



GASB 67/68

Implications for County Finances

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www.slge.org

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National Association of Counties

Three Sets of Pension Numbers

1. Books - accounting (GASB) – balance sheet
2. Bonds – (ratings agencies)
3. Budgets - funding (government) – the annual required contribution (ARC)

Books: GASB's new accounting standards

- Use blended rate to discount liabilities
- Market valuation of assets
- **No longer address how to calculate the annual required contribution**
- Use the Entry Age Normal cost method
- If you are in a multiemployer cost-sharing plan, **you must report the proportional share of pension liability on your balance sheet**

Be prepared

- The “smoothing” period for investment losses/gains is limited to 5 years
- Unfunded liabilities must be amortized over the “average remaining service life” of pension plan members.
- **Get to know your actuaries well!**

Timeline for GASB Reporting

- GASB Statement No. 67, Financial Reporting for Pension Plans: Effective for pension plan fiscal years beginning after June 15, 2013
- GASB Statement No. 68, Accounting and Reporting for Pensions: Effective for **employers** (and contributing nonemployer) for fiscal years beginning after June 15, 2014

GASB's New Net Pension Liability

- **New calculation to report** on government financial statements (even if ARC fully paid)
- **Net pension liability** = the difference between the market value of pension fund assets and benefit obligations as of a specific date
- **More volatility** to be expected due to fluctuations in annual market value of assets
- Many plans can expect this new calculation of unfunded liabilities to be larger than current GASB measures (Unfunded Actuarial Accrued Liabilities)

A typical pension plan earning 7.75%

YEAR	OLD GASB	NEW GASB MARKET ASSETS	NEW GASB MARKET ASSETS COMBINED RATE
2013	74.6%	78.8%	N/A
2014	76.9	80.6	69.5%
2015	79.1	82.1	70.9
2016	81.2	83.4	71.9

Source: "The Funding of State and Local Pensions: 2012-2016," Center for State and Local Government Excellence, June 2013. Calculations by Alicia Munnell, Jean-Pierre Aubry, Josh Hurwitt, and Madeline Medenica, Center for Retirement Research at Boston College.

Budgets and pension funding

- Key: Calculate and contribute what is needed each year to properly fund benefits
- Actuaries calculate the Annual Required Contribution (ARC)
- New GASB standards no longer address how to calculate the ARC
- New standards refer to an actuarially determined contribution or a statutory contribution
- Follow the Pension Funding Task Force recommendations

What is the ARC?

According to GASB, the ARC is the payment required to keep the plan on a steady path toward full funding.

ARC = Normal cost (the present value of the benefit accrued each year)

+ a payment to amortize the unfunded liability (typically has been over a 30-year period)

Each year the plan sponsor reports what percentage of the ARC the employer actually paid.

Why the national associations are concerned

- No more guidance on funding standards
- Media and public focus on pension funding – dueling numbers
- Public officials need a credible, consistent approach
- In a vacuum, much mischief can occur

Putting pension funding issues into perspective

- We've fixed funding problems in the past – “pay as you go” was common in the 1970s
- GASB disclosure requirements (1986) stimulated better funding
- Most plans were fully funded by 2000
- The last decade hit pension plans hard -- two recessions and more retirees to support
- In 2012, only 33 percent of plans were over 80% funded
- Average funded ratio in 2012 was 72%

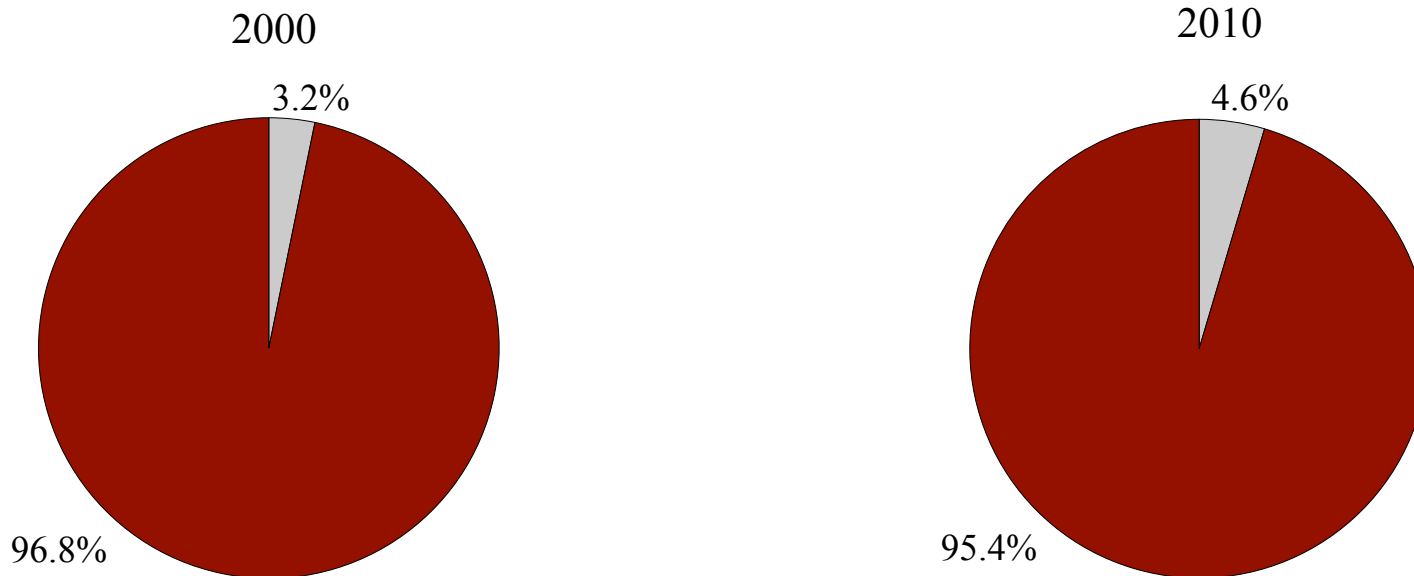
Poll Question

In the aggregate, what percentage of budget were pension costs in 2010?

- A. 4-5 percent
- B. 5-6 percent
- C. 7-8 percent
- D. 9-10 percent
- E. 11-12 percent

Pension costs = 4.6 percent of state/local budgets in 2010

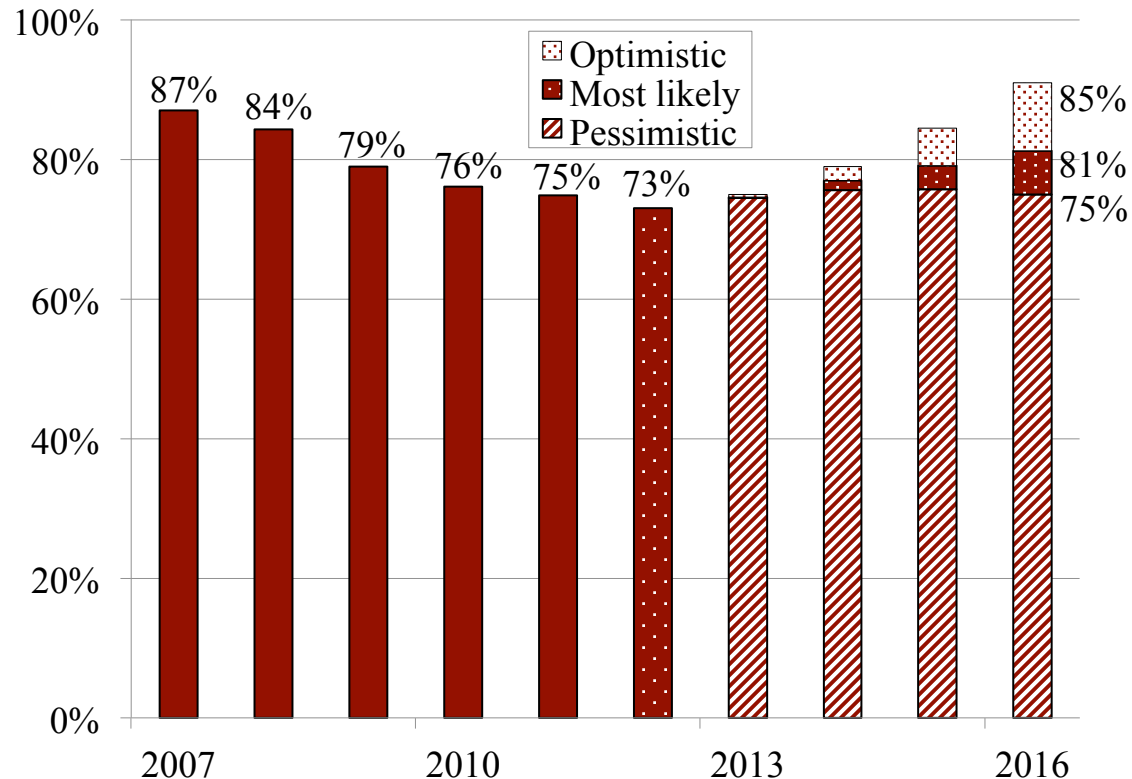
Pension Costs as a Percentage of State and Local Own-Source Revenues



Sources: U.S. Census Bureau. 2005-2006. *Employee-Retirement Systems of State and Local Governments*; and U.S. Census Bureau. 2000 and 2010. *State and Local Government Finances*.

Absent a new crisis, funding should stabilize and the budget burden remain modest.

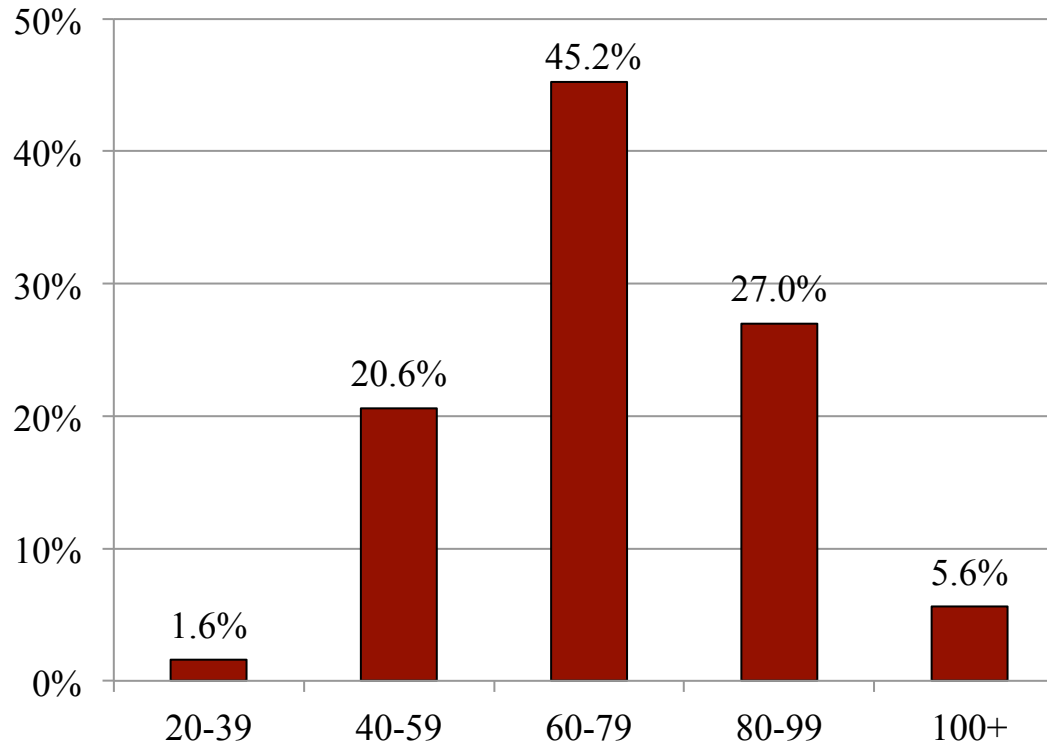
Projected State and Local Funded Ratios under Three Scenarios, 2012-2016



Sources: *The Funding of State and Local Pensions: 2012-2016*, June 2013. Alicia Munnell, Boston College, projections for 2013-2016; 2012 actuarial valuations; and *Public Plans Database, 2007-2011*. Center for State and Local Government Excellence and Center for Retirement Research at Boston College

But aggregate numbers hide enormous variation in the public sector.

Distribution of Funded Ratios for Public Plans, 2012



Source: The Funding of State and Local Pensions: 2012-2016, Center for State and Local Government Excellence and the Center for Retirement Research at Boston College, June 2013.

Why pension headaches won't go away



- Plan sponsors paid 80% of ARC in 2012, same level as 2011; liabilities will grow in those places
- We're now on our own to calculate annual funding requirements
- Life expectancy increasing
- Rolling amortization periods a problem
- Confusion over new calculations

Pension Funding Task Force

- Released recommendations in 2013
- Guidance consistent with actuarial and financial community
- Plain English
- **Who?** Convened by the Center for State and Local Government Excellence
- **Members:** NACo, NLC, ICMA, USCM, GFOA, NGA, NCSL, CSG, NASRA, NCTR, & NASACT



What are the recommendations?



Pension funding policy objectives

1. Base pension funding policy on actuarially determined ARC
2. Be disciplined about funding so that promised benefits can be paid
3. Maintain intergenerational equity
4. Manage employer costs so they are a consistent percentage of payroll
5. Have clear reporting that shows how and when plans will be fully funded.

Have a Pension Funding Policy that addresses these core elements:

- Amortization policy
 - e.g., 25 years, closed
- Actuarial cost method
 - e.g., Entry Age Normal (GASB requires)
- Asset smoothing method
 - e.g., a maximum 5-year smoothing period
 - gains and losses subject to same treatment



**Have a credible plan – and
communicate!**



What to do?

- Get a funding plan
- Identify any changes you need to make
- Agree on a transition plan (over how many years will you phase in changes)
- Make sure your funding policy complies with actuarial standards
- Secure an actuarially determined contribution (ADC) so you can budget
- Accumulate funding reserves

Lessons Learned

- Keep recruitment and retention in mind when making changes
- Ask the plan administrator and actuary for an annual briefing
- Use long range forecasting models
- Consider hiring your own actuary
- Keep employees and the public fully informed; post actuarial reports online

Resources

1. *Pension Funding: Guide for Elected Officials*
(Report from the Pension Funding Task Force)
2. *Understanding New Public Pension Funding Guidelines and Calculations*
(“Books, Bonds, Budgets” one pager)
3. *2014 Facts: State and Municipal Bankruptcy, Municipal Bonds, State and Local Pensions*
4. <http://slge.org> for more research

Resources

1. *Pension Funding: Guide for Elected Officials*
(Pension Funding Task Force Report)

<http://www.naco.org/newsroom/countynews/Current%20Issue/4-8-2013/Pages/Pension-funding-guide-for-state,-local-governments-now-available.aspx>

2. *Understanding New Public Pension Funding Guidelines and Calculations*
(“Books, Bonds, Budgets” one pager)

3. *2014 Facts: State and Municipal Bankruptcy, Municipal Bonds, State and Local Pensions*

<http://www.naco.org/legislation/policies/Documents/Finance%20and%20Intergovernment%20Affairs/2014%20Facts%20FINAL.pdf>

4. <http://slge.org> for more research