CliftonLarsonAllen

Pensions Revisited- Lessons Learned from GASB 68/71 Implementation

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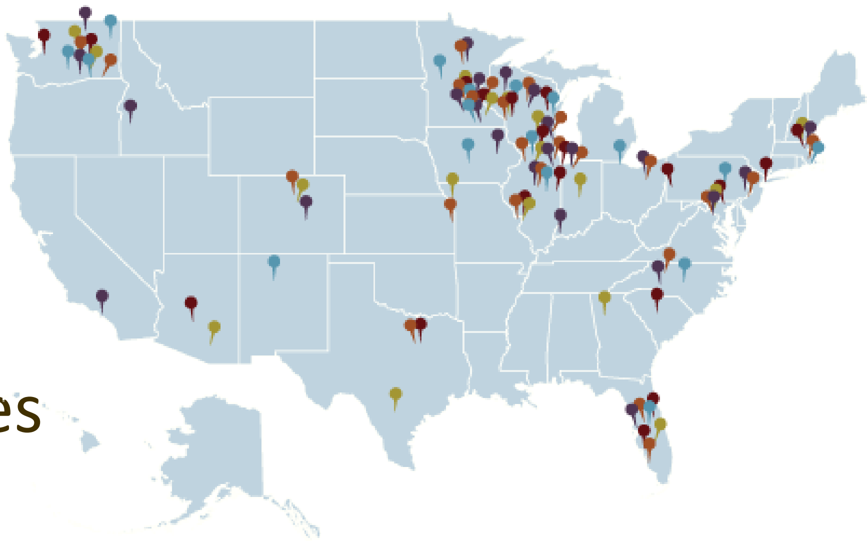
- A professional services firm with three distinct business lines
  - Wealth Advisory
  - Outsourcing
  - Audit, Tax, and Consulting
- More than 4,500 employees
- Offices coast to coast
- Serving higher education for more than 50 years



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Speaker Introductions

- **Chris Knopik, CPA, CFE**

  Principal

- **Christina Bowman, CPA**

  Senior Manager

Objectives

- Describe the rationale behind these changes
- Review lessons learned and areas for improvement
- Discuss next steps and where GASB may go from here

Recap: Pension Standard and Effective Dates

Recap: Pension Standards and Effective Dates

- GASB No. 67 – *Financial Reporting for Pension Plans*
  - Effective for fiscal years beginning after June 15, 2013
    - ◊ June 30, 2014
    - ◊ December 31, 2014
  - Replaces GASB No. 25 – *Financial Reporting for Defined Pension Plans and Note Disclosures*
- GASB No. 68 – *Accounting and Financial Reporting for Pension Plans*
  - Effective for fiscal years beginning after June 15, 2014
  - Replaces GASB No. 27 – *Accounting for Pensions by State and Local Government Employers* and GASB No. 50 – *Pension Disclosures*
    - ◊ June 30, 2015
    - ◊ December 31, 2015

Recap: GASB 67 - Summary

- Deals with reporting of the plans themselves
- Relates to pension plans that are administered through trusts.
- Recognition, measurement, and presentation of financial statement amounts generally similar to current guidance.
  - Incorporates deferred outflows and deferred inflows, where applicable.

Recap: GASB 67 – Summary (continued)

- Enhances note disclosures and RSI for both defined benefit and defined contribution plans.
  - Defined Benefit Plans: trend information regarding
    - ◊ The net pension liability
    - ◊ Sources of changes in the components of the net pension liability
    - ◊ Contribution requirements of plan members, employers, and non-employer contributing entities and the extent of compliance with those requirements.
    - ◊ Performance of pension plan investments
  - Defined Contribution Plans:
    - ◊ Classes of members covered, # of members, participating employers
    - ◊ Authority under which the plan was established

Recap: GASB 68 – Summary

- Addresses accounting and reporting by employers
- Establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenditures.
- Identifies methods and assumptions used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.
- Requires additional note disclosures and required supplementary information

Recap: GASB 68 – Summary (continued)

- Applies to:
  - Employers in single-employer and agent multiple-employer defined benefit plans
  - Employers in cost-sharing plans

These types will be the primary focus of this presentation.

- Also applies to:
  - Special funding situations
  - Defined contribution plans

Recap: GASB 68 – Summary (continued)

- What are Special Funding Situations?
  - Non-employer entity legally responsible for making contributions directly to a pension plan for the employees of another entity and either
    - ◊ The amount of contributions for which the non-employer entity legally is responsible is not dependent upon one or more events unrelated to pensions

or

    - ◊ The non-employer is the only entity with a legal obligation to make contributions directly to the pension plan.

Recap: GASB 68 – Summary (continued)

- What are Special Funding Situations?
- Employer accounting -
  - Liability: Recognize employer's proportionate share of the total liability
  - Revenue: Recognize revenue in the amount of the non-employer's contribution
  - Expense:
    - ◊ Recognize the proportionate share of the pension expense of the employer
    - ◊ Recognize the pension expense in the amount of the non-employers' contribution

Recap: GASB 68 – Summary (continued)

- What are Special Funding Situations?
- Non-employer accounting –
  - Liability: Difference between the amount recognized as pension expense and amount paid to the pension plan.
  - Expense: Amounts paid to the pension plan
  - Note disclosures vary depending on whether the non-employer entity contributes a substantial portion or a less than substantial portion of the total contributions to the plan.

Recap: GASB 68 – Summary (continued)

- Defined Contribution Plans
  - No significant changes
  - Expense – Amount of contributions (employee and employer) to the employee accounts, net of forfeited amounts
  - Liability – Difference between the amount of the expense recorded and amount paid to the plan. A true total liability.

Recap: The “Old” Way

July 1, 2011 Valuation	
Annual required contribution (ARC)	$800,000
Interest on net pension obligation (NPO)	(7,000)
Adjustment to ARC	10,000
Annual pension cost	803,000
Contribution made	750,000
Change in NPO	53,000
Beginning of the year NPO	25,000
End of year NPO	$78,000

Recap: Under GASB 68/71

July 1, 2014 Valuation	
Fair Value of Assets	$70,000,000
Actuarial Accrued Liability	<u>$80,000,000</u>
Net Pension Liability	$(10,000,000)

Recap: Under GASB 68/71

- **Pension Expense**- The institution's change in net pension liability between fiscal years, adjusted for the effects of certain other changes in the net pension liability (the amortization of deferred inflows and outflows of resources). The amount attributable to an institution is actuarially determined similarly to an institution's proportionate share of the net pension liability.

Recap: Under GASB 68/71

- **Deferred outflows of resources** — The institution's consumption of net position that is applicable to a future period. It is similar to a prepaid asset. The most typically deferred outflow is related to pension contributions made to the plan after the net pension liability's measurement date and prior to the institution's fiscal year-end.

Recap: Under GASB 68/71

- **Deferred inflows of resources** — The institution's acquisition of net position that is applicable to a future period — similar to a liability. Under Statements 68 and 71, the most common deferred inflows are:
  - difference between projected and actual investment earnings
  - changes in actual assumptions
  - differences between expected and actual economic experiences for the plan as a whole.

  These are typically amortized over a certain number of years to smooth year-to-year fluctuations. It should be noted that these could also be deferred outflows if they are negative amounts.

Recap: Under GASB 68/71

- Certain required footnote disclosures
  - Total of the employer's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense for the period
  - Name of plan and identification of the entity that administers the plan, if not the employer
  - Brief description of the benefit terms
  - Number of employees covered by the benefit terms
  - Brief description of contribution requirements

Recap: Under GASB 68/71

- Certain required footnote disclosures (continued)
  - Whether the pension plan issues a stand-alone financial report and, if so, how to obtain the report
  - Significant assumptions about inflation, salary changes, ad hoc postemployment benefit changes, mortality assumptions, dates of experience studies upon which assumptions are based, and changes in the rates, if any
  - Discount rate applied and assumptions including long term expected rate of return on investments and how determined
  - Measures of the net pension liability using a rate that is 1% higher and 1% lower.

Recap: Under GASB 68/71

- Certain required footnote disclosures (continued)
  - Pension plan's fiduciary net position
  - Changes in the net pension liability
  - Measurement date
  - Balance of deferred inflows and outflow related to pensions
  - A schedule presenting the amount of deferred outflows and deferred inflows of resources that will be recognized in pension expense for each of the next five years and in the aggregate thereafter

Recap: Under GASB 68/71

- Required Supplementary Information
  - Sources of changes in the net pension liability
  - Components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.
  - 10 Year Schedule
    - ◊ If the contributions of a single or agent employer are actuarially determined, a schedule that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios.

      OR

    - ◊ If the contributions of a single or agent employer are not actuarially determined but are established in statute or by contract, a schedule that includes information about the statutorily or contractually required contribution rates, contributions to the pension plan, and related ratios.

Year 2 Discussion

GASB 68/71 Year 2 Implementation

- The most significant considerations for recording pension related amounts in Year 2 include:
  - Changes in proportionate share of the net pension liability for cost-sharing plans
  - Recording of other current year deferred outflows and inflows
  - Amortization of certain deferred inflows and outflows
  - Expensing of prior year deferred outflows related to contributions and recording of current year deferred outflows for contributions made after the valuation date.

Year 2:
Change in the Proportionate Share

Example

FYE	Total Net Pension Liability for Plan	Proportionate Share %	Proportionate Share $
6/30/15	$100,000,000	.50%	$500,000
6/30/16	$150,000,000	.90%	$1,350,000

To calculate the change in proportion:

$100,000,000 x .90% = $900,000 - $500,000 = $400,000

Debit deferred financing outflow $400,000

Credit pension expense $400,000

Year 2:
Recording of DO/DI related to CY

Example

June 30, 2016	
Deferred Outflows:	
• Changes in Assumptions	$60,000
• Difference between projected and actual earnings on investments	$125,000
Deferred Inflows	
• Difference between projected and actual experience	$30,000

Year 2:
Recording of DO/DI related to CY (continued)

Debit deferred financing outflow	$60,000	
Debit deferred financing outflow	$125,000	
Credit deferred financing inflow		$30,000
Pension expense		$155,000

Year 2:
Amortization of Deferred Outflows/Inflows

			Amortization Year						
Deferred outflows of resources	Life	Amount	6/30/2016	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	Total
Changes in assumptions:									
June 30, 2015	5.00	12,000	3,000	3,000	3,000	3,000	-	-	-
June 30, 2016	5.87	60,000	10,221	10,221	10,221	10,221	10,221	8,893	-
Difference between projected and actual earnings on investments:									
June 30, 2015	5.00	-	-	-	-	-	-	-	-
June 30, 2016	5.00	125,000	25,000	25,000	25,000	25,000	25,000	-	-
Change in proportion:									
June 30, 2015	5.00	-	-	-	-	-	-	-	-
June 30, 2016	5.87	400,000	68,143	68,143	68,143	68,143	68,143	59,284	-
Total amortization - deferred outflows		597,000	106,365	106,365	106,365	106,365	103,365	68,177	-
Deferred inflows of resources									
Difference between projected and actual earnings on investments:									
June 30, 2015	5.00	(75,000)	(18,750)	(18,750)	(18,750)	(18,750)	-	-	-
June 30, 2016	5.00	-	-	-	-	-	-	-	-
Difference between projected and actual experience:									
June 30, 2015	5.00	-	-	-	-	-	-	-	-
June 30, 2016	5.87	(30,000)	(5,111)	(5,111)	(5,111)	(5,111)	(5,111)	(4,446)	-
Total amortization - deferred inflows		(105,000)	(23,861)	(23,861)	(23,861)	(23,861)	(5,111)	(4,446)	-
Net amortization		492,000	82,504	82,504	82,504	82,504	98,254	63,731	-

Year 2:
Amortization of DO/DI (continued)

Debit deferred financing inflow	$23,861	
Credit deferred financing outflow		$106,365
Pension expense	$82,504	

Year 2: Expensing of Contributions made in PY

Example

FYE	Deferred Outflow for Contributions
6/30/15	$900,000
6/30/16	$1,200,000

Debit pension expense	$900,000	
Credit deferred financing outflow		$900,000
Debit deferred financing outflow	$1,200,000	
Credit pension expense		$1,200,000

Year 2:
Change in the Net Pension Liability

Example

FYE	Net Pension Liability
6/30/15	$500,000
6/30/16	$1,350,000

Pension expense $850,000

Credit net pension liability $850,000

Let's Put it All Together

Account	Beginning Balance	Year 2 Entry Debit (Credit)	Ending Balance
Deferred outflow	$912,000	$778,635[1]	$1,690,635
Deferred inflow	$(75,000)	$(6,139) [2]	$(81,139)
Net pension liability	$(500,000)	$(850,000)	$(1,350,000)
Pension expense	$ -	$87,726	$87,726

1 $400,000 + 60,000 + 125,000 – 106,365 - 900,000 + 1,200,000 = $778,635

2 $(30,000) + 23,861 = $(6,139)

VOILA!!!

What to expect from auditors for testing?

Alternatives for Testing

- Current Method
  - Nothing?
  - Substantive
  - High-level “analytics”
- Other ways
  - Control testing
  - IT testing
  - Combination

Forward Looking

Looking Ahead

- GASB No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pensions (OPEB)*
  - Effective for fiscal years beginning after June 15, 2016
    - ◊ June 30, 2017
    - ◊ December 31, 2017
  - Replaces GASB Nos. 43 – *Financial Reporting for Defined Pension Plans and Note Disclosures* and 57- *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*
- GASB No. 75 – *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions (OPEB)*
  - Effective for fiscal years beginning after June 15, 2017
    - ◊ June 30, 2018
    - ◊ December 31, 2018

Looking Ahead (Continued)

- GASB No. 78 – *Pension Provisions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
  - Effective for fiscal years beginning after December 15, 2015
    - ◊ June 30, 2016
    - ◊ December 31, 2016
  - Provides guidance for governments in which they have employees that are members of pension plans with public and private members.

Questions?

Thank you

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