GASB 67/68 Update

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Today's presenters

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GASBS 67 and 68, Accounting and Financial Reporting for Pensions and Plans

- Statements issued in June 2012
- GASBS 67 – Plans
  - Effective for fiscal years beginning after June 15, 2013
- GASBS 68 – Employers
  - Effective for fiscal years beginning after June 15, 2014
- Standards address:
  - Changes in governmental accounting and financial reporting, principally the introduction of accrual-based government-wide financial statements
  - A perceived need among the users of governmental financial reports for comparable information about pensions
  - The continuing development of GASB concepts regarding what constitutes a liability and an outflow of resources

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GASBS 67 and 68, Accounting and Financial Reporting for Pensions and Plans

GASB Statement	Amends
GASB Statement No. 67, *Financial Reporting for Pension Plans*	An amendment of GASB Statement No. 25
GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*	An amendment of GASB Statement No. 27

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GASBS 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*

- Establishes financial reporting standards for pension plans of SLGs
  - Defined benefit and defined contribution plans
    - Administered through trusts or equivalent arrangements, in which:
      1. Contributions are irrevocable
      2. Assets are dedicated to providing pension benefits
      3. Plan assets are legally protected from the creditors of:
         a. Employers
         b. Nonemployer contributing entities
         c. Plan administrators

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GASBS 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*

- Distinctions are made regarding the particular requirements depending on the type of pension plan administered

Single-employer pension plans	Those in which pensions are provided to the employees of only one employer
Agent multiple-employer pension plans (agent pension plans)	Those 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 multiple-employer pension plans (cost-sharing pension plans)	Those 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

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Defined Benefit Plans (DBPs)

- DBPs should present the following financial statements prepared on accrual basis
  - Statement of fiduciary net position
    - Assets
    - Deferred outflows
    - Liabilities
    - Deferred inflows
    - Fiduciary net position
  - Statement of changes in fiduciary net position
    - Additions
    - Deductions
    - Net increase (decrease) in fiduciary net position

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DBPs – Additional Reporting Considerations

- Notes to financial statements
  - Plan description
  - Plan investments
  - Receivables
  - Allocated insurance contracts excluded from plan assets
  - Reserves
  - Deferred retirement option (DROP) balances
  - Additional disclosures (see next slide) specific to
    - Single-employer plans
    - Cost-sharing plans

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DBPs – Additional Reporting Considerations

- The portion of the actuarial present value of projected benefit payments to be provided through the pension plan to current active and inactive plan members that is attributed to those members' past periods of service (the total pension liability), the pension plan's fiduciary net position, the net pension liability, and the pension plan's fiduciary net position as a percentage of the total 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 cost-of-living adjustments [COLAs]), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies.

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DBPs – Additional Reporting Considerations

- Required supplementary information (RSI) for single employer and cost-sharing plans
  - 10 year schedule of changes in the net pension liability
  - 10 year schedule of the following for each year
    - Total pension liability
    - Plan's fiduciary net position
    - Net pension liability
    - Plan's fiduciary net position as a percent of total pension liability
    - Covered employee payroll
    - Net pension liability as a percent of covered employee payroll
  - The requirements above may be presented in one schedule

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DBPs – Additional Reporting Considerations

- Required supplementary information (RSI) for single employer and cost sharing plans
  - 10 year schedule of actuarial determined information (if an actuarially determined contribution is calculated for employers or nonemployer contributing entities)
  - 10 year schedule of annual money-weighted rate of return on pension plan investments

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DBPs – Additional Reporting Considerations

- RSI prospective (except contribution schedule, if presented), if information not initially available
- Annual money-weighted rate of return (1 year in notes; 10 years in RSI)
- Notes for single-employer and cost-sharing pension plans
  - Components of NPL & net position as % of TPL (1 year)
  - Assumptions used to measure TPL

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GASBS 67 Net Pension Liability

- Measurement of the DBP's net pension liability
  - Detailed considerations relative to the measurement of the net pension liability (NPL); paragraphs 36-46
  - The net pension liability should be measured as of the pension plan's most recent fiscal year-end.

Net Pension Liability =
Total Pension Liability, less
Pension plan's fiduciary net position

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GASBS 67 Total Pension Liability

- Total pension liability
  - The portion of the actuarial present value of projected benefit payments that is attributed to past periods of plan member

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GASBS 67 Total Pension Liability, continued

- Timing and frequency
  - The total pension liability should be determined by (a) an actuarial valuation as of the pension plan's most recent fiscal year-end or (b) the use of update procedures to roll forward to the pension plan's most recent fiscal year-end amounts from an actuarial valuation as of a date no more than 24 months earlier than the pension plan's most recent fiscal year-end.

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GASBS 67 Total Pension Liability, continued

- Selection of assumptions
  - The selection of all assumptions used in determining the total pension liability should be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board
  - The pension plan, employers, and, if any, governmental nonemployer contributing entities that make contributions to the pension plan should use the same assumptions when measuring similar or related pension information.
    - Projection of benefit payments
    - Discount rate
    - Attribution of the actuarial present value of projected benefit payments to periods - **entry age actuarial cost method**

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GASBS 67 Also Addresses

- Defined contribution pension plan reporting
  - Required disclosures

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GASBS 67 Effective Date and Transition

- This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.
- In the first period that this Statement is applied, changes made to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated.
- If restatement is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated.

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GASBS 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*

- Establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans (as defined earlier)
- **Focus is on accounting and reporting by employers for pension plans addressed in GASBS 67**

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GASBS 68, Scope and Applicability

- Defined benefit and defined contribution pensions provided through trusts that meet the following criteria:
  - Employer/nonemployer contributions irrevocable
  - Plan assets dedicated to providing pensions
  - Plan assets legally protected from creditors
- Excludes all OPEB
- Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to a pension plan
  - Special funding situations
  - Other circumstances

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GASBS 68, Basic Considerations

- Defined benefit pensions originate from exchanges between the employer and employees resulting from employee services and are part of the total compensation for employee services
- Obligations for pensions meet the definition of a liability in Concepts Statement 4
- Compensation expense should be recognized in the period employee services are provided

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GASBS 68, GASB's Fundamental Approach

- View the cost of pensions within the context of an ongoing, career-long employment relationship
- Use an accounting-based versus funding-based approach to measurement
- Produce measures of the employer's obligation to employees and the current period cost to taxpayers of providing governmental services

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GASBS 68, Key GASB Conclusions

- An employer is primarily responsible for the unfunded pension obligation resulting from an employment exchange
- The difference between the total pension liability and the plan net position would be *reported as a net pension liability in the financial statements of the government*

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GASBS 68 – Major Accounting Change

- A government employer will report in its financial statements a net pension liability for DBPs equal to the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits to current employees, retirees, and their beneficiaries

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GASBS 68 – Another Major Accounting Change

- A government participating in a cost-sharing DBP will report a liability in its own financial statements that is equivalent to its long-term proportionate share of the collective net pension liability
  - Approach uses a basis for allocation of proportionate share based on the employer's expected contribution effort relative to that of all contributors

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GASBS 68 – Accounting Change Summary

- Revises recognition, measurement, disclosure requirements for all employers
  - Liability
    - Measured net of pension plan's fiduciary net position
    - Fully recognized in accrual-basis financial statements
  - Changes in the liability
    - Some recognized as expense in the period of the change
    - Others recognized as deferred outflows/inflows of resources with expense recognized over defined future periods

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GASBS 68 – Yet Another Major Accounting Change

- Special funding situations for DBPs
  - Under certain conditions both governmental nonemployer contributing entities and governmental employers will recognize a proportionate share of the collective net pension liability

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GASBS 68 – Defined Benefit Pensions

- Two potential liabilities
  1. Liability to the pension plan (payables)
  - Short-term amounts
    - Example—contributions payable at FYE
  - Long-term amounts
    - Example—installment contract for individual past service liability upon joining a cost-sharing plan
    - Formerly referred to as "pension-related debt"

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GASBS 68 – Defined Benefit Pensions

- Two potential liabilities
  2. Liability to employees for pensions
  - "Net pension liability" (NPL)
    - Total pension liability (TPL), net of pension plan's fiduciary net position
      1. TPL = actuarial present value of projected benefit payments attributed to past periods
      2. Fiduciary net position as measured by pension plan
    - "Collective NPL" = NPL for all benefits provided through cost-sharing pension plan
  - Single/agent employers recognize 100 percent of NPL
  - Cost-sharing employers recognize proportionate shares of collective NPL

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GASBS 68 – Three Step Approach for Measurement DBPs

- Determine projected benefit payments
- Discount future payments to determine present value of payments
- Attribute PV of payment to employee periods of service

Selection of all actuarial assumptions should be made in accordance with Actuarial Standards of Practice (with consideration of specific guidance provided by the GASB).

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GASBS 68 – Actuarial Considerations DBPs

- Methods and assumptions
  - Generally, assumptions in conformity with Actuarial Standards of Practice
  - Fewer alternatives than in GASBS 27 for methods and assumptions for GAAP reporting purposes
  - No changes required to actuarial methods and assumptions used to determine funding amounts

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GASBS 68 – Actuarial Considerations DBPs

- Benefit projections
  - The projection of pension benefit payments should include the effects of projected future salary increases and future service credits, if part of the benefits formula, as well as automatic COLAs
  - Ad hoc COLAs would be incorporated into projections of pension benefit payments only if an employer's practice indicates that the COLAs are substantively automatic

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GASBS 68 – Actuarial Considerations DBPs, continued

- Discount rate
  - Should be a single rate that reflects:
    - The long-term expected rate of return (LTeRoR) on plan investments to the extent that
      1. Plan net position is projected to be sufficient to make benefit payments that are projected to occur in the period, and
      2. Assets are projected to be invested using a long-term investment strategy
    - 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.

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GASBS 68 – Actuarial Considerations DBPs, continued

- Discount rate—sufficiency of projected plan net position for use of LTeRoR:
  - Includes:
    - Employer contributions for current and former employees
    - Contributions from current employees
    - Projected investment earnings on projected plan net position
    - Projected benefit payments and administrative expenses
  - Does not include:
    - Employer contributions for service costs of future employees
    - Contributions of future employees, unless expected to exceed their own service cost

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GASBS 68 – Actuarial Considerations DBPs, continued

- Discount rate—sufficiency of projected plan net position for use of LTeRoR:
  - Projections of employer contributions
    - Apply professional judgment if amounts established by statute, contract, or formal written policy
      1. Consider most recent 5-year contribution history
      2. Reflect all known events and conditions
    - In other circumstances, projected contributions limited to average over most recent 5 years
      1. May be modified by consideration of subsequent events
      2. Basis for average determined through professional judgment

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GASBS 68 – Actuarial Considerations DBPs, continued

- Determining the single rate
  - Compare projected benefit payments to plan's projected fiduciary net position in each period
  - Apply relevant rate to each period's projected benefit payments
  - Total the present values of all projected benefit payments
  - Calculate single discount rate that results in same present value (if applied to all projected benefit payments) as use of the two rates

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GASBS 68 – Net Pension Liability (NPL)

NPL: Measurement—attribution

- Single method
  - Entry age actuarial cost method
  - Level percentage of pay
- Individually applied
- Beginning = 1st period of benefit accrual
- Ending = Expected retirement
  - DROPs—entry date into DROP = retirement date
- Same benefit terms to determine service cost as to determine actuarial present value of projected benefit payments

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GASBS 68 – Net Pension Liability (NPL), continued

Plan net assets

- In calculating the employer's net pension liability, plan net position should be measured in the same way as measured in the plan's statement of plan net position, including measurement of investments at fair value.

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GASBS 68 – Net Pension Liability (NPL), continued

Changes in NPL

- Calculated from measurement date to measurement date ("measurement period")

NPL recognized in current reporting period
<u>(NPL recognized in prior reporting period)</u>
Change in NPL for current reporting period

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GASBS 68 – Net Pension Liability (NPL), continued

Changes in NPL

- Recognize most changes as expense in full in reporting period of change
  - Examples: service cost, interest on TPL, effects of benefit changes, projected earnings on pension plan investments
- Exceptions:
  - Differences between expected and actual experience (TPL)
  - Changes of assumptions (TPL)
  - Difference between projected and actual earnings on pension plan investments
  - Employer contributions

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GASBS 68 – Net Pension Liability (NPL), continued

Changes in NPL – TPL exceptions

- Expense recognized in current and future periods
  - Systematic and rational method
  - Closed period
  - Average of expected remaining service lives of all employees (active and inactive, including retirees)
- Portion not recognized in expense = deferred outflow of resources/deferred inflow of resources related to pensions

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GASBS 68 – Net Pension Liability (NPL), continued

Changes in NPL – Investment earnings exception

- Expense recognized in current and future periods
  - Systematic and rational method
  - Closed, 5-year period
- Portion not recognized in expense = deferred outflow of resources/deferred inflow of resources related to pensions
- Report net deferred outflow of resources/deferred inflow of resources from this source

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GASBS 68 – Cost-Sharing Employers, Additional Considerations

- Calculation of the employer's proportionate shares
  - Collective measure x proportion
- Potentially three items
  - Net effect of change in proportion
  - Difference between:
    - Employer's proportionate share of all employer contributions included in collective plan net position
    - Contributions recognized by the employer in the measurement period
  - Employer's contributions subsequent to measurement date

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GASBS 68 – Cost-Sharing Employers, Additional Considerations, continued

- Expense impact of changes in proportion and contribution-related differences
  - In current and future periods
  - Systematic/rational method
  - Closed period = average of expected remaining service lives (actives and retirees)
- Employer contributions subsequent to measurement date
  - Deferred outflow of resources in current period
  - Reduction of collective NPL in next period (part of comparison of actual contributions to share of collective contributions)

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GASBS 68 – Expense Recognition DBPs

- Immediate
  - Pension benefits earned during the reporting period (service cost or normal cost)
  - Interest cost on the total pension liability
  - Changes in benefit terms that affect the total pension liability
- Deferred
  - Expense would be deferred and recognized over a period equal to the average remaining service periods of active and inactive (including retirees) employees for:
    - Differences between expected and actual changes in economic and demographic factors
    - Changes in assumptions about economic and demographic factors
  - Differences between actual and projected earnings on plan investments would be deferred and recognized as pension expense over a five-year, closed period

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GASBS 68 – Involvement of nonemployer contributing entities

- Statement addresses those with legal requirement to contribute *directly to* the pension plan
  - Special funding situations
    - Contribution amount not dependent upon events unrelated to pensions OR nonemployer is only entity with legal obligation to contribute
    - Employer(s) and nonemployer contributing entity apply cost-sharing measurement to collective NPL, expense, and deferred outflows/deferred inflows of resources
      - Nonemployer expense classified in same manner as similar grants to other entities
    - Employer recognizes additional expense and revenue equal to nonemployer contributing entity's proportionate share of collective expense (portion related to the employer)

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GASBS 68 – Involvement of nonemployer contributing entities

- Statement addresses those with legal requirement to contribute *directly to* the pension plan (cont.)
  - Not special funding
    - Employer
      - Follows applicable requirements for single, agent, or cost-sharing employer
      - Recognizes revenue equal to change in NPL from contributions from nonemployer contributing entities
    - Nonemployer entity classifies expense for contributions in same manner as similar grants to other entities

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GASBS 68 – Actuarial Considerations DBPs, continued

- Timing and frequency of measurement
  - Recognize a net pension liability that is measured as of a date (the measurement date) no earlier than the *end of its prior fiscal year, consistently applied from period to period*
  - Total pension liability component of the net pension liability at the measurement date is determined either by
    - An actuarial valuation as of that date or
    - The use of update procedures to roll forward amounts to the measurement date from an actuarial valuation as of a date no more than 30 months (plus 1 day) prior to the fiscal year-end
  - A single or agent employer should be required to obtain, for financial reporting purposes, actuarial valuations at least biennially
    - More frequent valuations are encouraged

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GASBS 68 – Measurement/Timing

- Potentially 3 different dates
  - FYE
  - Measurement date (of NPL)
    - As of date no earlier than end of prior fiscal year
    - Both components (TPL/plan net position) as of the same date
  - Actuarial valuation date (of TPL)
    - If not measurement date, as of date no more than 30 months (+1 day) prior to FYE
    - Actuarial valuations at least every 2 years (more frequent valuations encouraged)
- Coordination with pension plan is crucial

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GASBS 68 – Disclosures

- General information
  - Name of the plan through which benefits are provided
  - Identification of the public employee retirement system or other entity that administers the plan
  - Identification of the plan
  - A brief description of the benefit provisions
  - The number of employees covered by the plan
  - Whether the pension plan issues a stand-alone financial report, or is included in the report of a public employee retirement system or another entity, and, if so, how to obtain the report

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GASBS 68 – Disclosures DBPs

- Actuarial information
  - Assumptions used in measurement (Inflation, salary changes, postemployment benefit changes, mortality assumptions, dates of experience studies)
  - Discount rate
    - Assumptions
    - Expected rate of return
    - Municipal bond rate (if applicable)
    - Sensitivity analysis

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GASBS 68 – Disclosures DBPs

- Info re: pension plan's fiduciary net position or reference to plan report
- Measurement date, actuarial valuation date
- Changes of assumptions/other inputs and changes of benefit terms
- Changes subsequent to measurement date
- Pension expense in current reporting period
- Deferred outflows/deferred inflows of resources
  - Balances by source
  - Net impact on pension expense in each of the next 5 years and thereafter in the aggregate
  - Amount that will be reduction of NPL

GASBS 68 – Disclosures DBPs

- Single/agent only
  - Number of employees covered—inactive receiving benefits, inactive not receiving benefits, active
  - Allocated insurance contracts
  - Schedule of changes in NPL by source for current period
    - Service cost, interest, benefit changes, contributions by source, plan investment income, etc.
    - If special funding situation:
      - Amounts in schedule for collective NPL
      - Nonemployer contributing entity's proportionate share (amount) of collective NPL
      - Employer's proportionate share of collective NPL

GASBS 68 – Disclosures DBPs

- Cost-sharing only
  - Employer's proportion, basis for proportion, change in proportion
  - Employer's proportionate share (amount) of collective NPL
    - If special funding situation:
      - Nonemployer contributing entity's proportionate share
      - Total of employer's and nonemployer entity's proportionate shares

GASBS 68 – RSI for Single/Agent Employers

- 10-year schedules
  - Changes in NPL by source
  - TPL, pension plan fiduciary net position, NPL, plan net position as % of TPL, covered-employee payroll, NPL as % of covered-employee payroll
    - May be presented with changes in NPL by source
  - If actuarially determined employer contribution (ADEC)
    - ADEC, contributions in relation to the ADEC, difference, covered-employee payroll, contributions as % of covered-employee payroll
  - If no ADEC, but statutory or contractual contribution requirements, schedule similar to ADEC schedule
- Notes to RSI with methods and assumptions for ADEC and significant changes

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GASBS 68 – RSI for Cost-Sharing Employers

- 10-year schedules
  - Employer's proportion (%), proportionate share (amount) of collective NPL, covered-employee payroll, proportionate share as % of covered-employee payroll, pension plan's net position as % of TPL
    - If special funding situation, also (1) nonemployer contributing entity's proportionate share and (2) total of employer's and nonemployer entity's proportionate shares
  - If statutory or contractual contribution requirements
    - Required contribution, contributions in relation to required, difference, covered-employee payroll, contributions as % of covered-employee payroll
- Notes to RSI with significant changes

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GASBS 68 – Defined Contribution Plans

- Pension expense for amounts defined by benefit terms as attributable to the reporting period
  - Net of forfeited amounts removed from employee accounts
- Liability for difference between pension expense and contributions
- Note disclosures
  - Descriptive information about plan, benefit terms, contribution rates, amount of expense, amount of forfeitures, amount of liability
- Nonemployer contributing entities with legal requirements to contribute directly to pension plan also addressed

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GASBS 68 – Effective Date and Transition

- Fiscal years beginning after June 15, 2014. Earlier application is encouraged.
- To the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods, and financial statements presented for the periods affected should be restated.
- Beginning deferred outflows/deferred inflows of resources balances all or nothing at initial implementation
- RSI schedules prospective if information not initially available

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GASBS 68 – Summary of Key Issues

- The following amounts will be required to be determined related to a defined-benefit pension plan as of ***a date (measurement date) no earlier than the end of the employer's prior fiscal year***:
  - Net pension liability (asset)
  - Pension expense
  - Pension deferred outflows of resources and deferred inflows of resources
- Employers participating in single-employer or agent multiple-employer plans will recognize 100 percent of the above amounts for each plan
- Employers participating in cost-sharing, multiple-employer plans will recognize their *proportionate share of the collective amounts for the plan as a whole*

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GASBS 68 – Summary of Key Issues, continued

- Net pension liability represents total pension liability less the fiduciary net position of the pension plan
- Changes in net pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on nature of change
- Approach results in reporting of pension liability and expense as employees earn their pension benefits by providing services instead of being based on funding requirements
- No significant changes to accounting for pensions in governmental funds

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GASBS 68 – Summary of Key Issues, continued

- Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes:
  - Entry Age Normal is the only allowable actuarial cost method
  - Projected benefit payments should include effects of ad-hoc COLAs considered substantially automatic
  - A single blended rate should be used to discount projected future benefit payments, based on:
    - The long-term expected rate of return on plan investments (net of investment expenses) that are expected to be used to finance the payment of pension benefits to the extent that the 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; *and*
    - A yield or index rate for ***20-year***, tax-exempt general obligation (municipal) bonds with average rating of AA or higher, to the extent that the conditions above are not met (GAQC Guidance)
  - The actuarial methods and assumptions allowable under current standards may continue to be used to determine funding amounts
- Note disclosures and required supplementary information related to pensions are expanded

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GASBS 68 – Summary of Key Issues, continued

- Note disclosures and required supplementary information:
  - Similar to nature of disclosures for employers with the addition of information on investment policies and actual rates of return on plan assets
  - Certain information only required for single-employer and cost-sharing plans
  - No actuarial-related disclosures for agent multiple-employer plans
- Requirements regarding the measurement of net pension liability (asset) are similar to the requirements for employers:
  - Net pension liability (asset) not recognized by pension plans

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GASBS 68 – Audit Considerations

- Coordination of efforts and clear division of responsibility between auditor, auditee, and actuary.
  - Consider nonaudit services and the impact of GAS
- Coordination and communication when participating in cost sharing plans and special funding situations.
- Impact of new group audits clarity standard when other (component) auditors are responsible for plans

Implementation of the new standards will be costly

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Suggested Action Items

- Determine the type of plan you have (single, agent, cost sharing) and read the appropriate sections of GASB 68 that pertain to your situation. Be sure to review the illustrations in Appendix C.
- Determine if there are any legal requirements to contribute certain actuarially determined amounts to your plan(s). If there are, discuss with your actuary to determine if there are any efficiencies (cost reductions) by engaging a single actuary to prepare all the needed calculations.
- Determine the measurement date you plan to use, and discuss it with your actuary. If the actuarial valuation can be performed as of the measurement date, a roll-forward of the actuary's calculation will not be necessary. This should be a simple matter for most single employer plans, but is not as simple for multiple employer plans.

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Suggested Action Items, continued

- Plan net position is an important component of the net pension liability. Be sure to consider the expected issuance date of plan financial statements when selecting your measurement date.
- If you are in a multiple employer plan, try to arrange a meeting of all the employers involved (and the plan's administrator). Discuss the timing and frequency of the actuarial valuation and how (and when) information will be disseminated to each employer. For cost sharing plans, determine the method to be used for calculating proportionate shares. If the AV date is before the measurement date, discuss how an individual employer can obtain sufficient detail to enable an independent roll-forward of the calculation (unless this will be provided by the administrator).

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Suggested Action Items, continued

- If the measurement date and actuarial valuation date will not coincide, determine who will perform the necessary roll-forward. This calculation is a significant estimate, and major changes since the original valuation date could have a material impact on the calculation. Your auditor may be unable (or unwilling) to perform this work. Consider you will need to engage another actuary to update the original valuation.
- Meet with officials of the Plan. Assumptions used for plan reporting and employer reporting have to be the same. Agreeing to the assumptions in advance will help eliminate inconsistencies and should reduce the need for your actuaries to re-calculate data.
- Cost sharing plan participants – make sure you understand the contribution requirements as they will significantly impact the "proportionate share" of the liability you will record. Determine how frequently the cost sharing allocations will be reviewed and the manner in which this will take place. Identify and communicate any concerns early in the process.

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Suggested Action Items, continued

- Meet with your governing body. Discuss the requirements of the new standard, the expected impact on net position, the significant assumptions selected by management, and discuss the level of involvement of other entities (other governments, plan administrators, etc.). In situations in which there may not be a corroborative spirit between management of your entity and management of the plan or other entities, it may be necessary to get members of your governing body to intervene.
- Be informed about the impacts of underfunding. A significantly underfunded plan will not go un-noticed by the rating agencies and certain other users of your financial statements. Be prepared to discuss the impact this may have with your governing body. A rating decrease will likely increase your borrowing rate and could make debt issuances less affordable.
- If you are responsible for engaging the actuary, meet with them early and make sure they are aware of the requirements of the new standards (both 67 and 68). Determine what they will need from you in order to perform a timely and accurate actuarial valuation. Discuss deadlines, both on your end and theirs.

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Suggested Action Items, continued

- Meet with your auditors. Discuss your plan for implementing this standard and ask for feedback. Find out what the auditor will require in terms of documentation and support. Provide information about the actuary to be engaged and what you know of their qualifications and professional reputation. Involving the actuary in this meeting would be beneficial. Consider allowing your auditor to evaluate the significant assumptions you plan to use, particularly the long-term rate of return on investments, before the actuary finalizes the calculation.
- In addition to the requirements of this standard, there are also new audit standards pertaining to group audits. If your auditor will not be auditing the Plan, determine with your auditor, in advance, what communication and interaction they need to have with the plan auditors (and plan management).
- Draft the new footnotes and RSI. This will likely take a sizeable investment of your time. If you will be asking your auditors (or independent consultants) to prepare this information, discuss what information they will need, the timing of the work, the assistance they can seek from the actuary, and any other concerns pertaining to these non-audit services.

McGladrey 67

For more information

We suggest all preparers read and become familiar with the text of both GASB Standards

We suggest you be on-the-lookout for GASB implementation guidance (Statement 67 guidance released June 2013; Statement 68 guidance tentatively scheduled for Q1 2014)

We suggest you read the McGladrey's Whitepaper *GASB Statement No. 68, Accounting and Financial Reporting for Pensions - A Summary of the Changes and Recommended Implementation Steps*
http://mcgladrey.com/Government-Entities/GASB-Statement-No-68-Accounting-and-Financial-Reporting-for-Pensions

McGladrey 68

McGladrey

69