GASB Update

Issue

New Governmental Accounting Standards Board (GASB) rules were implemented for financial reporting. These standards, GASB Statements 67 and 68, require substantial changes to how pension plans and participating employers account for pension plan obligations. GASB 67 was effective for the fiscal year ending June 30, 2014, and the Committee received an update in December 2014. GASB 68 was effective for the fiscal year ending June 30, 2015. GASB 68 relies on the plan level information calculated under GASB 67 and requires all participating employers to account for their proportionate share of the pension plan liabilities and assets. Employers then report their pension plan allocations on their balance sheet and income statement.

This briefing paper is for informational purposes only and will provide updates on GASB 67 and 68. Should a member prefer additional education, please contact SCPP staff.

Background

GASB defines rules that state and local governments must follow when preparing their financial statements. GASB 67 created new rules for financial reporting of pensions at the plan level.

One outcome of the GASB 67 rules is that it created a new set of pension results used solely for financial reporting purposes, often referred to as “accounting” results. These results are separate from the pension results used to determine contribution rates, often referred to as “funding” results. GASB 67 and 68 have no direct impact on the pension results used to determine contribution rates. Accounting and funding numbers are different valuation results and are used for different purposes.

Some other key components of GASB 67:

- Assets are based on a market value measurement. In other words, there is no smoothing of investment gains and losses. This means the accounting asset measure can be volatile from year to year.
- The discount rate is based on the long-term expected investment rate of return for plan assets. Currently for all plans, this is 7.50 percent per year.
- GASB requires plans to test solvency, which can impact the discount rate. If the projected market value of plan assets is insufficient to pay future benefits for current members, a lower discount rate is used for the years the plan is projected to be insolvent.

Accounting results are typically presented as part of a Comprehensive Annual Financial Report (CAFR). The Department of Retirement Systems (DRS) prepares their CAFR each year and it contains pension information at the plan level. The DRS CAFR is typically published each fall for the prior June 30 fiscal year end.

The Office of Financial Management (OFM), in accordance with RCW 43.88.027, reports on behalf of the state of Washington. Their June 30, 2015, CAFR contains the proportionate share of pension amounts for the state as an employer based on the previous fiscal year end, June 30, 2014. Given employers require the GASB 67 plan level results to determine their allocations, most employers will have a year delay before publishing their GASB 68 relevant pension information. The OFM CAFR is typically published each fall.

The remaining groups impacted by GASB 68, and therefore reporting their proportionate share of pension amounts for the first time, are local governments, such as cities, counties, and school districts.

Highlights of Analysis

Plan level GASB 67 information from the June 30, 2014, and June 30, 2015, DRS CAFR is included in the attachment. Similar to last year, all plans are projected to remain solvent, so the discount rate is equal to the expected rate of investment return for plan assets, which is 7.50 percent. The actual investment return, approximately five percent, was less than the expected investment return during the fiscal year ending June 30, 2015. This is a main reason for the lower asset to liability ratio when comparing the two results. As a reminder, this accounting information is entirely separate from the funding information for contribution rate setting, and the funded status measures we include in our most recent Actuarial Valuation Report.

In order to prepare the GASB 68 information, DRS publishes employer allocation percentages to be used when calculating the employer's proportionate share of pension amounts. These allocations are generally based on employer contributions made during the fiscal year and are recalculated every year.[1] The Participating Employer Financial Information (PEFI) is published each fall for the prior June 30 fiscal year-end, and includes the employer allocation percentages.

The attachment also includes GASB 68 information for the plans which the state operates as an employer and their proportionate percentages and amounts. This information was reported in the June 30, 2015, OFM CAFR, but the measurement date for this information is June 30, 2014.

[1] LEOFF Plan 1 has not required employer contributions since June 2000. To determine the LEOFF Plan 1 allocation, DRS relied on total employer contributions from 1971 – 2000. For LEOFF Plan 2, the state is both an employer and a non-employer contributing entity, since the state appropriates funds to help pay the LEOFF Plan 2 contribution requirements.

Additional Materials

- ❖ Excel spreadsheet attached via email.
- ❖ DRS CAFR and PEFI: http://www.drs.wa.gov/administration/annual-report/
  - ◊ The Financial Section (Note 2), and the Required Supplementary Information contain relevant pension information.
- ❖ OFM CAFR: http://www.ofm.wa.gov/cafr/
  - ◊ The Notes to the Financial Statements (Note 11), and the Required Supplementary Information contain relevant pension information.

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June 30, 2015, GASB 67 Results by Plan										
(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
6/30/2015	**Plan 1**	**Plans 2/3**	**Plan 1**	**Plans 2/3**	**Plans 2/3**	**Plan 2**	**Plan 1**	**Plan 2**	**Plan 1/2**	
Total Pension Liability (TPL)	$12,789	$33,085	$9,238	$11,221	$4,473	$371	$4,405	$8,805	$1,130	$85,517
Market Value of Assets (MVA)	$7,558	$29,512	$6,070	$10,377	$4,067	$353	$5,610	$9,833	$1,111	$74,490
Net Pension Liability (TPL - MVA)	$5,231	$3,573	$3,168	$844	$406	$18	($1,205)	($1,028)	$20	$11,027
MVA/TPL	**59%**	**89%**	**66%**	**92%**	**91%**	**95%**	**127%**	**112%**	**98%**	**87%**

Discount Rate: 7.5% for all plans.

June 30, 2014, GASB 67 Results by Plan										
(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
6/30/2014	**Plan 1**	**Plans 2/3**	**Plan 1**	**Plans 2/3**	**Plans 2/3**	**Plan 2**	**Plan 1**	**Plan 2**	**Plan 1/2**	
Total Pension Liability (TPL)	$12,979	$30,120	$9,444	$10,113	$4,066	$289	$4,506	$7,924	$1,072	$80,514
Market Value of Assets (MVA)	$7,942	$28,099	$6,494	$9,790	$3,856	$303	$5,719	$9,251	$1,098	$72,553
Net Pension Liability (TPL - MVA)	$5,038	$2,021	$2,949	$323	$210	($14)	($1,213)	($1,327)	($26)	$7,961
MVA/TPL	**61%**	**93%**	**69%**	**97%**	**95%**	**105%**	**127%**	**117%**	**102%**	**90%**

Discount Rate: 7.5% for all plans.

GASB 68 - State's Share of Net Pension Liability/Asset as of June 30, 2014

(Dollars in Millions)

	State's Share (%)	State's Share of Net Pension Liability/(Asset)
PERS Plan 1	42%	$2,134.2
PERS Plans 2/3	49%	$995.9
TRS Plan 1	1%	$22.9
TRS Plans 2/3	1%	$1.9
PSERS Plan 2	48%	($7.0)
LEOFF Plan 1	87%	($1,056.6)
LEOFF Plan 2	40%	($535.6)
WSPRS Plans 1/2	100%	($26.0)

Reported in OFM's June 30, 2015 CAFR.

Based on plan level GASB 67 results and employer allocation percentages measured as of June 30, 2014.

LEOFF Plan 2 percentage includes the State's portion as an employer and as a non-employer contributing entity.

Excludes the Judicial Retirement System and the Judges' Retirement Fund.