



Commitment

Competence

Character

GASB Video

Employer Pension Reporting

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Introduction: Today's PERSI

◆ **\$14-Billion in PERSI Fund**

◆ **130,000 participants**

- ◆ Active members
- ◆ Inactive members
- ◆ Retirees and beneficiaries

◆ **755 Employers**

PERSI's unfunded liability peaked in 2009

| Fiscal Year-end | FUNDED RATIO | UAAL | AMORTIZATION PERIOD |
|-----------------|--------------|--------|---------------------|
| 2009 | 74.1% | \$3.0B | 100+ years |
| 2010 | 78.9% | \$2.5B | 17.5 years |
| 2011 | 90.2% | \$1.3B | 8.2 years |
| 2012 | 84.7% | \$2.1B | 14.8 years |
| 2013 | 85.3% | \$2.1B | 13.1 years |

Who *is* GASB?

◆ The Governmental Accounting Standards Board

- ◆ GASB is an independent, non-profit organization that sets financial accounting and reporting standards for state and local governments. Its seven members include preparers and auditors of government financial statements, users of those statements, and members of the academic community. More information about GASB can be found at www.gasb.org .

Why the change from GASB's point of view?

❖ GASB point of view:

- ◆ Pension costs and obligations should be recorded as employees earn them, NOT when the government contributes or when a retiree receives benefits.
- ❖ More clearly depicts a government's financial position.
- ❖ Improves the usefulness of reported pension information.
- ❖ Increases transparency, consistency, and comparability of pension information across governments.

“While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government’s situation will not have changed.”

GASB Letter 2012

Two GASB Statements (67 and 68)

◆ GASB 67 - Applies to Pension Systems (PERSI)

- ◆ Took effect this year
- ◆ PERSI made the necessary changes in advance

◆ GASB 68 - Affects PERSI Employers

- ◆ Takes effect FY2015
 - Cities
 - State Agencies
 - Counties
 - School Districts
 - Etc.

Pension System Accounting Changes (GASB 67) - effective FY2014

◆ Meant to create transparency

- ◆ Apples to Apples comparison
- ◆ Changes affecting most pension systems
 - Market Valuation at a point in time
 - Limits “Smoothing”
 - Entry Age “Individual” instead of “Aggregate”

◆ Little impact on PERSI

- ◆ PERSI has done daily valuations since 1993
- ◆ PERSI does not practice “Smoothing”
- ◆ PERSI already changed to Entry Age Individual
 - Created approximately 0.5% difference in fund value

Employer Pension Accounting Changes (GASB 68) Effective FY2015

- ❖ **Increased reporting requirements for Employers**
- ❖ **Make pension costs more prominent on employers' financial statements**
- ❖ **Make pension costs appear larger and more volatile**
 - ◆ giving the incorrect impression that employers are shouldering an immense debt that they must pay off immediately, when pension funding actually works much like a home mortgage

Who is affected by GASB 68

- ❖ **Any employer in a cost-sharing, multiple-employer plan (local governments, school districts, etc.) will report a net pension liability in their own financial statements based on their proportionate share of collective net liability for the entire plan.**
 - ◆ Currently, these employers have no such reporting requirements in statements, footnotes or schedules.

Reasons for Concern

❖ Sticker Shock

- ◆ Your Boards and Leadership may not be aware/understand

❖ Media Attention/Spin

- ◆ Although PERSI is positioned well and quite different from most of its peers, we will likely be unduly compared to other systems with major problems - due to national attention and misunderstanding.
- ◆ Some quasi-news organizations may use the opportunity to spin, exaggerate or misrepresent.

The “Letter”

- ❖ **Staggered, regional approach**
 - ◆ Started in Boise area
 - ◆ Traveling into the summer
 - ◆ Plan to meet with auditors late summer
- ❖ **Employer share of PERSI Net Pension Liability (NPL)**
- ❖ **Meant to gain your attention, not cause alarm**
- ❖ **Get the conversation started early**

UAAL = Net Pension Liability

Public Employees Retirement System of Idaho Unfunded Actuarial Accrued Liability Model (UAAL)

Inputs

Date for calculation of UAAL
 Asset Return Year to Date (Net of Expenses)
 Total March 1, 2014 COLA

| |
|-------------------|
| 03/04/2014 |
| 11.40% |
| 1.0000% |

PERSI Status as of 07/01/2013

| | |
|--------------------------------------|----------|
| Actuarial Accrued Liability | 14,127.6 |
| Market Value of Assets | 12,053.5 |
| Unfunded Actuarial Accrued Liability | 2,074.1 |
| Funded Ratio | 85.3% |



PERSI Status as of 03/04/2014

| | |
|--------------------------------------|----------|
| Actuarial Accrued Liability | 14,572.6 |
| Market Value of Assets | 13,282.7 |
| Unfunded Actuarial Accrued Liability | 1,289.8 |
| Funded Ratio | 91.1% |



Net Pension Liability (NPL)

❖ How NPL is calculated for PERSI

- ◆ Start by taking all 130,000 plan participants and project out the present day value of ALL future benefits until they have all passed away.
- ◆ Compare that to the current value of the fund's assets and current contributions. The difference is what's called NPL.

❖ Why NPL can be misleading

- ◆ Doesn't include current value of future contributions

Net Pension Liability (NPL)

❖ How PERSI will calculate your share of the NPL

- ◆ Comparing your percentage of total contributions to PERSI total NPL

❖ Where you will likely report NPL

- ◆ Changes in Net Position
- ◆ Who looks at Changes in Net Position
- ◆ Who likely won't look at Changes in Net Position

Changes in Net Position

| Statement of Changes in Net Position for FY ended June 30, 2015 | |
|---|--------------------------------|
| Instruction expenses | \$x,xxx,xxx |
| Support expenses | \$x,xxx,xxx |
| Pension expenses | \$xx,xxx (Revised) |
| Total expenses | \$x,xxx,xxx |
| | |
| Impact upon net position from pension expense | Positive or negative each year |

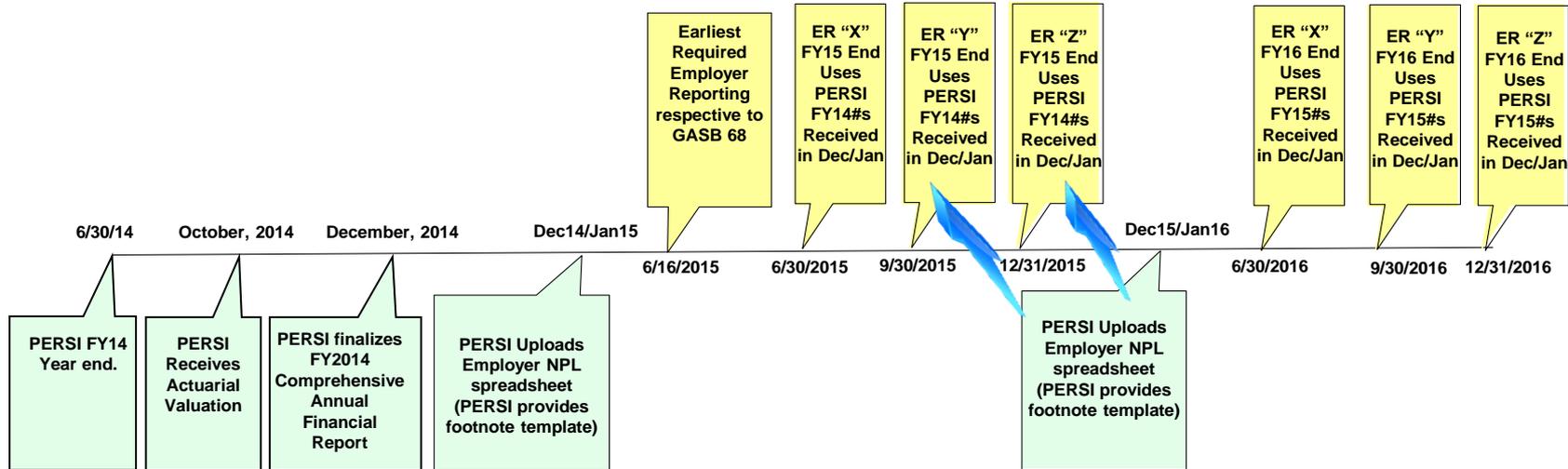
- ❖ **Currently:** The pension expense is contributions made.
- ❖ **GASB 68:** Pension expense consists of multiple elements, including pension investment returns, plan changes, contributions, assumption changes, etc.

Timeline

- ❖ **October, 2014 - PERSI audited financials arrive**
 - ◆ PERSI Actuaries determine employer NPL
 - ◆ PERSI Transmits data to employers

- ❖ **Dec, 2014/Jan, 2015 employer receives PERSI's data**
 - ◆ Employer consults its auditor
 - ◆ Employer prepares financial statement
 - Depending on Employer FY end, NPL could be very outdated, or very current

Timeline



Starting with PERSI FY15 NPL, timing may allow some employers to use more current #s

GASB 68 is a moving target

- ❖ **AICPA rules not set**
- ❖ **GFOA asking for delay**
- ❖ **Bottom line is that things will change. We are, and will continue to provide guidance and support as GASB 68 implementation becomes more clear and closer to a reality.**

What is PERSI doing right now?

Communication

- ◆ Employers
- ◆ Auditors
- ◆ Lawmakers
- ◆ Members/Retirees

Working with actuaries

Awaiting further guidance from GASB

What should you be doing?

Stay in tune with GASB 68

- ◆ Watch for updates from PERSI
- ◆ Talk with your auditors
- ◆ Spread this information back to your organization's leadership

GASB 68 Responsibilities

PERSI

- ◆ Provide Employer with NPL

Employer

- ◆ Work with your Accounting/Auditing
- ◆ Determine best way for your organization to report NPL on your financials in accordance with GAAP and GASB

Key Take-Aways

- ❖ **Employers are going to need to show much more information on their financial statements.**
 - ◆ Allocation issues - joint effort involving the pension systems and actuaries.
 - ◆ Auditors and local government/school district finance personnel will have a lot of questions.
 - ◆ Reporting is at the end of fiscal periods, so any variation in fiscal years will add complexity (hopefully not an issue).
- ❖ **The appearance of liabilities on employer financials might alarm local governments, the public, and the press.**
- ❖ **PERSI is available to help employers plan, communicate.**

PERSI Fund Snapshot

PERSI INVESTMENT REPORT

Month to Date Report

March 4, 2014

| | | |
|---|-----------|-----------------------|
| CURRENT VALUE OF THE FUND | \$ | 14,049,292,503 |
| FISCAL YEAR NET CHANGE IN ASSETS | \$ | 1,292,766,586 |
| FISCAL YEAR TO DATE RETURNS | | 11.4% |





Questions?

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Employers with questions, or who would like to set up a meeting with the PERSI Executive Director or Executive Staff can call:

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Or email:

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www.persi.idaho.gov