



# GOVERNMENTAL ACCOUNTING STANDARDS BOARD

## Pension Accounting Changes



C A L I F O R N I A   S T A T E   T E A C H E R S '   R E T I R E M E N T   S Y S T E M

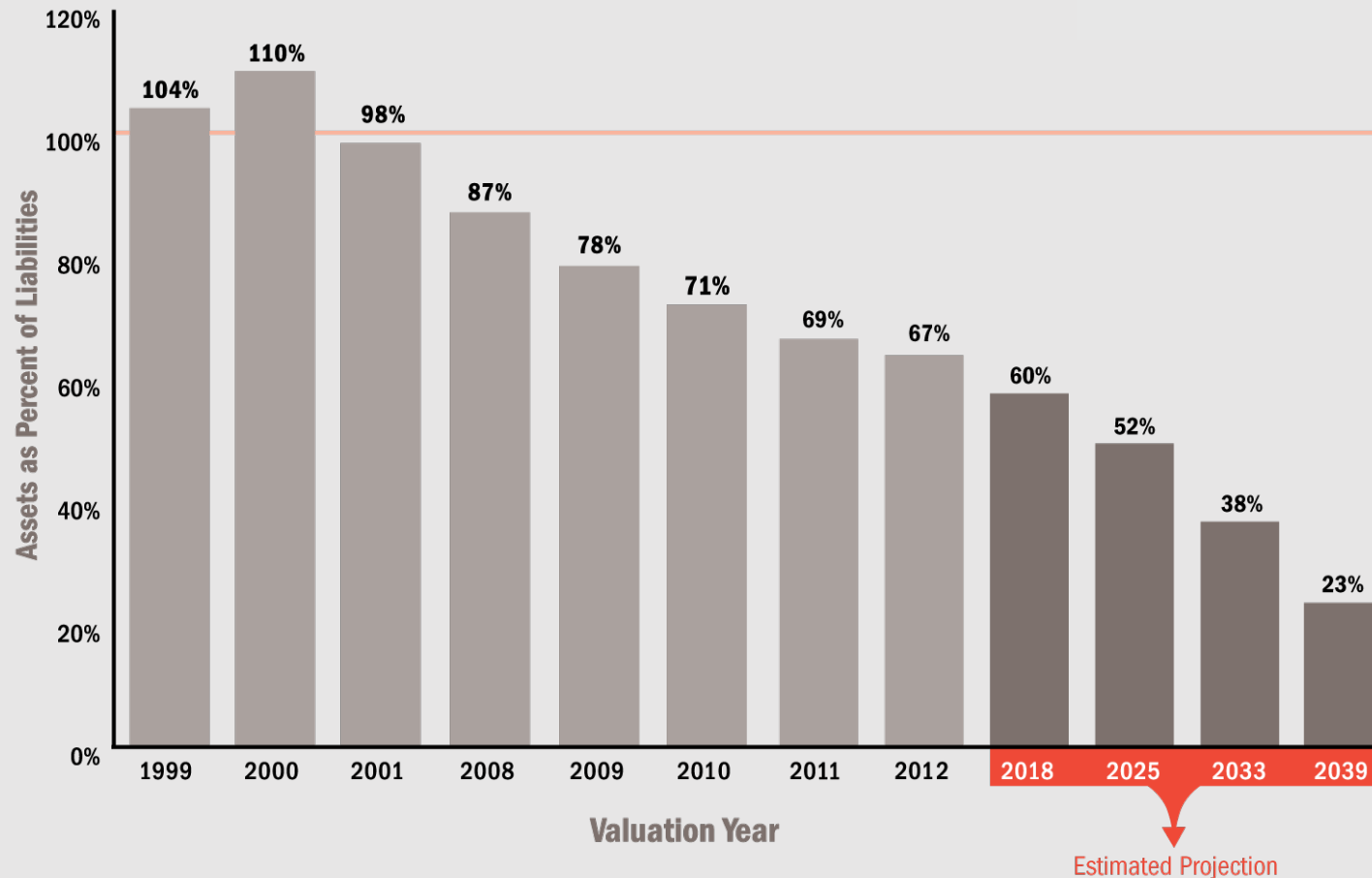
# New GASB Standards

- GASB is the independent, not-for-profit organization formed in 1984 that establishes financial accounting and reporting standards for state and local governments.
- Effective for **CalSTRS FY 2013-14**
  - Statement 67, Financial Reporting for Pension Plans
- Effective for **Employers FY 2014-15**
  - Statement 68, Accounting and Reporting for Pensions

# CalSTRS Funding Status

- CalSTRS uses a 7.5% investment rate of return to discount future liabilities into current dollars and determine any unfunded liability.
- The June 30, 2013 actuarial valuation shows a \$73.7 billion unfunded liability. Absent changes in contribution rates or liabilities, calculations show the program will deplete its assets by 2046.
- The State of California is the plan sponsor.

## Past & Projected Funding Status 1999-2039



# Contribution Rate Comparison

	Employee Defined Benefit	Employee Social Security	Employer Defined Benefit	Employer Social Security	State	Total
CalSTRS	8.00%	N/A	8.25%	N/A	5.29%	21.54%
CalPERS School	7.00%	6.20%	11.44%	6.20%	N/A	30.84%
CalPERS State Misc (Tier I)	8.00%	6.20%	21.12%	6.20%	N/A	41.52%

# Key Accounting Changes

- GASB Statement 68 requires plan employers, to report a proportionate share of their pension plan's Net Pension Liability (NPL) on their financial statements by fiscal year 2014-15.
  - *To the extent which a plan does not have projected assets to pay projected benefits, GASB requires employers and non-employer contributing entities to report a proportionate share of the unfunded portion of pension benefits to date.*
- Previously this type of reporting was not a requirement.
- Divorces pension system funding and financial reporting.

# Overview of New Standards

- **Net Pension Liability** added to financial reporting.
  - *GASB's NPL and the CalSTRS unfunded liability are similar in that both are a representation of the long-term obligation (debt) associated with future payments of benefits already earned.*
- Results in a **blended rate** that must be used when a plan is projected to deplete assets for current employees only.
  - *The plan uses the assumed rate of return up to the point the plan no longer has assets to pay benefits.*
  - *The remaining liability must be discounted with a high quality municipal bond rate.*

# Impacts of Key Changes

- Because CalSTRS projects asset depletion
  - *blended rate of 4.85% versus 7.5 % rate as of 6/30/2012.*
- NPL appears to more than double CalSTRS unfunded liability to \$167 billion in financial statements only.
- New reported NPL does not change CalSTRS funding status.

*Both figures are estimates only. Once final calculations are determined, these estimates will likely change.*

# Overview of New Standards

- Recasts **pension expense** to reflect changes in the NPL from year to year.
- Requires a closed 5-year period to amortize differences between actual and projected investment earnings.
- Adds more extensive **note disclosures**.
- Requires a **money weighted rate of return** versus time weighted rate of return.

# Impact of Key Changes

- Creates confusion between how governments fund pensions versus how they report them in financial statements.
- Addition of the NPL on financial statements could negatively affect a plan employer's ability to issue debt.
- Does not change CalSTRS unfunded liability of currently \$73.7 billion.

# Example of New Disclosure

*Example of lines on financial statements*

Net Pension Liability	<b>\$ 167B</b>
Deferred Inflows of Resources	<b>\$0</b>
Deferred Outflows of Resources	<b>\$ 8.6B</b>
Pension Expense	<b>\$ 12.9B</b>

# Example of New Disclosure

*Example of Plan Employer Net Pension Liability as of 6/30/2012*

Total Pension Liability	\$ 301,707,000,000
Plan fiduciary net position	( 134,835,000,000)

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Employer and Non Employer Contributing Entity NPL	<b>\$166,872,000,000</b>
Plan fiduciary net position as a percentage of total Pension liability	44.7%

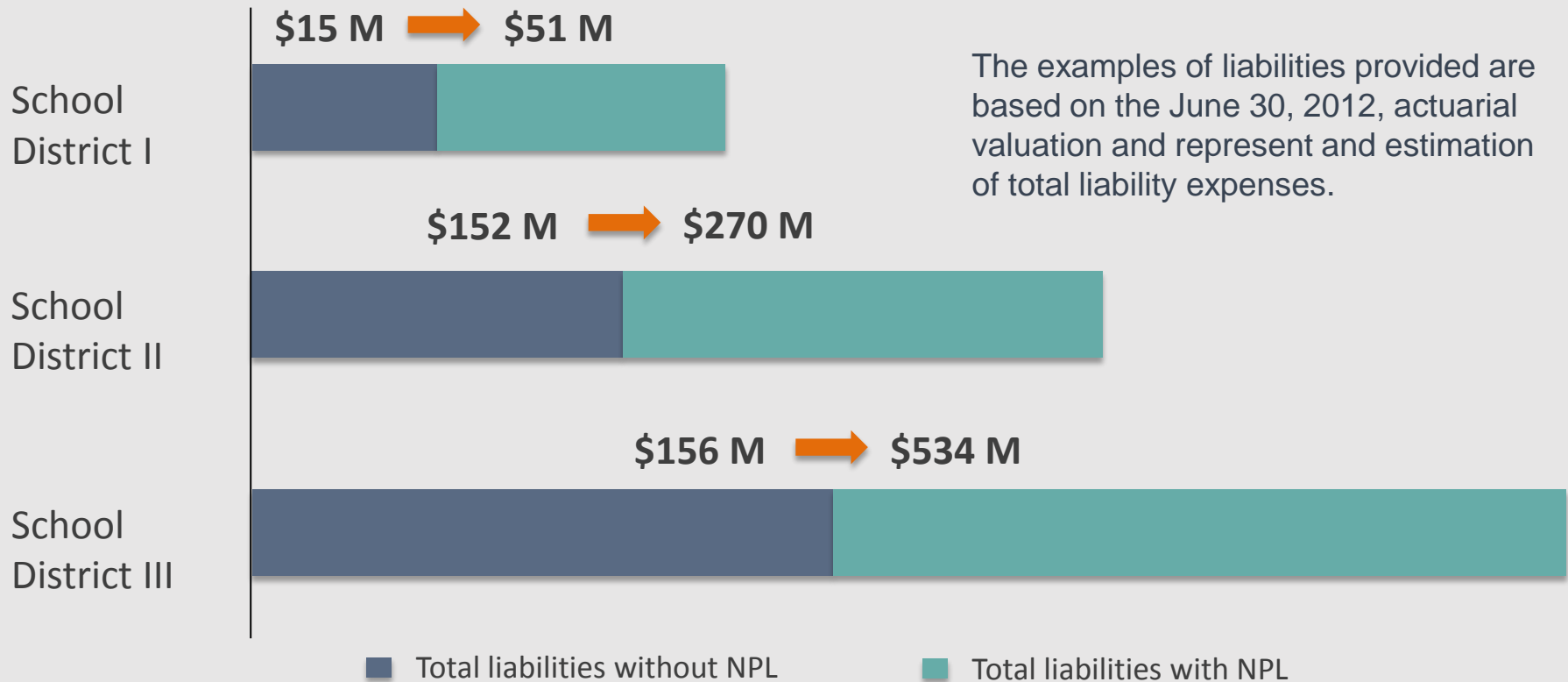
# Example of New Disclosure

*CalSTRS disclosure of proportionate share*

Employer/Non Employer	Accrued Contributions	Allocation Percentage
State of California (As a non-employer contributing entity)	\$1,302,581,000	36.78%
State of California (As an employer contributing entity)	\$551,797	0.02%
School District I	\$2,503,475	0.07%
School District II	\$762,897	0.02%
School District III	\$8,025,750	0.23%

*All figures are estimates only. Once final calculations are determined, these estimates will likely change.*

# NPL Employer Impact Example



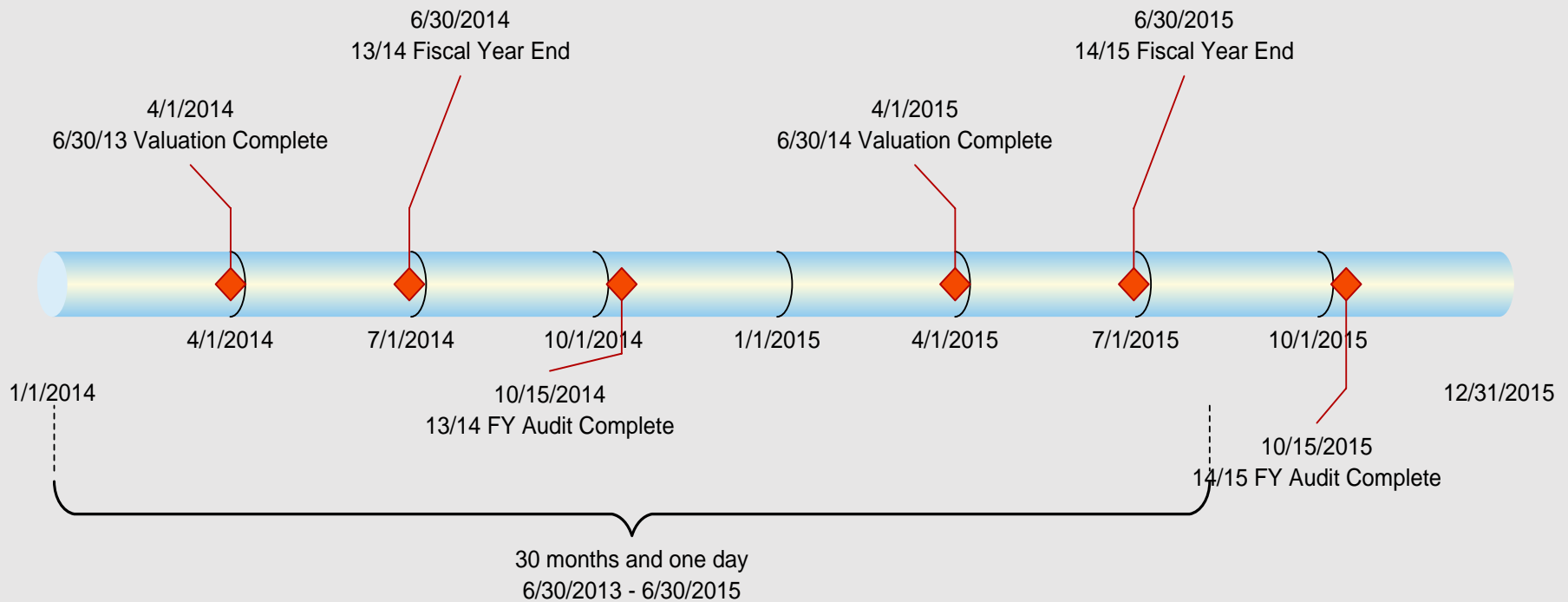
# Ownership of Liability

- GASB's standards require employers and non-employer contributing entities to report a proportionate share of CalSTRS NPL.
- GASB is not clear whether the State or employers would disclose the plan's NPL.
- School employers should contact their actuary, auditor, or legal counsel to initiate discussions regarding financial reporting responsibilities.

# Considerations

- Pass through of expenses applied to employers.
  - *Additional CalSTRS costs in audit fees, actuarial services and financial services may be charged to school employers.*
- Timing of the financial statement may affect which fiscal year employers choose to use.
  - *Once a choice between a current year measurement date or a previous year date is made, employers must continue using that date in subsequent reporting periods.*

# Timeline



## AICPA Proposed Recommendations

- Include supplemental “schedule of employer allocations” in CalSTRS’ financial statements for which CalSTRS’ auditor is engaged to provide opinion.
  - Use allocation method based on covered payroll or required (actual) contributions depending on whether there are different classes of benefits and whether allocations expected to be representative of future contributions.
  - Projected future contributions could be used if necessary.

# AICPA Proposed Recommendations

- Two White Papers – Feb 2014

- SLGEP Pension Whitepaper on Employer and Related Auditor Issues: Cost-Sharing plans.
- SLGEP Pension Whitepaper on Census Data Related to Cost-Sharing plans
  - Available at:
  - <http://www.aicpa.org/interestareas/governmentalauditquality/resources/gasbmatters/pages/default.aspx>

- Three Audit Interpretations (April 2014)

- Interpretation No. 2, “Auditor of Participating Employer in a Governmental Cost-Sharing Multiple-Employer Pension Plan,” of AU-C section 500, *Audit Evidence*
- Interpretation No. 1, “Auditor of Participating Employer in a Governmental Pension Plan,” of AU-C section 600, *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*
- Interpretation No. 1, “Auditor of Governmental Cost-Sharing Multiple-Employer Pension Plan,” of AU-C section 805, *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*

# AICPA Proposed Recommendations

- CalSTRS will prepare a “schedule of plan pension amounts” for which CalSTRS’ auditor will be engaged to provide an opinion.
  - “Schedule of collective pension amounts” for the plan as a whole.
  - Plan auditor needs to consider the appropriateness of the materiality used in the audit of financial statements.
- School District auditors will issue an opinion on total of each of the four “elements” in accordance with AU-C 805.
  1. Net pension liability
  2. Total deferred outflows of resources
  3. Total deferred inflows of resources
  4. Total pension expense.

## Testing of School Employers

For CalSTRS fiscal year 2013-14:

- Beginning late spring 2014, CalSTRS external auditor (Crowe Horwath) will test census and contributions data.
- CalSTRS sent a general communication to employers in April 2014.
- Sample selection (identified employers) will occur in May 2014.
- Notification to follow shortly thereafter.

# Implementation

- Provide accurate financial information in CAFR.
- List plan employer percentage of contributions.
  - *Information on employers' proportionate share will be calculated based on employer contributions paid and due to CalSTRS.*
- Financial reporting plan totals.
  - *Net Pension Liability*
  - *Pension expense*
  - *Deferred amounts*

# Implementation & Outreach

- Meetings & Outreach efforts through 2014
- More information available online – CalSTRS ***Employers*** section
- Financial tools available spring 2014

# Contact Information

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