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CORRESPONDENCE MEMORANDUM

DATE: September 23, 2013

TO: Employee Trust Funds Board
Wisconsin Retirement Board
Teachers Retirement Board

FROM: Robert Willett, Chief Trust Finance Officer

SUBJECT: Update on WRS Implementation of GASB Statements 67 and 68

This memo is for informational purposes only. No Board action is required.

In June, 2012 the Governmental Accounting Standards Board (GASB) issued statements 67, *Financial Reporting for Pension Plans* and 68, *Accounting and Financial Reporting for Pensions*. Statement 67 sets standards for accounting and financial reporting for pension plans, including the Wisconsin Retirement System (WRS), while statement 68 establishes pension accounting and financial reporting standards for employers, including all employers participating in the WRS. The standards are effective for the WRS beginning in 2014 and for WRS employers in 2015.

These new standards represent a fundamental change in the way pension expenses and funding status will be reported by employers. Most significantly, funding and reporting for pensions has been decoupled. Financial reporting will be based on actuarial methods, assumptions and valuations which are significantly different from those we will continue to use to set contribution rates and fund the plan. As a result, the pension expense reported by an employer will be different from the contributions they are required to make to the plan, and the unfunded liability reported by the plan in its financial statements will be different from the liability contained in the funding actuarial valuation.

For example, as of December 31, 2012, the actuarial valuation for the WRS identified an unfunded liability of $69.7 million. If the new standards were in effect, our financial statements would have reported the system as overfunded by $21.9 million. While this difference is relatively small, simultaneously reporting our system as underfunded and overfunded is likely to cause confusion.

Reviewed and approved by Robert Marchant, Deputy Secretary

RAM

Electronically signed 9/23/13

Board	Mtg Date	Item #
JM	9.26.12	3B

Another major change is the requirement for employers to include a proportionate share of the plan's unfunded liability in their balance sheet. For the first time, any under or overfunding in the pension plan will flow directly into the employer's fund balance.

The actuarial methods and assumptions required by the new standards will cause substantially more volatility in the funded position of our plan than our current actuarial methods. Gains and losses will be amortized over approximately six years compared to our current twenty years. Investments will be valued at fair value without the five year smoothing we currently employ. And the discount rate used to determine the present value of future benefits may be set at a lower rate than the long-term investment return assumption currently used. The net effect of applying these alternate standards can be a dramatic change in our funded position from year to year.

For example, if the new standards had been in effect as of December 31, 2011 our plan would have reported an unfunded liability of $5.8 billion. One year later that liability would have been replaced by overfunding of $21.9 million. These amounts would have been allocated to our employers and directly reflected in their fund balances.

In the year since these standards were enacted, we have been working with our actuaries and various industry groups to better understand the standards and plan for implementation. Our actuaries have completed a preliminary valuation using the new requirements to assist in our planning.

At this time, we're not confident that all of our employers are aware of the impending changes or understand their full implications. Later this year we'll begin a communications program to educate our employers on the new standards, share with them our plans for implementation, and to collect some information we'll need to assist them in their implementation.

I have attached a presentation that I will be making to the Wisconsin Government Finance Officers Association on this topic. This presentation addresses how the WRS intends to respond to a number of specific requirements in the new standards that auditors have identified as concerns. As you will see, our plans are designed to make implementation as easy as possible for WRS employers.

Staff will be at the Board meeting to answer any questions.

Attachment A: Accounting Standards Implementation PowerPoint

Wisconsin Retirement System Reporting
GASB 67 & 68 Accounting and Financial Reporting for Pensions

WGFOA Fall Conference

September 26, 2013

New Pension Standards

- GASB 67 – Financial Reporting for Pension Plans
- GASB 68 – Accounting and Financial Reporting for Pensions

Implementation Issues

- Discount Rate
- Actuarial Cost Method
- Timing of actuarial valuation
- Selection of measurement date
- Allocation methodology
- Audit of allocations
- Notes and RSI
- Effective Dates
- Cost to implement

Discount Rate

The discount rate should be the single rate that reflects the following:

a. The long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of benefits, to the extent that

  (1) the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments and

  (2) pension plan assets are expected to be invested using a strategy to achieve that return

b. A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher to the extent that the conditions in (a) are not met.

Discount Rate

Valuation results have confirmed that the WRS will be able to discount future benefit payments using the long-term expected rate of return on pension plan investments

Actuarial Cost Method

The **entry age actuarial cost method should be used to attribute the** actuarial present value of projected benefit payments of each plan member to periods

Actuarial Cost Method

The WRS uses an Entry Age variant for funding purposes, but will use the Entry Age actuarial cost method for determining the Net Pension Liability, Pension Expense, etc…

Timing and Frequency of Valuations

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

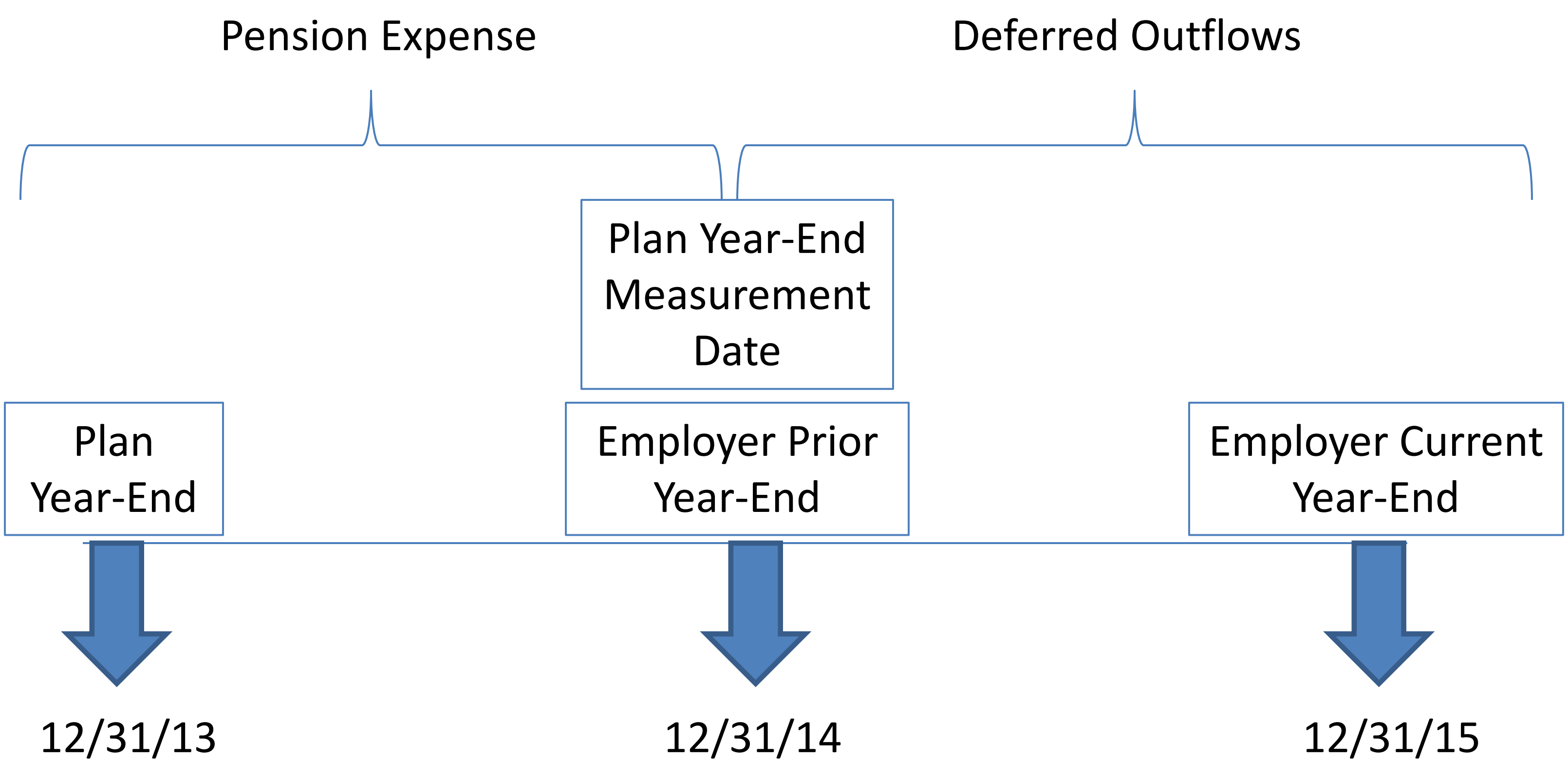
Timing and Frequency of Valuations

The WRS performs an annual actuarial valuation as of December 31 of each year. Valuation results are available by June following year-end.

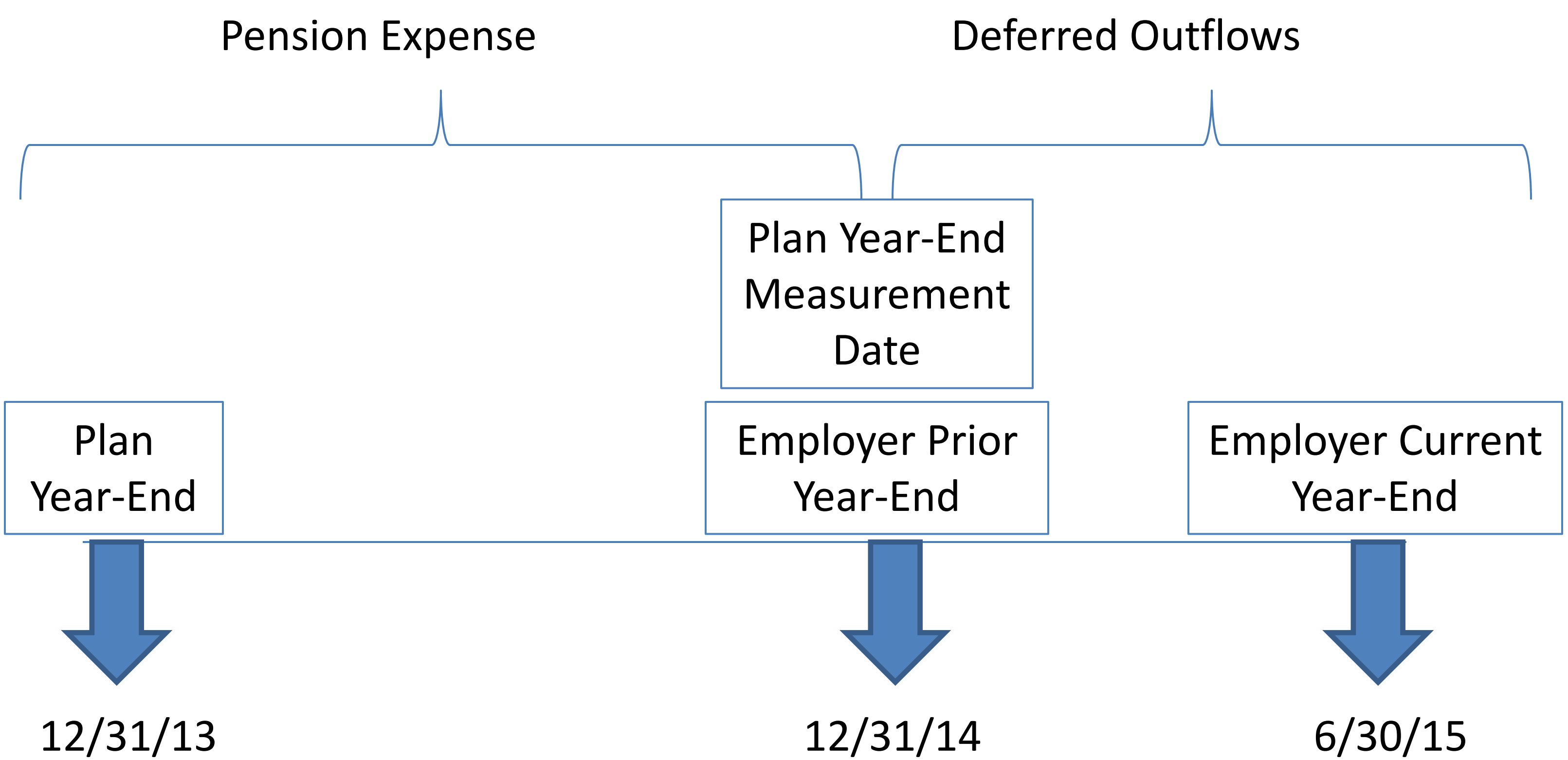
Measurement Date

- A liability should be recognized for the employer's proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

Measurement Date
December 31 Year-End Employers



Measurement Date
June 30 Year-End Employers



Measurement Date

The WRS will provide the Net Pension Liability using a measurement date no earlier than the end of the employer's prior fiscal year.

Proportionate Share

- A measure of the proportionate relationship of the employer to all employers
- The basis for the employer's proportion should be consistent with the manner in which contributions to the pension plan are determined
- The use of the employer's projected long-term contribution effort to the pension plan to determine the employer's proportion is encouraged.

Proportionate Share Example

Employer	2012 Contributions	Proportionate Share %	2012 Net Pension Liability
State of Wisconsin	526,885,861	32.246319%	($ 7,070,080)
City of Green Bay	8,733,203	0.534487%	($ 117,188)
Door County	4,647,265	0.284421%	($ 62,360)
Racine Unified School District	14,995,190	0.917731%	($ 201,215)
Village of Brown Deer	654,095	0.040032%	($ 8,777)
Hudson City Housing Authority	8,203	0.000502%	($ 110)
Town of Dover	23,190	0.001419%	($ 311)
Total WRS	1,633,941,110	100.000000%	($ 21,925,231)

Proportionate Share

The WRS will allocate the Net Pension Liability to all employers based on their proportionate share of employer contributions

Audit of Proportionate Share

- Who is responsible for the accuracy and verifiability of the collective net pension liability and the allocation of proportionate shares?
  - Plan?
  - Employers?

Audit of Proportionate Share

The collective Net Pension Liability and the basis for allocation will be audited by the WRS's auditor prior to distribution

Notes to Financial Statements

- Pension plan description
- Net Pension Liability disclosures
- Effect on Net Pension Liability of discount rate changes
- Proportionate share calculation description
- Classification of Deferred Inflows / Outflows
- 5 year amortization schedules for Deferred Inflows / Outflows

Required Supplementary Information

- A 10 year schedule presenting the following for each year:
  - The employer's proportion (percentage) of the collective net pension liability
  - The employer's proportionate share (amount) of the collective net pension liability
  - The employer's covered-employee payroll
  - The employer's 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.

Required Supplementary Information

- A 10-year schedule presenting the following for each year:
  - The statutorily or contractually required employer contribution.
  - The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.
  - The difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.
  - The employer's covered-employee payroll.
  - The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the employer's covered-employee payroll.

Notes and RSI

The WRS will provide suggested language and appropriate data to meet the disclosure requirements

Effective Dates

- GASB 67 - effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

- GASB 68 - effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

Effective Dates

The WRS will implement GASB 67 no later than December 31, 2014. Data may be available for employers wishing to early implement, but that is not certain at this time.

Cost to Implement

- Who will pay for the actuarial services needed to meet GASB 68 reporting requirements?

Cost to Implement

- Actuarial data needed to meet GASB 68 reporting requirements will be provided by the WRS consulting actuary and paid for by the WRS trust fund. There will be no special assessment to employers for this service.

Preliminary 2012 Valuation Results

Annual Pension Expense	$26,808,426
Net Pension Liability	($21,925,231)
Plan fiduciary net position as a percentage of the total pension liability	100.03%
Plan fiduciary net position as a percentage of covered employee payroll	-0.17%

Questions?