

# GASB 67 & 68 and the Changes Impacting Reporting and the Auditing of Pension Data

May 20, 2015



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## Agenda

Topic	Estimated Minutes
Introductions	5
Overview of GASB 67 & 68	40
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Employer Responsibilities	45



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## Introductions

- Joseph (Joe) Evans, CPA
  - Partner, Chicago, IL
  - Experience:
    - Over 30 years service state and local governments, including governmental benefit plans, State agencies, school districts, villages, cities, counties, etc.
- William (Bill) Sarb, CPA
  - Manager, Schaumburg, IL
  - Experience includes:
    - Over 8 years serving state and local governments, primarily governmental benefit plans, State agencies, villages, cities, counties, and special purpose districts.



# **GASB 67 & 68 Overview of Governmental Pension Standards**

## GASB 67 & 68 Overview

- **GASB 67 – Plans**
  - No significant changes to the Plan FS
  - Expanded footnote disclosures and RSI
  - Many of the disclosures also required in the employer FS
  - GASB 67 required FS/disclosures do not provide information needed by Cost Sharing/Agent employers
- **GASB 68 – Employers**
  - Significant and material impact on FS for most employers
  - Project, discount then attribute pension amounts
  - Additional disclosures on elements of pension expense and deferred inflows/outflows of resources

## GASB Statement No. 67

- *Financial Reporting for Pension Plans – Impacted INPRS Financial Statements*
  - Issued in June 2012
  - The objective of this Statement is to improve financial reporting by state and local governmental pension plans
  - Effective for plan periods beginning after June 15, 2013
    - Fiscal years Ending June 30, 2014 and thereafter
      - Implemented by INPRS for year ended June 30, 2014.
  - Changes did not significantly impact the Statement of Fiduciary Net Position or the Statement of Changes in Fiduciary Net Position

## GASB Statement No. 67

- Pension plan required disclosures to the financial statements
  - Expanded requirements on items previously disclosed
    - Plan Description
      - Details on Plan's Board and it's composition
    - Plan Investments
      - Money weighted rate of return
        - Measured on the entire plan portfolio
      - Long-term expected rate of return
        - Based on asset allocation
        - Projected rate of return by asset class

## GASB Statement No. 67

- Pension plan required disclosures to the financial statements (cont.)
  - Components of Net Pension Liability
    - Total Pension Liability (TPL) – Formerly AAL
    - Plan's Fiduciary Net Position (FNP) – Market value of Plan's net position, no longer actuarial value
    - Net Pension Liability (NPL) – Formerly UAAL
 
$$NPL = TPL - FNP$$
    - Fiduciary Net Position (FNP) as a percentage of Total Pension Liability (TPL)
 
$$\% = FNP / TPL$$

## GASB Statement No. 67



- **Discount Rate** - A single blended rate should be used to discount projected future benefit payments, based on:
  - The long-term expected rate of return on plan investments (net of investment expenses) that are expected to be used to finance the payment of pension benefits to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested, using a strategy to achieve that return; *and*
  - A yield or index rate for 20-year, tax-exempt general obligation (municipal) bonds with average rating of AA or higher, to the extent that the conditions above are not met

The new standards might result in a lower discount rate for plans that are underfunded, thus increasing total pension liability.

## GASB Statement No. 67

- **Discount rate calculation (project out 100 years)**
  - Project cash inflows
    - Employer and employee contributions related to current employees, active & inactive
      - Based on five year history
      - Employer's pension funding policy should be documented
    - Investment earnings
  - Project cash outflows
    - Administrative expenses
    - Benefit payments to existing retirees and future retirees (currently active or inactive)

## GASB Statement No. 67

- Required supplementary information (RSI) for single employer and cost sharing plans
  - 10 year schedule of changes in the net pension liability
  - 10 year schedule of the following for each year
    - Total pension liability
    - Plan's fiduciary net position
    - Net pension liability
    - Plan's fiduciary net position as a percent of total pension liability
    - Covered employee payroll
    - Net pension liability as a percent of covered employee payroll
  - 10 year schedule of actuarial determined information\*
  - 10 year schedule of annual money-weighted return on pension investments

\*Only schedule that requires retrospective implementation, others are prospective.



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## GASB Statement No. 68

- *Accounting and Financial Reporting for Pensions – Will impact all employers associated with INPRS*
  - Issued in June 2012
  - The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions
  - Effective for plan periods beginning after June 15, 2014
    - Fiscal years Ending June 30, 2015 and thereafter
      - Will have significant impact on all Employers which have a June 30<sup>th</sup> and also December 31<sup>st</sup> fiscal year ends.



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## GASB Statement No. 68

- Employers are required to recognize applicable pension amounts both on their financial statements as well as disclose within the notes to the financial statements.
  - Pension amounts include
    - a) Total Pension Liability (TPL)
    - b) Plan's Fiduciary Net Position
    - c) Net Pension Liability (NPL) = a – b
    - Pension Expense
    - Deferred Inflows/Outflows

## GASB Statement No. 68

- Total Pension Liability
  - Cost Sharing Plans
    - Actuarial valuation not specific to any one employer
    - Active, Inactive and Retirees pertain to multiple employers
    - Plan is responsible for actuarial valuation and applicable assumptions

## GASB Statement No. 67 & 68

- Timing and frequency of measurement
  - Recognize a net pension liability that is measured as of a date (the measurement date) no earlier than the *end of its prior fiscal year, consistently applied from period to period*
  - Total pension liability component of the net pension liability at the measurement date is determined either by
    - An actuarial valuation as of that date or
    - The use of update procedures to roll forward amounts to the measurement date from an actuarial valuation as of a date no more than 30 months (plus 1 day) prior to the fiscal year-end

## GASB Statement No. 68

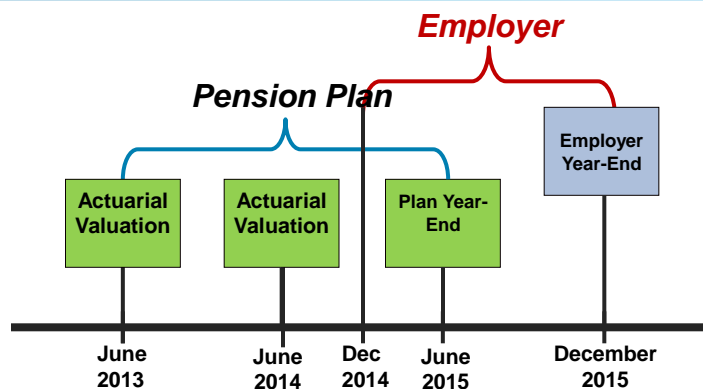
- Requirements related to the timing of the actuarial valuation
  - Measurement of the total pension liability is determined through:
    - An actuarial valuation performed as of the *measurement date*, or
    - The use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than *30 months and 1 day* earlier than the employer's year-end
    - Use professional judgment in determining extent of update procedures when changes in plan occur between last valuation date and the measurement date
      - Consider whether new actuarial valuation is needed



## GASB Statement No. 68

- Requirements related to the timing of the actuarial valuation (cont.)
  - Measurement of the net pension liability should be determined as of a date (measurement date) no earlier than the end of the employer's prior fiscal year
  - Once the measurement date is determined it must be used consistently from period to period.

## Timing of Measurement of Total Pension Liability



Measurement of the total pension liability in employer's financial statements must be as of a date no earlier than the end of the employer's prior fiscal year. Measurement must be based on an actuarial valuation performed within 30 months plus 1 day of the employer's year-end. If actuarial valuation not performed as of measurement date, update procedures must be performed to roll forward amounts to measurement date.

## GASB Statement No. 68

### Example 1\* – INPRS TRF plan

A School District (District) participates in INPRS TRF plan. The District is implementing GASB Statement 68 during the year ended June 30, 2015. INPRS also has a fiscal year-end of June 30th and implemented the provisions of GASB Statement 67 during the year ended June 30, 2014. The District's financial statements are a single-year presentation.

In accordance with GASB Statement 68, the measurement date for the District must be as of a date no earlier than the end of its prior fiscal year (June 30, 2014). Since the District and the Plan have the same year end, the District may elect to use June 30, 2014 or June 30, 2015 as the measurement date. Due to the fact that the INPRS TRF plan audit as of June 30, 2015 will not be finalized until the fall, it is recommended that District's utilize June 30, 2014 as the measurement date in order to issue timely.

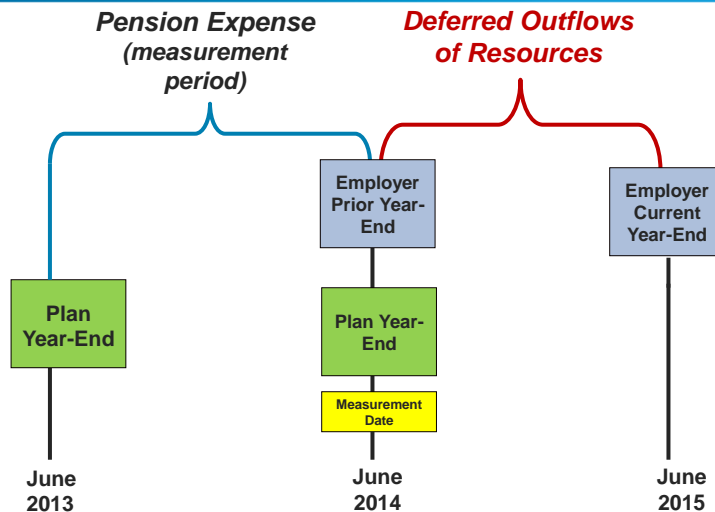
\*Also corresponds with Colleges & Universities which participate in PERF



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### Example 1 – Cost Sharing Plans (TRF)



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## GASB Statement No. 68

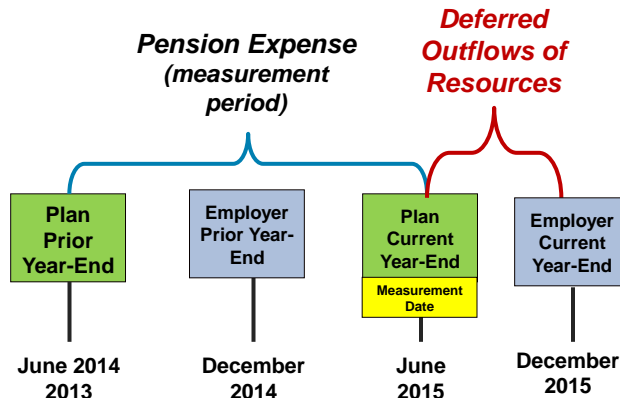
### Example 2 – INPRS PERF plan

A municipality participates in INPRS PERF plan. The municipality is implementing GASB Statement 68 during the year ended December 31, 2015. INPRS PERF plan has a fiscal year-end of June 30<sup>th</sup> and implemented the provisions of GASB Statement 67 during the year ended June 30, 2014. The municipality's financial statements are a single-year presentation.

In accordance with GASB Statement 68, the measurement date for the District must be as of a date no earlier than the end of its prior fiscal year (June 30, 2014). Since the municipality and INPRS have the different year ends, the District can only elect to use June 30, 2015 as the measurement date. In this case, the municipality has no other options, the measurement date must be June 30<sup>th</sup> each year.



## Example 2 – PERF Plan



Measurement date will most likely correspond to year-end of plan. Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer's fiscal year should be recognized as a deferred outflow of resources.



## GASB Statement No. 68

- Deferred Inflows / Outflows of Resources
  - Differences between expected and actual experience with economic and demographic factors:
    - Mortality
    - Payroll increases
    - Retirements
    - Employee turnover
  - Effect of changes in assumptions about future economic and demographic factors:
    - Discount rate
    - Mortality (tables)
    - Future payroll increases
    - Future inflation rate
    - Retirements
    - Employee turnover
  - Differences between actual and projected earnings on plan investments

## GASB Statement No. 68

- Deferred Inflows / Outflows of Resources (cont.)
  - Expense recognition (amortization) for deferrals attributable to changes in total pension liability should be based on “systematic and rational” method over a closed period equal to the average of the expected service lives of all employees that are provided pensions through the pension plan (active and inactive employees) beginning with the year in which the difference occurred
    - Typically determined by the actuary
    - Results in the creation of “layers,” which are amortized over closed period

## GASB Statement No. 68

- Deferred Inflows / Outflows of Resources (cont.)
  - Expense recognition (amortization) for deferrals attributable to differences between projected and actual earnings on plan investments should be based on a “systematic and rational” method over five years beginning with the year in which the difference occurred
  - Additional employer specific deferrals
    - Changes in proportionate share of collective net pension liability (amortized over average remaining service life)
    - Differences between actual employer contributions and the calculated proportionate share of the total contributions (amortized over average remaining service life)
    - Contributions made after the measurement date (recognized during the measurement period which corresponds with the measurement date)

## GASB Statement No. 68

- Required Disclosures
  - Name of the plan through which benefits are provided
  - Identification of the public employee retirement system or other entity that administers the plan (INPRS)
  - Identification of the plan (PERF, TRF, 1977 Fund)
  - A brief description of the benefit provisions
  - The number of employees covered by the plan
  - Whether the pension plan issues a stand-alone financial report, or is included in the report of a public employee retirement system or another entity, and, if so, how to obtain the report

## GASB Statement No. 68

- Required Disclosures (Cont.)
  - Actuarial information
    - Assumptions used in measurement of PBL
    - Discount rate
      - Assumptions
      - Expected LT rate of return
      - Municipal bond rate
      - Sensitivity analysis
  - Also
    - Changes in net pension liability
    - Deferred inflows and outflows



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## GASB Statement No. 68

### Example Amortization Over Investment Differences

Original Deferral Year	Original Deferral Amount	Amortization				
		2011	2012	2013	2014	2015
2011	2,135	427	427	427	427	427
2012	(3,456)		(691)	(691)	(691)	(691)
2013	1,368			274	274	274
2014	2,468				494	494
2015	1,956					391
	<u>4,471</u>	<u>427</u>	<u>(264)</u>	<u>9</u>	<u>503</u>	<u>894</u>
Amortization - 2015						<u>894</u>
Unamortized Amount - 2015						<u>2,902</u>



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## GASB Statement No. 68

- Required Supplementary Information (RSI)
  - 10-year schedules for all governments, regardless of type of plan (plus notes):
    - Changes in the net pension liability by source
      - Collective level for cost-sharing employers
    - Components of the net pension liability and ratios: **plan net position ÷ total pension liability;**  
**net pension liability ÷ covered-employee payroll**
      - Collective and individual level for cost-sharing
    - Contribution information, if a government has an actuarially determined contribution: **actuarially calculated contribution – actual contributions;**  
**contributions ÷ payroll**

## GASB Statement No. 68

- Required Supplementary Information (RSI)
  - 10-year schedules for all governments, regardless of type of plan (plus notes):
    - Changes in the net pension liability (cost-sharing at collective level only)
    - Cost-sharing at both collective level and employer level with employer proportionate share percentage
      - Total pension liability, plan net position, net pension liability, and
        1. Plan net position as a percentage of the total pension liability
        2. Net pension liability as a percentage of covered-employee payroll
      - Statutory/contractual employer contributions, actual contributions made, the difference between them, and contributions made as a percentage of covered-employee payroll

## GASB Statement No. 68

- The AICPA State and Local Government Expert Panel (SLGEP) issued a series of whitepapers addressing the audit concerns relating to the GASB 67 & 68.
  - Reporting - Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting
  - Census Data Testing - Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an audit of Financial Statements

## GASB Statement No. 68

- Additional Reporting by INPRS
  - Based on the recommendations of the AICPA, INPRS will provide a report to employers including details needed for employers to implement GASB 68.
    - INPRS will prepare a Schedule of Employer Allocations
    - INPRS will prepare a Schedule of Pension Amounts by Employer
    - McGladrey will issue an opinion (in accordance with AU-C 805) on the schedules
    - INPRS will also provide additional information for employers that will be unaudited



## GASB Statement No. 68

- Census Data Testing - Based on the recommendations of the AICPA, INPRS external auditors (McGladrey) will be testing all member census data, including active data at the employer level going forward.
- We will take a break at this time but when we come back we will go into the details of the McGladrey employer audits.



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## Employer Responsibilities

## New GASB Pension Standards

**GASB Statement No. 67**  
**Accounting and Financial**  
**Reporting For Pension Plans**  
 (Plan Reporting)

Effective for fiscal years  
 Ending June 30,  
 2014

**GASB Statement No. 68**  
**Accounting and Financial**  
**Reporting For Pension Plans**  
 (Employer Reporting)

Effective for fiscal years  
 Ending June 30,  
 2015

-The effective implementation of these standards requires your help and participation.

-Cooperation is essential so that established State deadlines can be met.



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## Testing Underlying Census Data of Active Employees

- Plan auditor (McGladrey) engaged to perform testing on relevant census data reported to the Plan during period
- Period to be tested is the fiscal year ended June 30, 2014
- Several employers were visited and tested last year for the first time.
- New year means new employers are selected for testing this year. All employers not selected are subject to testing in future periods
- Retirees and inactive employees will generally be tested at the INPRS and not require any additional information from employers
- The objective of the testing is to verify the Plan has the correct data on which to base the pension calculations, especially the total pension liability



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## Testing Census Data – Sample of employees

- Hire date
  - Years of service
  - Age
  - Eligibility
  - Gender
  - Birth date
  - Employee Status – Active / Inactive / Retired
- We will provide you the sample items in a spreadsheet format so that you can see the details for each person
  - Need to have access to original personnel files
  - Will be using employee ID numbers provided by INPRS, names and also the last 4 of social security numbers to verify individuals



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## Testing Payroll Data – INPRS Eligible

- Annual earnings 7/1/13 – 6/30/14\*
- Actual amounts reported to INPRS
- Annual salary vs. actual amount paid – need to tie out actual amount paid
- Copy of annual salary approval
- Summary of sampled employee annual earnings
- Pay Period Detail – by sampled employee
- Hours and pay rates
- Creditable vs. non-creditable earnings
  - Need payroll registers, employee payroll details by pay period, approved salary, backup for reconciling items, pay stubs and/or banking information

\* In addition, we are also requesting payroll information for 7/1/14 – 4/30/15 for all individuals selected for testing. More information on that later.



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## Reconciliation of Payroll Records to the General Ledger and/or Financial Statements

- Total earnings by employee reported to INPRS for fiscal year 2014
- Non INPRS earnings by employee
- Other adjustments
- Total salaries per general ledger and also corresponding financial statements
- Reconciliation requested to be completed before employer visit date
- For calendar year employers we will work with you to on alternative approaches to reconcile to the INPRS data which uses a 7/1/13 – 6/30/14 period.



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## Sample Reconciliation to be Prepared

### Section 1 - Reconcile the General Ledger to the Payroll Register

Total Payroll Expense for Fiscal Year 2014 per Employer Records	\$ 20,000,000
<b>POTENTIAL ADJUSTMENTS (Modify as Necessary):</b>	
Employer FICA expense	(120,000)
Employee benefit expense recorded in general ledger	(2,200,000)
Adjusted Employer Records	17,680,000
Detailed Payroll Registers (all months for annual period)	(17,680,000) *
Difference	-

### Section 2 - Reconcile the Detailed Payroll Register to Earnings as Reported to INPRS

Detailed Payroll Registers	17,680,000
Non-Plan Payroll Earnings (Ineligible Employees)	(1,200,000)
INPRS Earnings per the Payroll Registers	16,480,000
Earnings Per INPRS Data	
PERF	(7,400,000)
TRF Pre-1996	(3,500,000)
TRF 1996	(5,580,000)
Total earnings reported to INPRS	\$ (16,480,000)

\* The complete listing of employees and gross wages provided must agree to this line on the payroll reconciliation



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## Potential General Ledger Reconciling Items

- Any expense recorded in the GL, but not on the payroll report
- FY13 Optional Twelve-Month Deferred Payments (applicable to the TRF employers)
- FY14 Optional Twelve-Month Deferrals (applicable to the TRF employers)
- Individuals terminated during the year
- Payroll that exceeds creditable maximum
- Any non-eligible earnings



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## Testing Payroll Data – Non INPRS

- Annual earnings 7/1/2013 – 6/30/14
- Eligibility (testing they are properly excluded) by reviewing their job description, etc.
- Not necessary to trace census data back to personnel files for properly excluded employees.



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## Auditor Expectations

- Auditors will provide sample of employees to be tested in advance of the visit
- We will provide selected employers the total annual payroll reported to INPRS
- Need all support documentation for payroll by employee to be made available
- Need access to personnel files to trace census data to underlying records
- Documentation and back-up for reconciliation to the general ledger
- Need management cooperation to provide explanations for exceptions found if any



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## Employer Responsibilities

- With the help of all of INPRS employers going forward we believe this can be a relatively simple exercise that can be completed in a few hours
- Each of the selected employers for INPRS 2015 audit have been contacted via email with the list of employees to be tested and the total 2014 payroll amounts reported to INPRS
- We need all selected employers to obtain the back-up documentation i.e. personnel files and payroll support for the employees selected for testing
- We need all selected employers to prepare a reconciliation of the payroll totals reported to INPRS to your total payroll to ensure we have everyone



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## Employer Responsibilities (continued)

- Each of the selected employers for INPRS 2015 audit should have already been contacted by McGladrey to schedule the auditors visit.
- If you are one of the selected employers in 2015 or when you are visited in the future please have all information ready for the auditors when they arrive.
- Please designate an audit liaison to be present with the auditors during their testing and answer questions
- Additional employees may need to be tested during the visit especially if you have numerous Non-INPRS employees



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## Conclusion

Thank you all for your attention today and for your future cooperation

Any Questions?



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