



Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Pension Accounting Update: Putting Theory into Practice

**Minnesota Society of CPAs
Earle Brown Heritage Center
June 1, 2015**

Presented by:
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Pension Accounting: Putting Theory into Practice

Today's Agenda

- GASB 67: Pension Plan Reporting
- GASB 68: Accounting and Financial Reporting for Pensions
 - Case study of Minnetonka School District GASB 68 implementation, includes footnote disclosures, RSI schedules, and GASB 71 transition guidance
- Controls Over Census Data
- Key Messages for School Boards and Executive Management
- Summary

GASB 67 implementation

- Accounting and Financial Reporting for Pension Plans—an amendment of GASB Statement 25
- Implemented for plan fiscal year ended June 30, 2014
- More extensive footnote disclosures
 - Disclose total pension liability, fiduciary net position, net pension liability and fiduciary net position as a percentage of total pension liability

	PERA General Employees Retirement Fund	TRA Fund
Total Pension Liability (Calculated by Actuary)	\$22,102,321,000	\$24,901,612,000
Less: Fiduciary Net Position	\$17,404,822,000	\$20,293,684,000
Net Pension Liability	\$4,697,499,000	\$4,607,928,000
Fiduciary Net Position as % of NPL	78.7%	81.5%

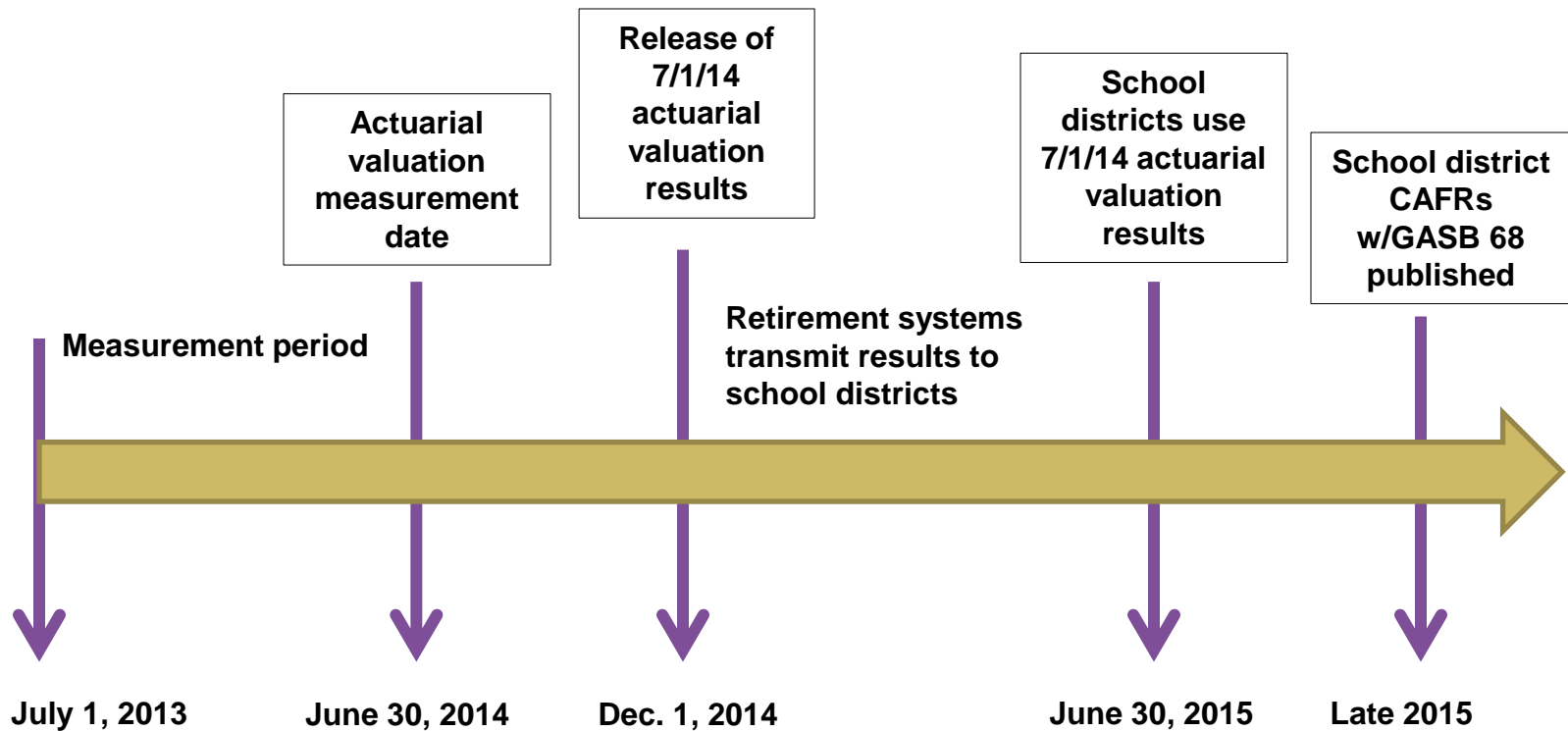
GASB 67 implementation

- Major changes—more extensive footnote disclosures (continued)
 - NPL sensitivity analysis
 - Investments, including money-weighted rate of return
 - Actuarial assumptions
- Required supplementary information
 - Ten-Year Schedule of Changes in Net Pension Liabilities
 - Ten-Year Schedule of NPL
 - Ten-Year Schedule of Employer Contributions
 - Covered payroll, i.e. “pensionable wages” requirement changed to covered-employee payroll, i.e. “total wage compensation” of covered employees
 - PERA and TRA plan to report “covered payroll” and recommend employers report “covered-employee payroll”

GASB 67 implementation

- PERA's CAFR available at: www.mnpera.org
 - Click on About PERA tab, then click on Financial Information tab
- TRA's CAFR available at: www.minnesotatra.org
 - Click on Members tab, then click on Publications and scroll down to Comprehensive Annual Financial Report

GASB 67-68 timeline: Measurement dates for school districts



- Key point: There will be a one-year lag in school district reporting of GASB 68 results. School districts will use FY 2014 GASB 67/68 actuarial valuation results from PERA and TRA in their FY 2015 financial statements.

GASB 68 overview

- School districts report their proportionate share of collective net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense on government-wide f/s
 - District's proportionate share based on district's contributions at measurement date as a percentage of plan contributions from all employers
- Pension expense calculated as change in net pension liability during the year, plus or minus amortization of deferred inflows and outflows
 - Pension expense no longer based on contributions to the plan
- Significantly more footnote disclosures
 - Disclosures required for each plan
 - PERA and TRA will provide footnote templates
- Required supplementary information
 - Ten-year schedule of district's proportionate share of the net pension liability (prospectively applied)
 - Ten-year schedule of district and non-employer contributions (if applicable)

Case study: proportional share

Schedule of Employer Allocations PERA General Employees Retirement Fund and TRA Fund Fiscal Year Ended June 30, 2014

	PERA GERF Contributions	PERA GERF Proportional Share	TRA Fund Contributions	TRA Proportional Share
MINNETONKA ISD-276	\$1,332,949	0.3502%	\$3,535,644	1.1065%
Total Fund Contributions	\$380,612,332	100.00%	\$319,531,443	100.00%

PERA contributions reconciliation

General Employees Retirement Plan

Reconciliation of Proportionate Share Contributions to Financial Statement Contributions

Fiscal Year Ended June 30, 2014

Employer Unit No.	Employer Name	YE 2013	YE 2014	Subtotal	Subtotal	Total		
		Employer Contributions - Matching (6.25 or 6.5%)	Employer Contribution - Additional (1%)	Adjustment for Employer Accrual (Received in Current FY but Prior FY)	Adjustment for Employer Accrual (Received in Future FY but Recognized in Current FY)	Employer Contributions Allocated for GASB 68	Subtotal Employer Contributions NOT Allocated for GASB 68 (Omitted Deductions, Member Buybacks, Employer Portion Paid by Employee, Interest)	Employer Contributions Amount Reported on CAFR
1855-30	MINNETONKA ISD-276	\$1,139,837	\$182,365	\$42,096	\$52,843	\$1,332,949	\$4,847	\$1,337,796
TOTAL ALL EMPLOYERS		\$329,397,171	\$52,701,183	\$9,163,798	\$8,522,223	\$381,456,778	\$794,328	\$382,251,106

Pension amounts (1 of 2)

Schedule of Pension Amounts by Employer Fiscal Year Ended June 30, 2014

Pension System/Fund	Employer Unit ID No.	Employer Name	Beginning Net Pension Liability (NPL)	Ending Net Pension Liability (Single Discount Rate Assumption 7.90%) (NPL)	Sensitivity of Ending Net Pension Liability to 1% Decrease in Single Rate Assumption (6.90%)	Sensitivity of Ending Net Pension Liability to 1% Increase in Single Rate Assumption (8.90%)	Differences Between Expected and Actual Economic Experience	Difference Between Projected and Actual Investment Earnings	Deferred Outflow of Resources		
									Changes in Actuarial Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources
PERA/GERF	1855-30	MINNETONKA ISD-276	\$19,065,147	\$16,450,641	\$26,519,098	\$8,166,671	\$252,466	\$0	\$1,695,402	\$0	\$1,947,868
PERA/GERF	Amount from Actuary		\$5,444,074,000	\$4,697,499,000	\$7,572,558,000	\$2,332,002,000	\$72,092,000	\$0	\$484,124,000	\$0	\$556,216,000
TRA	00276	MINNETONKA ISD-276	\$61,599,869	\$50,986,723	\$84,263,593	\$23,245,319	\$4,350,548	\$0	\$0	\$1,551,890	\$5,902,438
TRA	Amount from Actuary		\$5,736,624,000	\$4,607,928,000	\$7,615,327,000	\$2,100,797,000	\$393,181,000	\$0	\$0	\$89,701,164	\$482,882,164

Pension amounts (2 of 2)

Schedule of Pension Amounts by Employer Fiscal Year Ended June 30, 2014

Deferred Inflow of Resources

Pension System/Fund	Employer Unit ID No.	Employer Name	Differences Between Expected and Actual Economic Experience	Difference Between Projected and Actual Investment Earnings	Changes in Actuarial Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportionate Share of Pension Expense	Total Pension Expense
PERA/GERF	1855-30	MINNETONKA ISD-276	\$0	\$4,444,949	\$0	\$0	\$4,444,949	\$1,221,217	\$0	\$1,221,217
PERA/GERF	Amount from Actuary		\$0	\$1,269,260,000	\$0	\$0	\$1,269,260,000	\$348,720,000	\$0	\$348,720,000
TRA	00276	MINNETONKA ISD-276	\$0	\$16,029,711	\$0	\$0	\$16,029,711	\$2,725,758	\$323,986	\$3,049,744
TRA	Amount from Actuary			\$1,448,686,000			\$1,448,686,000	\$246,340,501		\$246,340,501

Pension expense

NPL Components immediately recognized in Pension Expense

Item	Effect on Pension Expense
Service Cost (Normal Cost)	Increase
Interest on the TPL	Increase
Projected Investment Earnings	Decrease
Member Contributions	Decrease
Administrative Costs	Increase
Benefit Provision Changes	Increase or decrease

Pension expense

Components deferred and recognized later include:

Item	Amortization Period
Difference between actual and projected earnings on investments	5 Years
Changes in actuarial assumptions (mortality, disability, salary growth, inflation, payroll growth, etc.)	Closed period equal to the average of the expected remaining service lives of all employees (active, inactive, and retirees)
Difference between actual and assumed actuarial experience	

Deferred portions are accumulated as “deferred outflows of resources” or “deferred inflows of resources” and recognized as pension expense in future years

PERA GASB 68 Reconciliation

For fiscal year ended June 30, 2014

General Employees Retirement Plan

Section D

GASB STATEMENT NO. 68 RECONCILIATION (*DOLLARS IN THOUSANDS*)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	Deferred Outflows	Deferred Inflows	Pension Expense
Balance Beginning of Year	\$ 20,528,682	\$ 15,084,608	\$ 5,444,074			
Changes for the Year:						
Service Cost	\$ 388,391		\$ 388,391			\$ 388,391
Interest on Total Pension Liability	1,591,756		1,591,756			1,591,756
Interest on Fiduciary Net Position		\$ 1,174,279	(1,174,279)			(1,174,279)
Changes in Benefit Terms	-		-			-
Liability Experience Gains and Losses	96,123		96,123	\$ 72,092	\$ -	24,031
Changes in Assumptions	645,499		645,499	484,124	-	161,375
Contributions - Employer		382,251	(382,251)			
Contributions - Employees		334,495	(334,495)			(334,495)
Asset Gain/(Loss)		1,586,575	(1,586,575)	-	1,269,260	(317,315)
Benefit Payouts	(1,148,130)	(1,148,130)	-			-
Administrative Expenses		(9,861)	9,861			9,861
Other		605	(605)			(605)
			-			-
Net Changes	\$ 1,573,639	\$ 2,320,214	\$ (746,575)	\$ 556,216	\$ 1,269,260	\$ 348,720
Balance End of Year	\$ 22,102,321	\$ 17,404,822	\$ 4,697,499	\$ 556,216	\$ 1,269,260	

TRA GASB 68 Reconciliation

For fiscal year ended June 30, 2014

GASB STATEMENT NO. 68 RECONCILIATION (DOLLARS IN THOUSANDS)

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Deferred Outflows	Deferred Inflows	Pension Expense
Balances at June 30, 2013	\$ 23,755,943	\$ 18,019,319	\$ 5,736,624			
Changes for the Year:						
Service Cost	\$ 367,621	-	\$ 367,621	-	-	\$ 367,621
Interest on Total Pension Liability	1,895,469	-	1,895,469	-	-	1,895,469
Benefit Changes	-	-	-	-	-	-
Difference between expected and actual experience	475,265	-	475,265	\$ 393,181	-	82,084
Changes in assumptions	-	-	-	-	-	-
Changes in proportion				89,701	\$ (89,701)	
Contributions – employer	-	\$ 299,300	(299,300)	-	-	-
Contributions - non-employer	-	21,001	(21,001)	-	-	-
Contributions - member	-	294,632	(294,632)	-	-	(294,632)
Net investment income	-	3,257,693	(3,257,693)	-	(1,448,686)	(1,809,007)
Benefit payments, including refunds of employee contributions	(1,592,686)	(1,592,686)	-	-	-	-
Administrative expense	-	(9,430)	9,430	-	-	9,430
Other changes	-	3,855	(3,855)	-	-	(3,855)
Net Changes	\$ 1,145,669	\$ 2,274,365	\$ (1,128,696)	\$ 482,882	\$ (1,538,387)	\$ 247,110
Balances at June 30, 2014	\$ 24,901,612	\$ 20,293,684	\$ 4,607,928	\$ 482,882	\$ (1,538,387)	\$ 247,110

PERA year-end journal entries

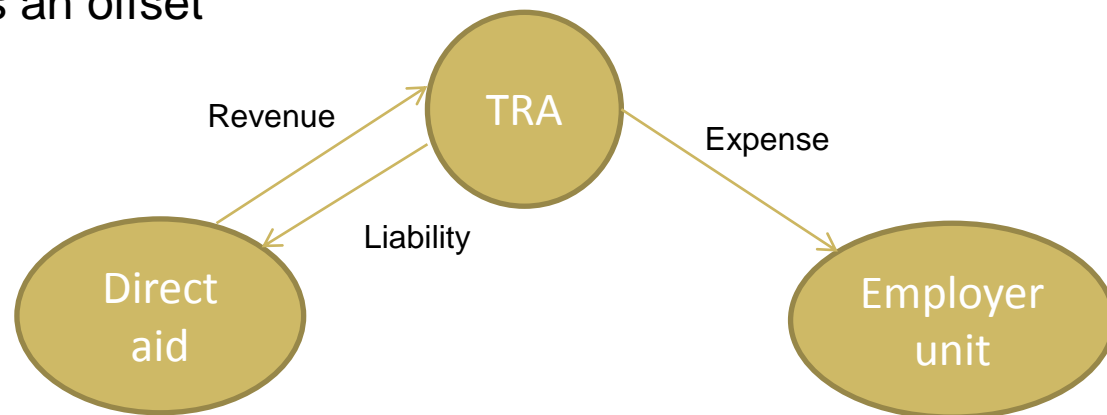
1	Net Pension Liability	\$1,275,864	
	Deferred Outflows	\$1,947,868	
	Deferred Inflows		\$4,444,949
	Pension Expense	\$1,221,217	
	To record FY14 NPL, Deferred Outflows, Deferred Inflows and Pension Expense		
2	Deferred Outflow	-	
	Pension Expense	-	
	Net Pension Liability		-
	Deferred Inflow		-
	To record the change in proportionate share (the difference between FY13 & FY14 EPS %). This journal entry recognizes the change in proportion between FY13 and FY14 and applies the difference to FY13 NPL.		
3	Net Pension Liability	\$1,337,796	
	Deferred Outflow		\$1,337,796
	To reclassify FY14 contributions		

PERA year-end journal entries

4	Pension Expense	-	
	Deferred Outflow		-
	To amortize the change in proportionate share		
5	Pension Expense	N/A	
	Revenue- State Aid		N/A
	Record pension expense and revenue for direct aid		
6	Deferred Outflow of Resources	\$1,438,000	
	Cash		\$1,438,000
	Estimated employer contributions made during FY15		

TRA special funding situation

- GASB Statement 68, paragraph 15
- For FY 2014, TRA received direction contributions of \$21.0 million
 - State of Minnesota will be allocated 5.1641% or \$238 million of TRA's NPL of \$4.6 billion
 - Other TRA employers will need to record a special journal entry increasing pension expense and increasing revenue as an offset



- Example: Minnetonka will have a journal entry of \$156,463

TRA year-end journal entries

1	Net Pension Liability	\$ 8,953,405	
	Deferred Outflows	\$ 4,350,548	
	Deferred Inflows		\$16,029,711
	Pension Expense	\$ 2,725,758	
	To record FY14 NPL, Deferred Outflows, Deferred Inflows and Pension Expense		
2	Deferred Outflow	\$ 1,875,876	
	Pension Expense		
	Net Pension Liability		\$ 1,875,876
	Deferred Inflow		
	To record the change in proportionate share (the difference between FY13 & FY14 EPS %). This journal entry recognizes the change in proportion between FY13 and FY14 and applies the difference to FY13 NPL.		
3	Net Pension Liability	\$ 3,535,644	
	Deferred Outflow		\$ 3,535,644
	To reclassify FY14 contributions		

TRA year-end journal entries

4	Pension Expense	\$323,986	
	Deferred Outflow		\$323,986
	To amortize the change in proportionate share		
5	Pension Expense	\$156,463	
	Revenue- State Aid		\$156,463
	Record pension expense and revenue for direct aid		
6	Deferred Outflow of Resources	\$3,768,996	
	Cash		\$3,768,996
	Estimated employer contributions made during FY15		

Notes to the financial statements

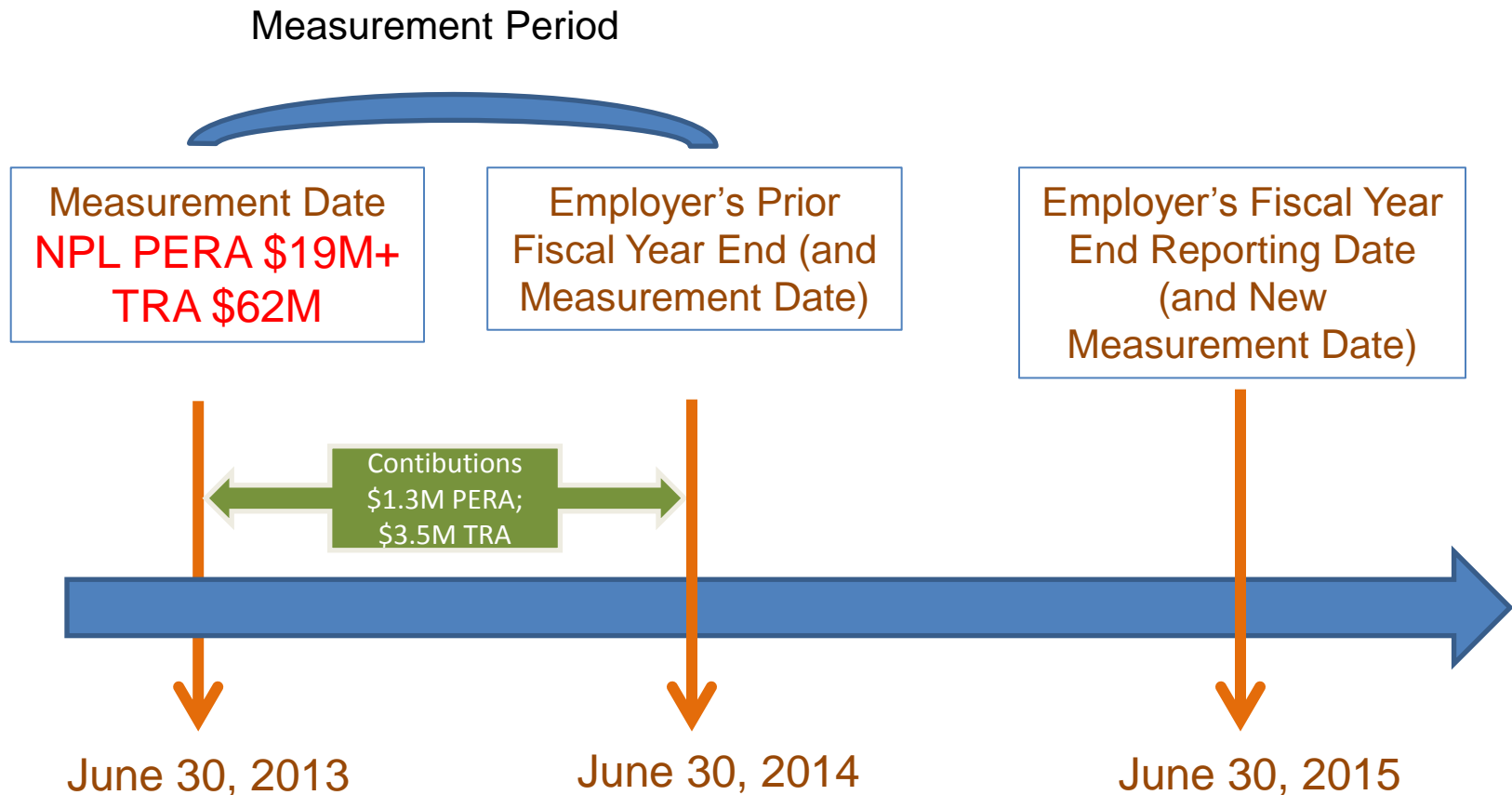
- Adds more extensive note disclosures, including sensitivity analysis of discount rate assumption
- Requires employer to track – by type – annual balances of deferred outflows of resources and deferred inflows of resources
- Must describe significant assumptions and other inputs used to measure total pension liability
- PERA/TRA to provide suggested footnotes

GASB 71

- Amends paragraph 137 of Statement 68
- Contributions after the measurement date prior to fiscal year end booked to deferred outflows rather than pension expense
- At the beginning of the period in which the provisions of Statement 68 are adopted the government should recognize a beginning deferred outflow of resources only for its pension contributions

Transition year journal entries

Minnetonka School District example: employer contributions expensed during initial measurement period are reclassified



PERA GASB 71 journal entries

Minnetonka School District:

1) Net position	\$19,065,147	
Net pension liability		\$19,065,147

Prior period adjustment to recognize beginning net pension liability as of July 1, 2014, for change in accounting principle.

2) Deferred outflows of resources	\$1,332,949	
Net position		\$1,332,949

Prior period adjustment to reclassify pension contributions during the measurement period (July 1, 2013 through June 30, 2014), which had been closed to net position for the year ended June 30, 2014, as deferred outflows of resources.

TRA GASB 71 journal entries

Minnetonka School District:

1) Net position \$61,599,869

Net pension liability \$61,599,869

Prior period adjustment to recognize beginning net pension liability as of July 1, 2014, for change in accounting principle.

2) Deferred outflows of resources \$3,535,644

Net position \$3,535,644

Prior period adjustment to reclassify pension contributions during the measurement period (July 1, 2013 through June 30, 2014), which had been closed to net position for the year ended June 30, 2014, as deferred outflows of resources.

Required supplementary information

- Employers are now required to prepare:
 - Ten-Year Schedule of District and Non-Employer Contributions (if applicable)
 - Schedule could be prepared for all years or prospectively
 - Ten-Year Schedule of District's Proportionate Share of the Net Pension Liability
 - Schedule to be prepared prospectively
- GASB 68 (and 67) changed the definition of "covered payroll" defined as "pensionable wages" in prior guidance to "covered-employee payroll" which is defined as "total payroll" or "total compensation" of employees covered by the pension plan
 - Plans do not capture "covered-employee payroll," therefore:
 - PERA and TRA plan to continue to report "covered payroll" (pensionable wages)
 - Recommend employers report "covered-employee payroll"
 - GASB 68 paragraph 81, Implementation Guide Q&A #210

Required supplementary information

Schedule of District Contributions

Ten-year schedule presenting by plan:

- Statutorily required employer contributions
- Actual contributions paid by employer
- Difference between required contributions and paid contributions
- Amount of contributions paid in relation to required contributions as a percentage of the district's covered-employee payroll as of the reporting date (June 30, 2015)

Required supplementary information

Schedule of District Contributions GERF/TRA Retirement Funds Last Ten Years

Fiscal Year Ending June 30	Pension Plan	Statutorily Required Contribution*	Contributions in Relation to the Statutorily Required Contributions*	Contribution Deficiency (Excess)	District's Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2015	PERA**	\$1,438,084	\$1,438,084	\$0	\$21,653,569	6.64%
2015	TRA**	\$3,768,996	\$3,768,996	\$0	\$53,774,853	7.01%
2014						
2013						
2012						
2011						
2010						
2009						
2008						
2007						
2006						
2005						

*June 30, 2015, amounts are estimated for purposes of illustration

**Funds are combined for purposes of illustration only

Required supplementary information

Schedule of District's and Non-Employer (if applicable) Share of Net Pension Liability

Ten-year schedule presenting, by plan:

- Employer's proportion (percentage) of the collective NPL
- Employer's proportion (amount) of the collective NPL
- Employer's covered-employee payroll as of the measurement date (June 30, 2014)
- Employer's proportion (amount) of the collective NPL as a percentage of the employer's covered-employee payroll
- Pension plan's fiduciary net position as a percentage of the total pension liability
- For special funding situations, also include the employer's proportionate share (amount) of the non-employer contributing entities' total proportionate share amount and the total of this amount and the employer's proportionate share (amount) (see GASB 68, paragraph 81.a.(2))

Required supplementary information

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability

Last Ten Years (presented prospectively)

For the Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Proportionate Share of the Net Pension Liability (if Applicable) (b)	Proportionate Share of the Net Pension Liability of Minnesota's Share of the Net Pension Liability (if Applicable) (a+ b)	District's Covered-Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Postion as a Percentage of the Total Pension Liability
2014 PERA*	0.3502%	\$16,450,641	-	-	\$18,384,703	89.48%	78.7%
2014 TRA*	1.1065%	\$50,986,723	\$3,586,724	\$54,573,447	\$50,450,547	108.17%	81.5%
2015							
2016							
2017							
2018							
2019							
2020							
2021							
2022							
2023							

*Funds are combined for purposes of illustration only

Audit issues

- Legislative Auditor's Office (plan financial statement auditor) decided not to audit the GASB 68 pension allocation schedules
 - Plan auditor is still responsible for the plan net pension liability disclosed in plan footnotes
 - Plan auditor hired Milliman to review PERA's and TRA's GASB 68 actuarial valuations
- PERA contracted with Abdo, Eick, and Meyers, LLP and TRA contracted with Office of the State Auditor to audit and provide opinions on both pension allocation schedules
- Stay for the next session (Auditor Perspective on Pension Accounting) for further details.

Census data

- PERA and TRA annually compile a data file of demographic and payroll information about all members, active and retired.
 - Source file for the annual actuarial valuation supporting GASB 67-68 reporting.
- AICPA White Paper examples of census data include date of birth (employee and spouse), years of service, marital status, eligible compensation, gender, date of retirement, class of employee, employment status

Plan controls over census data (1 of 2)

- Continuous reconciliations of contributions received to employer payroll reports
- Annual review of employer exclusion reports (employees not eligible to participate in plan)
 - Provides assurance that all eligible employees are plan participants
 - Process has recently been automated for greater assurance
- Salary and compliance reviews
 - Started in past several years, focus on larger contributions, random sampling of smaller employers
 - Provides assurance that employers report correct salary and contribution amounts
 - Provides assurance that employers understand and comply with pension laws
 - Helps assess whether PERA and TRA provide employers with sufficient training and resources

Plan controls over census data (2 of 2)

- Detailed questionnaire used to collect facts about entity
- Employer education
 - Online and live group employer presentations
 - Employer manual
 - Employer newsletters and brochures
- Annual statements mailed to members
- Upon retirement, notarized signatures of member, spouse, proof of age, termination verification form from employer, proof of name change
- TRA internal audit compliance reviews

Key messages for boards and management

- Retirement Systems of Minnesota handout: GASB for TRA and PERA Employers
 - What is the GASB?
 - What are the main GASB 68 requirements for me as an employer?
 - How are the new pension liabilities and expenses determined?
 - What is the difference between “accounting” liabilities and “funding” liabilities?
 - Will the implementation of GASB 68 cause contribution rates to increase?
 - Am I really liable for the net pension liability that will be on my books under GASB 68?
 - Will this GASB affect our bond ratings?
 - Why are some people concerned about the new accounting costs?

Summary

- PERA has posted audited GASB 68 information on its website. TRA has posted individual employer reports available on its secure employer web portal.
 - Independent Auditor's Report
 - Schedule of Employer Allocations
 - Schedule of Pension Amounts by Employer
 - Auditor only takes responsibility for "the total for all entities" of specific columns (excludes individual employer totals, specific types of deferred inflows/outflows, and NPL +/- 1 % sensitivity analysis)
 - Notes to the pension schedules
- Templates of pension footnotes for employers (unaudited)

Good Resources

- GFOA - GAAFR Blue Book (electronic copy) current through GASB Statement 70
- Journal entries
 - GAAFR Newsletter (March 2015) GASB 68 Employer Journal Entries
 - GASB 68 Implementation Guide illustrations 3 & 4
- GASB website – GASB 68 Toolkit for Employers
- “Making the GASB Numbers Our Own,” GFOA Government Finance Review of August 2014

PERA & TRA resources

Visit the “Employer” tab on PERA’s and TRA’s websites.

- www.mnpera.org (click on GASB 68 Pension Accounting Standards)
- www.minnesotatra.org/employerinfo/gasb

You’ll find:

- Links to GASB publications
- Links to AICPA audit guidance
- Toolkit of informational guides/articles
- Frequently asked questions
- News and developments on implementation

Questions? E-mail Jim Riebe (PERA) jim.riebe@mnpera.org or John Wicklund (TRA) jwicklund@minnesotatra.org.

