

# GASB 68 - Accounting and Financial Reporting for Pensions

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**MaherDuessel**  
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# Major Changes & Highlights

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- Conceptually:
  - Each County is responsible for the net obligation for pension benefits, and it should be reported as a liability on the government wide financial statements (FS)
  - Similar information was reported in the notes to the FS previously

# Major Changes & Highlights

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- Conceptual shift from a “funding” approach to an “earnings” approach
  - Old way – expense your pension when you make the required payment
  - New way – fund your pension as the employees “earn” their pension
  - Pension expense no longer will equal pension contribution (ARC, or annually required contribution)

# Major Changes & Highlights

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- Requires consistent assumptions within actuarial valuations that are more strict than Act 293 of 1971
  - Requires use of “entry age” actuarial cost method vs. “aggregate cost”
- Immediate recognition of most expenses related to changes, as compared to amortization
- No phase in – restate beginning balances

# Major Changes & Highlights

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- Expanded disclosure to 10 years
- Incorporate other financial reporting concepts brought about by other standards – deferred inflows and outflows
- Changes relate to accounting and financial reporting – NOT FUNDING

# Some PA statistics...

- Over 3,200 plans

NUMBER OF LOCAL GOVERNMENT PENSION PLANS

	Police	Fire	Nonuniformed	Total
County	0	0	72	72
City	58	45	65	168
Borough	482	21	577	1,080
Township (1 <sup>st</sup> Class)	88	6	106	200
Township (2 <sup>nd</sup> Class)	306	7	841	1,154
Authority	0	0	494	494
Council of Gov't/Regional	31	3	26	60
<b>Total</b>	<b>965</b>	<b>82</b>	<b>2,181</b>	<b>3,228</b>

## Some PA statistics...

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- PA's local government pension plans comprise more than 25% of public employee pension plans in the U.S.
- 70% are defined benefit
- 98% have less than 100 members in the plan

# Some PA statistics.....

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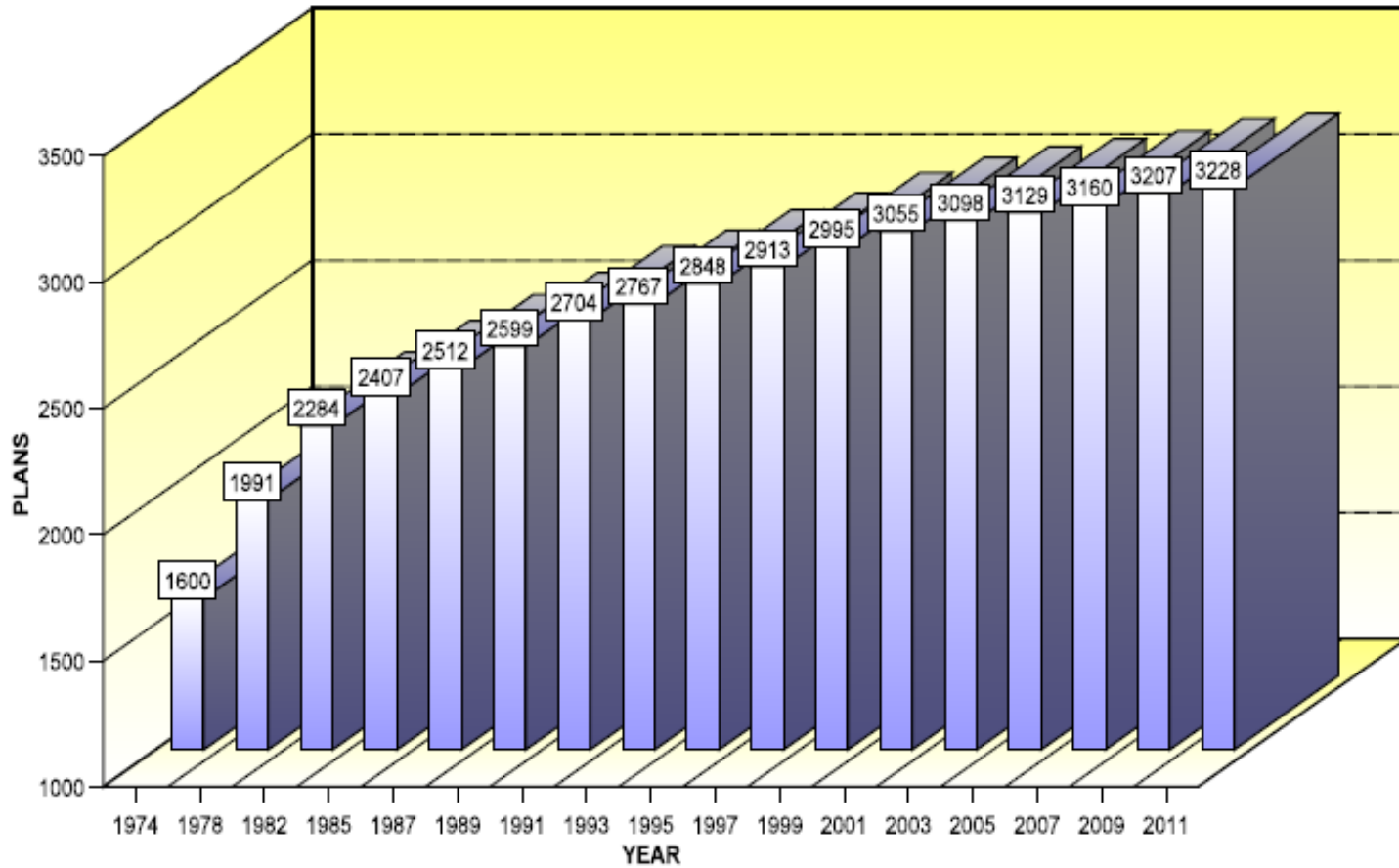
## DISTRIBUTION OF COUNTY PENSION PLANS BY THE NUMBER OF ACTIVE MEMBERS

<b>Number of Members</b>	<b>Number of Plans</b>	<b>Average Active Members</b>
100 or fewer	8	44
101 – 200	13	154
201 – 300	9	221
301 – 400	7	360
401 – 500	6	458
501 or more	29	1,691



## GRAPH I

### GROWTH IN NUMBER OF LOCAL GOVERNMENT PENSION PLANS



# Counties vs. Municipalities

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- Entry age normal cost method is used by all municipal plans
- Most County plans (41) use the aggregate cost method
  - Will be required to perform actuarial valuation for GASB 67/68 using entry age normal – impact unknown
- Most County plans have a hybrid plan consistent of defined benefit portion funded by the employer, and a defined contribution portion funded by the employee
  - Municipal Plans vary widely

# Counties vs. Municipalities

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- County pension plans have no specific actuarial funding standard, as compared to Municipalities (Act 205 of 1984)

# Timing for implementation

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- 12/31/15 will be GASB 68 adoption
  - Most Counties will be expanding upon the GASB 67 concept adopted in the prior year
- Will require reporting of the liability on the govt-wide (full accrual) financial statements
  - Already have much of the information from GASB 67, this places the NPL on the statement of net position & adds some footnote information.

# Example for a County

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- Regular actuarial valuation completed for 1/1/15 sometime in early to mid 2015
- Source information from that valuation is used, and the GASB requirements are applied to a completely new valuation following the GASB criteria
  - Although the report is based on 1/1/15 census data, it must be “rolled forward” to 12/31/15 for use in the 12/31/15 FS



# Who/what is an actuary?

A person who wanted to be an accountant,  
but couldn't handle all the excitement!

# Components of the NPL

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# Total Pension Liability

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- Total pension liability is:
  - The present value of projected benefit payments for current and former employees, based on members past service, allocated to past years



# Projection of Benefit Payments

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- Based on then-existing benefit terms and legal agreements
- Includes projected salary increases, service credits, and COLAs
- No significant change from prior practice

# Pension Plan Assets

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- Total pension plan assets:
  - In most cases, would be the fair market value of assets in the Pension Trust as of the financial reporting date
  - Would potentially include receivables to the plan as well (December employee contribution, for example)

# Net Pension Liability (NPL)

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- Net Pension Liability
  - Actuarially calculated liability as of the FS date
  - Less Pension Trust assets as of the FS date
  - Equals the NPL
- The NPL is the amount recorded on the government wide FS

# Pension Expense

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- Current standard – pension cost expensed when paid (ARC)
- New standard – pension cost expensed as service provided by employee

# Pension Expense

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- Current year pension expense on the govt-wide financial statements will be LESS under GASB 68 than under current practice for many governments – how?
- In many cases a large part of the current year cost is for current and future retiree benefits that were already earned by the employee – not paying for current year service by the employee

## Example – current practice

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- Annual Required Contribution for 2015: \$6.5 million
  - \$4.0 million is “normal cost” (current year service cost)
  - \$2.5 million is amortization of prior costs
- \$2.5m is “old costs” being paid for now

# Amortization differences between current practice and GASB 67/68

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## Current practice (govt)

- Initial unfunded liability – 30 year amortization
- Change in actuarial assumptions - 20 years or average future service life of participants
- Modification of benefits for retirees – 20 years for active, 10 years for retired
- Actuarial experience adjustment – 15 years

## GASB

- Initial unfunded liability – immediate
- Change in actuarial assumptions – average service life of participants (potentially zero for retirees)
- Modification of benefits for retirees – immediate recognition
- Actuarial experience adjustment – average service life of participants (potentially zero for retirees)

	<u>Initial amount</u>	<u>Effective date</u>	<u>Amortization Period</u>	<u>Remaining period</u>	<u>Outstanding Balance</u>	<u>Current year amortization</u>	<u>CY amortized cost</u>	<u>Adjusted to Beg Net Position</u>
Initial unfunded liability	\$ 28,000,000	1/1/2005	30 years	23 years	\$ 25,830,000	\$ 2,390,000		\$ (25,830,000)
Retiree COLA increase	\$ 425,000	1/1/2006	10 years	4 years	\$ 208,000	\$ 62,000		\$ (208,000)
Retiree COLA increase	\$ 780,000	1/1/2007	10 years	5 years	\$ 461,000	\$ 114,000		\$ (461,000)
Retiree COLA increase	\$ 790,000	1/1/2008	10 years	6 years	\$ 539,000	\$ 114,500		\$ (539,000)
Retiree COLA increase	\$ 730,000	1/1/2009	10 years	7 years	\$ 589,000	\$ 107,000		\$ (589,000)
Experience loss	\$ 1,700,000	1/1/2006	15 years	9 years	\$ 1,261,000	\$ 197,000		\$ (1,261,000)
Experience loss	\$ 58,000	1/1/2007	15 years	10 years	\$ 47,000	\$ 6,700		\$ (47,000)
Experience gain	\$ (2,380,000)	1/1/2008	15 years	11 years	\$ (1,970,000)	\$ (275,000)	\$ (476,000)	
Experience loss	\$ 14,230,000	1/1/2009	15 years	12 years	\$ 12,470,000	\$ 1,624,000	\$ 2,846,000	
Experience loss	\$ 9,100,000	1/1/2010	15 years	13 years	\$ 8,500,000	\$ 1,040,000	\$ 1,820,000	
Experience loss	\$ 3,400,000	1/1/2011	15 years	14 years	\$ 3,275,000	\$ 386,000	\$ 680,000	
Experience loss	\$ 2,320,000	1/1/2012	15 years	15 years	\$ 2,320,000	\$ 263,000	\$ 464,000	
Salary assump. change	\$ (5,900,000)	1/1/2010	20 years	18 years	\$ (5,622,000)	\$ (579,000)	\$ (737,500)	\$ 1,475,000
Asset val. meth. change	\$ (7,390,000)	1/1/2010	20 years	18 years	\$ (7,042,000)	\$ (725,000)	\$ (923,750)	\$ 1,847,500
					<b>\$ 40,866,000</b>	<b>\$ 4,725,200</b>	<b>\$ 3,672,750</b>	<b>\$ (25,612,500)</b>

**GASB requirement:**

Immediate recognition

5 year smoothing

Reduction from 15 or 20 year amort to closer to 7-10 years



# Example Government Wide FS

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# ABC Municipality

## STATEMENT OF NET POSITION

12/31/2014

Assets	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 2,000,000	\$ 3,544,852	\$ 5,544,852
Restricted cash, cash equivalents, and investments for capital additions	2,282,284	-	2,282,284
Property taxes receivable, net of allowance for uncollectibles	2,060,679	-	2,060,679
Earned income taxes receivable	2,091,512	-	2,091,512
Intergovernmental receivable	3,746,828	77,653	3,824,481
Other receivables	777,967	652,014	1,429,981
Internal balances	50,000	(50,000)	-
Capital assets, net of accumulated depreciation:			
Non-depreciable	1,102,205	264,455	1,366,660
Depreciable	28,777,961	48,124,377	76,902,338
<b>Total Assets</b>	<b>42,889,436</b>	<b>52,613,351</b>	<b>95,502,787</b>
<b>Deferred Outflow of Resources</b>			
Deferred charge on refunding	1,391,205	-	1,391,205
<b>Liabilities</b>			
<b>Liabilities:</b>			
Accounts payable and other current liabilities	1,255,004	634,892	1,889,896
Accrued salaries and benefits	472,012	212,333	684,345
Accrued interest payable	95,555	39,818	135,373
Unearned revenue	12,536	86,605	99,141
Non-current liabilities:			
Due within one year	1,900,000	1,755,000	3,655,000
Due in more than one year	11,435,000	33,350,000	44,785,000
<b>Total Liabilities</b>	<b>15,170,107</b>	<b>36,078,648</b>	<b>51,248,755</b>
<b>Net Position</b>			
Net investment in capital assets	16,545,166	13,283,832	29,828,998
Unrestricted	12,565,368	716,713	13,282,081
<b>Total Net Position</b>	<b>\$ 29,110,534</b>	<b>\$ 16,534,703</b>	<b>\$ 45,645,237</b>

# ABC Municipality

## STATEMENT OF NET POSITION

12/31/2015

Assets	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 2,000,000	\$ 3,544,852	\$ 5,544,852
Restricted cash, cash equivalents, and investments for capital additions	2,282,284	-	2,282,284
Property taxes receivable, net of allowance for uncollectibles	2,060,679	-	2,060,679
Earned income taxes receivable	2,091,512	-	2,091,512
Intergovernmental receivable	3,746,828	77,653	3,824,481
Other receivables	777,967	652,014	1,429,981
Internal balances	50,000	(50,000)	-
Capital assets, net of accumulated depreciation:			
Non-depreciable	1,102,205	264,455	1,366,660
Depreciable	28,777,961	48,124,377	76,902,338
<b>Total Assets</b>	<b>42,889,436</b>	<b>52,613,351</b>	<b>95,502,787</b>
<b>Deferred Outflow of Resources</b>			
Deferred outflow of resources for pension	459,666	2,144,444	2,604,110
Deferred charge on refunding	1,391,205	-	1,391,205
<b>Total Deferred Outflows of Resources</b>	<b>1,850,871</b>	<b>2,144,444</b>	<b>3,995,315</b>
<b>Liabilities</b>			
<b>Liabilities:</b>			
Accounts payable and other current liabilities	1,255,004	634,892	1,889,896
Accrued salaries and benefits	472,012	212,333	684,345
Accrued interest payable	95,555	39,818	135,373
Unearned revenue	12,536	86,605	99,141
Net pension liability	4,623,458	1,967,446	6,590,904
Non-current liabilities:			
Due within one year	1,900,000	1,755,000	3,655,000
Due in more than one year	11,435,000	33,350,000	44,785,000
<b>Total Liabilities</b>	<b>19,793,565</b>	<b>38,046,094</b>	<b>57,839,659</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources for pension	211,208	176,998	388,206
<b>Net Position</b>			
Net investment in capital assets	16,545,166	13,283,832	29,828,998
Unrestricted	8,190,368	716,713	8,907,081
<b>Total Net Position</b>	<b>\$ 24,735,534</b>	<b>\$ 16,534,703</b>	<b>\$ 41,270,237</b>

# ABC Municipality

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
Governmental activities:							
General government	\$ 4,977,964	\$ 452,006	\$ 472,625	\$ -	\$ (4,053,333)	\$ -	\$ (4,053,333)
Public safety	5,860,571	751,055	861,709	-	(4,247,807)	-	(4,247,807)
Highways, roads, and streets	6,965,612	52,057	-	5,219,276	(1,694,279)	-	(1,694,279)
Culture and recreation	2,301,745	882,098	-	230,183	(1,189,464)	-	(1,189,464)
Interest on long-term debt	794,171	-	-	-	(794,171)	-	(794,171)
<b>Total governmental activities</b>	<b>20,900,063</b>	<b>2,137,216</b>	<b>1,334,334</b>	<b>5,449,459</b>	<b>(11,979,054)</b>	<b>-</b>	<b>(11,979,054)</b>
Business-type activities:							
Water	5,124,152	5,296,325	-	363,310	-	535,483	535,483
Sewer	6,465,728	7,372,738	-	92,532	-	999,542	999,542
Other	607,228	559,216	-	-	-	(48,012)	(48,012)
<b>Total business-type activities</b>	<b>12,197,108</b>	<b>13,228,279</b>	<b>-</b>	<b>455,842</b>	<b>-</b>	<b>1,487,013</b>	<b>1,487,013</b>
<b>Total primary government</b>	<b>\$ 33,097,171</b>	<b>\$ 15,365,495</b>	<b>\$ 1,334,334</b>	<b>\$ 5,905,301</b>	<b>\$ (11,979,054)</b>	<b>\$ 1,487,013</b>	<b>\$ (10,492,041)</b>
General revenues:							
Taxes:							
Property					4,863,144	-	4,863,144
Earned income					6,948,786	-	6,948,786
Real estate transfer					1,235,899	-	1,235,899
Interest, rents, and royalties					365,646	12,686	378,332
Transfers - internal activities					(212,508)	212,508	-
<b>Total general revenues and transfers</b>					<b>13,200,967</b>	<b>225,194</b>	<b>13,426,161</b>
<b>Change in Net Position</b>					<b>1,221,913</b>	<b>1,712,207</b>	<b>2,934,120</b>
Net position - beginning of year					27,888,621	14,822,496	42,711,117
Net position - end of year					<b>\$ 29,110,534</b>	<b>\$ 16,534,703</b>	<b>\$ 45,645,237</b>

# ABC Municipality

## STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			
				Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
Governmental activities:							
General government	\$ 4,902,964	\$ 452,006	\$ 472,625	\$ -	\$ (3,978,333)	\$ -	\$ (3,978,333)
Public safety	5,710,571	751,055	861,709	-	(4,097,807)	-	(4,097,807)
Highways, roads, and streets	6,565,612	52,057	-	5,219,276	(1,294,279)	-	(1,294,279)
Culture and recreation	2,301,745	882,098	-	230,183	(1,189,464)	-	(1,189,464)
Interest on long-term debt	794,171	-	-	-	(794,171)	-	(794,171)
Total governmental activities	20,275,063	2,137,216	1,334,334	5,449,459	(11,354,054)	-	(11,354,054)
Business-type activities:							
Water	4,911,819	5,296,325	-	363,310	-	747,816	747,816
Sewer	6,209,728	7,372,738	-	92,532	-	1,255,542	1,255,542
Other	607,228	559,216	-	-	-	(48,012)	(48,012)
Total business-type activities	11,728,775	13,228,279	-	455,842	-	1,955,346	1,955,346
Total primary government	\$ 32,003,838	\$ 15,365,495	\$ 1,334,334	\$ 5,905,301	\$ (11,354,054)	\$ 1,955,346	\$ (9,398,708)
General revenues:							
Taxes:							
Property							
					4,863,144	-	4,863,144
Earned income							
					6,948,786	-	6,948,786
Real estate transfer							
					1,235,899	-	1,235,899
Interest, rents, and royalties							
					365,646	12,686	378,332
Transfers - internal activities							
					(212,508)	212,508	-
Total general revenues and transfers					13,200,967	225,194	13,426,161
Change in Net Position					1,846,913	2,180,540	4,027,453
Net position - beginning of year as restated					22,888,621	14,354,163	37,242,784
Net position - end of year					\$ 24,735,534	\$ 16,534,703	\$ 41,270,237

# What about rating agencies?

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- S&P will be incorporating it into their basis for analyzing pension liabilities
- “Debt and Liability” profile is one of the five major factors determining rating
- For SERS and PSERS type situations
  - S&P already historically allocated the plan’s entire liability to the state sponsor
  - States liability will fall, local liabilities will increase

# What about rating agencies?

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- Does Standard & Poor's anticipate revising state government ratings based on changes to the new GASB statements?
- *“In our view, the changes to pension liabilities resulting from the new GASB standards, such as the use of the blended rate, are more likely to affect governments for which we have already factored their weak pension funding status into our ratings”*

# What about rating agencies?

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- **Moody's:**

- “New pension disclosures under GASB 67/68 will have limited impact on US state and local government ratings”
- Will not change their methodology
- Could impact the \$\$ amount they use for the liability based upon additional disclosures / discount rate sensitivity



# Random items of note

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- **Proprietary Funds and Authorities**
  - Since they use accrual accounting year round, this actually impacts numbers used for budgeting purposes
  - Will need to consider the impact, and potential allocation of the liability between the governmental funds vs. the business type funds

# Random items of note

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- Changes in the plan after the measurement date
  - Keep in mind your actuary needs to know if a significant change in benefit structure has occurred since 1/1/15
  - An agreement or benefit change made during calendar 2015 would need to be considered in the NPL calculation for 12/31/15



# Conclusion

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- That's it!
- Except....OPEBs are coming soon...
- Questions?

# Contact Information

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