



PERA

NM PERA Schedule of Employer Allocations and Pension Amounts

Investments and Pensions Oversight Committee

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August 18, 2015

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GASB's Changes to Pension Accounting

- GASB changes under statements 67 and 68 are intended to promote consistency and transparency of employer reporting.
- Approach based on GASB's decision that reporting the Net Pension Liability (NPL) on the face of a government's financial statements allows users of the financial statements to better assess:
 - *The long-term benefit obligations of a governmental entity;*
 - *The general long-term financial health of a governmental entity;*
 - *How well a governmental entity has supported and maintained the pension promises made to their employees.*

GASB 67 & 68 – Who Does it Apply To?

GASB 67

- GASB approved *Statement No. 67, Financial Reporting for Pension Plans*
- Applies to plans that administer pension benefits, such as the Public Employees Retirement Association (PERA) of New Mexico
- PERA is a cost-sharing multiple employer defined benefit plan covering state and local governmental employees and members of the judicial and legislative branches of government.

GASB 68

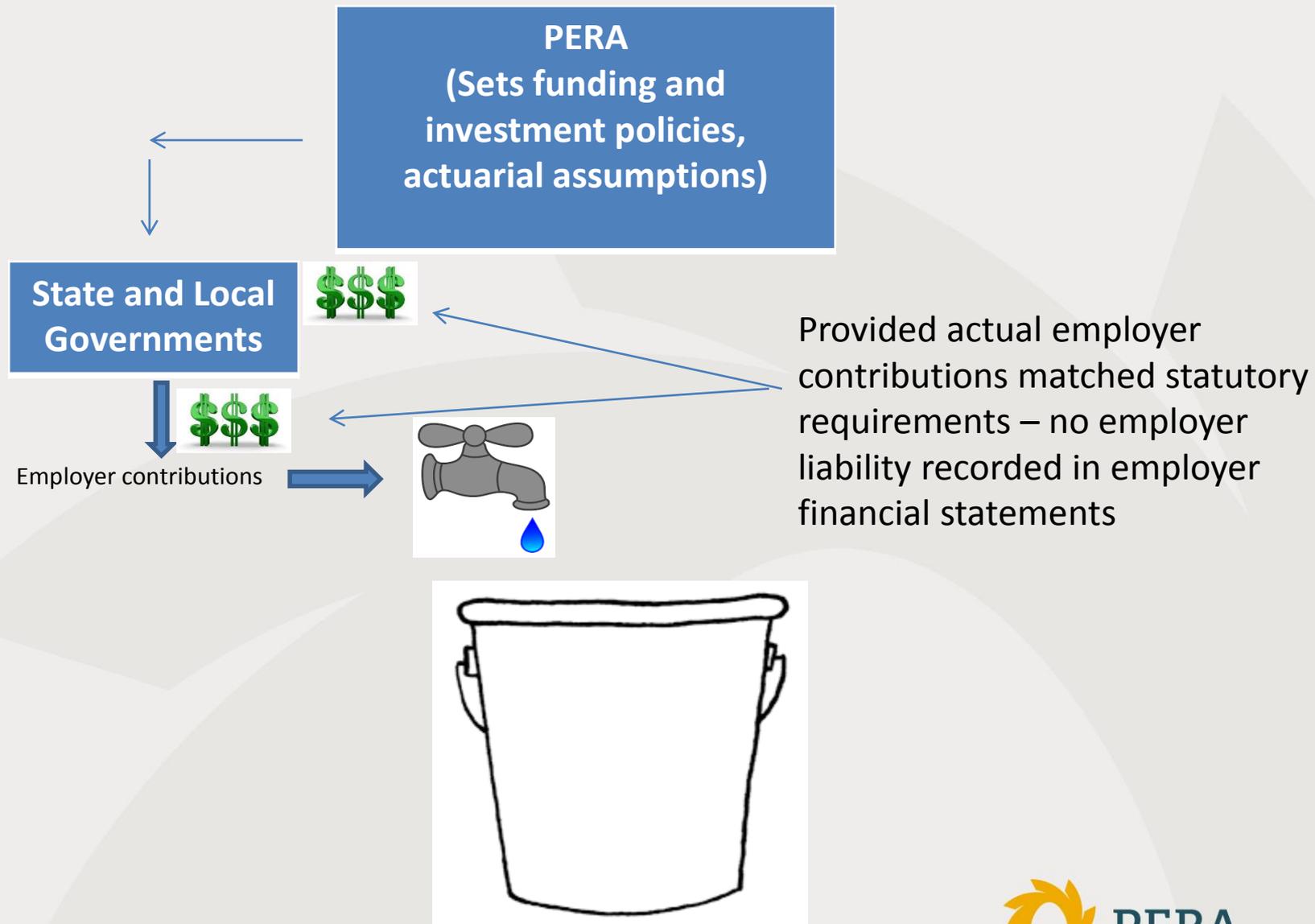
- GASB also approved *Statement No. 68, Accounting and Financial Reporting for Pension Plans*
- Applies to governments that provide pension benefits to their employees
 - *Examples: Counties, Municipalities, Housing Authorities, Water and Sanitation Districts*

GASB Change to Pension Accounting - Overview

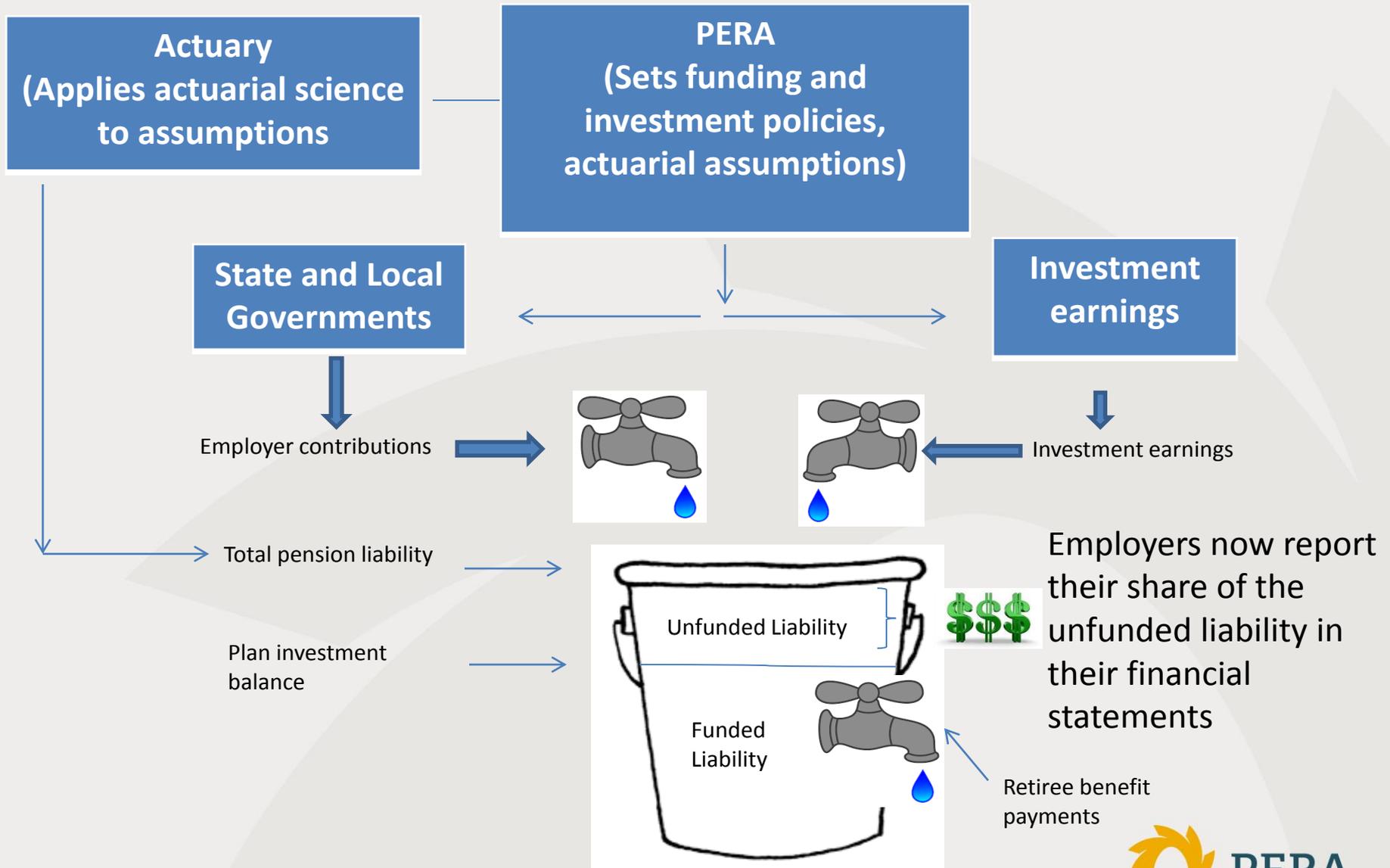
Summary of Changes

- *Separate accounting and funding*
- Net Pension Liability (NPL) moves to balance sheet of employers.
NPL is:
 - Actuarially accrued liability (referred to in statements as Total Pension Liability (TPL) base on Entry Age Normal funding method, less
 - Plan's Fiduciary Net Position (market value of assets).
- Annual pension expense or pension income with no direct relationship to actuarially determined contributions.
- Actuary provides a GASB 67 supplemental report that is *separate* from the actuarial valuations used for funding decisions.
- Deferred Inflows and Outflows created.

Pension Accounting Overview – Previous Accounting



Change to Pension Accounting – New Accounting



Evolution of GASB Standards and Related Practice Issues

- 2006 – 2012 – GASB deliberates on pension accounting changes
- 2006 – 2012 – AICPA provides feedback on anticipated practice issues – makes several suggestions to address them – a few of which were included or addressed in the final standards
- August 2012 - GASB issues final pension standards
- August 2012 to April 2014 – AICPA deliberates on audit guidance for both plans, and employer members participating in pension plans
- February 2014 – AICPA issues two white papers with issues, solutions, and suggested audit guidance
- April 2014 – AICPA issues audit interpretations providing further audit guidance
- April 2014 to present – new practice issues continue to be identified
- July 2015 – AICPA issues 2015 update to the State and Local Government Accounting and Auditing Guide – with new chapter on pensions
- June 2015 – PERA & Moss Adams identify employee pick-up arrangements issue
- July 2015 to present – employee pick-up issue audit solution deliberated
- Many plans now delayed until September or later – due to the practice issues being identified

Evolving Practice Issues – Causing Delays in Issuance of Employer Pension Schedules Across the Country

- Plans need to provide beginning NPL in employer pension schedules
- Plans need to consider if a separate proportion calculation is required for the beginning of the measurement period
- Employer contributions reported by the Plan not always in agreement with employer records due to timing differences (plans to record when ‘legally due’) and adjustments, corrections, amounts for different years
- ‘Covered payroll’ as defined by GASB different from ‘pensionable wages’ as captured by Plans
- Calculation of proportion for plans with multiple ‘employee classification pools’ with separate contribution rates
- **Classification of contributions between employer and employee for employee ‘pick-up’ contributions paid by employer (PERA & Moss Adams on cutting edge of this issue nationally)**

GASB 67 – Net Pension Liability Calculation

Net Pension Liability (NPL)

- To the extent that the cumulative long-term obligations to provide pension benefits of the participating governments in a cost-sharing plan (TPL) is *larger* than the value of the assets available in the pension plan's trust to pay pension benefits.

TPL	-	FNP	=	NPL
\$17.7 Billion	-	\$14.4 Billion	=	\$3.3 Billion
<i>PERA multi-employer cost sharing fund</i>				

Note: Unfunded Actuarial Accrued Liability (UAAL) \$4.3B as of June 30, 2014

GASB 67 – Total Pension Liability Calculation

Net Pension Liability vs: Unfunded Actuarial Accrued Liability (UAAL)

- Market value of assets (Fiduciary Net Position) is greater than actuarial value of assets used in the June 30, 2014 actuarial valuations.
 - 4 year smoothing (UAAL) vs. Fair Market Value (GASB/NPL)
 - \$13.4 Billion - \$14.4 Billion
- Net Pension Liability of PERA divisions/funds are less than the UAAL in the June 30, 2014 actuarial valuation with the exception of the Magistrate's Fund.
 - Magistrates Fund is the only PERA plan which is projected to become insolvent using GASB 67 projection method. This results in the required use of lower discount rate in measuring the Fund's liability resulting in an increase in the NPL under GASB.

GASB 67 – Users of the “Schedule”

- **The need for a “Schedule of Employer Allocations”**
- **Why?**
 - GAAP financial statements of the plan will not provide sufficient appropriate audit evidence for the governmental employer auditor.
 - *Potential for opinion modifications*
- **PERA’s “Schedule of Employer Allocations”**
 - Specific elements – all by employer (“org code” specific)
 - *Share of NPL*
 - *Share of Deferred Inflows/Outflows*
 - *Share of Pension Expense*
 - *Sensitivity Rate Disclosure*

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Schedule of Employer Allocations and Pension Expense

Employer's Responsibilities

EDUCATE: Understand the requirements of GASB 68 and how they apply to the employer's governmental entity

REPORT: Complete and accurate data to plan through member applications and electronic payroll file data

EVALUATE: Information used to record financial statement amounts

VERIFY: Amounts in schedules specific to employer
Recalculate allocation percentage of employer
Recalculate allocation of pension amounts based on allocation percentage of employer

ULTIMATELY, EACH EMPLOYER IS RESPONSIBLE FOR THE INFORMATION CONTAINED IN THEIR FINANCIAL REPORTS

Future Steps

- Employer participants to work closely with their external auditor
- *Continued* communication from PERA
 - Considering best ways to provide continued support and understanding of the Schedules, their use and purpose
- NM PERA to begin work on 2015 GASB 67 and GASB 68