GASB Update

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Background

- In June 2012, the GASB approved two new accounting and reporting standards for pensions provided by state and local governments
  - GASB Statement 67, *Financial Reporting for Pension Plans,* amends Statements 25 and 50
  - GASB Statement 68, *Accounting and Reporting for Pensions,* amends Statements 27 and 50

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What has GASB done?

- The Statements change current pension accounting and financial reporting standards for state and local governments
  - Disconnect pension accounting from pension funding
    - This was very deliberate
  - Require employers to recognize the Net Pension Liability (NPL) on their balance sheets ***(where NPL is code for the Unfunded Accrued Liability based on Market Value of Assets)***
  - Require employers to recognize a new measure of the Pension Expense (PE) on their income statements, which would be different from their actuarially determined contributions (ARC)
  - Replace most of the current note disclosures and required supplementary information with information based on the new measures

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Summary of Key Changes

- Under the GASB's current standards, there is a close link between the accounting and funding measures. Under the new statements, the two are disconnected:

	Funding Purposes	Accounting Purposes
Discount Rate	Long-term rate of investment return	Long-term investment return and potentially a municipal bond rate
Asset Valuation	May be smoothed	Fair (market) value
Amortization	Considerable flexibility	Strict requirements and likely shorter periods
Actuarial Cost Method	Considerable flexibility	Traditional entry age normal

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Big Picture

- There will be a ***liability*** on the books that is larger than ever seen
  - This will be a "bumpy" liability; changing each year with a new blended discount rate and change in market value of assets
- There will be an ***expense*** on the books that is larger than ever seen
- **The changes only impact the accounting rules**

Timing

- GASB 67 Plan Reporting
  - Effective for fiscal years beginning after June 15, 2013
  - For WRS, 2014 calendar year financial statements
- GASB 68 Employer Reporting
  - Effective for fiscal years beginning after June 15, 2014
  - For the WRS employers, will depend on employers fiscal year
- Many systems want to see what numbers would look like if they adopted now to help prepare themselves

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Preliminary Results - December 31, 2011

$ Millions

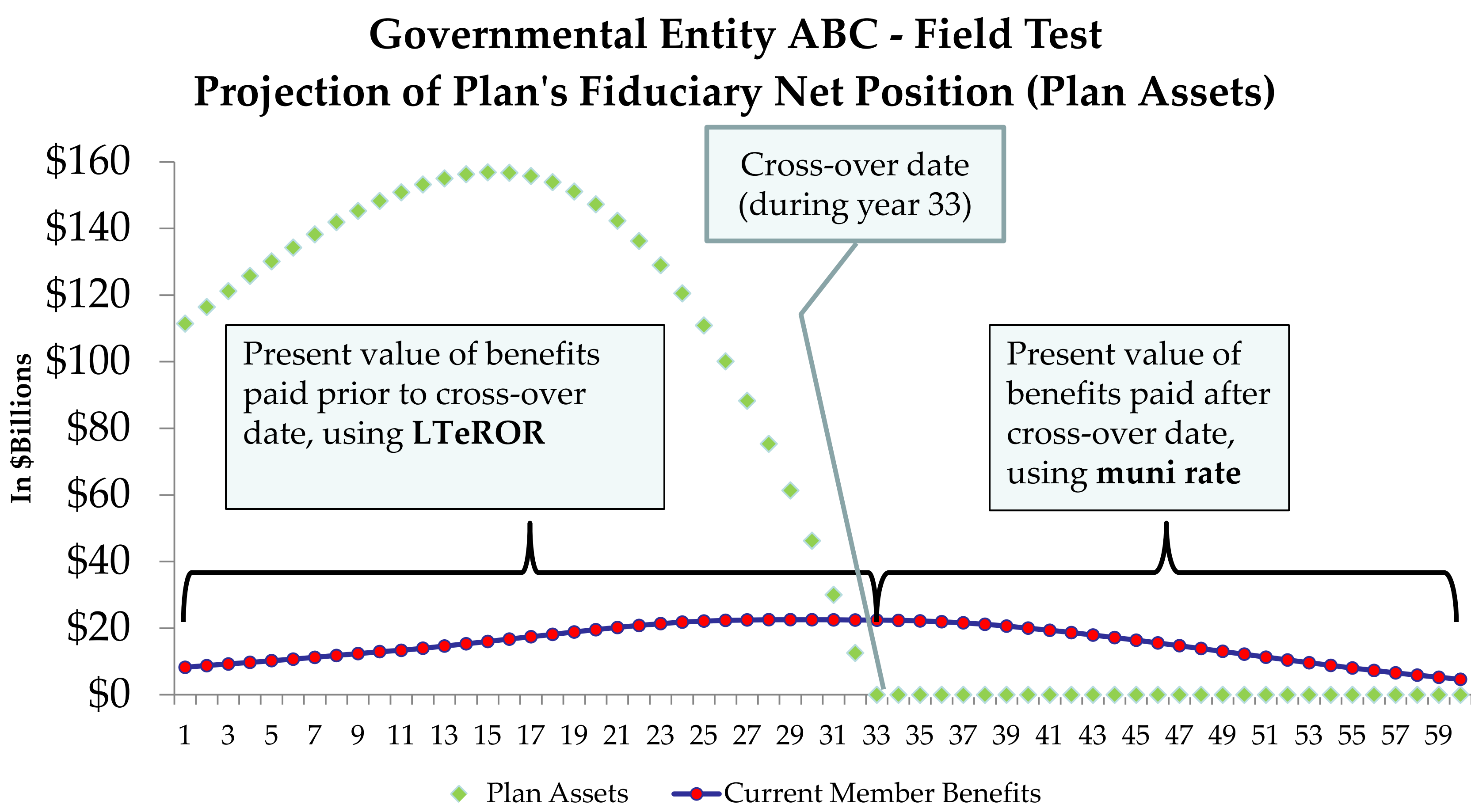
	Old Standard	New Standard (Est.)
Liability	$ 79,039.3	$ 79,707.4
Assets	78,940.0	73,908.0
Funded Percent	99.9%	92.7%
Unfunded Liablity/NPL	**99.3**	**5,799.4**
ARC/Expense	**784.1**	**1,573.1**

Results under New Standard based on 7.2% assumed discount rate
Long term discount rate of 7.2% will need to be confirmed with projections

Single Discount Rate

- The NPL is similar to the unfunded actuarial accrued liability (UAAL) that many state and local governments use for funding purposes
- However, a key difference is the "Single Discount Rate" which is:
  - ► <u>Based on the long-term expected investment return</u> to the extent projected plan fiduciary net position (assets) is sufficient to pay future benefits; and
  - ► <u>Based on a tax-exempt municipal bond index rate</u> to the extent projected plan fiduciary net position (assets) is not sufficient to pay future benefits

Illustration



Using a 4% muni rate – The blended discount rate in this example would be approximately 6.00%

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Single Discount Rate

- Analysis is based on 100 year cash flow projections under ‘static’ closed group assumptions
- WRS is a very fluid system with many inter-related moving parts
- Could produce unexpected results even for well-funded systems
- WRS liabilities are not as sensitive to changes in discount rate as most retirement systems due to cost-sharing features

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Allocation to Employers

- Cost sharing systems like WRS must allocate Net Pension Liability and Expense to each employer
- Example below bases allocation on payroll

	Payroll	Allocation %	NPL	Expense
Large Employer	$ 1,730,810,196	13.5813472%	$ 787,635,712	$ 213,654,711
Small Employer	12,454	0.0000977%	5,667	1,537
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Total	**12,744,024,319**	**1.0000000**	**5,799,393,076**	**1,573,148,135**

Allocation process will create rounding issues for smaller employers

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Allocation to Employers

- Alternate allocation methods
  - based on actual contributions or
  - based on projected contributions
- Pension expense has many components (service cost, interest cost, projected earnings, actual contributions, administrative costs, benefit changes, assumption changes)
- With approximately 1,500 employers, the use of a simple allocation process will not work well for everyone
- Smaller employers could see large fluctuations

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Final Thoughts

- New Standards require a lot of additional work
  - Separate set of actuarial numbers
  - 100 year cash flow projection
  - Changes in liability attributable to each source (gain/loss, benefit changes, assumption, changes) must be tracked for each year and amortized over different periods
  - Sensitivity analysis under alternate scenarios
  - Allocation of costs to individual employers
  - Much more extensive disclosure and reporting items
- GASB Implementation guide is still being finalized

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