Subject: Comments for the Finance Committee - Meeting August 10, 2020
Attachments: Pension and OPEB Trust meeting - August 4, 2020.pdf; Slide A.pdf; Slide B.pdf; Slide C.pdf; slide D.pdf; Slide E.pdf; 1 implementing gasb 68 april 2015.pdf

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From: Phil Koen [redacted]
Sent: Monday, August 10, 2020 8:49 AM
To: Rob Rennie <RRennie@losgatosca.gov>; Marico Sayoc <MSayoc@losgatosca.gov>; Rick Tinsley [redacted]>; Terry Duryea <[redacted]>; Ron Dickel <[redacted]
Cc: BSpector <BSpector@losgatosca.gov>; Marcia Jensen <MJensen@losgatosca.gov>; Laurel Prevetti <LPrevetti@losgatosca.gov>; Stephen Conway <sconway@losgatosca.gov>; jvannada@gmail.com; Lee Fagot [redacted]; Matthew Hudes [redacted] Maria Ristow <[redacted]>
Subject: Comments for the Finance Committee - Meeting August 10, 2020

Dear Members of the Finance Committee

I have comments for your consideration on agenda items #4 and #5.

Agenda Item #4

This agenda item states that the Finance Committee's only action is to "receive" the actuarial valuation and assumptions prepared by Bartel Associates for the Retiree Healthcare Plan that has already been presented and approved by the OPEB Oversight Committee. This strikes me as putting the cart before the horse. Furthermore, it is not apparent to me that the agenda item allows for any constructive discussion of the actuarial valuation including the assumptions used by Bartel Associates.

By doing this, the Staff has denied the Finance Committee the ability to provide any comments or advice to the OPEB Oversight Committee **prior** to that Committee's taking up the actuarial valuation. This also appears to circumvent the express intent of the enabling resolution of the Finance Committee which states that the "Committee shall be to serve in an **advisory capacity** to the Town Council regarding the annual review of and potential recommendations to address the Town's CALPERS unfunded pension and other post-employment benefits liabilities". It would be helpful if the Staff explained to the Committee and the public why they chose to pursue this course of action and did the OPEB Oversight Committee (which is essentially the Council) receive the benefit of the Finance Committee's advice?

I have attached the comments I sent to the OPEB Oversight Committee regarding the actuarial valuation. There are assumptions in the valuation that on the face of it do not appear to be supported by verifiable information, starting with the 6.75% discount rate used to determine the actuarial liability. I would also like to point out that the unfunded actuarial liability is based on an actuarial valuation of the plan assets and not the market value of the plan assets. Since we are not provided the necessary information regarding the CERBT Strategy 1 valuation as of June 30, 2020 we are unable to determine if the actuarial valuation of the plan assets of $18.3m is substantially the same as the market value. The last market value reported for the CERBT Strategy 1 was for the March 31,2020 and totaled $16.7m. We know that the equity market improved from March 31 to June 30, but we don't know how that impacted the CERBT Strategy 1 market value as of June 30, 2020.

Regarding the 6.75% discount rate used in the valuation analysis, that rate is the target return rate for CERBT Strategy 1. The fund over its lifetime has only returned 4.74% net of all fees. What objective evidence is there to support the 6.75% discount rate? This is the single most important assumption and must be supported.

ATTACHMENT 2

Agenda Item #5

I have attached a white paper published April 2015 by the California Committee on Municipal Accounting regarding implementing GASB 68 – Accounting and Financial Reporting for Pensions. This white paper can be found on the Bartel Associates website under the Public Plans – General tab. As I understand it, a member of Bartel Associates was involved in drafting the white paper.

I would like the Finance Committee to look at page 8 of this report where it states "each employer is solely responsible for its financial statements and, therefore, employer management is responsible for establishing financial reporting processes and controls over the measurement of its specific pension amounts. **Regarding actuarial assumptions, employer management must support the assumptions with appropriate, reliable and verifiable information".** Additionally the AICPA State and Local Government Audit and Accounting Guide states "the employer is solely responsible for its financial statements and, therefore, it is the **employer management's responsibility** to establish reporting processes and controls over the recognition, **measurement,** presentation and **disclosure** of it **various pension amounts**".

A question that this Committee should discuss with the external auditor is should the actuarial assumptions, and specifically the discount rate used in measuring the liabilities, be relied upon and is there appropriate, reliable and verifiable information that supports both the CALPERS valuation analysis of the Miscellaneous and Safety Pension Plans and the Bartel Associates valuation analysis of the retiree health care plan?

There has been considerable discussion by the Finance Committee that the long run return assumptions used by CALPERS and potentially CERBT are unachievable. By relying on unrealistic return assumptions, the unfunded pension liability and the period pension expense will be materially understated in the financial statements. There should be a full and complete discussion with the external auditor as to whether the discount assumption in each valuation analysis is appropriate or if adjustments are needed. Specifically, how will the external auditor use and rely upon the valuation analysis given the lack of reliable and verifiable information regarding the discount rate? For the sake of being fiscally conservative, shouldn't the Town adopt more conservative return assumptions in preparing the actuarial valuations? Are we meeting the needs of the individuals relying on these financial statements by using aggressive return assumptions?

As the accounting literature clearly states, the Town as the employer is solely responsible for its financial statements. If adjustments to the CALPERS and Bartel Associates valuations analysis need to be made, the Town has the obligation and responsibility to make these changes. The Finance Committee in their advisory capacity should make a recommendation to the Council regarding the assumptions in the valuation analysis for each plan.

Thank you for taking my comments.

Phil Koen

From: Phil Koen
To: Marcia Jensen; "msayoc@losgatosca.gov"; BSpector; "Rob Rennie"
Cc: Laurel Prevetti; Arn Andrews; [redacted]
Subject: Pension and OPEB Trust meeting - August 4, 2020
Date: Monday, August 3, 2020 9:03:00 AM
Attachments: Slide A.pdf
Slide B.pdf
Slide C.pdf
slide D.pdf
Slide E.pdf

Dear Honorable Mayor and Council Members,

I am submitting the following comments for your review and consideration because I think it is important that you have another perspective regarding the material that has been presented. I have comments on agenda item 3, 4 and 5.

Agenda Item #3

This Oversight Committee has selected to invest in the CERBT Strategy 1 as an investment vehicle for prefunding of the Town's other post-employment benefits. Strategy #1 is the riskiest of the three investment strategies since it invests in a significantly higher percentage of equities versus Strategy 2 and Strategy 3. As of March 31, 2020, the strategy resulted in a **15.2% loss** for the most recent quarter reported and a **9.3% loss** fiscal year to date. This is shown in exhibit E.

Since preservation of capital is the most important element of funding the OPEB liability, I question the wisdom of pursuing the riskiest investment strategy offered by CERBT. The rational given for choosing this strategy is this investment profile offers the highest investment return objective of the three CERBT strategies. The target return of this strategy is 6.75%, which is used in the actuarial valuation prepared by Bartels. I will discuss the implications of this shortly.

As shown in Exhibit D, CalPERS warns that "there is no guarantee that the portfolio will achieve its investment objective". And as reported, since inception (June 1, 2007) this strategy has generated a net return of only 4.74%, which is materially below the target objective. Stated another way, the Town has selected an investment strategy which exposes the prefunded monies to the most market risk, the highest volatility as measured by standard deviation while producing investment returns materially below the 6.75% benchmark. This is not a conservative approach and should be re-evaluated by this Committee.

Agenda item #4

The Staff report states that the OPEB liabilities are currently 67.9% funded and that the unfunded actuarial accrued liability is $8.7m as of June 30, 2019 based on the actuarial valuation report prepared by Bartels. The report also points out that this is an increase in the funded status since the last valuation report as of June 30, 2017. **But is this really so?** The answer to that question is that it depends on the assumptions used in preparing the valuation report.

If you refer to Exhibit A, you will see under the Actual June 30, 2019 column the funded percentage of 67.9% and the 6.75% discount rate which was used in computing the valuation. The funded percentage is substantially determined by the discount rate. **The higher the discount rate, the higher the funded percentage. The lower the discount rate, the lower the funded percentage.**

If you look at Exhibit C, you will see that the discount rate represents the "expected long-term NET RATE OF RETURN on assets projected to be paid from the OPEB Trust". A question that this Oversight Committee should address is why you are comfortable with a 6.75% discount rate when the CERBT Strategy #1 performance from inception has only produced a 4.74% return? What objective evidence do you have that informs you that the discount rate of 6.75% is the appropriate "expected long-term net rate of return"? As Trustees, wouldn't it be more prudent to use a more conservative rate for purposes of the valuation analysis?

This is a very important question and is clearly highlighted in Exhibit B. Here Bartels is presenting **the ALTERNATIVE funding percentages** achieve if different discount rates are used in the valuation analysis. Specifically, if this Committee had selected more conservative net rate of returns of 6.25% and 5.5% (by selecting Strategy #2 or Strategy #3), the funding percentages would be 64% and 58.4% respectively. Please note that even these target rates are still materially greater than the actual returns achieved, which would strongly suggest the prudent approach is to use more conservative discount rates and investing strategies.

Here is the most troubling piece of all of this – namely by using the most aggressive and risky discount rate, the Town is able to show the **LOWEST** actuarially determined contribution which is the minimum amount required to be paid into the benefit plan. Again, referring to Exhibit B, under Strategy #1 the Town's ADC (actuarially determined contribution) is $1.9m for FY 21. If the Committee had selected Strategy #3 which is the most conservative and least risky investment strategy, the ADC would be $2.6m or 32% higher! **Simply put, by selecting Strategy #1, the Town is able to contribute less money on an annual basis into the OPEB based on the "hope" that the investment returns will be substantially higher and therefore higher levels of contributions are not required.** This is the bet the Committee is making if they accept this valuation report and continue with Strategy #1 .

This is hardly consistent with the message that has been put forth that the Town uses conservative budgeting practices. It is my recommendation that the Committee direct Staff to adopt more realistic net rate of return assumptions (i.e. 4.74%) to determine the required ADC. Why set the Town up "for failure" by adopting an unrealistic expected long-term net rate of return which is highly unlikely to be achieved which then results in the ADC being understated?

I would like to make one last point which hopefully convinces you of the risk in the current approach. Again, referring to Exhibit A, under the column Projected June 30, 2020 you can see that the valuation analysis projects that as of June 30, 2020 the value of the assets in the trust fund is $20.3m and a year later grows to $21.9m. This reflects the assumption **that every year** Strategy 1 will generate net returns of 6.75%. And it is because of that assumption, the valuation analysis shows the funded percentage every year improving. Ask yourself, is this a reasonable and prudent

assumption given that the quarter ending March 30, 2020 generated a fiscal year to date decline of 9.3% and that inception to date the net return has been 4.74%?

Agenda Item #5

The Staff report discusses the concept of "unique market exposure" and gives an example of this concept in page 2 of the report. However, I have a slightly different understanding, which I think the Committee should validate with CALPERS. The issue of when a payment is made to CALPERS is a non-issue since CALPERS **time weights the amount of the ADP investment not the rate of return.** Using the Staff's example, if PERF Fund had a **10% gain for the entire year** and the Town made an ADP of $5m on January 1 (at the mid-point of the fiscal year), CALPERS would compute the gain on the $5m by time weighting the investment and then multiplying it **by the full year performance return, regardless of market fluctuations from the date of the ADP until the end of the fiscal period**. That means the $5m would be effectively invested for only 6 months, resulting in only **$2.5m being time weighted exposed** to the full year return of 10%. Since the full year return of 10% is greater than the 7% expected rate of return, the ADP would generate a "**gain"** of $75k (3% x $2.5m) and not a "loss" as suggested by the Staff. (As a side note, It would be helpful if Staff showed the calculations which support their position that the ADP "would be allocated a proportionate investment loss as opposed to an investment gain).

The important point here is that CALPERS uses the **return for the entire year** in determining whether or not a gain or loss basis is created and time weights the ADP to avoid the exact situation the Staff has identified. This approach neutralizes all "market timing issues" since the investment return is applied based on the full year results. Based on my understanding CALPERS does not track the gain or loss from an ADP separately from the full year investment return. This should be very easy to verify and I would encourage the Committee to request Staff to verify what I have outlined above.

Assuming I am correct, the timing of making an ADP during a fiscal year therefore is a non-issue with regard to computing return performance for the ADP. Having said that, the default condition should be to make an ADP as soon as possible because of the benefit of saving the 7% interest charged by CALPERS. Once a loss basis is extinguished, the interest charge associated with that loss basis stops.

Thank you for your time.

Phil Koen

Actuarial Obligations

Actuarial Obligations (Amounts in 000's)	6/30/17 Valuation Actual 6/30/17	6/30/17 Valuation Projected 6/30/19	6/30/19 Valuation Actual 6/30/19	6/30/19 Valuation Projected 6/30/20	6/30/19 Valuation Projected 6/30/21
■ **Discount Rate**	6.75%	6.75%	6.75%	6.75%	6.75%
■ **Present Value of Benefits**					
• Actives	$19,569	n/a	$19,848	n/a	n/a
• Retirees	15,436	n/a	16,952	n/a	n/a
• Total	35,005	$37,106	36,800	$37,794	$38,814
■ **Actuarial Accrued Liability**					
• Actives	9,337	n/a	10,065	n/a	n/a
• Retirees	15,436	n/a	16,952	n/a	n/a
• Total	24,773	28,061	27,017	28,568	30,155
■ **Actuarial Value of Assets**	13,605	17,084	18,341	20,259	21,949
■ **Unfunded AAL**	11,168	10,977	8,676	8,309	8,206
■ **Funded Percentage**	54.9%	60.9%	67.9%	70.9%	72.8%
■ **Annual Cost for Following Year**					
• Normal Cost	1,247	1,323	1,217	1,191	1,171
• PEMHCA Administrative Fees	4	4	2	2	2
• CERBT Administrative Expenses	8	10	9	10	11
• Annual Cost	1,259	1,337	1,228	1,203	1,184

Actuarial Obligations
June 30, 2019

Actuarial Obligations (Amounts in 000's)	Cash Subsidy	Implicit Subsidy	Total Subsidy
■ **Discount Rate**	6.75%	6.75%	6.75%
■ **Present Value of Benefits**			
• Actives	$16,486	$3,362	$19,848
• Retirees	15,694	1,258	16,952
• Total	32,180	4,620	36,800
■ **Actuarial Accrued Liability**			
• Actives	8,358	1,707	10,065
• Retirees	15,694	1,258	16,952
• Total	24,052	2,965	27,017
■ **Actuarial Value of Assets**[8]	16,328	2,013	18,341
■ **Unfunded AAL**	7,724	952	8,676
■ **Annual Cost 2020/21**			
• Normal Cost	993	197	1,191
• PEMHCA Administrative Fee	2	n/a	2
• CERBT Administrative Expenses	10	n/a	10
• Annual Cost	1,005	197	1,203

[8] Actuarial Value of Assets allocated to cash subsidy and implicit subsidy in proportion to Actuarial Accrued Liability.

CERBT Prefunding[19]

CERBT Target Investment Allocation

■ CERBT Investment Strategy	CERBT #1	CERBT #2	CERBT #3
■ Global Equity	59%	40%	22%
■ Fixed Income	25%	43%	49%
■ TIPS	5%	5%	16%
■ REITs	8%	8%	8%
■ Commodities	3%	4%	5%
■ Total	100%	100%	100%
■ Long-Term Expected Real Return[20]	4.14%	3.54%	2.83%
■ Long-Term Inflation Assumption	2.75%	2.75%	2.75%
■ Assumed Investment Expenses	(0.05%)	(0.05%)	(0.05%)
■ Long-Term Expected Net Nominal Return	6.84%	6.24%	5.53%
■ Recommended Discount Rate	6.75%	6.25%	5.50%

[19] Bartel Associates is not an investment advisor and cannot recommend specific OPEB trusts. CERBT funds are shown for illustrative purposes only. Other OPEB trust options are available.
[20] Using Bartel Associates' 2017 capital market assumptions which are based on a survey of various investment advisors' expected asset class returns.

B

CERBT Prefunding

(Amounts in 000's)

■ Investment Strategy ■ Discount Rate	CERBT #1 6.75%	CERBT #2 6.25%	CERBT #3 5.50%
■ **Present Value of Benefits**	$36,800	$39,792	$45,057
■ **Funded Status - 6/30/19**			
• Actuarial Accrued Liability	27,017	28,649	31,414
• Actuarial Value of Assets	18,341	18,341	18,341
• Unfunded AAL	8,676	10,308	13,073
• Funded Percentage	67.9%	64.0%	58.4%
■ **ADC 2020/21**			
• Annual Cost	1,203	1,322	1,528
• UAAL Amortization[21]	656	761	922
• Total ADC	1,859	2,082	2,451
■ **ADC% 2020/21**	11.0%	12.4%	14.5%

Δ 32%

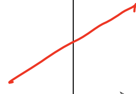
[21] Amortized as a level percentage of payroll over a 18-year period.

Actuarial Methods

Method	June 30, 2017 Valuation	June 30, 2019 Valuation
■ Implicit Subsidy	• Implicit subsidy estimate included for non-Medicare eligible retirees	• Same
■ Projections	• Valuation Results - closed group, no new hires • Projections: ➢ Simplified open group projection ➢ Total active pay increased in accordance with aggregate payroll assumption ➢ Normal cost percentage of 8.7% for new hires ➢ No additional retirees from new hires over the 10-year projection period	• Valuation Results - closed group, no new hires • Projections: ➢ Simplified open group projection ➢ Total active pay increased in accordance with aggregate payroll assumption ➢ Normal cost percentage of 1.6% for new hires[25] ➢ No additional retirees from new hires over the 10-year projection period

[25] Normal cost percentage of pay if all actives hired in the past 3 years received Tier 2 benefit.

Definitions



■ Actuarial Obligations	• The Present Value of Benefits (PVB) is calculated as follows: ➢ Project future employer-provided retiree benefits for current retirees and current active employees (future retirees) ➢ Discount projected benefits to valuation date using the discount rate ➢ Discount rate is the expected long-term net rate of return on assets for benefits projected to be paid from the OPEB trust and the expected long-term net rate of return on Town investments for benefits projected to be paid from Town assets ➢ Allocate the PVB to past, current, and future working periods using the Entry Age Normal Cost Method • Normal Cost (NC) is portion of the PVB allocated to one fiscal year • Actuarial Accrued Liability (AAL) is the portion of the PVB allocated to prior Town service, that is, the accumulation of prior years' NCs • Unfunded AAL (UAAL) is AAL less the Actuarial Value of Assets • Actuarial Value of Assets (AVA) smooths market value of assets (MVA) volatility by spreading investment gains and losses over 5 years

CERBT Strategy 1

Objective

The CERBT Strategy 1 portfolio seeks to provide capital appreciation and income consistent with its strategic asset allocation. There is no guarantee that the portfolio will achieve its investment objective.

Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes. CalPERS periodically adjusts the composition of the portfolio in order to match the target allocations. Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

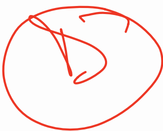
Compared with CERBT Strategy 2 and Strategy 3, this portfolio has a higher allocation to equities than bonds and other assets. Historically, equities have displayed greater price volatility and therefore, this portfolio may experience greater fluctuation of value. Employers that seek higher investment returns, and are able to accept greater risk and tolerate more fluctuation in returns, may wish to consider this portfolio.

CalPERS Board may change the list of approved asset classes in composition as well as targeted allocation percentages and ranges at any time.

Assets Under Management

As of the specified reporting month-end:

CERBT Strategy 1	Annual Expense Ratio
$9,565,548,004	0.10%



Composition

Asset Class Allocations and Benchmarks

The CERBT Strategy 1 portfolio consists of the following asset classes and corresponding benchmarks:

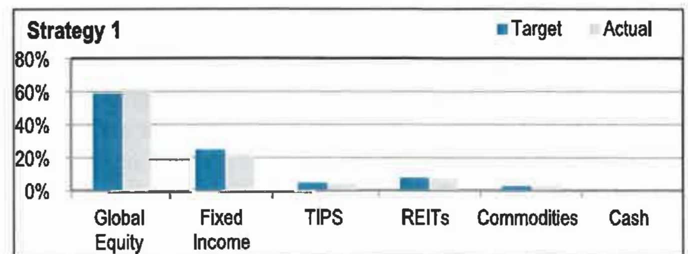
Asset Class	Target Allocation[1]	Target Range	Benchmark
Global Equity	59%	± 5%	MSCI All Country World Index IMI (net)
Fixed Income	25%	± 5%	Bloomberg Barclays Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg Barclays US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	8%	± 5%	FTSE EPRA/NAREIT Developed Index (net)
Commodities	3%	± 3%	S&P GSCI Total Return Index
Cash	-	+ 2%	91 Day Treasury Bill

Portfolio Benchmark

The CERBT Strategy 1 benchmark is a composite of underlying asset class market indices, each assigned the target weight for the asset class it represents.

Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of the specified reporting month-end. CalPERS may temporarily deviate from the target allocation for a particular asset class based on market, economic, or other considerations.



CERBT Strategy 1 Performance as of June 30, 2020								
	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return[1,3]	2.57%	14.10%	3.58%	3.58%	5.92%	5.84%	8.20%	4.82%
Net Return[2,3]	2.56%	14.07%	3.49%	3.49%	5.83%	5.75%	8.10%	4.74%
Benchmark Returns	2.53%	13.95%	3.16%	3.16%	5.59%	5.43%	7.92%	4.38%
Standard Deviation[4]	-	-	-	-	11.46%	10.14%	10.07%	12.85%

Performance quoted represents past performance, which is no guarantee of future results that may be achieved by the fund.
* Returns for periods greater than one year are annualized.
[1] Gross performance figures are provided net of SSGA operating expenses.
[2] Net Performance figures deduct all expenses to the fund, including investment management, administrative and recordkeeping fees.
[3] See the Expense section of this document.
[4] St[illegible] is based on gross returns.

ATTACHMENT 2

Town of Los Gatos
CERBT Strategy 1
Entity #: SKB0-4589482285
Quarter Ended March 31, 2020

E

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	$19,653,426.72	$18,379,772.40
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(2,975,699.50)	(1,694,037.20)
Administrative Expenses	(2,308.39)	(6,934.19)
Investment Expense	(1,687.80)	(5,069.98)
Other	0.00	0.00
Ending Balance	$16,673,731.03	$16,673,731.03
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	$16,673,731.03	$16,673,731.03

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,090,918.002	1,090,918.002
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	1,090,918.002	1,090,918.002
Period Beginning Unit Value	18.015494	16.847987
Period Ending Unit Value	15.284129	15.284129

Δ (15.2%) (9.3%)

Please note the Grand Total is your actual fund account balance at the end of the period, including all contributions per GASB 74 paragraph 22 and accrued disbursements. Please review your statement promptly. All information contained in your statement will be considered true and accurate unless you contact us within 30 days of receipt of this statement. If you have questions about the validity of this information, please contact CERBT4U@calpers.ca.gov.

IMPLEMENTING GASB STATEMENT NO. 68
ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS
A CCMA WHITE PAPER FOR CALIFORNIA LOCAL GOVERNMENTS

Issued April 2015

PUBLISHED BY THE

CALIFORNIA COMMITTEE ON MUNICIPAL ACCOUNTING

(a joint committee comprised of representatives of the *League of California Cities* and the *California Society of Certified Public Accountants*)

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I. Introduction

A. Objectives for the CCMA White Paper

The Governmental Accounting Standards Board (GASB) issued its Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* ("GASB 68"), with new pension reporting requirements for employers. GASB also issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* ("GASB 71"), to clarify the transition year provisions of GASB 68. Statements issued by GASB collectively establish the foundation of *Generally Accepted Accounting Principles* ("GAAP"). Local governments follow these accounting principles when preparing their financial statements to receive "clean," unmodified audit opinions from their external auditors.

This CCMA White Paper has been prepared to assist California local governments and their auditors with the implementation of the new pension statement. For most local governments with July 1 to June 30 fiscal years, implementation will be required in the June 30, 2015 financial statements. Specific focus and sample disclosures are provided for local governments participating in the California Public Employees' Retirement System (CalPERS). However, concepts set forth in this CCMA White Paper are also applicable to other retirement systems.

CalPERS and other pension systems may continue to develop their implementation approach as they prepare data for use by participating employers. Readers are encouraged to monitor the CalPERS GASB 68 web page and other communication that may be provided directly from local government pension systems for the most current status of available information. While every effort has been made for consistency with current information available from CalPERS, this White Paper is not a representation of CalPERS and CalPERS is not responsible for its content.

Scope and Limitations: This CCMA White Paper summarizes and does not contain all of the information contained in GASB 68, GASB 71, and the related American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel (SLGEP) Pension Whitepaper Series. Readers should examine those documents to fully understand the details of their responsibilities. Local governments and their auditors must apply their own professional judgment to determine if information in this CCMA White Paper is appropriate for their facts and circumstances and must ultimately draw their own conclusions as to the proper implementation of GASB 68, GASB 71, and interpretation of the related AICPA SLGEP Pension Whitepaper Series.

B. Key Elements of the New Pension Statement

<u>*GASB's Summary*</u>

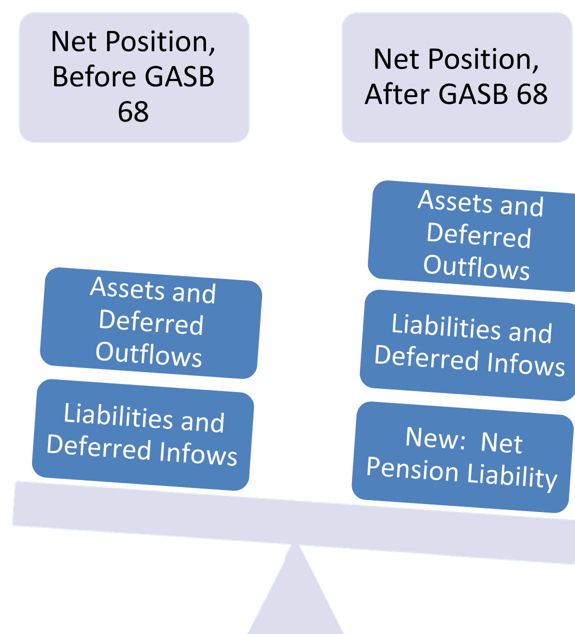
GASB has prepared a seven page summary of the new pension statement, which provides a helpful introduction and detail on the statement's changes. The GASB summary is attached as

an exhibit to this CCMA White Paper and is also available on the GASB web page at http://www.gasb.org. GASB 68 applies to pensions administered through trusts such as CalPERS, with irrevocable contributions and assets legally protected from creditors. The following are three key elements of this new statement.

1. *The "Net Pension Liability" is Added to the Statement of Net Position*

Unfunded pension obligations (the "*Net Pension Liability*") will become a new liability on the *Statement of Net Position* within the local government's basic financial statements. Pension obligation disclosures have previously been generally limited to the *Footnote* and *Required Supplementary Information* ("RSI") sections of the financial statements. In some cases, local governments have been reporting a net pension obligation or asset when pension contributions fell short or exceeded the actuarial recommended contributions under GASB 27; these GASB 27 balances will no longer be reported under GASB 68 for plans administered through a trust.

The *Statement of Net Position* is the accrual-basis statement presented to measure the local government's net economic resources as of the end of the fiscal year. The local government's *Net Positon* will now be reduced by the *Net Pension Liability*. Additional balances will be introduced into reported values for *Deferred Outflows* and *Deferred Inflows of Resources*. A *Statement of Net Positon* is also presented for the local government's Enterprise Funds, such as Water and other fee-for-service programs. Enterprise Fund financial statements may now include a proportional allocation of the local government's *Net Pension Liability*. Other reporting units, such as Component Units and Internal Service Funds, may be impacted if they have significant employee cost allocations. As a long-term obligation, the *Net Pension Liability* is not recorded in the modified accrual basis financial statements of governmental funds. It does not impact the "current resources" focus of the General Fund or other governmental funds and does not impact the modified accrual fund-level budget-to-actual comparison.



For most local governments, the *Net Pension Liability* will add a significant liability that might be comparable to or even greater than the local government's long-term municipal bond obligations. It is likely to significantly reduce the value of the local government's ending net position and may create a deficit. In some cases, the local government might have a *Net Pension Asset*. For the purposes of this CCMA White Paper, the term *Net Pension Liability* will be used to refer to either a *Net Pension Asset* or a *Net Pension Liability*.

Statement of Net Position
June 30, 2015

	Governmental Activities	Business-Type Activities
ASSETS		
Cash	$ 10,000,000	$ 20,000,000
Net Receivables	5,000,000	7,000,000
Capital Assets	80,000,000	120,000,000
DEFERRRED OUTFLOWS OF RESOURCES	9,000,000	1,000,000
LIABILITIES		
Payables	400,000	600,000
Long-term Liabilities	60,000,000	90,000,000
Net Pension Liability	50,000,000	10,000,000
DEFERRED INFLOWS OF RESOURCES	1,000,000	200,000
NET POSITION	$ (7,400,000)	$ 47,200,000

Accounts introduced or impacted by GASB 68

2. *The Annual Pension Expense is No Longer the Cash-basis Required Contribution to CalPERS or Other Retirement System*

Employers contracting with CalPERS or another retirement system to administer pension benefits are typically making periodic required contributions each pay period as a percentage of employee salaries. These contributions are typically budgeted and expensed as paid on a cash basis. Employer contribution rates are set from a prior year actuarial valuation using economic, demographic, and smoothing policies designed to provide employers advance notice and time to adjust budgetary allocations to provide funding for the required pension contributions.

GASB 68 does not change CalPERS or other retirement system policies, contribution rates, or cash flow. With this new pension statement, however, local governments will move from a contribution cash basis expense to a new financial reporting measure that is typically more fiscally conservative and accelerates the recognition of gains and losses over a shorter amortization period. For example, a lower investment earnings discount assumption may be used to measure pension liabilities for periods in which future benefit payments are not funded.

The cost of benefit changes will be expensed immediately. Also, the impact of economic and demographic assumption changes, and differences between expected and actual actuarial experience, will now be amortized over the average remaining service life of the plan's employees. Employers with an older employee base will be amortizing changes over a shorter period than employers with a younger employee base, with the intent to match the service cost of the work force with the remaining service periods.

As a result, the pension expense used for financial reporting purposes is likely to be larger than measured for contribution/funding purposes, and will likely be more volatile from year-to-year as both favorable and unfavorable results flow through the statements on an accelerated basis.

This expense impact is limited to the *Government-wide* and *Proprietary Fund* financial statements, and does not impact the modified accrual current resources focus of the General Fund, other governmental funds, or the budget-to-actual comparison.

3. *CalPERS Data for Plan Net Position and Annual Pension Data will Likely be Available Late in the Fiscal Year and Will be Based Upon Prior Year CalPERS Data*

CalPERS maintains the data needed by participating employers to analyze, validate, and record annual pension accounting entries. Employers will be dependent upon CalPERS to provide data to complete the local government financial reporting process. The data will need to be audited by a CalPERS external auditor in a manner acceptable to the local government's external auditor.

CalPERS currently provides actuarial "Funding Valuations" for public agencies about 15 months after the date of valuation. For example, Funding Valuations from June 2013 were released in October 2014, and included contribution rates for the 2016 fiscal year. A new, second actuarial report, consistent with GASB 68 assumptions, will now be needed from CalPERS to provide data for financial reporting. Actuarial data from the June 2013 "valuation date" will be rolled forward to a June 2014 "measurement date" for use in June 2015 financial statements. June 2015 data will not be available in time for local governments to include in their June 2015 financial statements. Accordingly, most local governments will use a measurement date one year prior to the financial reporting date.

C. Getting Started

The following are suggested steps to prepare for GASB 68 implementation.

1. *Read GASB Summary and Become Familiar with the Details of the Statement*

Become familiar with new accounting terminology and the underlying actuarial terminology by reading the attached GASB 68 Summary in Appendix A, and the full Statement available on the GASB web page. Look at sample financial statements to visualize the new lines that will appear on the local government's *Statement of Net Position*.

2. *Review the Local Government's Pension Plans and Their Form of Administration*

Read the local government's prior year financial statement footnote regarding the local government's pension benefits and their administration. How many plans does the local government administer? Are there separate plans for Safety and Miscellaneous employees? Are separate tiers of benefits offered to employees with different hire dates? If the local government has at least 100 active participants in a plan, the plan is administered by CalPERS as an agent multiple-employer plan that pools assets for investment purposes but does not share risk. If the local government has fewer than 100 active participants in a plan, it is administered by CalPERS as part of a cost-sharing multiple-employer plan that shares risk between employers. An employer may have both agent and cost-sharing plans with CalPERS. Also, an employer may change from an agent to cost-sharing plan due to a decrease in active membership in a given year. Have any new tiers or benefit changes been implemented during the year? A single employer may have several plans to address in its GASB 68 implementation.

Obtain the most recent funding actuarial valuation for each plan, or rate pool within a plan. Each plan will be separately evaluated and disclosed, then aggregated for presentation on the Statement of Net Position.

3. *Understand the Employer's Responsibility for Actuarial Assumptions and Participant Data Validation*

The AICPA has released guidance to government auditors regarding the testing and evaluation of a local government's reported net pension liabilities. This guidance identifies employer responsibilities for validating the participant data used by a plan administrator (e.g. CalPERS) in its actuarial reports. Each local government will need to obtain and consider the actuarial assumptions and census data used by its plan administrator in preparing its actuarial information. Additional information about employer and auditor responsibilities is presented in a later section of this document.

4. *Discuss Process and Disclosures with External Auditors*

Here are sample questions to discuss with the local government's external auditor:

- What information will be available from the plan administrator and when? Has there been communication with the plan administrator and actuary?
- How will timing of plan data impact the audit and financial statements publication timeline? Delays by the plan administrator or census data inconsistencies could delay the

local government's audit, financial statement publication, City Council reporting, Federal and State reporting, and bond continuing disclosure timelines.

- Have the "Valuation Date" and "Measurement Date" of balances to report in the June 2015 financial statements been established? In the year of implementation, adjustments to beginning net position are required.
- How is the local government training its staff to prepare accounting entries, footnotes, and RSI tables? What assistance will the auditor provide?
- What steps is the local government taking to validate participant data and review actuarial assumptions?
- How will the local government's auditor use and rely upon the plan administrator's audited data?

5. *Brief Management and City Council/Governing Board on Impacts*

Here are sample GASB 68 speaking points for briefing management and elected officials:

- New accounting standards will provide additional transparency on long-term pension obligations in annual financial reports.
- Local governments will now receive two actuarial reports for each of its plans: One for funding contributions and a second accounting valuation for financial reporting.
- Actuarial valuations for financial reporting will use new fiscally conservative pension measurements.
- Economic gains and losses and demographic changes will amortize over an accelerated period.
- Cash flow and contribution rates are not impacted by accounting standards.
- New financial statement disclosures can facilitate discussion on long-term planning to meet pension obligations.

II. Employer and Auditor Responsibilities

A. Employer Responsibility for Local Governments

Cost-Sharing Multiple-Employer Plans

The State and Local Government Expert Panel (SLGEP) of the American Institute of Certified Public Accountants (AICPA) published a white paper to describe accounting and auditing issues facing governmental employers that participate in cost-sharing multiple-employer defined benefit pension plans, as well as best practice solutions to address the issues. The SLGEP Whitepaper, *Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting*[1], points out that each employer is responsible for evaluating the information used to recognize and disclose pension amounts in its financial statements. This SLGEP whitepaper recommends that cost-sharing plans calculate and present in schedules each employer's allocation percentage and proportionate share of collective pension amounts, and subject the schedules to audit. Employers may use the plan auditor's report on the schedules to provide evidence that the pension amounts allocated to the employer and included in the employer's financial statements are not materially misstated.

Agent Multiple-Employer Plans

The SLGEP also published a whitepaper to describe accounting and auditing issues facing governmental employers that participate in agent multiple-employer defined benefit pension plans, as well as best practice solutions to address the issues. The SLGEP Whitepaper, *Governmental Employer Participation in Agent Multiple-Employer Plans: Issues Related to Information for Employer Reporting*[1], requires employers and their auditors to verify the completeness and accuracy of census data used by actuaries to calculate pension amounts. Related to the accuracy of census data, the whitepaper states:

> "Employer management must also be able to support the underlying census data used by the actuary. As the employer has access to the records substantiating the census data provided on active members, the employer should have processes and controls in place to determine that complete and accurate information is reported to the plan and the plan actuary regarding active members. Management should obtain on an annual basis the census data file submitted by the plan to the actuary and determine whether the census data is complete and accurate. In evaluating the census data file, the employer may compare the information to underlying payroll records and the prior year census data file. The employer may also obtain a roll forward of the census data from one year to the next and review a reconciliation for any significant differences."

Footnote 1 – The SLGEP Whitepaper Series is an "*other auditing publication*" and has no authoritative status, however, it may assist auditors in understanding and applying certain auditing standards. Users should consult original materials referenced in the whitepapers.

Local governments should use professional judgment in conjunction with consultation with their auditors in fulfilling their responsibilities for amounts reported in their basic financial statements.

Local governments should compare their active member data to a detailed census data file provided by the actuary who prepared the funding valuation. For example, CalPERS will provide, upon request, census data files for Miscellaneous and Safety members that include all of the pertinent data elements that need to be verified, including CalPERS employee identification number, birth date, start date, pay rate, etc.

Local governments should compare the total count of active employees in their records to the total count of active employees in the census data file. Local governments should also compare the census data total counts from year to year and analyze the net change in order to determine the accuracy and completeness of the census data underlying the actuarial valuation. For example, CalPERS provides Appendix C in funding valuations for agent multiple-employer plans, which reports current year and prior year census information. Local governments should analyze the net change from the prior year to the current year and investigate any unexpected results.

Local governments should also select a sample of active employees in the CalPERS detailed data file to compare key data elements including birth date, start date, and pay rate to their personnel records. Local governments may determine the procedures to perform and the sample size to use for the comparisons in conjunction with consultation with their auditors.

Identifying timing differences and the effects of any retroactive adjustments will be important in reconciling the local government's data to the actuary's detail data. For example, new employees hired in June 2013 may be listed in the local government's data but not the actuary's June 2013 valuation data. Depending on the nature of differences identified, tracing data back to supporting records may be necessary to determine which data source is correct.

In order to satisfy auditors pertaining to this new employer responsibility over pension census data, local governments should develop procedures that include documentation of the tasks performed and the conclusions reached.

The SLGEP Whitepaper Series also point out that each employer is "solely responsible for its financial statements and, therefore, employer management is responsible for establishing financial reporting processes and controls over the measurement of its specific pension amounts." Regarding actuarial assumptions, "employer management must support the assumptions with appropriate, reliable, and verifiable information". The whitepaper points out that it is ordinarily not sufficient to rely solely on assumptions provided by the actuary. Local governments participating in CalPERS plans should read and understand the actuarial assumptions underlying the employer's pension amounts provided in the actuarial reports. It is

the responsibility of the employer to communicate to its actuary and to its auditor any assumptions that were identified by the employer as being unreasonable during its review of the assumptions that were used for its actuarial valuation.

Single-employer Plans

Although not specifically addressed by a separate SLGEP whitepaper, each local government with a single-employer plan is solely responsible for its financial statements and, therefore, employer management is responsible for establishing financial reporting processes and controls over the measurement of its specific pension amounts. Local governments with single-employer plans are also responsible for evaluating the information used to recognize and disclose pension amounts in their financial statements. As with the other types of plans, management must understand and support the actuarial assumptions and census data with verifiable information.

B. Employer Auditor's Responsibility for Auditing Census Data of Defined Benefit Pension Plan Members

Under GASB 68, a state or local government employer will report the N*et Pension Liability* associated with its defined benefit pension plan(s) that is administered through a trust or equivalent arrangement. An employer may participate in a single-employer plan, an agent multiple-employer plan, a cost-sharing multiple-employer plan, or a combination of such plans. The N*et Pension Liability* for each plan type is calculated based on an actuarially determined T*otal Pension Liability* less the value of the plan's net position as of a selected measurement date. The T*otal Pension Liability* is measured based on an actuarial valuation, which calculates the actuarial present value of projected benefit payments based on a set of census data and a set of actuarial assumptions under the entry age actuarial cost method. The census data is the demographic data of plan participants.

In planning the audit approach from the employer auditor's perspective, the employer auditor must apply AU-C Section 9600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* Auditing Interpretation No. 1, *Auditor of Participating Employer in a Governmental Pension Plan,* which makes it clear that a governmental pension plan is not a component of the employer for purposes of reporting pension amounts in accordance with GASB 68. Based on this interpretation, it would not be appropriate for an employer auditor to make reference to the audit report of the pension plan auditor when forming an opinion on the employer's basic financial statements. However, when the pension plan is reported as a fiduciary fund in the employer's basic financial statements, the employer auditor would apply the group audit standards set forth in AU-C Section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors),* for purposes of reporting on the opinion unit that includes the pension plan fiduciary fund.

The auditor of the employer's financial statements should develop an audit plan when auditing pension information in the employer's financial statements and supplemental schedules. This section is intended to provide a summary of considerations to be made by the employer auditor in developing an audit plan for the employer's census data used by the actuary in estimating the defined benefit pension plan's *total pension liability*.

The census data is the demographic data of plan members; key elements may include: date of birth; date of hire or years of service; gender; marital status; eligible compensation; class of employee; date of termination or retirement; spouse date of birth; and employment status (i.e., active, inactive or retired.) The underlying accounting records of the census data are usually maintained by different parties. However, the pension plan keeps a record of all census data and provides that data to the plan actuary. Understanding whether the employer or pension plan maintains the underlying accounting records for the census data is key to establishing the audit plan for the census data. The underlying accounting records for the census data of active plan members are usually maintained by the employer. The underlying accounting records of plan members who are no longer employed by the local government (i.e., inactive or retired members) are usually maintained by the pension plan. The role of the employer auditor in auditing census

data of active members is dependent on the type of pension plan. The pension plan auditor will typically be responsible for auditing the census data of inactive and retired plan members. This CCMA White Paper addresses the considerations to be made for each type of defined benefit pension plan. Such considerations are based on the suggested best practice solutions set forth in the AICPA SLGEP Pension Whitepaper Series, which can be found at the AICPA Governmental Audit Quality Center's website

http://www.aicpa.org/interestareas/governmentalauditquality/resources/gasbmatters/pages/gasbpensionsissues.aspx:

- *Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements*
- *Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting*
- *Governmental Employer Participation in Agent Multiple-Employer Plans: Issues Related to Information for Employer Reporting*

Auditors should refer to the SLGEP Pension Whitepaper Series for detail information. The SLGEP Pension Whitepaper Series are classified as other auditing publications under AU-C Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, and, accordingly, have no authoritative status. However, they were developed to help the auditor understand and apply certain auditing standards. In applying the auditing guidance in the SLGEP Pension Whitepaper Series and herein, the auditor should exercise professional judgment and assess the relevance and appropriateness of the guidance to the facts and circumstances of the employer audit.

The AICPA is currently updating its State and Local Government (SLG) Audit and Accounting Guide for 2015, which will be issued subsequent to this CCMA White Paper. Accordingly, this CCMA White Paper does not consider any guidance that may be included in that audit guide. Auditors should consider audit guidance set forth in the 2015 update of the SLG Audit and Accounting Guide when developing an audit plan.

Single-Employer Defined Benefit Pension Plan

A single-employer defined benefit pension plan may be audited by the employer auditor or the pension plan may retain its own plan auditor. When the employer auditor audits the pension plan, the employer auditor will be responsible for auditing the census data of all plan members (i.e., active, inactive and retired.) When there is a different plan auditor, management of the employer and the pension plan, in consultation with their respective auditors, will need to determine which auditor will be responsible for auditing the underlying accounting records of the census data of active plan members maintained by the employer. Because the underlying accounting records of inactive and retired plan members are maintained by the pension plan, the plan auditor will typically be responsible for auditing the census data of the inactive and retired plan members.

Cost-Sharing Multiple Employer Defined Benefit Pension Plan

Under GASB 68, by definition, a cost-sharing multiple-employer defined benefit pension plan is a plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay benefits of the employees of any employer that provides pensions through the plan. Because there are multiple employers in a cost-sharing plan, the plan auditor will need to develop an audit plan for the census data. The SLGEP Pension Whitepaper Series sets forth a best practice solution with two alternative options that the plan auditor may adopt:

> Option 1 - The plan auditor tests the census data of all plan members (i.e., active, inactive and retired) in the cost-sharing plan. Under this option, the plan auditor would select a sample of employers and perform audit procedures on the underlying accounting records for active members maintained by the selected employer at the employer's site. In this situation, the employer auditor would not need to perform detail audit procedures on the census data of active members of the employer and would place reliance on the audited information provided by the plan auditor as set forth in the SLGEP Pension Whitepaper Series.
>
> Option 2 - The plan auditor selects a sample of employers in the cost-sharing plan and requests that the employer auditor test the census data of active members at the employer's site under an examination engagement performed under AT Section 101, *Attest Engagements.* The scope of such an engagement would typically be determined by the plan auditor. The plan auditor would then use those examination engagements as audit evidence in lieu of directly performing the procedures. The employer auditor would place reliance on the audited information provided by the plan auditor as set forth in the SLGEP Pension Whitepaper Series.

Many retirement systems with cost-sharing multiple-employer plans are selecting the audit approach under Option 1 because the plan auditor can control the timing and completion of the census data audit work. CalPERS has elected Option 1 for its cost-sharing multiple-employer pension plans[1].

Agent Multiple-Employer Defined Benefit Pension Plan

When an employer participates in an agent multiple-employer defined benefit pension plan administered by a retirement system, the employer auditor should plan to test the underlying accounting records of census data of active plan members for completeness and accuracy. The plan auditor will typically be responsible for testing the census data for inactive and retired members and providing appropriate audit assurance to the employer auditor that such information is complete and accurate. The nature of that assurance is set forth in the SLGEP Whitepaper Series. CalPERS will provide employers and their auditors with assurance on the

[1] CalPERS will provide this information to employers for a fee. Refer to CalPERS Circular Letter No. 200-004-15 dated February 13, 2015 to Public Agency Employers for more detailed information at the CalPERS website.

inactive and retired member census data as set forth in the SLGEP Pension Whitepaper Series for its single-employer and agent multiple-employer pension plans[2].

Testing Census Data of Active Plan Members

In order for the employer auditor to test the census data of active plan members, they must understand what information will be provided by the retirement system that administers the single-employer, cost-sharing multiple-employer or agent multiple-employer plan. Ideally, the employer auditor would request a copy of the census data file used by the plan actuary to project the *total pension liability*. Upon request, CalPERS will annually provide active member census data files to employers participating in single-employer and agent multiple-employer pension plans[3]. The employer auditor would then design audit procedures to test the completeness and accuracy of the active members' key census data elements. Example procedures are set forth in the SLGEP Pension Whitepaper Series and may include: review a reconciliation of aggregate census data to amounts reported in the actuarial valuation report; review a roll forward of census data from one year to the next and review a reconciliation of any differences; compare the number of members for the current year and prior year, as well as the number of members versus the number of employees; select a sample of active members and test census data through an examination of the employer's payroll records; and select a sample of employees from the employer's payroll records and determine whether they are properly enrolled in the plan and included in the census data file. Refer to the SLGEP Pension Whitepaper Series for further details.

[2] See footnote 1.
[3] See footnote 1.

III. Accounting Entries

A. Recommendations Regarding Accounting Entries

In this section, we will summarize the accounting entries that will need to be made to properly implement GASB 68. The purpose of each of these entries will also be explained. In addition, Exhibit A to this white paper provides a simplified illustration of these required entries and illustrates how the amounts provided by the actuary might be allocated to each "reporting unit", as explained below.

Benefits Affected by GASB 68

Before the accounting entries are described, the reader should recognize that certain local governments may have more than one form of retirement benefit for which an actuary will need to be engaged.

Many local governments have a primary pension benefit that is provided by CalPERS or perhaps by a county or regional pension system. In addition to the primary pension benefit, some local governments have an enhanced or supplemental retirement benefit that supplements the primary pension benefit. Retirement benefits generally take the form of either a "defined benefit" or a "defined contribution". Only retirement benefits that meet the definition of a "defined benefit" require the engagement of an actuary. The distinction between these two types of retirement benefits is summarized below:

Defined benefit pensions

> Pensions for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. (A pension that does not meet the criteria of a defined contribution pension is classified as a defined benefit pension for purposes of GASB 68.)

Defined contribution pensions

> Pensions having terms that (a) provide an individual account for each employee; (b) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for periods in which that employee renders service; and (c) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.

CalPERS has announced its commitment to provide to employers all of the information that will be required for employer financial statements in order for those financial statements to conform to GASB 68. Local governments that are involved in regional pension plans should communicate with the plan administrator to ensure that the administrator has engaged an actuary to provide all of the information that each employer in the plan will need for employer financial statements.

Some local governments have established a single-employer pension plan for their primary pension benefit in lieu of participation in CalPERS. Other employers have an enhanced or supplemental retirement benefit in addition to their primary pension plan. Local governments

that have their own single-employer plan as their primary pension plan or that have a supplemental or enhanced retirement benefit will need to engage an actuary to provide all of the information required by GASB 68. Some local governments may already have a relationship with an actuary that they may choose to use to provide the information required by GASB 68. Other local governments may issue requests for proposal from various actuarial firms. If a local government solicits proposals from various actuarial firms, the request for proposal should be clear that all information needed for employer financial reporting must be provided by the actuary. This would include information for the employer's adjustments for initial implementation, liability recognition, expense recognition, deferred outflows and inflows of resources (and related amortization), all information needed for the notes to the financial statements, and all information needed for the required supplementary information (RSI).

Pension Benefits Administered Through Trusts or Equivalent Arrangements

GASB 68 only applies to pension benefits of local governments that are administered through funded or unfunded trusts or equivalent arrangements that have all of the following characteristics:

1. Contributions and related earnings are irrevocable.
2. The accumulated assets are dedicated solely for the payment of pension benefits (and related administrative costs).
3. The accumulated assets are legally protected from the creditors of the employer, plan administrator, or plan members.

In certain cases, local governments may hold the assets of its pension programs in a trust or equivalent arrangement that conforms to all of the above requirements. If separate financial statements are issued for that trust, the trust financial statements must conform to the requirements of GASB Statement No. 67 *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25,* ("GASB 67"). If separate trust financial statements are not issued and that trust is only reported as a fiduciary fund in the employer's financial statements, all of the disclosures required by GASB 67 must be included within the notes of the basic financial statements of the reporting local government. GASB 67 requires disclosures using a measurement date as of the reported fiscal year-end. GASB 68 allows the use of a measurement date that is earlier than the reported fiscal year-end. To avoid the need to provide actuarial information in the notes for two different dates, some local governments may choose to use the date of its fiscal year-end as the measurement date that it also uses for GASB 68 reporting purposes.

Pension Benefits Not Administered Through Trusts or Equivalent Arrangements

In some cases, a local government will have a defined benefit pension plan that is not administered through a trust or equivalent arrangement that conforms to all of the requirements listed above. GASB 68 does not change the financial reporting for these plans. The GASB has released an exposure draft of a proposed statement that would provide changes in financial reporting for such plans. Until that proposed standard is issued in final form and implemented by a local government, such plans will be subject to existing pension standards for employer financial reporting (GASB 27). This means that for these plans, local governments will continue to report any net pension obligation or net pension asset that had been previously reported in

accordance with GASB 27. For plans that conform to the trust or equivalent arrangement requirements set forth above, any net pension obligation or net pension asset previously determined in accordance with GASB 27 will be eliminated as a part of the prior period adjustment to implement GASB 68 that is discussed in further detail in the section entitled "Prior Period Adjustment".

A summary of the reporting requirements described above is presented in the following table:

Trust or Equivalent Arrangement?	Funded or Unfunded	Applicable GASB Standard	Liability Recognized	Amount of Liability
Yes	Funded	GASB 68	Net Pension Liability	Full Liability Less Plan Net Position
Yes	Unfunded	GASB 68	Net Pension Liability	Full Liability Less Plan Net Position
No	Funded	GASB 27	Net Pension Obligation	Unfunded ARC Since 1997
No	Unfunded	GASB 27	Net Pension Obligation	Unfunded ARC Since 1997

Side Fund Obligations

Paragraph 120 of GASB 68, requires that a separately financed specific liability arising from amounts assessed to an individual employer upon joining a multiple-employer pension plan should be recognized separately from liabilities for a net pension liability.

CalPERS has determined that employer obligations identified as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68 and therefore should not be reported as separately financed liabilities.

Reporting Units Affected

The entries required by GASB 68 will affect the following reporting units:

- Government-wide financial statements
- Each proprietary fund with material amounts of pension expense
- Each fiduciary trust fund with material amounts of pension expense
- Blended and discretely presented component units with material amounts of pension expense

GASB 68 will also affect any stand-alone financial statements that are issued by component units with material amounts of pension expense.

GASB 68 does not change how pension expenditures are reported in the financial statements of governmental funds.

Timing of the Entries

During the year, most local governments will continue to recognize pension expense in their proprietary funds and fiduciary trust funds in the amount that was remitted to the employer's pension plan.

At year-end, upon receiving from the plan administrator all of the information that is required for GASB 68 reporting, the entries below should be prepared.

Allocations to Proprietary Funds and Fiduciary Trust Funds

The first step in this process is to allocate amounts to each of the affected reporting units.

For proprietary funds (enterprise funds and internal service funds) and fiduciary trust funds that have material amounts of pension expense, an appropriate percentage of each amount provided by the actuary may need to be reflected in the GASB 68 entries that are posted to that proprietary or fiduciary trust fund. The remainder of the amounts will affect the government-wide financial statements (governmental activities) of the local government.

GASB 68 does not provide specific guidance for allocating pension liabilities and related costs among fund financial statements and between governmental and business-type activities. Existing guidance states that long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net position and in the government-wide statement of net position. Long-term liabilities directly related to and expected to be paid from fiduciary funds (and similar component units) should be reported in the statement of fiduciary net position.

Employers and auditors should consider existing guidance related to reporting liabilities based on the facts and circumstances of how those funds and activities will pay for the pension liability. If the employer determines that pension liabilities are paid from the various funds and activities, they should develop a methodology for allocating pension liabilities and related costs to those funds and activities.

While this CCMA White Paper is not advocating any particular method and is not intended to present a solution that fits all facts and circumstances, one method could be analogous to viewing the funds and activities as if they were participating in a cost-sharing plan within the reporting entity and allocating amounts based on the methodology set forth in GASB 68. With respect to that methodology, paragraph 315 of GASB 68 says in part "Given the relative complexity of pension-related calculations, generally, and the number of assumptions that are needed to capture that complexity over the long term, the Board believes that certain simplifications reasonably can be applied to the determination of an individual employer's proportion without impairing the estimate so significantly that it would no longer be sufficiently reliable to be recognized—provided that a description of the basis for the proportion used to determine the employer's

proportionate share of the collective net pension liability is disclosed in notes to the employer's financial statements."

Accordingly, some local governments may determine that allocating pension liabilities and related costs based upon that fund or activity's proportionate share of the total current year pension contribution might be appropriate for that local government's facts and circumstances. Other methods may also be acceptable depending upon the facts and circumstances.

The allocation methodology used by the local government should be disclosed in the notes to the financial statements.

Section III - B accompanying this CCMA White Paper demonstrates an example of how the amounts provided by the actuary and the plan might be allocated to each reporting unit.

Measurement Date

On the *statement of net position* as of June 30, 2015, most local governments will report the net pension liability in an amount that is measured as of June 30, 2014 ("the measurement date"). This was a concession that GASB made to accommodate timely financial reporting. Had GASB required the measurement date to be the same date as the financial statement date, it would be difficult for local governments to continue to produce timely financial statements.

The relationship between the *statement of net position* date (i.e., the employer's fiscal year-end), the date at which the net pension liability is measured ("the measurement date"), and the actuarial valuation date ("the valuation date") is presented in the chart below:

Employer Fiscal Year-End	Earliest Measurement Date	Earliest Valuation Date
6/30/15	6/30/14	12/31/12
9/30/15	9/30/14	3/31/13
12/31/15	12/31/14	6/30/13

Employers with a year-end other than June 30 may have additional challenges with respect to the selection of their measurement date. For example, per the above table, the earliest measurement date that can be used by an employer with a year-end of September 30, 2015 is September 30, 2014. However, pension systems that use a fiscal year-end of June 30 may not be able to provide actuarial information and audited fiduciary net position as of September 30, 2014. In this situation, the employer may need to use a measurement date of June 30, 2015, which is the pension system's first fiscal year-end after September 30, 2014.

For purposes of the discussion below, this white paper will assume an employer fiscal year-end of June 30 and a measurement date exactly twelve months before the date of the *statement of net position*.

Prior Period Adjustment

In the first year affected by GASB 68, an extra entry will need to be made. This entry restates the beginning net position for the affected reporting units to give retroactive effect to the implementation of GASB 68:

Dr Beginning net position
Dr Deferred outflows of resources - contributions
Cr Net pension liability

For certain pension benefit programs, a local government will present a net pension asset rather than a net pension liability for that plan. This occurs when the plan net position exceeds the actuarially determined pension obligation attributable to services rendered through the measurement date. Net pension assets for one plan should not be netted with net pension liabilities for other plans of that employer.

The net pension liability in the above entry will be determined as of an earlier measurement date to be consistent with the linkage that each employer will establish for the relationship of its fiscal year-end to the measurement date of its net pension liability as discussed above. The relevant dates applicable to the prior period adjustment are illustrated in the chart below:

Beginning of Fiscal Year	Earliest Measurement Date	Earliest Valuation Date
7/01/14	6/30/13	12/31/11
10/01/14	9/30/13	3/31/12
1/01/15	12/31/13	6/30/12

The amounts for the prior period adjustment entry will be provided by the actuary, except for the debit to the deferred outflows of resources. The debit to the deferred outflows of resources is the result of GASB 71, which amended GASB 68.

GASB 68 as amended by GASB 71 noted that for some local governments, it may not be practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources as of the beginning of the fiscal year in which GASB 68 is implemented. For those local governments, the prior period adjustment entry that restates net position as of the beginning of the year should only take into account the deferred outflows of resources that are associated with employer contributions paid before the beginning of the employer's fiscal year, but after the corresponding measurement date as illustrated in the chart above. The reason for this deferred outflow of resources is explained in the "Reclassification of Pension Contributions" section below. In the year of implementation, the notes to the financial statements should disclose which deferred outflows of resources and inflows of resources were contemplated in the entry to restate net position as of the beginning of the year of implementation.

Prior to the implementation of GASB 68, some local governments may have been reporting a "net pension obligation" or a "net pension asset" in accordance with the requirements of GASB 27. For those local governments, the prior period adjustment shown above should also include a line to remove the balance of such amounts as a part of its restatement of beginning net position. Note that such amounts should only be removed for those pension benefits that are subject to GASB 68. Net pension obligations or net pension assets associated with pension benefits that are

not administered through a trust or equivalent arrangement should continue to be reported, as discussed above in the "Pension Benefits Not Administered Through Trusts" section.

Reclassification of Pension Contributions

As mentioned above, both the net pension liability and pension expense may be determined as of an earlier "measurement date". In those situations, GASB 68 does not allow the cash payments made by the employer to the pension trust after the measurement date to have any effect on either the net pension liability or the pension expense that is reflected in the financial statements. For those situations, all cash contributions made by the employer to the pension plan after the measurement date will need to be reclassified as deferred outflows of resources.

The entry below reclassifies all payments that were made to the pension plan during the current fiscal year. For this entry, the local government may wish to use a contra account in its accounting system to accumulate all of the debits and credits to pension expense that are associated with the GASB 68 journal entries. The accounting system could then retain in unaltered form the amount of actual cash payments to the pension plan segregated from the various adjustments associated with GASB 68. Local governments may find this helpful when explaining differences between the pension expense reported during the year versus the amount of pension expense determined in accordance with the requirements of GASB 68.

Dr Deferred outflows of resources - contributions
Cr Pension expense [or credit a contra account: "Pension expense – GASB 68"]
[To reclassify current year contributions made after the measurement date]

In conjunction with the entry above to defer the impact of current year contributions, a separate entry must also be made to remove the prior year contributions from deferred outflows of resources and apply those contributions against the net pension liability recognized for the current year. With the advancement of the measurement date forward by one more year, those prior year contributions are now positioned prior to the new measurement date for the fiscal year-end and, accordingly, must reduce the net pension liability associated with that measurement date:

Dr Net pension liability
Cr Deferred outflows of resources – contributions
[To reclassify prior year contributions that were paid prior to the measurement date that are associated with the net pension liability to be reported in the financial statements of the current year]

The amount of deferred outflows of resources indicated in the journal entry above includes any supplemental payments or prepayments of contributions between the measurement date and the date of the *statement of net position.*

Recognizing Pension Expense in Accordance With GASB 68

The next step is to recognize pension expense (as determined under GASB 68) and to adjust all of the other related amounts (liability, deferred outflows or inflows of resources, etc.) on the statement of net position:

Dr Pension expense [or debit a contra account: “Pension expense – GASB 68”]
Dr Deferred outflows of resources - actuarial
Cr Deferred inflows of resources - actuarial
Cr Net pension liability

The amounts for each account identified in the above entry will be provided by the actuary. In this entry, deferred outflows and inflows of resources are used to “smooth out” some of the big swings in pension expense recognition that would otherwise result from large movements in the net pension liability from year to year.

In subsequent years, net pension expense, deferred outflows of resources, and deferred inflows of resources will be adjusted to the amounts provided by the actuary. The net effect of the adjustments to those accounts will determine the amount of pension expense recognized for that year.

Section III - B of this CCMA White Paper provides additional information concerning the entries summarized above.

Employee Contributions Paid by the Employer

On occasion, employers may agree to pay employee pension contributions as a part of the compensation and benefits that are negotiated with employees. The reports provided by the plan’s actuary to the employer may include employer-paid employee contributions in the amounts that are reported by the actuary for “employee contributions”.

In those circumstances, some local governments may consider employer-paid employee contributions to be in substance a form of compensation, rather than a pension cost (even though the employer might record such payments in the accounting system as “pension expense”). Employers that take that position would expense employer-paid employee contributions at the time that they are paid as a form of compensation (or as another benefit – but not as a part of pension expense).

Alternatively, employers that consider employer-paid employee contributions to be a part of the employer’s pension expense may need to reclassify the employer-paid amounts that were included by the actuary in “employee contributions” and instead add these amounts to the amount that was reported by the actuary for employer contributions. Such reclassifications will need to be consistently extended to all related amounts in the notes to the financial statements and the required supplementary information.

Comparative Financial Statements

For the fiscal year in which GASB 68 is implemented, local governments may choose to not include in their financial statements a column for prior year data.

For the reporting units affected by GASB 68, the prior year data will not be comparable to the current year presentation unless the local government is able to obtain from their actuary a net

pension liability as of the beginning of the prior fiscal year and all of the necessary audit requirements applicable to that liability have been addressed.

Alternatively, some local governments may choose to present a column for prior year data, but not restate the data for the prior year because all of the information available to restate prior year amounts was not readily available. GASB 68 requires that the reason for not restating prior year amounts must be disclosed in the notes to the financial statements.

EXHIBIT A

Simplified Illustration of GASB 68 Entries
For Year Ended June 30, 2015

	Measurement Date of June 30, 2013	Measurement Date of June 30, 2014
From actuary:		
Net pension liability	150,000,000	160,000,000
Pension expense	20,050,000	22,125,000

From employer's records:

Deferred outflows (pension contributions for FYE 2014 and 2015):

	Employer contribution	Employee contribution		Employer contribution	Employee contribution
Paid in FYE 2014 - Misc.	9,000,000	1,000,000	Paid in FYE 2015 - Misc.	10,800,000	1,000,000
Paid in FYE 2014 - Pub. Safety	6,000,000	1,000,000	Paid in FYE 2015 - Pub. Safety	7,200,000	1,000,000
	15,000,000	2,000,000		18,000,000	2,000,000

Pension contribution paid (FYE 2015) by reporting unit:

All governmental funds	12,000,000	67%
Water enterprise fund	5,000,000	28%
Fleet Servics - I/S fund	1,000,000	6%
Successor agency trust	-	0%
	18,000,000	100%

Government-wide (governmental activities)			**Water Enterprise Fund**			**Fleet Services - Internal Service Fund**			**Totals**
ENTRY 1 (a)									
Prior period adjustment:			*Prior period adjustment:*			*Prior period adjustment:*			
Beginning net position	90,000,000		Beginning net position	37,500,000		Beginning net position	7,500,000		135,000,000
Deferred outflows - contributions	10,000,000		Deferred outflows - contributions	4,166,667		Deferred outflows - contributions	833,333		15,000,000
Net pension liability		100,000,000	Net pension liability		41,666,667	Net pension liability		8,333,333	(150,000,000)
ENTRY 2 (a)									
Reclassify 2014 contributions:			*Reclassify 2014 contributions:*			*Reclassify 2014 contributions:*			
Net pension liability	10,000,000		Net pension liability	4,166,667		Net pension liability	833,333		15,000,000
Deferred outflows - contributions		10,000,000	Deferred outflows - contributions		4,166,667	Deferred outflows - contributions		833,333	(15,000,000)
ENTRY 3									
Reclassify 2015 contributions:			*Reclassify 2015 contributions:*			*Reclassify 2015 contributions:*			
Deferred outflows - contributions	12,000,000		Deferred outflows of resources	5,000,000		Deferred outflows of resources	1,000,000		18,000,000
Pension expense (by function)		12,000,000	Pension expense (by function)		5,000,000	Pension expense (by function)		1,000,000	(18,000,000)
ENTRY 4 (a)									
Changes in net pension liability current year:			*Changes in net pension liability current year:*			*Changes in net pension liability current year:*			
Deferred outflows - actuarial	3,533,333		Deferred outflows - actuarial	1,472,222		Deferred outflows - actuarial	294,444		5,300,000
Pension expense (by function)	13,966,667		Pension expense (by function)	5,819,444		Pension expense (by function)	1,163,889		20,950,000
Net pension liability		16,666,667	Net pension liability		6,944,444	Net pension liability		1,388,889	(25,000,000)
Deferred inflows - actuarial		833,333	Deferred inflows - actuarial		347,222	Deferred inflows - actuarial		69,444	(1,250,000)
ENTRY 5 (b)									
Changes in the deferred ouflows and deferred inflows (amortization):			Changes in the deferred ouflows and deferred inflows (amortization):			Changes in the deferred ouflows and deferred inflows (amortization):			
Deferred Inflows - actuarial	166,667		Deferred Inflows - actuarial	69,444		Deferred Inflows - actuarial	13,889		250,000
Pension expense (by function)	783,333		Pension expense (by function)	326,389		Pension expense (by function)	65,278		1,175,000
Deferred outflows - actuarial		950,000	Deferred outflows - actuarial		395,833	Deferred outflows - actuarial		79,167	(1,425,000)
									-

Keep in mind that when preparing the government-wide financial statements, the amounts associated with internal service funds will typically be combined with the amounts shown above for government-wide (governmental activities).

Ending balance of deferred outflows	21,875,000
Ending balance of deferred inflows	(1,000,000)
Pension expense 2015 financials	22,125,000

(a) See Exhibit B
(b) See Exhibit G

Exhibit B

Schedule Prepared by Actuary
Prepared for City of Example, an Agent Multiple-Employer Defined Benefit Pension Plan
Miscellaneous and Public Safety Plans Combined
As of June 30, 2014
CHANGES IN NET PENSION LIABILITY (JULY 1, 2013 - JUNE 30, 2014)

	Miscellaneous Plan			Public Safety Plan - Proportionate Share (.20%)			Total Combined Plans				
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)		
Balance at June 30, 2013	$ 150,000,000	$ 60,000,000	$ 90,000,000	$ 100,000,000	$ 40,000,000	$ 60,000,000	$ 250,000,000	$ 100,000,000	$ 150,000,000	Entry 1	
Changes in the year:											
Service Cost incurred	7,200,000	-	7,200,000	4,800,000	-	4,800,000	12,000,000	-	12,000,000	Entry 4	Pension expense
Interest on total pension liability	11,250,000	-	11,250,000	7,500,000	-	7,500,000	18,750,000	-	18,750,000	Entry 4	Pension expense
Differences between actual and expected	2,460,000	-	2,460,000	1,640,000	-	1,640,000	4,100,000	-	4,100,000	Entry 4	Deferred outflows
Change in assumption	720,000	-	720,000	480,000	-	480,000	1,200,000	-	1,200,000	Entry 4	Deferred outflows
Change in benefits	6,570,000	-	6,570,000	4,380,000	-	4,380,000	10,950,000	-	10,950,000	Entry 4	Pension expense
Contribution - employer	-	9,000,000	(9,000,000)	-	6,000,000	(6,000,000)		15,000,000	(15,000,000)	Entry 2	Deferred outflows
Contribution - employee	-	1,000,000	(1,000,000)	-	1,000,000	(1,000,000)		2,000,000	(2,000,000)	Entry 4	Pension expense
Projected Earnings on Investments **	-	11,250,000	(11,250,000)	-	7,500,000	(7,500,000)	-	18,750,000	(18,750,000)	Entry 4	Pension expense
Differences between projected and actual earnings on plan investments **	-	750,000	(750,000)	-	500,000	(500,000)	-	1,250,000	(1,250,000)	Entry 4	Deferred inflows
Benefit payments	(300,000)	(300,000)	-	(200,000)	(200,000)	-	(500,000)	(500,000)	-	Entry 4	Pension expense
Current Year Net changes:	**27,900,000**	**21,700,000**	**6,200,000**	**18,600,000**	**14,800,000**	**3,800,000**	46,500,000	36,500,000	10,000,000		
Balance at June 30, 2014	$ 177,900,000	$ 81,700,000	$ 96,200,000	$ 118,600,000	$ 54,800,000	$ 63,800,000	$ 296,500,000	$ 136,500,000	$ 160,000,000		

Entry 1:	$ 150,000,000
Entry 2:	(15,000,000)
Entry 4:	25,000,000
Total:	$ 160,000,000

** These will be totaled and identified as "Net Investment Earnings" in the RSI and Note Disclosures. See examples in this white paper.

Exhibit C - 1

Schedule Prepared by Actuary

Prepared for City of Example, an **Agent Multiple-Employer**Defined Benefit Pension Plan

As of June 30, 2014

DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE

Year	Differences between Expected and Actual Experience	Recognition period (Years)	2014	2015	2016	2017	2018	Thereafter
2013	-	-	-	-	-	-	-	-
2014*	2,460,000	4	615,000	615,000	615,000	615,000	-	-
Net Increase (decrease) in pension expense			$ 615,000	$ 615,000	$ 615,000	$ 615,000	$ -	$ -

Exhibit C - 2

Schedule Prepared by Actuary

Prepared for City of Example, an **Cost-Sharing-Employer** Defined Benefit Pension Plan

As of June 30, 2014

DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE

Year	Differences between Expected and Actual Experience	Recognition period (Years)	2014	2015	2016	2017	2018	Thereafter
2013	-	-	-	-	-	-	-	-
2014*	1,640,000	4	410,000	410,000	410,000	410,000	-	-
Net Increase (decrease) in pension expense			$ 410,000	$ 410,000	$ 410,000	$ 410,000	$ -	$ -

Exhibit C - 3

Schedule Prepared by Local Government

Prepared for City of Example, **Total** of both plans

As of June 30, 2014

DIFFERENCES BETWEEN EXPECTED AND ACTUAL EXPERIENCE

Year	Differences between Expected and Actual Experience	Recognition period (Years)	2014	2015	2016	2017	2018	Thereafter
2013	-	-	-	-	-	-	-	-
2014*	4,100,000	4	1,025,000	1,025,000	1,025,000	1,025,000	-	-
Net Increase (decrease) in pension expense			$ 1,025,000	$ 1,025,000	$ 1,025,000	$ 1,025,000	$ -	$ -

* - implemented GASB 68 in fiscal year ending June 30, 2015, with a measurement date of June 30, 2014.

*Notes: Deferred Inflows and Outflows of Resources **should not** be netted.*

Schedule Prepared by Actuary
Prepared for City of Example, an **Agent Multiple-Employer** Defined Benefit Pension Plan
As of June 30, 2014

Exhibit D - 1

DIFFERENCES BETWEEN EXPECTED AND ACTUAL EARNINGS ON PENSION PLAN INVESTMENTS

Year	Differences between Expected and Actual Experience	Recognition period (Years)	2014	2015	2016	2017	2018	Thereafter
2013	-	0	-	-	-	-	-	-
2014*	(750,000)	5	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)	-
Net Increase (decrease) in pension expense			$ (150,000)	$ (150,000)	$ (150,000)	$ (150,000)	$ (150,000)	$ -

Schedule Prepared by Actuary
Prepared for City of Example, an **Cost-Sharing-Employer** Defined Benefit Pension Plan
As of June 30, 2014

Exhibit D - 2

DIFFERENCES BETWEEN EXPECTED AND ACTUAL EARNINGS ON PENSION PLAN INVESTMENTS

Year	Differences between Expected and Actual Experience	Recognition period (Years)	2014	2015	2016	2017	2018	Thereafter
2013	-	0	-	-	-	-	-	-
2014*	(500,000)	5	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	-
Net Increase (decrease) in pension expense			$ (100,000)	$ (100,000)	$ (100,000)	$ (100,000)	$ (100,000)	$ -

Schedule Prepared by Local Government
Prepared for City of Example, **Total** of both plans
As of June 30, 2014

Exhibit D - 3

DIFFERENCES BETWEEN EXPECTED AND ACTUAL EARNINGS ON PENSION PLAN INVESTMENTS

Year	Differences between Expected and Actual Experience	Recognition period (Years)	2014	2015	2016	2017	2018	Thereafter
2013	-	0	-	-	-	-	-	-
2014*	(1,250,000)	5	(250,000)	(250,000)	(250,000)	(250,000)	(250,000)	-
Net Increase (decrease) in pension expense			$ (250,000)	$ (250,000)	$ (250,000)	$ (250,000)	$ (250,000)	$ -

* - implemented GASB 68 in fiscal year ending June 30, 2015, with a measurement date of June 30, 2014.
Notes: Deferred Inflows and Outflows of Resources ***should be*** *netted.*

Schedule Prepared by Actuary

Prepared for City of Example, an **Agent Multiple-Employer** Defined Benefit Pension Plan

As of June 30, 2014

Exhibit E - 1

CHANGES OF ASSUMPTIONS

Year	Changes of Assumptions	Recognition period (Years)	2014	2015	2016	2017	2018	Thereafter
2013	-	0	-	-	-	-	-	-
2014*	720,000	3	240,000	240,000	240,000	-	-	-
Net Increase (decrease) in pension expense			$ 240,000	$ 240,000	$ 240,000	$ -	$ -	$ -

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Schedule Prepared by Actuary

Prepared for City of Example, an **Cost-Sharing-Employer** Defined Benefit Pension Plan

As of June 30, 2014

Exhibit E - 2

CHANGES OF ASSUMPTIONS

Year	Changes of Assumptions	Recognition period (Years)	2014	2015	2016	2017	2018	Thereafter
2013	-	0	-	-	-	-	-	-
2014*	480,000	3	160,000	160,000	160,000	-	-	-
Net Increase (decrease) in pension expense			$ 160,000	$ 160,000	$ 160,000	$ -	$ -	$ -

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Schedule Prepared by Local Government

Prepared for City of Example, **Total** of both plans

As of June 30, 2014

Exhibit E - 3

CHANGES OF ASSUMPTIONS

Year	Changes of Assumptions	Recognition period (Years)	2014	2015	2016	2017	2018	Thereafter
2013	-	0	-	-	-	-	-	-
2014*	1,200,000	3	400,000	400,000	400,000	-	-	-
Net Increase (decrease) in pension expense			$ 400,000	$ 400,000	$ 400,000	$ -	$ -	$ -

* - implemented GASB 68 in fiscal year ending June 30, 2015, with a measurement date of June 30, 2014.

Notes: Deferred Inflows and Outflows of Resources ***should not*** *be netted.*

Schedule Prepared by Actuary

Prepared for City of Example, an **Agent Multiple-Employer** Defined Benefit Pension Plan

As of June 30, 2014

Exhibit F - 1

SUMMARY OF RECOGNIZED DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

	2014	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Deferred Inflows:						
Differences between expected and actual earnings on pension plan investments	(150,000)	(150,000)	(150,000)	(150,000)	(150,000)	-
Deferred Outflows:						
Differences between Expected and Actual Experience	615,000	615,000	615,000	615,000	-	-
Changes of Assumptions	240,000	240,000	240,000	-	-	-
				-	-	-
Net Increase (decrease) in pension expense	$ 705,000	$ 705,000	$ 705,000	$ 465,000	$ (150,000)	$ -

Schedule Prepared by Actuary

Prepared for City of Example, an **Cost-Sharing-Employer** Defined Benefit Pension Plan

As of June 30, 2014

Exhibit F - 2

SUMMARY OF RECOGNIZED DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

	2014	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Deferred Inflows:						
Differences between expected and actual earnings on pension plan investments	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	-
Deferred Outflows:						
Differences between Expected and Actual Experience	410,000	410,000	410,000	410,000	-	-
Changes of Assumptions	160,000	160,000	160,000	-	-	-
				-	-	-
Net Increase (decrease) in pension expense	$ 470,000	$ 470,000	$ 470,000	$ 310,000	$ (100,000)	$ -

Schedule Prepared by Local Government

Prepared for City of Example, **Total** of both plans

As of June 30, 2014

Exhibit F - 3

SUMMARY OF RECOGNIZED DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

	2014	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Deferred Inflows:						
Differences between expected and actual earnings on pension plan investments	(250,000)	(250,000)	(250,000)	(250,000)	(250,000)	-
Deferred Outflows:						
Differences between Expected and Actual Experience	1,025,000	1,025,000	1,025,000	1,025,000	-	-
Changes of Assumptions	400,000	400,000	400,000	-	-	-
Net Increase (decrease) in pension expense	$ 1,175,000	$ 1,175,000	$ 1,175,000	$ 775,000	$ (250,000)	$ -

* - implemented GASB 68 in fiscal year ending June 30, 2015, with a measurement date of June 30, 2014.

Exhibit G - 1

Schedule Prepared by Actuary

Prepared for City of Example, an **Agent Multiple-Employer** Defined Benefit Pension Plan

As of June 30, 2014

PENSION EXPENSE FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Description	Amount		
Service Cost incurred	7,200,000	Entry 4	Pension expense
Interest on total pension liability	11,250,000	Entry 4	Pension expense
Employee paid contribution	(1,000,000)	Entry 4	Pension expense
Differences between actual and expected	615,000	Entry 5	Deferred outflows
Change in assumption	240,000	Entry 5	Deferred outflows
Change in benefits	6,570,000	Entry 4	Pension expense
Projected earnings on investments	(11,250,000)	Entry 4	Pension expense
Differences between projected and actual earnings on plan investments	(150,000)	Entry 5	Deferred inflows
Total Pension Expense:	13,475,000		

Exhibit G - 2

Schedule Prepared by Actuary

Prepared for City of Example, an **Cost-Sharing-Employer** Defined Benefit Pension Plan

As of June 30, 2014

PENSION EXPENSE FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Description	Amount		
Service Cost incurred	4,800,000	Entry 4	Pension expense
Interest on total pension liability	7,500,000	Entry 4	Pension expense
Employee paid contribution	(1,000,000)	Entry 4	Pension expense
Differences between actual and expected	410,000	Entry 5	Deferred outflows
Change in assumption	160,000	Entry 5	Deferred outflows
Change in benefits	4,380,000	Entry 4	Pension expense
Projected earnings on investments	(7,500,000)	Entry 4	Pension expense
Differences between projected and actual earnings on plan investments	(100,000)	Entry 5	Deferred inflows
Total Pension Expense:	8,650,000		

Exhibit G - 3

Schedule Prepared by Local Government

Prepared for City of Example, **Total** of both plans

As of June 30, 2014

PENSION EXPENSE FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Description	Amount		
Service Cost incurred	12,000,000	Entry 4	Pension expense
Interest on total pension liability	18,750,000	Entry 4	Pension expense
Employee paid contribution	(2,000,000)	Entry 4	Pension expense
Differences between actual and expected	1,025,000	Entry 5	Deferred outflows
Change in assumption	400,000	Entry 5	Deferred outflows
Change in benefits	10,950,000	Entry 4	Pension expense
Projected earnings on investments	(18,750,000)	Entry 4	Pension expense
Differences between projected and actual earnings on plan investments	(250,000)	Entry 5	Deferred inflows
Total Pension Expense:	22,125,000		

IV. Financial Reporting Examples

A. Example Note Disclosures

In this section, we have provided two example note disclosures as follows:

- Single Employer and Agent-Multiple Employer Plans
- Cost Sharing Employer Plans

We have used CalPERS agent-multiple employer and cost sharing Plans in the example disclosures, but some local governments have established a single-employer pension plan for their primary pension benefit in lieu of participation in CalPERS or other regional trusts, such as those provided by a County Retirement System. The note disclosures can easily be customized for those Plans. In addition, the examples were developed using early draft information from CalPERS that is still being developed and finalized, and the Local Government should use caution when developing its own note disclosures to ensure they reflect the correct information.

If a single-employer pension plan is included in the financial reporting entity of the Local Government as a pension trust fund or as a fiduciary component unit, information in the note disclosure should be presented in a manner that avoids unnecessary duplication between the Pension Plan and Employer disclosures.

We have assumed in both examples that the measurement date is one year prior to the Local Government's fiscal year end. Certain Plans may provide information with a measurement date that is the same as the Local Government's fiscal year end, such as a single-employer plan, and the disclosures should be modified accordingly.

If the Local Government has special funding situations, as defined in Statement 68, allocated insurance contracts, or revenue from non-employer contributing entities, additional disclosures should be included as detailed in Statement 68.

The example note disclosures assume that discretely presented component units do not participate in the primary government's pension plan(s) and would have separate note disclosures. If the discretely presented component units do participate in the primary government's pension plan(s), the tables in the note disclosures should include separate columns for the discrete component unit information.

Finally, these disclosures are examples that have been populated with the data from *Section III - Accounting Entries,* and even if the Local Government participates in CalPERS Plans, the disclosures must be updated, revised and customized to the Local Government's specific Plans and arrangements.

SINGLE EMPLOYER AND AGENT-MULTIPLE EMPLOYER PLANS
(Using CalPERS Plans as an Example)

Summary of Significant Accounting Policies

Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Government of Example's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note XX – Pension Plans

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the Local Government's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. [*If the benefit terms included ad hoc or other postemployment benefit changes, information should be disclosed about assumptions related to those changes, as required by paragraph 40b of Statement 68*]

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8%	X.XX%
Required employer contribution rates	XX.XXX%	X.XX%
	Safety	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 57
Monthly benefits, as a % of eligible compensation	3.0%	2.0% to 2.7%
Required employee contribution rates	9%	XX.XX%
Required employer contribution rates	XX.XXX%	XX.XX%

[*Benefit Formulas and Contribution Rates above are examples only. The specific Plan Provisions should be customized and any additional benefit tiers should be disclosed.*]

Employees Covered – At June 30, 2015, the following employees were covered by the benefit terms for each Plan:

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	0	0
Inactive employees entitled to but not yet receiving benefits	0	0
Active employees	0	0
Total	0	0

[*If the Plan is closed to new entrants, disclosure should be included, as required by paragraph 40b of Statement 68.*]

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Local Government is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

[*If the amount of contributions to the pension plan(s) required to be disclosed by paragraph 40d of Statement 68 differed from the amount of contributions to the pension plan(s) required to be disclosed by paragraph 44b(6) of Statement 68, in the schedule of changes in the net pension liability, the contribution amount information should be disclosed as required by paragraph 40d of Statement 68*]

B. Net Pension Liability

The Local Government's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.5%	7.5%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	XXX	XXX
(1) Depending on age, service and type of employment		
(2) Net of pension plan investment expenses, including inflation		

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website .

[*If the benefit terms included ad hoc postemployment benefit changes, including ad hoc COLAs, or if different rates/assumptions apply for different periods, the information should be disclosed about assumptions related to those changes, as required by paragraph 41 of Statement 68*]

[*Changes in benefit terms that affected the total pension liability since the prior measurement date should be disclosed, as required by paragraph 45d of Statement 68*]

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website. [*If there was a change in the discount rate since the prior measurement date, information about the change should be disclosed, as required by paragraph 42a of Statement 68, and if the discount rate incorporates a municipal bond rate, the municipal bond rate used and source of that rate should be disclosed as required by paragraph 42d of Statement 68. In addition, the local government should ensure that the discount rate disclosure above and below reflects the basis disclosed in the accounting valuation received from the Plan Administrator.*]

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses. [*Insert separate tables if they differ for each Plan. Modify disclosure if expected rates of return are presented as arithmetic means, as required by paragraph 42f of Statement 68, and if the discount rate incorporates a municipal bond rate, the municipal bond rate used and source of that rate should be disclosed as required by paragraph 42d of Statement 68*]

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

C. Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan follows:

Miscellaneous Plan:	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2014	$150,000,000	$60,000,000	$90,000,000
Changes in the year:			
Service cost	7,200,000		7,200,000
Interest on the total pension liability	11,250,000		11,250,000
Differences between actual and expected experience	2,460,000		2,460,000
Changes in assumptions	720,000		720,000
Changes in benefit terms	6,570,000		6,570,000
Contribution - employer		6,000,000	(6,000,000)
Contribution - employee (paid by employer)		3,000,000	(3,000,000)
Contribution - employee		1,000,000	(1,000,000)
Net investment income		12,000,000	(12,000,000)
Administrative expenses		(xxxx)	(xxxx)
Benefit payments, including refunds of employee contributions	(300,000)	(300,000)	0
Net changes	27,900,000	21,700,000	6,200,000
Balance at June 30, 2015	$177,900,000	$81,700,000	$96,200,000

Safety Plan:			
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2014	$xxx,xxx,xxx	$xx,xxx,xxx	$xx,xxx,xxx
Changes in the year:			
Service cost	x,xxx,xxx		x,xxx,xxx
Interest on the total pension liability	x,xxx,xxx		x,xxx,xxx
Differences between actual and expected experience	x,xxx,xxx		x,xxx,xxx
Changes in assumptions	xxx,xxx		xxx,xxx
Changes in benefit terms	x,xxx,xxx		x,xxx,xxx
Contribution - employer		x,xxx,xxx	x,xxx,xxx
Contribution - employee (paid by employer)		x,xxx,xxx	x,xxx,xxx
Contribution - employee		x,xxx,xxx	x,xxx,xxx
Net investment income		x,xxx,xxx	x,xxx,xxx
Administrative expenses		(xxxx)	(xxxx)
Benefit payments, including refunds of employee contributions	(xxx,xxx)	(xxx,xxx)	(xxx,xxx)
Net changes	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Balance at June 30, 2015	$xxx,xxx,xxx	$xx,xxx,xxx	$xx,xxx,xxx

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Local Government for each Plan, calculated using the discount rate for each Plan, as well as what the Local Government's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.50%	6.50%
Net Pension Liability	$xxx,xxx,xxx	$xxx,xxx,xxx
Current Discount Rate	7.50%	7.50%
Net Pension Liability	$96,200,000	$xx,xxx,xxx
1% Increase	8.50%	8.50%
Net Pension Liability	$xxx,xxx,xxx	$xxx,xxx,xxx

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. [*If significant changes have occurred that indicate that the disclosures included in the pension plan's financial report generally did not reflect the facts and circumstances at the measurement date, additional information should be disclosed, as required by paragraph 43 of Statement 68.*]

D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Local Government recognized pension expense of $13,475,000. At June 30, 2015, the Local Government reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$10,800,000	
Differences between actual and expected experience	1,845,000	
Changes in assumptions	480,000	
Net differences between projected and actual earnings on plan investments		($600,000)
Total	$13,125,000	($600,000)

$10,800,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	$705,000
2017	705,000
2018	465,000
2019	(150,000)
2020	
Thereafter	

E. Payable to the Pension Plan

At June 30, 2015, the Local Government reported a payable of $_____ for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015. [*Discuss any other liabilities, if applicable*]

COST-SHARING EMPLOYER PLANS
(Using CalPERS Plans as an Example)

Summary of Significant Accounting Policies

Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Government of Example's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note XX – Pension Plans

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the Local Government's separate Safety (police and fire) and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. [*If the benefit terms included ad hoc or other postemployment benefit changes, information should be disclosed about those terms, as required by paragraph 76b of Statement 68*]

[*If the Plan is closed to new entrants, disclosure should be included, as required by paragraph 76b of Statement 68.***]**

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8%	X.XX%
Required employer contribution rates	XX.XXX%	X.XX%
	Safety	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 57
Monthly benefits, as a % of eligible compensation	3.0%	2.0% to 2.7%
Required employee contribution rates	9%	XX.XX%
Required employer contribution rates	XX.XXX%	XX.XX%

[*Benefit Formulas and Contribution Rates above are examples only. The specific Plan Provisions should be customized and any additional benefit tiers should be disclosed.*]

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Local Government is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Miscellaneous	Safety
Contributions - employer	$x,xxx,xxx	$4,000,000
Contributions - employee (paid by employer)	x,xxx,xxx	2,000,000

B. *Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*

As of June 30, 2015, the Local Government reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$xx,xxx,xxx
Safety	63,800,000
Total Net Pension Liability	$63,800,000

The Local Government's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The Local Government's proportion of the net pension liability was based on a projection of the Local Government's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Local Government's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous	Safety
Proportion - June 30, 2013	X%	0.20%
Proportion - June 30, 2014	X%	0.20%
Change - Increase (Decrease)	X%	0.00%

[*If there was a change in benefit terms that affected the measurement of the total pension liability since the prior measurement date, information should be disclosed, as required by paragraph 80e of Statement 68*]

[*If changes expected to have a significant effect on the measurement of the net pension liability had occurred between the measurement date and the reporting date, information should be disclosed, as required by paragraph 80f of Statement 68*]

For the year ended June 30, 2015, the Local Government recognized pension expense of $8,650,000. At June 30, 2015, the Local Government reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$7,200,000	
Differences between actual and expected experience	1,230,000	
Changes in assumptions	320,000	
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	xxx,xxx	
Net differences between projected and actual earnings on plan investments		($400,000)
Total	$8,750,000	($400,000)

$7,200,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	$470,000
2017	470,000
2018	310,000
2019	(100,000)
2020	
Thereafter	

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.5%	7.5%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.3% - 14.2% (1)	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	XXX	XXX

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.
[*If the benefit terms included ad hoc postemployment benefit changes, the information should be disclosed about assumptions related to those changes, as required by paragraph 77 of Statement 68*]

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website. [*If there was a change in the discount rate since the prior measurement date, information about the change should be disclosed, as required by paragraph 78a of Statement 68, and if the discount rate incorporates a municipal bond rate, the municipal bond rate used and source of that rate should be disclosed as required by paragraph 77d of Statement 68. In addition, the local government should ensure that the discount rate disclosure above and below reflects the basis disclosed in the accounting valuation received from the Plan Administrator.*]

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses. [*Insert separate tables if they differ for each Plan. Modify disclosure if expected rates of return are presented as arithmetic means, as required by paragraph 78e of Statement 68, and if the discount rate incorporates a municipal bond rate, the municipal bond rate used and source of that rate should be disclosed as required by paragraph 77d of Statement 68*]

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Local Government's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the Local Government's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.50%	6.50%
Net Pension Liability	$xxx,xxx,xxx	$xxx,xxx,xxx
Current Discount Rate	7.50%	7.50%
Net Pension Liability	$xx,xxx,xxx	$63,800,000
1% Increase	8.50%	8.50%
Net Pension Liability	$xxx,xxx,xxx	$xxx,xxx,xxx

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. [*If significant changes have occurred that indicate that the disclosures included in the pension plan's financial report generally did not reflect the facts and circumstances at the measurement date, additional information should be disclosed, as required by paragraph 79 of Statement 68.*]

E. Payable to the Pension Plan

At June 30, 2015, the Local Government reported a payable of $_____ for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015. [*Discuss any other liabilities, if applicable, as required by paragraph 122 of Statement 68*]

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

•The beginning and ending balances of the total pension liability, the plan assets available for pension benefits (called plan net position), and the net pension liability, as well as the change in those amounts during the year presented by cause (similar to the note disclosure)

•Total pension liability, plan net position, net pension liability, a ratio of plan net position divided by the total pension liability, the payroll amount for current employees in the plan (covered-employee payroll), and a ratio of the net pension liability divided by covered-employee payroll

SCHEDULE OF CONTRIBUTIONS

•If an agent employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the agent employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

Prepared for City of Example, an Agent Multiple-Employer Defined Benefit Pension Plan
As of June 30, 2015
Last 10 Years*

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

		2015
Total Pension Liability		
Service Cost	$	7,200,000
Interest on total pension liability		11,250,000
Differences between expected and actual experience		2,460,000
Changes in assumptions		720,000
Changes in benefits		6,570,000
Benefit payments, including refunds of employee contributions		(300,000)
Net change in total pension liability		27,900,000
Total pension liability - beginning		150,000,000
Total pension liability - ending (a)	$	177,900,000
Plan fiduciary net position		
Contributions - employer	$	9,000,000
Contributions - employee		1,000,000
Net investment income		12,000,000
Benefit payments		(300,000)
Net change in plan fiduciary net position		21,700,000
Plan fiduciary net position - beginning		60,000,000
Plan fiduciary net position - ending (b)	$	81,700,000
Net pension liability - ending (a)-(b)	$	96,200,000
Plan fiduciary net position as a percentage of the total pension liability		45.92%
Covered - employee payroll	$	48,871,506
Net pension liability as percentage of covered-employee payroll		196.84%

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Single and Agent Employers Example

Prepared for City of Example, an Agent Multiple-Employer Defined Benefit Pension Plan
As of June 30, 2015
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

		2015
Actuarially determined contribution	$	10,800,000
Contributions in relation to the actuarially determined contributions		10,800,000
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	50,871,408
Contributions as a percentage of covered-employee payroll		21.23%

Notes to Schedule

Valuation date:	6/30/2013

Methods and assumptions used to determine contribution rates:

Single and Agent Employers Example	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increases	4.5%, average, including inflation of 3.0%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Retirement age	67 yrs.
Mortality	RP-2000 Healthy Annuitant Mortality Table

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Cost Sharing Plan Example

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure)
- The proportionate share (amount) of the collective net pension liability
- The employer's covered-employee payroll
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
- The pension plan's fiduciary net position as a percentage of the total pension liability

SCHEDULE OF CONTRIBUTIONS

- If an employer’s contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer’s actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer’s actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

Cost Sharing Plan Example

Prepared for City of Example, an Cost Sharing Defined Benefit Pension Plan
As of June 30, 2015
Last 10 Years*

SCHEDULE OF THE LOCAL GOVERNMENT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2015
Proportion of the net pension liability	0.20%
Proportionate share of the net pension liability	$63,800,000
Covered - employee payroll	$32,714,365
Proportionate Share of the net pension liability as percentage of covered-employee payroll	195.02%
Plan's fiduciary net position	$54,800,000
Plan fiduciary net position as a percentage of the total pension liability	85.89%

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

Cost Sharing Plan Example

Prepared for City of Example, a Cost Share Plan Defined Benefit Pension Plan
As of June 30, 2015
Last 10 Years*
SCHEDULE OF CONTRIBUTIONS

		2015
Contractually required contribution (actuarially determined)	$	7,200,000
Contributions in relation to the actuarially determined contributions		7,200,000
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	33,914,272
Contributions as a percentage of covered-employee payroll		21.23%

Notes to Schedule

Valuation date:	6/30/2013

Methods and assumptions used to determine contribution rates:

Single and Agent Employers Example	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increases	4.5%, average, including inflation of 3.0%
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Retirement age	57 yrs.
Mortality	RP-2000 Healthy Annuitant Mortality Table

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

APPENDIX A

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SUMMARY OF STATEMENT NO. 68
ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS—AN AMENDMENT OF GASB STATEMENT NO. 27
(ISSUED 06/12)

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 67, *Financial Reporting for Pension Plans,* revises existing standards of financial reporting for most pension plans. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

Defined Benefit Pensions

This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30

months and 1 day prior to the employer's most recent year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total pension liability and related measures set forth by this Statement are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on the benefit terms and legal agreements existing at the measurement date and to incorporate the effects of projected salary changes (if the pension formula incorporates future compensation levels) and service credits (if the pension formula incorporates periods of service), as well as projected automatic postemployment benefit changes, including automatic cost-of-living-adjustments (COLAs). Projections also are required to include the effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

Single and Agent Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.

The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position.

This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. Projected earnings on the pension plan's investments also are required to be included in the determination of pension expense immediately.

The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

Financial Statements Prepared Using the Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting

In governmental fund financial statements, a net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

Notes to Financial Statements

The Statement requires that notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also should disclose the following information:

- For the current year, sources of changes in the net pension liability
- Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies
- The date of the actuarial valuation used to determine the total pension liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the pension plan, and information about the purchase of allocated insurance contracts, if any.

Required Supplementary Information

This Statement requires single and agent employers to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

- Sources of changes in the net pension liability
- The components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

If the contributions of a single or agent employer are actuarially determined, the employer should present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. If the contributions of a single or agent employer are not actuarially determined but are established in statute or by contract, the employer should present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the pension plan, and related ratios.

Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, should be presented as notes to required supplementary information. In addition, the employer should explain factors that significantly affect trends in the amounts reported in the schedules, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

Cost-Sharing Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective

net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees). The portions of the effects not recognized in the employer's pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.

In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net pension liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

This Statement requires that notes to financial statements of cost-sharing employers include descriptive information about the pension plans through which the pensions are provided. Cost-sharing employers should identify the discount rate and assumptions made in the measurement of their proportionate shares of net pension liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also should disclose information about how their contributions to the pension plan are determined.

This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net pension liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios.

Defined Contribution Pensions

An employer whose employees are provided with defined contribution pensions is required to recognize pension expense for the amount of contributions to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. A change in the pension liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to a defined contribution pension plan. In governmental fund financial statements, pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to a pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. A pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Notes to financial statements of an employer with a defined contribution plan should include descriptive information about the pension plan and benefit terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

Special Funding Situations

In this Statement, special funding situations are defined as circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either (1) the amount of contributions for which the nonemployer entity legally is responsible is not dependent upon one or more events unrelated to pensions or (2) the nonemployer is the only entity with a legal obligation to make contributions directly to a pension plan.

This Statement requires an employer that has a special funding situation for defined benefit pensions to recognize a pension liability and deferred outflows of resources and deferred inflows of resources related to pensions with adjustments for the involvement of nonemployer contributing entities. The employer is required to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the nonemployer contributing entities. This Statement requires the employer to disclose in notes to financial statements information about the amount of support provided by nonemployer contributing entities and to present similar information about the involvement of those entities in 10-year schedules of required supplementary information.

The approach required by this Statement for measurement and recognition of liabilities, deferred outflows of resources and deferred inflows of resources, and expense by a governmental nonemployer contributing entity in a special funding situation for defined benefit pensions is similar to the approach required for cost-sharing employers.

The information that should be disclosed in notes to financial statements and presented in required supplementary information of a governmental nonemployer contributing entity in a special funding situation depends on the proportion of the collective net pension liability that it recognizes. If the governmental nonemployer contributing entity recognizes a substantial proportion of the collective net pension liability, it should disclose in notes to financial statements a description of the pensions, including the types of benefits provided and the employees covered, and the discount rate and assumptions made in the measurement of the net pension liability. The governmental nonemployer contributing entity also should present schedules of required supplementary information similar to those required of a cost-sharing employer. Reduced note disclosures and required supplementary information are required for governmental nonemployer contributing entities that recognize a less-than-substantial portion of the collective net pension liability.

This Statement also establishes requirements related to special funding situations for defined contribution pensions.

Effective Date and Transition

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of pension measurements.
- Explanations of how and why the net pension liability changed from year to year will improve transparency.
- The summary net pension liability information, including ratios, will offer an indication of the extent to which the total pension liability is covered by resources held by the pension plan.
- The contribution schedules will provide measures to evaluate decisions related to the assessment of contribution rates—in comparison to actuarially, statutorily, or contractually determined rates, when such rates are determined. It also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with those contribution rates.

The consistency and transparency of the information reported by employers and governmental nonemployer contributing entities about pension transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the pension plan's fiduciary net position associated with the pensions of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the pension 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
- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations
- Immediate recognition in pension expense, rather than a choice of recognition periods, of the effects of changes of benefit terms and the effects of projected pension plan investment earnings
- Recognition of pension expense that incorporates deferred outflows of resources and deferred inflows of resources related to pensions over a defined, closed period, rather than a choice between an open or closed period.

The comparability of reported pension information also will be improved by the changes related to the attribution method used to determine service cost and the total pension liability, requirements for immediate recognition in pension expense of certain items, and the establishment of standardized expense recognition periods for amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 5 and 6 discuss the applicability of this Statement.