

GASB 68 Accounting Disclosures
Briefing for the Investments and Pensions Oversight
Committee
Senator George Munoz, Chair
Representative Monica Youngblood, Vice-Chair
August 18, 2015

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GASB 67

Accounting disclosures for pension plans

ERB was one of the first pension plans in the US to adopt

GASB 68

Accounting disclosures for employers participating in pension plans

Both GASB statements separate accounting disclosures and presentation and the funding considerations for pensions

Probably not much:

- Balance sheet and income statement will look different, but cash flows (one of the most important considerations for credit rating agencies) will be unchanged
- A negative balance in net position is not necessarily a sign of financial distress
- According to Rating Agency Standard & Poors:
“While there will be a range of new information reported under the GASB 67/68 and year-over-year comparisons may be challenging, we don’t expect significant credit differentiation based solely on the new reporting”.

March 24, 2015

Separates accounting and funding for pensions

Provides new information:

- Comprehensive reporting of a government's net pension liabilities and expenses
- Each employer will include its share of the actuarial present value of retirement benefits in its financials
- Reflect pension liability where employment exchange takes place
- Provide 10-year trend information- net pension liability and hitting contribution targets

New information to be reported:

- Description of the plan and benefits provided
- Significant assumptions used in the measurement of the net pension liability
- Amounts of the net pension liability and deferred inflows and outflows of resources related to pensions
- Analysis of the net pension liability's sensitivity to changes in the discount rate
- Descriptions of changes in the assumptions used in measuring the net pension liability

What does GASB 68 not do?

- Create a new liability
 - Prior to GASB 68, liability was only shown at the pension fund level
- Change what employers have to contribute to the pension plan
 - Employers will continue to pay rates contributions set by statute

Why Does GASB Mandate this Change?

GASB's goals are to have:

- Increased transparency, however, not all of the information is helpful
- Improve comparability among pension plan employers

Current	GASB 67/68	Result
Actuarial Accrued Liability (AAL): Present value of earned retirement benefits	Total Pension Liability (TPL): Present value of earned retirement benefits	No change for ERB
Actuarial Value of Assets (AVA): “Smoothed” value of pension plan assets	Fiduciary Net Position (FNP): Fair market value of pension plan assets minus liabilities	All amounts and ratios that use FMV of investments will be more volatile
Unfunded Actuarial Accrued Liability (UAAL): AAL minus AVA	Net Pension Liability (NPL): TPL minus FNP	For ERB, $NPL < UAAL$, as of June 30, 2014

Current	GASB 67/68	Result
Funded Ratio: AVA/AAL	Funded Ratio: FNP/TPL	For ERB, results in a higher funded ratio. Will be more volatile
Annual Required Contribution (ARC): Contribution necessary to amortize UAAL in 30 years	No longer applicable	ERB will track Funding Policy Contribution in actuarial valuation report
Discount Rate: Use long-term earnings assumption to calculate AAL	Discount Rate: Use long-term earnings assumption to calculate TPL, if enough assets. If not, blended rate.	No change for ERB.
Contribution expense: Total of employer contributions accrued in fiscal year	Pension expense: Change in NPL from one year to the next	Will be more volatile

In summary, these changes will result in a need for two different sets of books: one for funding and budgeting, and one for accounting.

Current and GASB 68 Reporting

	Current		GASB 68	
	<u>ERB FS</u>	<u>School FS</u>	<u>ERB FS</u>	<u>School FS</u>
UAAL	Footnote disclosure	None Mentions participation in ERB	Footnote disclosure, including sensitivity of discount rate	Proportionate share of NPL on Balance Sheet
Contribution Expense	Included in Statement of Changes in Plan Net Assets	Amount of employer contributions accrued	Included in Statement of Changes in Fiduciary Net Position	Difference between current and prior year NPL, plus adjustments

GASB 68 Means...

New disclosures for employers

Now required to recognize and report...

- proportionate share of the Plan's collective Net Pension Liability
- proportionate share of the Plan's pension expense
- Proportionate share of the Plan's deferred inflows and outflows

These will be reported with a one-year lag

Now required to add...

- More disclosure notes: discount rate, measurement assumptions, deferred flows
- Required Supplementary Information: Schedules of net pension liability over 10 years, contributions, and related ratios.

What are ERB's Options?

Implementation Level	Benefits	Issues to Resolve
<p>1 Bargain Basement: Implement only GASB 67</p>	<ul style="list-style-type: none"> • Low cost to ERB 	<ul style="list-style-type: none"> • Employers uninformed, unstaffed for reporting • Public image problems
<p>2 Middle of the Road: Provide proportionate share schedules for Net Pension Liability, pension expense, & deferred inflows/ outflows</p>	<ul style="list-style-type: none"> • NMERB meets employers halfway • NMERB minimizes audit responsibility 	<ul style="list-style-type: none"> • Member data is supplied by members • Who audits the allocation schedule? • Employers still face new reporting challenges
<p>3 Full Service Plan: Prepare and disclose all calculations and disclosures for employers</p>	<ul style="list-style-type: none"> • Reduce employer work 	<ul style="list-style-type: none"> • Plan takes on more work

How to maximize ERB's service today?

- **Increase Communication**

- Leverage existing ERB website and employer portal
 - Website publishing (AICPA articles, GASB links, employer FAQs)
 - Email blasts to Employer accounting personnel
- Fact Sheet Handouts, sample reporting examples, newsletters
- Compliance Auditor (desk & field audits)
- Meet with Employers in regional meetings across New Mexico
- Meet with State Auditor, Public Education Department, Higher Education Department

- **Share Real Information**

- Provide audited GASB 68 report and Required Supplementary Information to all employers
 - Employer contribution reconciliations
 - Allocation schedules (Net Pension Liability, Contributions, deferred flows)
- Sample financial statement note disclosures
- Sample journal entries

How Will Each District's Allocation be Calculated?

Your district's employer contribution/Total employer contributions

Example:

Total FY14 employer contributions \$362,462,537

Santa Fe FY14 employer contributions \$9,038,466

Santa Fe/Total= $\$9,038,466/\$362,462,537=2.4936275\%$

In FY15 ERB will provide all employers this audited information:

- Each employer's share of the Net Pension Liability and change from prior period (Pension Expense)
- Each employer's share of Deferred Inflows/Outflows
- Each employer's related journal entries, prior period adjustment for NPL, and language for financial statement disclosures, may require customization

In FY16 and future years ERB will provide all employers this audited information:

- Each employer's share of the change in Net Pension Liability (Pension Expense)
- Each employer's share of Deferred Inflows/Outflows
- Each employer's related journal entries and language for financial statement disclosures, may require customization

ERB's Implementation Plan

- Produce annual audited schedules, engaging ERB's actuary and auditor to provide an opinion on
 - Employer Allocations
 - Collective Pension Amounts and Required Supplementary Information
 - Schedules include detail information for employers financials
- ERB will comply with AICPA best practices that will allow the employer's auditor to rely on ERB's auditor's opinion on proportionate shares
- Employers have responsibility to report accurate census data to ERB
- Employers assume responsibility for presentation of the information used in their own financial statements

ERB's GASB 68 Collective Amounts

New Mexico Educational Retirement Board	
Schedule of Collective Pension Amounts	
As of and for the year ended June 30, 2014	
Net Pension Liability (7.75% Discount)	\$ 5,705,730,813
Net Pension Liability -- 1.00% Decrease (6.75% Discount)	\$ 7,763,304,829
Net Pension Liability -- 1.00% Increase (8.75% Discount)	\$ 3,987,098,791
<u>Deferred Outflows of Resources</u>	
Differences Between Expected and Actual Experience	\$ 0
Net Difference Between Projected and Actual Investment Earnings on Plan	0
Changes in Assumptions	0
Total Deferred Outflows of Resources Excluding Employer-Specific Amounts*	<u>\$ 0</u>
<u>Deferred Inflows of Resources</u>	
Differences Between Expected and Actual Experience	\$ 84,995,487
Net Difference Between Projected and Actual Investment Earnings on Plan Investments	518,677,364
Changes in Assumptions	0
Total Deferred Inflows of Resources Excluding Employer-Specific Amounts*	<u>\$ 603,672,851</u>
Pension Plan Expense	<u>\$ 395,014,052</u>
* Employer specific amounts that are excluded from this schedule are the changes in proportion and differences between employer contributions and proportionate share of contributions as defined in paragraphs .54 and .55 of GASB Statement No. 68, Accounting and Financial Reporting for Pensions.	

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

SCHEDULE OF ALLOCATIONS AND PENSION AMOUNTS BY EMPLOYER

As of and for the Year Ended June 30, 2014

Schedule of 2014 Allocable Proportion by Employer			
Employer Name	Employer Reporting Code	Actual Employer Contribution	Employer Allocation %
Albuquerque Public Schools	02003	\$ 61,644,081.73	17.00702%
University of New Mexico	02095	59,182,701.40	16.32795%
NM State University	07098	27,405,905.73	7.56103%
Las Cruces Public Schools	07023	17,002,395.56	4.69080%
Rio Rancho Public Schools	29123	10,677,262.36	2.94576%
CNM Community College	02123	9,653,679.01	2.66336%
Gadsden Independent Schools	07021	9,544,455.94	2.63323%
Santa Fe Public Schools	01002	9,038,465.52	2.49363%
Gallup McKinley County School	13041	8,743,083.15	2.41213%
Farmington Municipal Schools	16052	7,098,086.31	1.95830%
Roswell Independent Schools	04011	6,159,461.52	1.69934%
Clovis Municipal Schools	05012	5,299,067.37	1.46196%
Hobbs Municipal Schools	06017	5,284,840.26	1.45804%
Los Lunas Schools	14045	5,166,198.64	1.42531%

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

SCHEDULE OF ALLOCATIONS AND PENSION AMOUNTS BY EMPLOYER As of and for the Years Ended June 30, 2014

Schedule of Allocable Pension Amounts by Employer						
Employer Reporting Code	Net Pension Liability (7.75% Discount)	Deferred Outflows of Resources	Deferred Inflows of Resources		Pension Expense	
			Actuarial Experience	Investment Experience		
02003	\$ 970,374,868	-	(14,455,201)	(88,211,571)	67,180,125	
02095	931,628,868	-	(13,878,021)	(84,689,380)	64,497,696	
07098	431,412,090	-	(6,426,535)	(39,217,358)	29,867,136	
07023	267,644,466	-	(3,986,969)	(24,330,122)	18,529,322	
29123	168,076,915	-	(2,503,760)	(15,278,970)	11,636,151	
02123	151,964,102	-	(2,263,735)	(13,814,241)	10,520,643	
07021	150,244,759	-	(2,238,123)	(13,657,945)	10,401,611	
01002	142,279,673	-	(2,119,471)	(12,933,881)	9,850,179	
13041	137,629,890	-	(2,050,205)	(12,511,195)	9,528,269	
16052	111,735,050	-	(1,664,463)	(10,157,234)	7,735,541	
04011	96,959,619	-	(1,444,360)	(8,814,079)	6,712,622	
05012	83,415,661	-	(1,242,602)	(7,582,870)	5,774,958	

Sample Employer GASB 68 Disclosures

Notes to Financial Statements

Summary of Significant Accounting Policies: Basis of Accounting. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources, related to pensions, and pension expense, information about the fiduciary net position of the **ERB** and additions to/deductions from **ERB's** fiduciary net position have been determined on the same basis as they are reported by **ERB Plan**. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pension Liabilities, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, and Pension Expense. At June 30, 2015 the **University of ABC** (UABC) reported a liability of \$14,910 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2014. **UABC's** proportion of the net pension liability was based on UABC's contributions to ERB for the year ending June 30, 2015 relative to the total contribution for all employers participating in ERB a projection of the long-term share of contributions to the pension plan relative to projected contributions of all participating school districts, actuarially determined. At June 30, 2015 **UABC's** proportion was XX percent, which was an increase of XX percent from its proportion measured as of June 30, 2014.

***These illustrations include only commonly required Employer disclosures. Employers should consult with their Independent Public Accountants for specific financial statement presentations.

Sample Employer GASB 68 Disclosures...cont.

Pension Liabilities, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, and Pension Expense (Cont).

For the year ended June 30, 2015 **UABC** recognized pension expense of \$2,394. At June 30, 2015 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,657	\$ 142
Changes of assumptions	1,714	130
Net difference between projected and actual earnings on pension plan investments	-	2,194
Changes in proportion and differences between UABC contributions and proportionate share of contributions	753	156
UABC contributions subsequent to the measurement date	<u>1,065</u>	<u>-</u>
Total	<u>\$ 6,189</u>	<u>\$ 2,622</u>

Payable to the Pension Plan: At June 30, 2015, UABC reported a payable of \$5,432 for the outstanding contributions to the pension plan required for the year ended June 30, 2015.

***These illustrations include only commonly required Employer disclosures. Employers should consult with their Independent Public Accountants for specific financial statement presentations.



Appendix A, page 1 ERB Actuarials at a Glance

<u>Fiscal Year</u>	<u>6/30/12</u>	<u>6/30/13</u>	<u>6/30/14</u>	<u>6/30/14</u> <u>GASB 67</u>
UAAL	\$6.2B	\$6.5B	\$6.3B	\$5.7B
Funded Ratio	60.7%	60.1%	63.1%	66.9%
Funding Period	Infinite	95.1 years	42.1 years	Not applicable
Funding Policy Contribution	17.59%	17.47%	16.32%	Not applicable

- Interest on the unfunded liability
- Contributions less than the Annual Required Contributions (ARC)
- Earlier retirement higher than assumed
- Longer life expectancy than assumed
- Salary increases higher than assumed
- Total payroll growth lower than assumed
- Investment losses

Multi-year, multi-prong effort

Legislation

- 2005 SB181 increased member/employer contributions
- 2009 HB573 increased retirement eligibility requirements
- 2013 SB115 increased member contribution, reduced COLA until 100% funded

Investments

- Continued diversification, de-risking of portfolio
- Constantly seeking most cost efficient management structure

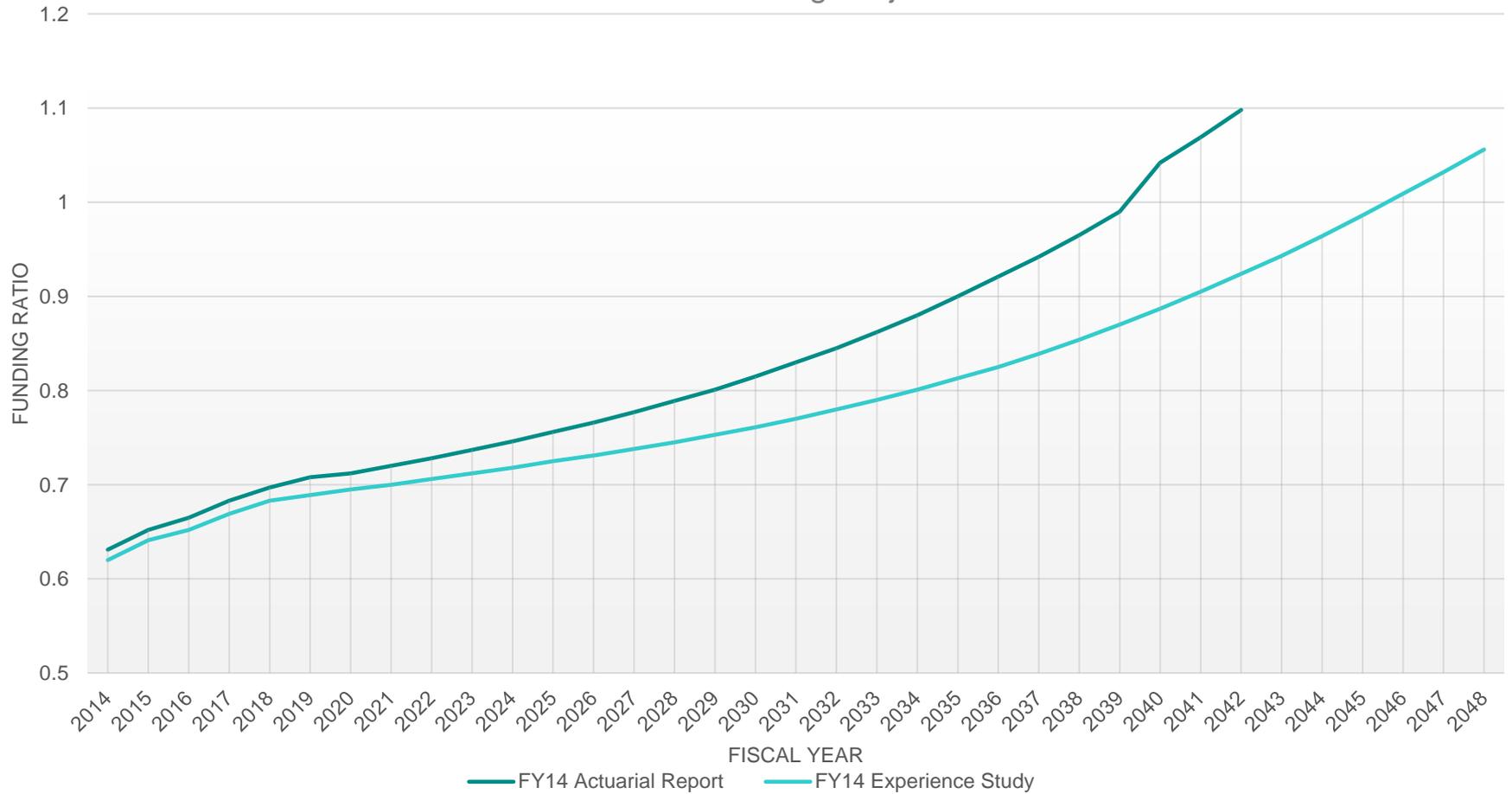
Governance

- Annual actuarial valuations and biennial experience studies

Appendix A, page 4

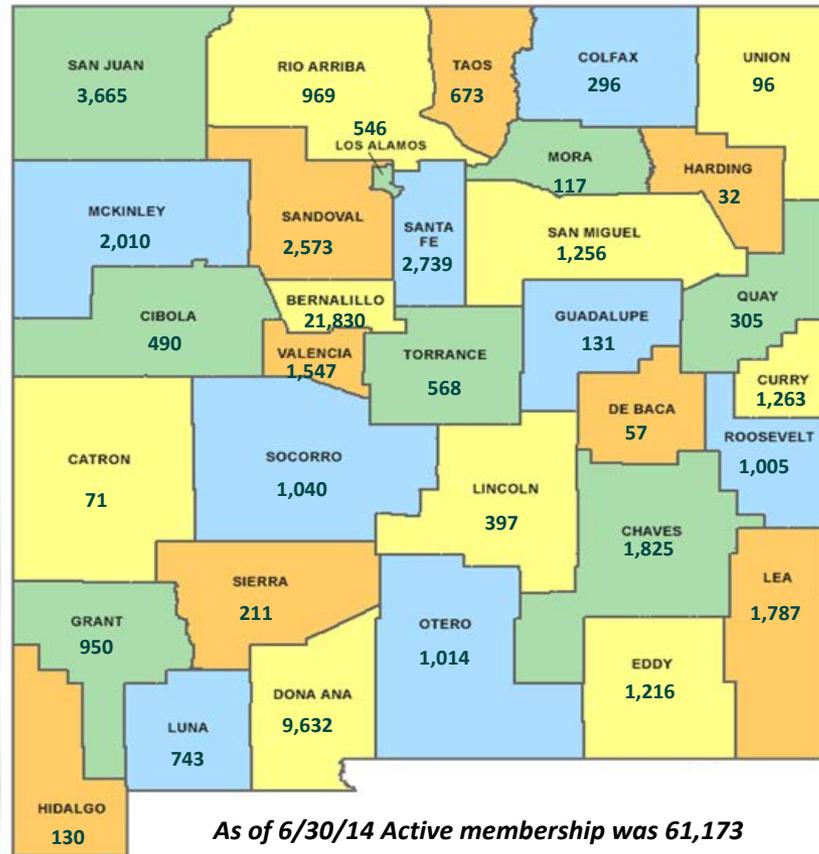
When Will the UAAL be Gone?

ERB Actuarial Funding Projections



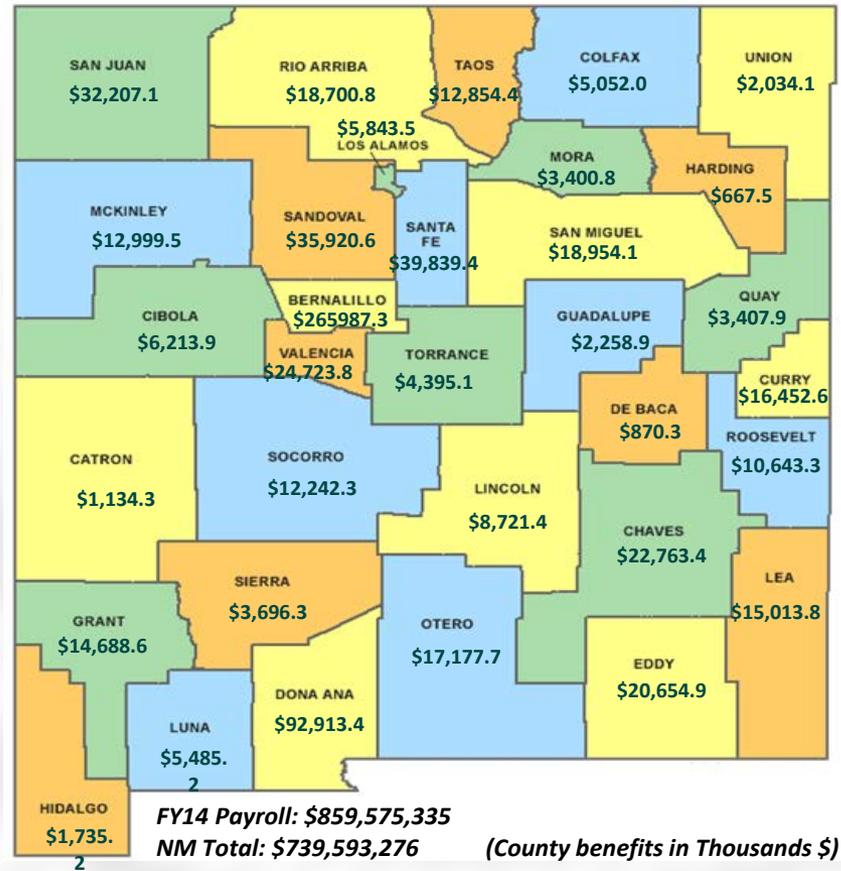
Active ERB Members	61,173
Retirees and Beneficiaries	42,246
Retiree Payroll	\$868,291,384
Member Contributions	\$271,513,574
Employer Contributions	\$362,462,537
Member Contribution Refunds	\$38,923,083
Active Member Payroll	\$2,538,882,656
Participating Employers	230
ERB Net Assets	\$11.3 billion
Average Benefit	\$23,554
Average Age at Retirement	61.57

Appendix B, page 2 ERB Employment by County



Appendix B, page 3

Fiscal Year 2014 Retiree Benefits by County



Appendix B, page 4 ERB Retirees by County

