirements of state and local governments that provide their employees with pension benefits – **MPERA Employers and TRS Employers**. Statement 68 will take effect for governments in fiscal years beginning after June 15, 2014 (that is, for years ended June 30, 2015 or later).

## **GASB 68 Disclosures**

For the first time, employers will

- record a liability on their balance sheets for their proportionate share for the cost-sharing system’s collective Net Pension Liability (NPL) rather than disclosing information less prominently in the notes of the financial statements.
- be required to recognize a liability as employees earn their pension benefits.
- make significant changes to pension footnote disclosures.

GASB 68 will require the retirement systems’ actuaries to perform individual calculations for every employer participating in the system in order to provide the information necessary for the employer expanded footnote disclosures. A detailed description of the additional calculations and schedules that are anticipated to be provided by the actuary for each employer can be viewed in [Appendix B](#).

## **Next Steps**

TRS and MPERA will continue to keep Employers informed over the next months. We recommend that you:

- Review information available on the retirement system websites
- Read all information sent to you from the retirement systems
- Visit the GASB website for tutorials and other information
- Discuss with your Board or other governing bodies

## **Glossary**

- **Measurement date:** date as of which the net pension liability is determined
- **Reporting date:** system’s and/or employer’s fiscal year-ending date
- **Unfunded Actuarial Accrued Liability (UAAL):** the difference between accrued liabilities and the value of assets accumulated to finance an obligation.
- **Net Pension Liability (NPL):** the liability of employers and nonemployer contributing entities to plan members for benefits provided through a defined benefit pension plan.
- **Valuation Date:** date as of which the actuarial valuation is performed

## **Resources for Additional Information**

Montana Teachers’ Retirement System  
Nolan Brilz  
406-444-3679  
1-866-600-4045 (Toll Free)  
[trswebadmin@mt.gov](mailto:trswebadmin@mt.gov)

Montana Public Employee Retirement Administration  
Barbara Quinn or Diann Levandowski  
406-444-5457 406-444-3193  
1-877-275-7372 (Toll Free)  
[mpera@mt.gov](mailto:mpera@mt.gov)

Department of Administration: State Accounting Bureau

406-444-3092

Department of Administration: Local Government Services Bureau

406-444-2511



### GASB 67

- Effective FYE June 30, 2014
- Primarily will impact the pension systems
- Retirement System auditors and Employer auditors will be impacted in regard to Census data verification
- Liability calculated using entry age normal actuarial cost method
- Fair Market Value (FMV) of net system assets based on investment return assumptions if assets sufficient and at lower rate when not

### Financial Statements

1. Statement of Fiduciary Net Position (provided by plan actuary)
  - a. Assets, such as cash and cash equivalents, receivables from employers and system members, investments (measured at fair value), and equipment and other assets used in pension system operations
  - b. Deferred outflows of resources
  - c. Liabilities, such as benefit payments due to system members
  - d. Deferred inflows of resources
  - e. Fiduciary net position, which equals assets, plus deferred outflows of resources, minus liabilities, minus deferred inflows of resources.
2. Statement of Changes in Fiduciary Net Position (provided by plan actuary)
  - a. Additions, such as contributions from employers, non-employer contributing entities, system members, and net investment income
  - b. Deductions, such as benefit payments and administrative expense
  - c. Net increase (decrease) in fiduciary net position, which equals the difference between additions and deductions

### Notes to Financial Statements:

1. System Description (System Identification, number of employers, board composition, contribution requirements etc.) (provided by the plan)
2. Pension System Investments (Investment Policies, methods of determining Fair Value of Investments, Identification of Investments, Annual Money-Weighted Return on Investments) (provided by the BOI)
3. Receivables (any long term contracts for contributions to the system) (provided by the plan)
4. Allocated insurance contracts excluded from pension system assets (provided by the plan)
5. Reserves (provided by the plan)
6. Deferred retirement option program balances (provided by the plan)
7. Components of Liability (Total Pension Liability, System's Fiduciary Net Position, The Net Pension Liability, Fiduciary Net Position as a Percentage of Total Pension Liability) (provided by the plan actuary)
8. Significant assumptions used to measure Total Pension Liability (inflation, salary changes, mortality assumptions) (provided by the plan actuary)
9. Discount rate assumptions and calculation (provided by the plan actuary)
  - a. Discount rate applied and any changes in the rate
  - b. Projected cash flow assumptions
  - c. Long-Term Expected Rate – description of how it was determined
  - d. If Blended Rate –Municipal Rate used and source of that rate
  - e. Periods of projected benefit payments
  - f. Assumed asset allocation of the portfolio

- g. Sensitivity of the Pension Liability to discount rate (NPL with 1% higher rate & 1% lower rate)

### **Required Supplementary Information:**

#### **Prospective 10 Year Schedule of Changes in the Net Pension Liability (provided by the plan actuary)**

1. Service Cost
2. Interest on the TPL
3. Changes in benefit terms
4. Differences between expected and actual experience in the measurement of TPL
5. Changes in assumptions
6. Contributions from employers
7. Contributions from non-employer contributing entities
8. Contributions from system members
9. Net investment income
10. Benefit payments
11. Administrative expenses
12. Other changes, if individually significant

#### **Prospective 10 Year Schedule of the following for each year (provided by the plan actuary)**

1. Total pension liability
2. Fiduciary net position
3. Net pension liability
4. Fiduciary net position as a percentage of TPL
5. Covered employee payroll
6. Net pension liability as a percentage of covered employee payroll

#### **Historical 10 Year Schedule of Actuarially Determined Contributions (provided by the plan actuary)**

1. Actuarially determined contributions of employers or non-employer contributing entities
2. For cost-sharing pension plans, contractually required contribution of employers or non-employer contributing entities if different than (1)
3. Amount of contributions recognized during the fiscal year by the System in relation to the actuarially determined contribution in (1)
4. Difference between the actuarially determined contribution in (1) and the amount of contributions recognized by the System in relation to the actuarially determined contribution in (3)
5. Covered employee payroll
6. Amounts of contributions recognized by the System in relation to the actuarially determined contribution in (3) as a percentage of covered employee payroll in (5). (MPERA & TRS information provided by Actuary)

#### **Historical 10 Year Schedule of Annual Money Weighted Rate of Return on Investments (provided by the BOI)**

### GASB 68

1. Effective FYE June 30, 2015
2. Will impact state agencies, the university system, other State component units, local governments, school districts, and community colleges
3. Per state statute, agencies, the university system, other State component units and all local governmental entities, and political subdivisions must follow GAAP. Thus, they must implement GASB 68, there is not a choice
4. Employers will report their respective share of liability on financial statements
5. Employers will report deferral amounts on their statements based on the measurement date selected
6. Note disclosures will be impacted
7. Amortization period will be shorter than current 30 years
8. Funding is not the same as reporting and thus policy makers will still be responsible for understanding and determining the funding levels/methods

### Impacts on Employers:

1. Employer contributions are as set in statute and determined by the legislature; the GASB standards do not directly affect the contribution rates
2. Liability/deferral recorded on financial statements based on information received from systems
3. Note disclosures will be changed
4. Involvement of management / auditors in regard to verification of Census data
5. Coordination of audit work with employer auditor and LAD
6. Entity debt covenants should be reviewed for potential impacts
7. Pension expense will be more volatile and will not be same as amount remitted to systems

### Net Pension Liability (NPL)

1. Net pension liability (NPL) = total pension liability (TPL) minus fiduciary net position (MV of assets)
2. Must be calculated as of the pension system's fiscal year-end, or employers to recognize a net pension liability at a date no earlier than the end of the employer's prior fiscal year-end
3. Significant differences need to be reflected in TPL and will be recorded as deferred inflows or deferred outflows
4. Employer contributions made to the pension system after the measurement date but prior to the employer's fiscal year-end should be recognized as deferred outflows of resources.

### Employers Measurement Date

1. The initial measurement date will be June 30, 2014 for MPERA and TRS
2. Employers can use any date within 12 months of the measurement date when their fiscal year-end is not the same as the system's
3. Once a date is chosen, it must be applied consistently from year to year
4. Rather than creating an extremely compressed timeframe in which both the actuarial valuation and system financial statements need to be prepared and audited the retirement systems highly recommend that Employers' utilize the June 30, 2014 measurement date for the initial implementation of GASB 68 for the fiscal year ending June 30, 2015
5. Valuation of MPERA will be dated 6/30
6. Valuation of TRS will be dated 7/1

## **Financial Statements by System and Employer:**

1. Schedule of Employer Allocations (provided by the plan actuary)
  - a. Schedule of all employers in the cost sharing system
  - b. Schedule will be allocated by actual employer contributions, future projected contributions, or covered payroll
  - c. Schedule will provide employers allocation percentage used to calculate their Schedule of Employer Allocation of NPL
  - d. All Special Funding Situations need to be accounted for in the schedule
2. Schedule of Pension Amounts by Employer (provided by the plan actuary)
  - a. Net Pension Liability by employer
  - b. Individual employers' balances of deferred outflows of resources and deferred inflows of resources related to pensions, classified as follows:
    - i. Differences between expected and actual experience in the measurement of the total pension liability
    - ii. Changes in assumptions of other inputs
    - iii. Net difference between projected and actual earnings on pension system investments
    - iv. Changes in the employer's proportion and differences between the employer's contributions and the employer's Schedule of Employer Allocation of contributions.
    - v. The employer's contributions to the pension system subsequent to the measurement date of the net pension liability.
  - c. Pension Expense and Deferred Inflows and Outflows of Resources
    - i. Determine the pension expense for the year including a calculation of the portion of the change in NPL due to investment gain/loss, assumption and/or experience gain/loss to be recognized immediately
    - ii. Allocate remaining portion of the changes in the NPL not recognized immediately to deferred outflows and inflows of resources.
  - d. All Special Funding Situations need to be accounted for in the schedule

## **Notes to Financial Statements by Employer:**

1. System Description (System Identification, number of employers, board composition, Contribution requirements etc.) (provided by the plan)
2. Significant assumptions used to measure Total Pension Liability (inflation, salary changes, mortality assumptions (provided by the plan actuary)
3. Discount rate assumptions and calculation (provided by the plan actuary)
  - a. Discount rate applied and any changes in the rate
  - b. Projected cash flow assumptions
  - c. Long-Term Expected Rate – description of how it was determined
  - d. If Blended Rate –Municipal Rate used and source of that rate
  - e. Periods of projected benefit payments
  - f. Assumed asset allocation of the portfolio
  - g. Sensitivity of the Pension Liability to discount rate (NPL with 1% higher rate & 1% lower rate)
4. A schedule presenting the following (provided by the plan actuary):

- a. For each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balance of deferred outflows of resources and deferred inflows of resources that will be recognized in the employer's pension expense.
- b. Amount of the employer's balance of deferred outflows of resources due to employer contributions subsequent to the measurement date that will be recognized as a reduction of the NPL
- c. Amount of revenue recognized for the support provided by non-employer contributing entities.

**Required Supplementary Information:**

1. Prospective 10 Year Schedule presenting the following for each year: (provided by the plan actuary)
  - a. Employer's Schedule of Employer Allocation (percentage) of the collective NPL
  - b. Employer's Schedule of Employer Allocation (amount) of the collective NPL
  - c. If Special Funding Situation – non-employer's Schedule of Employer Allocation (amount) of the collective NPL
  - d. Total of (b) and (c)
  - e. Employer's covered employee payroll
  - f. Employer's Schedule of Employer Allocation (amount) of the collective NPL as a percentage of the employer's covered employee payroll
  - g. System's fiduciary net position as a percentage of the total pension liability
2. 10 Year schedule of the following (provided by the plan actuary)
  - a. Statutorily required employer contribution
  - b. Amount of contributions recognized by the System in relation to the statutorily required employer contribution
  - c. Differences between the statutorily required employer contribution and the amount of contributions recognized by the System in relation to the statutorily required employer contribution
  - d. The covered employee payroll
  - e. The amount of contributions recognized by the System in relation to the statutorily required contribution as a percentage of covered employee payroll