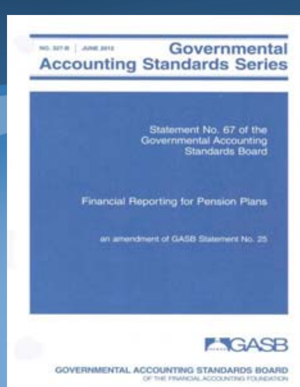
GASB Update Focusing on Pensions

GASB 67 and 68 and the new GASB 71



Governmental Accounting Standards Series

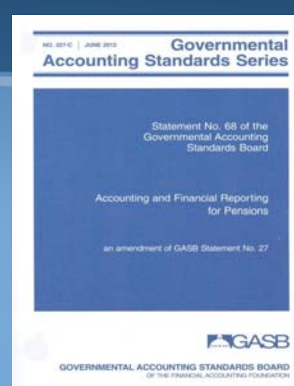
Statement No. 67 of the Governmental Accounting Standards Board

Financial Reporting for Pension Plans

an amendment of GASB Statement No. 25

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION



Governmental Accounting Standards Series

Statement No. 68 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Pensions

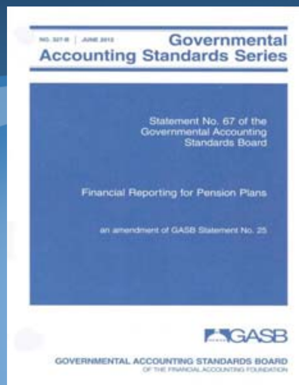
an amendment of GASB Statement No. 27

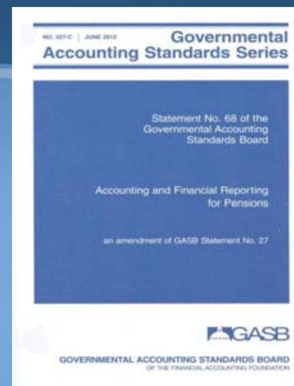
GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

Statement 67
Financial Reporting for Pension Plans

Statement 68
Accounting and Financial Reporting for Pensions





Statement 67
Financial Reporting for Pension Plans

Statement 68
Accounting and Financial Reporting for Pensions

Statement 71 (not pictured)
Pension transition for contributions made subsequent to the measurement date

Some Basic Definitions of Defined Benefit Plans

- **Single Employer Plan**
  - A plan that is only open to one employer or multiple departments /functions within one employer
- **Agent Multiple – Employer Plan**
  - A plan that includes more than one employer
  - Assets pooled for investment purposes
  - Separate account exists for *each* employer
  - Employer's assets can *only be used to pay for that employer's benefits* (and no others)
- **Cost Sharing Multiple – Employer Plan**
  - A plan that includes more than one employer
  - Assets and liabilities are pooled
  - All assets are available to pay for all benefits

Types of Defined Contribution Plans

- IRC 401(k) plans
  - Optional percentage of compensation contributed
  - Employer may match
  - Tax deferred unless election to tax currently (Roth 401k)
- Thrift Savings Plans
  - Employees make after tax contributions matched by employer (whole or in part)
    - Federal government is the largest TSP
- IRC 403(b) Plans
  - Tax deferred annuities funded by salary reductions
  - Usually in non-profit /government higher ed and hospitals
  - Some governments may have a wrinkle in lump sum transfers to 403(b) plan
- IRC 457 Plans
  - Common in government
  - Plan administrator invests plan assets at direction of plan participants
  - Participant has risk due to potential loss of value

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Tennessee's Hybrid Plan

- State, Higher Education and K-12 employees hired on or after June 30, 2014 are eligible
- Combination of DB and DC plans
- Benefit formula is 1% of average final compensation over last 5 years (legacy is sliding percentage over last year)
- Rule of 90 instead of rule of 80 (age + service)
- 5 year vesting

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The New GASB Revolution

- GASB's Postemployment Benefits Project
  - March 2009: GASB issues "Invitation to Comment"
  - June 2010: GASB issues "Preliminary Views" (PV)
  - July 2011: GASB issues two Exposure Drafts
  - Summer 2012: GASB Releases two final standards
- **Effective dates**
  - For plan reporting: plan years beginning after June 15, 2013
    (2013/2014 for fiscal year plans or 2014 for calendar year)
  - For employer reporting: fiscal years beginning after June 15, 2014 (2014/2015)

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GASB Objectives and Goals

Focus on FINANCIAL REPORTING not operations

- GASB establishes accounting and financial reporting standards, not funding policies
- Focus on pension obligation, changes in obligation, and attribution of expense

Assume Governments Last Longer than 1 year Unlike Businesses

- Cost of services to long-term operation
- "Interperiod equity" matches current period resources and costs

Use Federal Guidance (US DOL / SSA) on Who is an Employee and Who they Work For

- Employer incurs an obligation to its employees for pension benefits
- Transaction is in context of a career-long relationship

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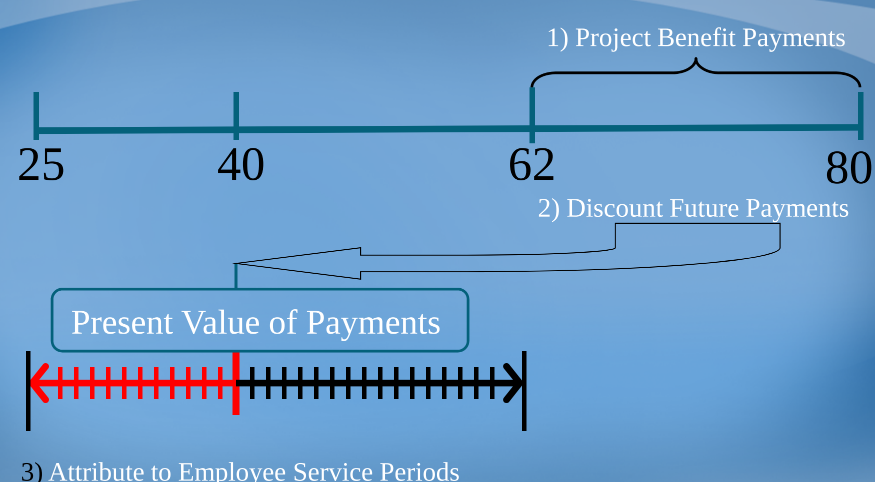
The GASB Revolution

- **FOUR Major Focus Areas** in the new standards
  1. Placing the Net Pension Liability on the Balance Sheet
  2. Decoupling Expense from Funding
  3. Accounting for Cost-Sharing Plans (n/a for single employer)
  4. Expanding Disclosure Information (Notes & RSI)
- Timing of Measurements, Effective Dates
- Implementation Guides and Audit Guidelines

The Basic Three-Step Approach for Defined Benefit Pensions



Change in Pension Expense Recognition

- Pension Expenses are now going to be recorded immediately when:
  - Pension benefits earned during the reporting period (service cost or normal cost)
  - Projected investment earnings on pension plan investments (long-term expected rate of return)
  - Interest cost on the total pension liability
  - Changes in benefit terms that affect the total pension liability

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Change in Pension Expense Recognition

Pension Expense is Deferred and Amortized on Some Events:

- 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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Cost-Sharing Employers – Huge Change

- A government participating in a cost-sharing plan would report a liability in its own financial statements that is equivalent to its proportionate share of the net pension liability of all the employers in the cost-sharing plan.
- Approach uses a basis for allocation of proportionate share based on the employer’s contribution effort relative to that of all contributors

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A Deeper Dive into the Four Issues

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Major Focus Area #1
Net Pension Liability Reported on Balance Sheet

- Net Pension Liability (NPL)
  - Total pension liability (TPL) minus plan assets at market value ("plan net position")
    - TPL uses new "blended" discount rate and "Entry age" cost method **(change for TRS)**
  - Similar to Unfunded Actuarial Accrued Liability (UAAL) but using market assets, not "smoothed" assets
    - Note 5-year asset smoothing still allowed (in determining pension expense), but reported separately **(likely change in all plans)**
- NPL must be reported on the employer's balance sheet
  - Currently, UAAL is reported in the Required Supplementary Information (RSI)
  - Currently, only the Net Pension Obligation (NPO) is reported on the balance sheet
    - Cumulative difference between annual required contribution (ARC) and actual contributions

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The New "Blended" Discount Rate

- Discount rate is based on projected benefits, current assets, and projected assets for current members
  - Projected assets include future contributions that fund benefits for current members
  - Projected assets do not include employer or employee contributions that fund service cost for future employees
  - For projected benefits that are covered by projected assets
    - Discount using long-term expected rate of return on assets
  - For projected benefits that are not covered by projected assets (i.e., after the "cross-over date")
    - Discount using yield on 20-year AA/Aa tax-exempt municipal bond index
  - Solve for a single rate that gives the same total present value
    - Use that single equivalent rate to calculate the total pension liability (TPL)

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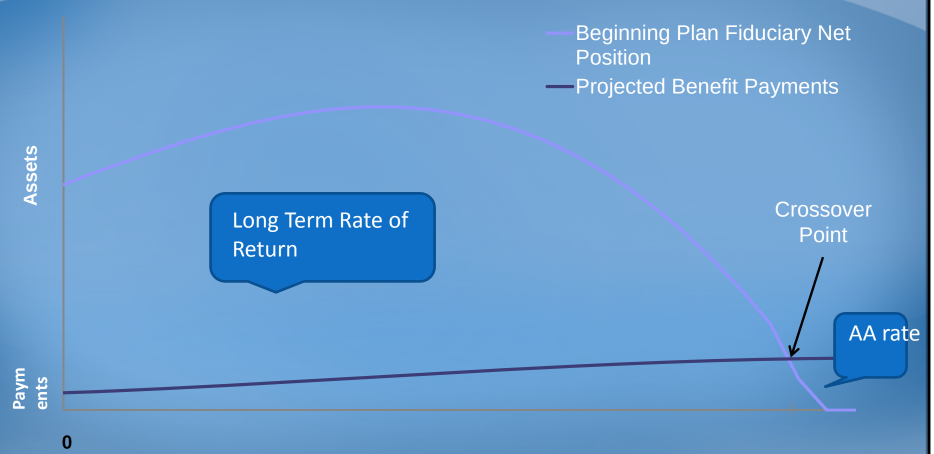
What is this thing called the Crossover Point?



Why Does it Matter?

- Simple- the lower the interest rate, the higher the liability
  - Private Sector uses “risk free rate of return” – **what’s yours?**
    - It’s what changed most private sector pensions to defined contribution (401k plans) by 1990
  - Equation is what took an extra year of GASB deliberation and meetings with public sector employer groups to hammer out
  - **In single employer plan like ERS –** will the current rate of 8% change??

Major Focus Area 2
Decoupling Expense from Funding

- Currently, pension expense is based explicitly on an actuarially determined funding requirement
  - The ARC, which is the "annual required contribution"
    - Even though is not required to be contributed!
  - Based on established practices for managing contribution volatility
    - Asset smoothing and UAAL amortization
  - The ARC served as a de facto funding standard
- New GASB pension expense is the change in NPL each year, with deferred recognition of only certain elements
  - ARC Specifically not intended to be a funding target or standard

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New Pension Expense Components

- Changes in Total Pension Liability that are recognized (i.e., expensed) immediately—no deferrals allowed
  - Service cost – pensionable compensation x rate
  - + Annual interest on the TPL
  - - Projected investment returns over the year
  - + / - All plan amendments
- Immediate recognition of all plan amendments, whether for actives or retirees
  - Probably different from funding

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New Pension Expense Components

- Changes in Total Pension Liability where some deferrals are allowed (i.e., expensed over multiple periods)
  - Changes in actuarial assumptions
  - Actuarial gains and losses
- Changes are recognized in expense over average expected remaining service lives of active and inactive members (including retirees)
  - Resulting amortization periods will still be very short
    - 5 to 10 years
    - Shorter than for funding (currently ranges from 15 to 30 years)

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New Pension Expense Components

- Changes in Assets where some deferrals are allowed (i.e., expensed over multiple periods)
  - Differences between actual and projected earnings over the year (i.e., investment gain/loss)
    - Recognized in expense over closed 5-year period
    - Most systems use either 5- or 7-year asset smoothing for funding
  - So the NPL on balance sheet will be "market volatile", but effect on expense and on employer net position will still reflect asset smoothing
    - Need to look at "Deferred Outflows and Inflows"
  - Effect on expense will be different from funding (and current ARC), where investment gain/loss is:
    - Smoothed over 5 or 7 years and
    - Also amortized as part of the UAAL

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Summary of New Pensions Expense Components – a great cheat sheet

- Changes in the employer's Net Pension Liability will be recognized in pension expense more quickly

Source of Change in the Net Pension Liability	Current Standards: Expense	Current Standards: Deferral	New Standards: Expense	New Standards: Deferral
Service Cost	Immediate	None	Immediate	None
Interest on the TPL	Immediate	None	Immediate	None
Projected Investment Earnings	Immediate	None	Immediate	None
Changes in Benefit Terms	Initial period amount	Amortization over a period up to 30 years (closed or open)	Immediate	None
Changes in Assumptions	Initial period amount	Amortization over a period up to 30 years (closed or open)	Initial period amount	Expense over average remaining service period of actives and inactives
Differences between Assumed and Actual Economic and Demographic Factors	Initial period amount	Amortization over a period up to 30 years (closed or open)	Initial period amount	Expense over average remaining service period of actives and inactives
Differences between Projected and Actual Earnings	Initial period amount	Amortization over a period up to 30 years (closed or open)	Initial period amount	Expense over 5-year closed period
Other Changes in the NPL	Initial period amount	Amortization over a period up to 30 years (closed or open)	Immediate	None

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Decoupling Expense from Funding

- The faster — often immediate — recognition of net pension liability changes will introduce much greater volatility in the reported pension expense.
  - This volatility will be reflected directly on the income statements of plan sponsors.
- This volatility is what disqualifies this new expense as a basis for determining a funding policy.
  - Two competing measures of plan cost
- Plans will want to review or adopt funding policies, now that GASB expense no longer provides funding guidance.
  - Funding policy also needed for discount rate calculation – and for disclosures

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What Does it All Mean?

- Fiscal folk in the room will have some explaining to do to decision – makers
  - Decision – makers are used to "Noah's ARC" or the letter from the plan
  - Decision – makers are used to compensation x rate OR rate per employee
  - Budget and funding only a component of expense
  - **Suggestion – use the previous slide to insert a schedule in MD&As to translate from annual contributions to annual expense as follows…**

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A *Possible* Way to Translate for Decision-makers

Annual Contributions as determined by Actuary	$x,xxx,xxx
Adjustments for annual amortizations of:	
Differences between actual and expected experience	
Changes in assumptions	
Differences between projected and actual earnings on plan investments	
(COST SHARING ONLY) Changes in proportion and differences between contributions and proportionate share of contributions	
Contributions subsequent to measurement date recognized as deferred outflows of resources (GASB-71)	
Other	
Pension Expense	**$x,xxx,xxx**

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Major Focus Area 3
Accounting for Cost-Sharing

- Current standards are simple
  - Pension expense is equal to the contractually required contribution
    - No "ARC"
  - Balance sheet only presents the sum of the difference (if any) since 1988 between the contractually required contribution and the actual contribution
  - Unfunded actuarial accrued liability is not reported at all

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Accounting for Cost-Sharing

- Under new standards cost sharing reporting same as a single - employer
  - Recognize proportionate share of *the plan's* total
    - Net Pension Liability
    - Pension Expense
    - Deferred Positions

NONE of these are to be reported on the plan financial statements

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Example Schedule of Cost Sharing Proportion

Final Design might be 5 years and average to comply with GAS-67

EXAMPLE COST SHARING PENSION PLAN
Schedule of Employer Allocations
June 30, 2015

Employer/ Nonmployer (special funding situation)	2015 Actual Employer Contributions	Employer Allocation Percentage
State of Example	$ 2,143,842	38.9 %
Employer 1	268,425	4.9
Employer 2	322,142	5.8
Employer 3	483,255	8.8
Employer 4	633,125	11.5
Employer 5	144,288	2.6
Employer 6	95,365	1.7
Employer 7	94,238	1.7
Employer 8	795,365	14.4
Employer 9	267,468	4.9
Employer 10	267,128	4.8
Total	$ 5,514,641	100.0

STAY TUNED FOR AUDIT DETAILS OF THIS

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Example

Example of Cost Sharing
30-Jun-12 Source – A Statewide CAFR 2012, Statistical Section

	Contributions				
Participating Government	2012		2003		Average
Teachers	$ 470,263	50.81%	$ 203,847	49.38%	50.10%
State Employees	311,349	33.64%	141,595	34.30%	33.97%
Higher Education Employees	143,920	15.55%	67,371	16.32%	15.94%
	$ 925,532	100.00%	$ 412,813	100.00%	100.00%

Floating Variance of .0001%

Theoretical Net Pension Liability			
Total Present Assets	30,118,178,556		
Total Liability	36,723,638,901		
Theoretical NPL	(6,605,460,345)		
Teachers	(3,309,005,360)	50.10%	Further allocation needed
State Employees	(2,243,874,879)	33.97%	Further allocation needed
Higher Education Employees	(1,052,580,106)	15.94%	Further allocation needed
	(6,605,460,345)	Floating Variance of .0001%	

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Example

- Number will be different due to
  - Actuarial value vs. fair value of assets
  - Roll-forward of liabilities
- Other information needed to give to employers
  - Annual expense
  - Deferred Inflows of Resources
  - Deferred Outflows of Resources
- Further allocation in multiple levels necessary to
  - Proprietary Funds
  - Higher Education funds / campuses
  - School districts **(Special Funding Situations)**

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Example Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan

EXAMPLE COST SHARING PENSION PLAN
Schedule of Pension Amounts
June 30, 2015

		Deferred Outflow of Resources				Deferred Inflows of Resources				Pension Expense	
Employer/ Nonmployer (special funding situation)	Net Pension Liability	Differences Between Expected and Actual Economic Experience	Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Differences Between Expected and Actual Economic Experience	Differences Between Actual and Projected Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Propotion and Proportionate Share of Pension Expense
State of Example	$ 38,589,135	428,768	2,058,088	1,500,690	782,365	380,371	1,063,285	–	584,365	1,878,717	12,375
Employer 1	4,831,647	53,685	257,688	187,898	96,633	47,625	133,131	–	125,325	235,229	(1,793)
Employer 2	5,798,553	64,428	309,256	225,499	115,971	57,156	159,773	–	245,386	282,303	(8,088)
Employer 3	8,698,585	96,651	463,925	338,279	173,972	85,742	239,681	–	125,632	423,492	3,021
Employer 4	11,396,244	126,625	607,800	443,188	227,925	112,332	314,012	–	386,325	554,828	(9,900)
Employer 5	2,597,183	28,858	138,516	101,002	51,944	25,600	71,563	–	42,358	126,444	599
Employer 6	1,716,569	19,073	91,550	66,756	34,331	16,920	47,298	–	24,325	83,571	625
Employer 7	1,696,283	18,848	90,468	65,967	33,926	16,720	46,739	–	125,325	82,584	(5,712)
Employer 8	14,316,562	159,073	763,550	556,756	286,486	141,118	394,478	–	152,005	697,004	8,405
Employer 9	4,814,421	53,494	256,769	187,228	68,325	47,456	132,657	–	87,325	234,391	(1,188)
Employer 10	4,808,301	53,426	256,443	186,990	67,528	47,395	132,488	–	41,035	234,093	1,656
Total	$ 99,263,485	1,102,928	5,294,055	3,860,249	1,939,406	978,435	2,735,105	–	1,939,406	4,832,655	–

STAY TUNED FOR AUDIT DETAILS OF THIS

Major Focus Area 4
Expansion of Disclosure Information

- Includes both Notes and Required Supplementary Information (RSI)
- ***Greatly*** expanded plan and employer disclosures, including:
  - Description of the plan and assumptions
  - Policy for determining contributions
  - Sensitivity analysis of the impact on NPL of a one percentage point increase and decrease in the discount rate
  - Changes in the NPL for the past 10 years
  - Development of long-term earnings assumption
  - Annual rates of investment return for past 10 years (plan only)

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Expansion of Disclosure Information

- More new disclosure information
  - "Actuarially determined (employer) contribution" (aka the ARC)
    - Basis and amount – if determined!
    - Comparison to amount actually contributed
    - May encourage review (or creation) of actuarial funding policy
- Expanded disclosures greatly increase the pension information needed for plan and employer's financial statements
  - New and challenging questions for employer's financials:
    - **Which actuary/auditor develops this information?**
    - **Who pays for it?**

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Timing and Frequency

- Actuarial valuations must be at least biennial
- Recognition of significant changes between the actuarial valuation date and the measurement date:
  - Changes to benefit provisions
  - Size or composition of the membership
  - Change in municipal bond rate component of the discount rate
  - Other factors or assumptions that affect the valuation results

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Timing and Frequency

- The new pension standards have **tremendous flexibility** in which plan financial statement / actuarial information to use
  - Liability is determined as of *either*
    - Actuarial valuation date
    - The plan's reporting date *or*
    - An actuarial valuation date *no more than 24 months before the plan's reporting date*, rolled forward
  - Assets are as of the *plan's* most recent fiscal year end

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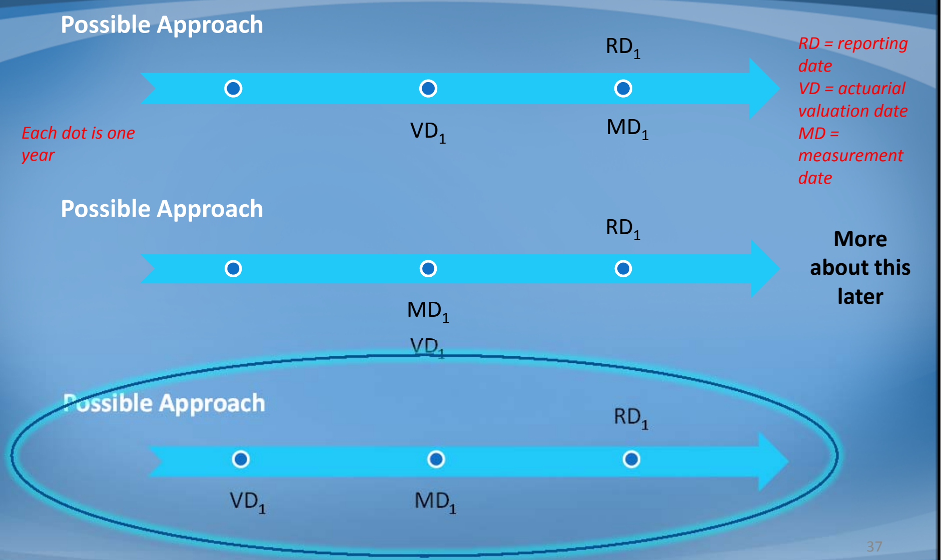
Timing and Frequency—GASB 68 (Employer)



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GASB 68 Single or Agent Employers

Note Disclosures and Required Supplementary Information

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SINGLE/AGENT EMPLOYERS FINANCIAL STATEMENTS

- Recognize full amount of NPL, Pension Expenses and Deferred Outflows and Inflows (100%).
- Recognition and Measurement using the economic resources measurement focus and accrual basis of accounting.
  - NPL recognized to the extent the liability is expected to be liquidated with **expendable available financial resources.
  - Calculated as: Amounts paid by the employer to the pension plan + the change between beginning and ending balances of amounts expected to be liquidated.

**** Means when benefits are due and payable, but the FNP is not sufficient to pay those benefits.**

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SINGLE/AGENT EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- Significant Assumptions/Inputs used to calculate Total Pension Liability (TPL)
- Date of the Actuarial Valuation used to determine TPL
- Details regarding changes in assumptions for benefit terms, basis for determining employer contributions to the pension plan, purchase of allocated insurance contracts
- Number of employees covered of Active and Inactive Members (receiving and not receiving benefits)
- Current Year Sources of Changes in Net Pension Liability

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SINGLE AGENT EMPLOYERS REQUIRED SUPPLEMENTARY INFORMATION (RSI)

1. **10 Years** - Sources of changes in the Net Pension Liability (NPL)
2. **10 Years** - Components of TPL, FNP, NPL and Related Ratios
   - Plans Fiduciary Net Position (FNP) as a % of TPL
   - NPL as % of Covered-Employee Payroll
3. **10 Years (if applicable)** - If contributions are actuarially determined, schedule covering 10 most recent fiscal years including information on actuarially determined contributions, contributions to the pension plan, and related ratios.
4. **10 Years (if applicable)** - If contributions established by statute, 10 most recent years of statutorily required contributions, contributions to the pension plan and related ratios.

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SINGLE AGENT EMPLOYERS REQUIRED SUPPLEMENTARY INFORMATION (RSI) - FOOTNOTES

– Notes to RSI – Significant assumptions used to calculate actuarially determined contributions (if applicable) – Single/Agent Employers Only

– Notes to RSI - Factors that affect the trends in the amounts reported in the schedules (i.e. changes in benefit terms, size and composition of the population, use of different assumptions) – All Employers

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Required Supplementary Information

	20X9	20X8	20X7	20X6	20X5
Total pension liability					
Service cost	$ 101,695	$ 100,317	$ 103,471	$ 98,685	$ 81,657
Interest	231,141	219,193	200,491	185,434	171,179
Benefit changes	-	-	-	-	-
Differences between expected and actual experience	(69,638)	(41,374)	(9,387)	17,438	29,183
Changes of assumptions	-	-	63,375	-	-
Benefit payments	(124,083)	(118,311)	(109,281)	(99,654)	(91,558)
Refunds of contributions	(2,780)	(2,764)	(2,927)	(2,684)	(2,251)
Net change in total pension liability	136,335	157,061	245,742	199,219	188,210
Total pension liability—beginning	3,045,893	2,888,832	2,643,090	2,443,871	2,255,661
Total pension liability—ending (a)	$3,182,228	$3,045,893	$2,888,832	$2,643,090	$2,443,871
Plan net position					
Contributions—employer	$ 109,544	$ 107,028	$ 105,755	$ 103,089	$ 89,054
Contributions—member	51,119	50,344	54,949	51,926	41,411
Net investment income	199,273	83,235	(30,957)	131,629	236,486
Benefit payments	(124,083)	(118,311)	(109,281)	(99,654)	(91,558)
Administrative expense	(3,427)	(3,333)	(3,046)	(2,684)	(2,349)
Refunds of contributions	(2,780)	(2,764)	(2,927)	(2,684)	(2,251)
Other	8	(34)	37	9	(88)
Net change in plan net position	229,654	116,165	14,530	181,631	270,705
Plan net position—beginning	2,283,333	2,167,168	2,152,638	1,971,007	1,700,302
Plan net position—ending (b)	$2,512,987	$2,283,333	$2,167,168	$2,152,638	$1,971,007
Net pension liability—ending (a) – (b)	$ 669,241	$ 762,560	$ 721,664	$ 490,452	$ 472,864

Note: Only 5 years are presented here;
10 years of information would be required

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Required Supplementary Information

	20X9	20X8	20X7	20X6	20X5
Total pension liability	$ 3,182,228	$ 3,045,893	$ 2,888,832	$ 2,643,090	$ 2,443,871
Plan net position	(2,512,987)	(2,283,333)	(2,167,168)	(2,152,638)	(1,971,007)
Net pension liability	$ 669,241	$ 762,560	$ 721,664	$ 490,452	$ 472,864
Ratio of plan net position to total pension liability	78.97%	74.96%	75.02%	81.44%	80.65%
Covered-employee payroll	$ 435,373	$ 432,256	$ 426,939	$ 412,280	$ 387,055
Net pension liability as a percentage of covered-employee payroll	153.72%	176.41%	169.03%	118.96%	122.17%

Note: Only 5 years are presented here;
10 years of information would be required

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Required Supplementary Information

	20X9	20X8	20X7	20X6	20X5
Actuarially calculated employer contribution	$ 109,544	$ 107,028	$ 105,755	$ 103,089	$ 89,054
Actual employer contributions	(109,544)	(107,028)	(105,755)	(103,089)	(89,054)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 435,373	$ 432,256	$ 426,939	$ 412,280	$ 387,055
Actual contributions as a percentage of covered-employee payroll	25.16%	24.76%	24.77%	25.00%	23.01%

Note: Only 5 years are presented here;
10 years of information would be required

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Plan Required Supplementary Information

SCHEDULE OF INVESTMENT RETURNS

Last 10 Fiscal Years

	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0	20W9
Annual money-weighted rate of return, net of investment expense	8.19%	11.23%	9.28%	13.50%	4.09%	(4.28%)	(3.82%)	12.63%	11.01%	12.91%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

GASB 68 Cost Sharing Employers

Note Disclosures and Required Supplementary Information

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ATTRIBUTES OF A COST SHARING EMPLOYER

- Recognize only a proportionate share of the "Collective NPL", Pension Expenses and Deferred Outflows and Inflows.
- Based on annual assessed contributions by employer.
- Proportionate share could change from year to year.

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COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- Include all Single Agent Employer Information

+

- Descriptive information about the pension plan
- Identify the Discount Rate
- Assumptions made in measuring employer's proportionate shares of net pension liabilities, basis of proportion, and changes in proportion from year to year

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COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- Descriptive Plan Information
  - Name of the Pension Plan
  - Identification as Single Employer/Agent Plan/Cost Sharing Plan and the Plan Administrator
  - Benefit Terms (classes of employees covered, types of benefits, key elements of the pension formula, automatic COLAs, authority under which benefit terms are established
  - Number of employees covered allocated by inactive employees (receiving benefits), inactive members (entitled to but not receiving benefits, and active members)
  - Brief description of Contribution Requirements
  - Whether the pension plan issues a standalone financial report or included part of another government entity.

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COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- Discount Rate Disclosures
  - Discount Rate applied and change from last measurement date.
  - Assumptions about projected cash flows related to the pension plan including contributions from employers, non-employers and employees.
  - Long-term expected rate of return and how it was determined.
  - Municipal bond rate used and source of that rate.
  - Breakdown of how projected benefit payments are allocated between those applied to the long-term expected rate of return and municipal bond rate to arrive at the discount rate.
  - Assumed Asset Allocation and long-term expected rate of return applied to each asset class.
  - NPL calculated using a discount rate that is +/-1% than stated Discount Rate

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COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

Significant Assumptions

- Inflation
- Salary Changes
- Ad Hoc post-employment benefit changes (COLA)
- Mortality Assumptions/Source of Assumptions (i.e. published mortality table/experience study)
- Dates of the Experience Study

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REQUIRED SUPPLEMENTARY INFORMATION (RSI) FOR FINANCIAL STATEMENTS

- **10 Year** – Employer's Proportionate Share (%, Amount) of Collective NPL, Covered Employee Payroll, Net Pension Liability as a % of Employee Covered Payroll, Pension Plans Net Position as % of TPL
- **10 Year** – Schedule of Changes in NPL
- **10 Year** - FNP/TPL/Funded Status/Covered Payroll/NPL as % of Payroll
- **10 Year** - ADEC to Actual Contributions (If necessary)
- **10 Year** - Statutory/Contractual Contributions to Actual Contributions and Payroll (If necessary)

10 Year Schedules not required in year of implementation other than the ADEC schedule which is presented in full.

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10 YEAR SCHEDULE OF CONTRIBUTIONS

If contributions to the plan are actuarially determined: the employers actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered-employee payroll.

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Special Funding Situations
(aka most school districts nationwide)

Note Disclosures and Required Supplementary Information

55

What is an SFS?

56

SPECIAL FUNDING SITUATIONS DEFINED

Where non-employer (example – a state) is **legally responsible** for making contributions to the pension plan.

Requirements:

1. The amount of contributions is not dependent on one or more events unrelated to the pension.
2. The non-employer is the only entity with a legal obligation to make a contribution directly to the plan.

THOUGHTS ANYONE???

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SPECIAL FUNDING SITUATIONS

- Effect on Employer (example – School District):
  - Employer must recognize the pension liability plus an adjustment for the involvement of the non-employer entities (e.g. 100% *less* 100%)
  - Recognize ***proportionate share*** of Deferred Outflows and Inflows of resources
  - Employer is required to recognize the ***proportionate share*** of the collective pension expense/revenue of both employer and non-employer contributions.
    - **Proportionate share of expense *may not equal* proportionate share of revenue**

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OTHER FOOTNOTE DISCLOSURES TO BE CONSIDERED WHEN NON-EMPLOYERS ARE INVOLVED

1. Government Non-Employer's Contributing Share of all accounting elements
2. Brief description of assumptions that affect pension liability (since last measurement date).
3. Amount of expense recognized by non - employer as a result of special funding.
4. Non-employer's balances of deferred positions

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OTHER REQUIRED SUPPLEMENTARY INFORMATION TO BE CONSIDERED WHEN NON-EMPLOYERS ARE INVOLVED

- **10 Year -** Schedule of Non-Employer's Contribution Entity's proportion (% and Amount of Collective NPL; FNP/TPL)
- **10 Year -** Schedule if the Non-Employer is statutorily required to make contributions detailing required contribution, actual contributions (including pension plan receivables) and the difference
- **10 Year -** Schedule of Changes in Net Pension Liability used to determine the proportionate share of the Collective NPL belonging to the Employers versus Non-Employers.
- Other Footnotes/RSI may be required

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SPECIAL FUNDING SITUATION

- Note that the Non-Employer Entity must also disclose in the their Financial Statement Footnotes:
  - If the Non-Employer recognizes a substantial part of the employers collective NPL, it should disclose description of the pensions, types of employees covered, discount rate, assumptions made in measurement of the NPL.
  - RSI same as Cost Sharing Employer
  - What is meant by "Substantial"? Unclear….wait for more guidance to clarify.

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Effective Date and Transition Issues

- **Plans** – Fiscal years *beginning after* June 15, 2013
- **Employers –** Fiscal years *beginning after* June 15, 2014
- Prior period adjustments will likely take place for a number of years as deferred positions become clarified
- RSI
  - If data is unknown at transition – must include a text box on each schedule explaining why – similar to GASB-54

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Prior Period Adjustments

- Example:
  - Employer – Net Pension Liability as of **June 30, 2015**
    - Measurement date – June 30, 2014 (annual valuation from 7/1/13 to 6/30/14)
    - No comparative financial statements
    - **Prior period adjustment would be as of 7/1/14** including
      - **Deferred outflows** *determined as of the beginning of the year*
        - » **Contributions from July 1, 2013 to June 30, 2014**
      - **NPL**
      - **Deferred inflows / outflows as of the measurement date**

63

Prior Period Adjustments

- How to PPA:
  1. Remove any Net Pension Obligation
  2. Remove any payables to the plan
  3. Add the balance of any NPL or proportion *as of the beginning of the period*
  4. Add deferred outflows of resources for contributions *after the measurement date* – **see next section**
  5. Add deferred outflows of resources / deferred inflows of resources *as of the beginning of the period*
  6. Add any payables to the plan as of the beginning of the period

64

Prior Period Adjustments

- If employer can determine deferred outflows / inflows of resources from investments, contributions **but cannot determine all other deferrals**
  - Don't record deferred positions of investments at implementation, only contributions.
    - Prior period adjustments when all others known
  - If can't determine all remaining deferred positions for all historical periods, report none except for contributions
    - Again – PPAs when known

65

The GASB Fix (aka GASB 71)

66

Again – the problem in Implementation

- GASB 68 requires employer to recognize NPL as of **the measurement date** no earlier than the prior fiscal year end
- Contributions made during the period *after measurement* date *but before reporting date* is required to be deferred
- Transition to new standards
  - If not practical to determine *all* deferred positions at transition, then start at zero.
  - BUT – contributions deferred!
  - Houston… we have a problem…

67

Updated transition guidance

- Recognize a deferred amount for pension contributions made after actuarial report but before fiscal year end
- Recognize no other beginning balance for deferred positions **unless known at transition**
- Effective date – same as GASB-68

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Defined Contribution Plan Changes – GASB-67

New Pension Standards <u>do</u> apply to DC Plans if:

- Pensions are provided to employees <u>or</u> volunteers (ex: volunteer firefighters) that meet 3 requirements
  - Contributions from all sources and earnings remain in trust until benefits are paid (irrevocable)
  - Assets are solely to pay for benefits per terms and
  - Assets are legally protected from creditors of all entities (even administrator)
- If yes to all 3, then new GASB applies

New Pension Standards - DC Plans

- Reporting for the plan is similar to DB plans
  - Similar financial statements
    - Assets (cash, investments, receivables)
    - Liabilities (benefits payable, administrative)
    - Net Position
    - Inflows and outflows similar to today
  - Notes need to include descriptive information about
    - The plan
    - Classes of employees and retirees
    - Number of plan members and employers (if multiple)
    - Authority under which plan was established or may be amended

New Pension Standards DC Employers

- Financial statement amounts are dependent on whether or not there is a special funding situation (see previous)
- If no special funding situation
  - Pension expense is declared in funds and entity wide

New Pension Standards DC Employers – Pension Expense Calculation

NO SPECIAL FUNDING SITUATION	Entity Wide Statements	Proprietary Funds	Governmental Funds
Contributions or *credits* to employee's accounts attributable to current period service	Yes	Yes	No – Pension Expenditures = total amount paid adjusted to change in balances between beginning and ending amounts expected to use current resources
Less: Forfeited amounts that are removed from employees accounts and NOT given to other employees	Yes	Yes	
	= Pension Expense	=Pension Expense	See above
Difference in pension expense and amounts paid to plan	= Increase / Decrease in Liability or Asset		Liability = amounts expected to be paid out of current resources

Employer Reporting of DC Plans

- Liabilities associated with different DC plans may be aggregated as long as assets are not netted with them
- If Special Funding Situation
  - Non-employer contributor would effectively report a grant to the employer
  - Employer receiving the contribution reports a subsidy inflow

Employer Reporting of DC Plans

- Notes Required for each plan contributed to
  - Name, administration of the plan
  - Brief descriptions
    - Benefit terms, authority under which they are established and can be amended
    - Vesting
    - Forfeitures policies and amounts for the year
    - Contributions (or crediting) rates (dollars *or* percentage of salary) separately for employees, employer, nonemployer contributing entities
      - Also authority to establish or amend
    - Amount of pension expense recognized during period
    - Amount of forfeitures reflected in expense
    - Amount of liability outstanding at period end

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Additional Note Disclosures for DC Employers with SFSs

- In addition to previous disclosures
  - Proportion of total pension expense for the employer as compared to all employers in plan
  - Amount of revenue recognized as the subsidy / support provided by nonemployer contributors

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Other SFS Disclosures in DC Plans

Item	If NonEmployer contributes a "substantial" portion of total contributions	If less than a "substantial" portion of total contributions	Contributing Entity not in an SFS
Name of plan, basic descriptions	Yes	Yes	Yes
Benefit terms	Yes	NO	No
Contributions	Yes	Yes	No
Annual expense	Yes	Yes	Yes
End of year liability	Yes	Yes	No

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Coming Up for Air

Auditing and Best Practices for Implementation

78

Key Concerns & Decision Points - Plans

- GASB 67 adoption
- For all plans
  - Timing and content of information to employers
  - Should we engage auditors to provide assurance on employer information?
  - Investment valuation - precision v. timeliness
  - Employer selection of measurement date
  - Selection of actuarial valuation date
  - Employer involvement in establishing assumptions
  - Plan auditor understanding of actuarial information
  - Implementation concerns (timing, resources)
- Single-employer plans - **ERS**
  - Impact of stand-alone departmental or component unit reporting

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Key Concerns & Decision Points - Plans

- **Special funding situations -** Identification
  - Handling differences of opinion
- **Cost-sharing multiple-employer plans**
  - Calculating allocation percentages
  - Employers and their auditors coming to visit
  - Who is going to pay for this?
- **Agent multiple-employer plans**
  - Who should calculate pension amounts for each employer?
  - Employers and their auditors coming to visit
  - Differences in actuarial assumptions by employer
  - Relationship between plan actuary and employers/employer auditors
  - Who is going to pay for this?

80 / experience direction

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Key Concerns & Decision Points - Employers

- For all plans
  - Choosing measurement date
  - Relationship between measurement date and plan year-end
  - Actuarial valuation - precision v. timeliness
  - Involvement in establishing assumptions
  - Reliance on plan actuary as management specialist
  - Qualifications of plan auditor
  - Will plan engage auditors to provide assurance on employer information?
  - Implementation concerns (timing, resources)
- Single-employer plans
  - Impact of stand-alone departmental or component unit reporting

Key Concerns & Decision Points - Employers

- Special funding situations (do we have them?)
  - Identification
  - Handling differences of opinion
- Cost-sharing multiple-employer plans (big issue in Texas!)
  - Obtain amounts and disclosures for the financials
  - Evaluating accuracy of information
  - What work will my auditors need to do?
- Agent multiple-employer plans (Becoming not an issue??)
  - Where will amounts and disclosures for the financials come from?
  - Who is responsible for accuracy and verifiability of information?
  - What work will my auditors need to do?
  - Involvement in establishing actuarial assumptions

Key Concerns & Decision Points - Auditors

- For all plans
  - Timing of information needed for audit
  - Role in evaluating actuarial assumptions
  - Need to engage auditor's specialist?
  - Will plan engage auditors to provide assurance on employer information?
  - Did plan auditors engage a specialist?
  - Qualifications of plan auditor
  - Implementation concerns (timing, resources)
  - Sufficient appropriate audit evidence for unmodified opinion?
- Single-employer plans
  - Impact of stand-alone departmental or component unit reporting

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Key Concerns & Decision Points - Auditors

- Special funding situations
  - Identification
  - Handling differences of opinion
- Cost-sharing multiple-employer plans
  - Who will audit collective amounts and allocation of amounts to participating employers?
  - Obtaining sufficient audit evidence on actuarial information
  - Who will test census data at participating employers?
- Agent multiple-employer plans
  - Obtaining sufficient audit evidence on actuarial information
  - Who will test census data at participating employers?

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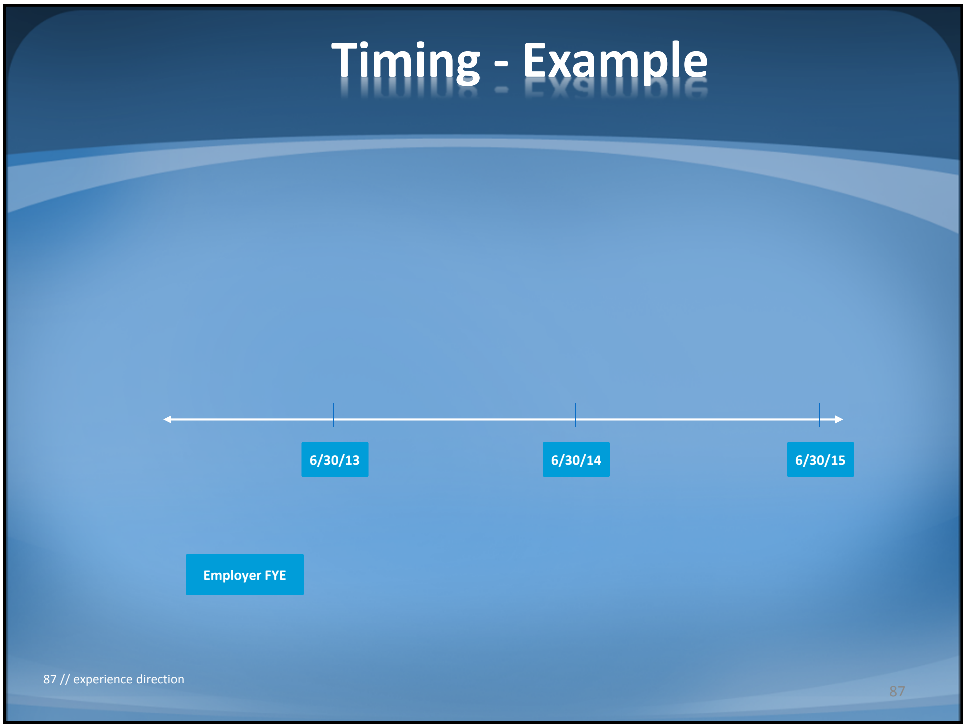
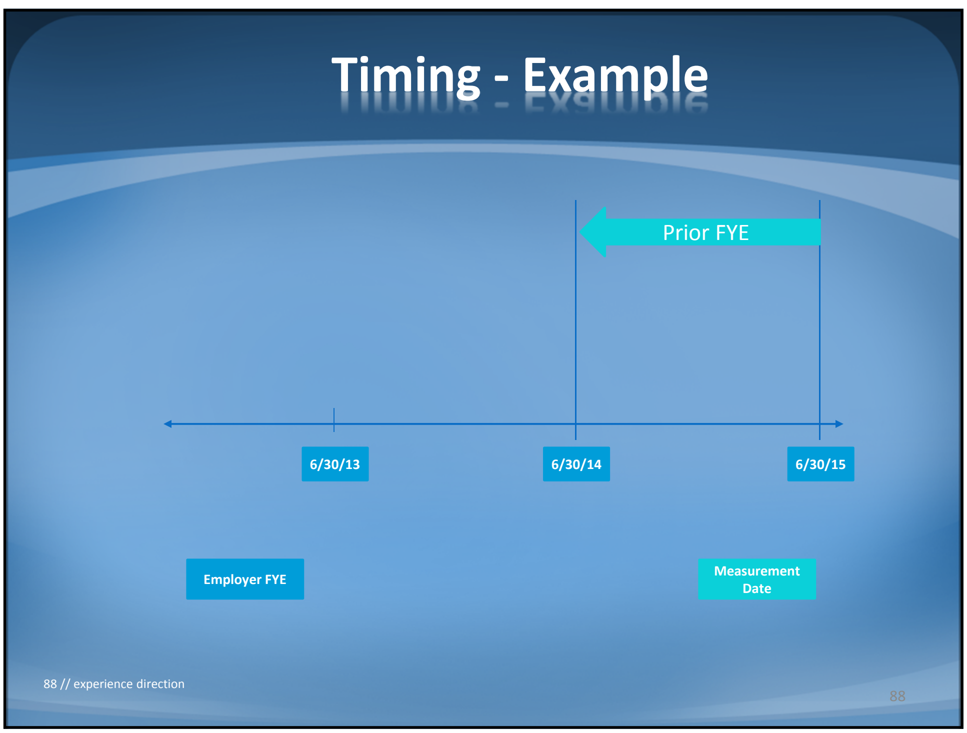
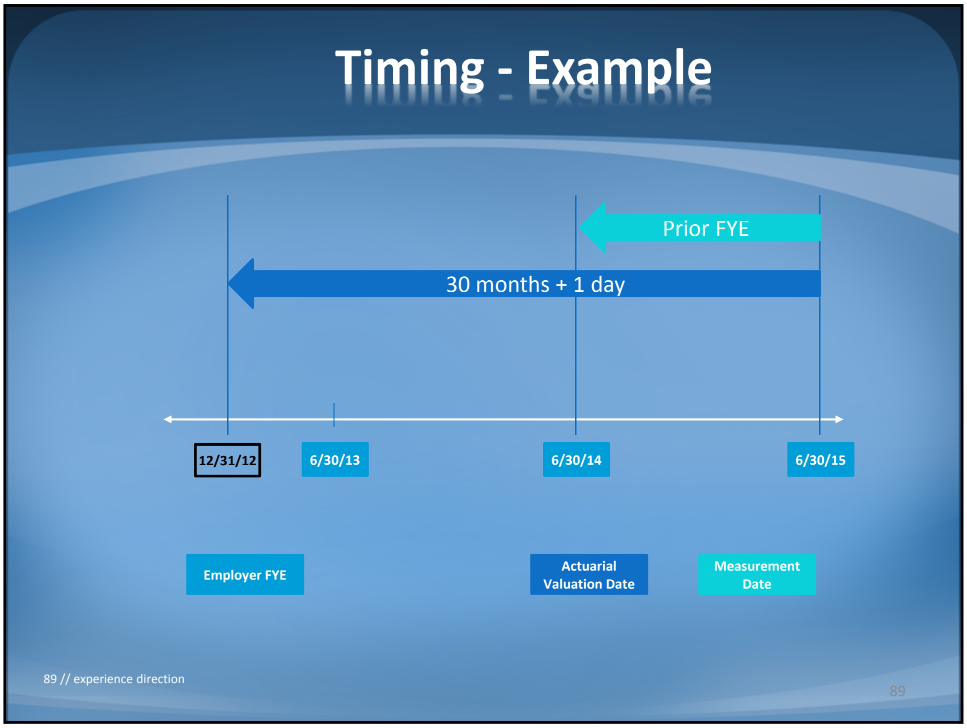
AUDIT CONSIDERATIONS - KEY DATES

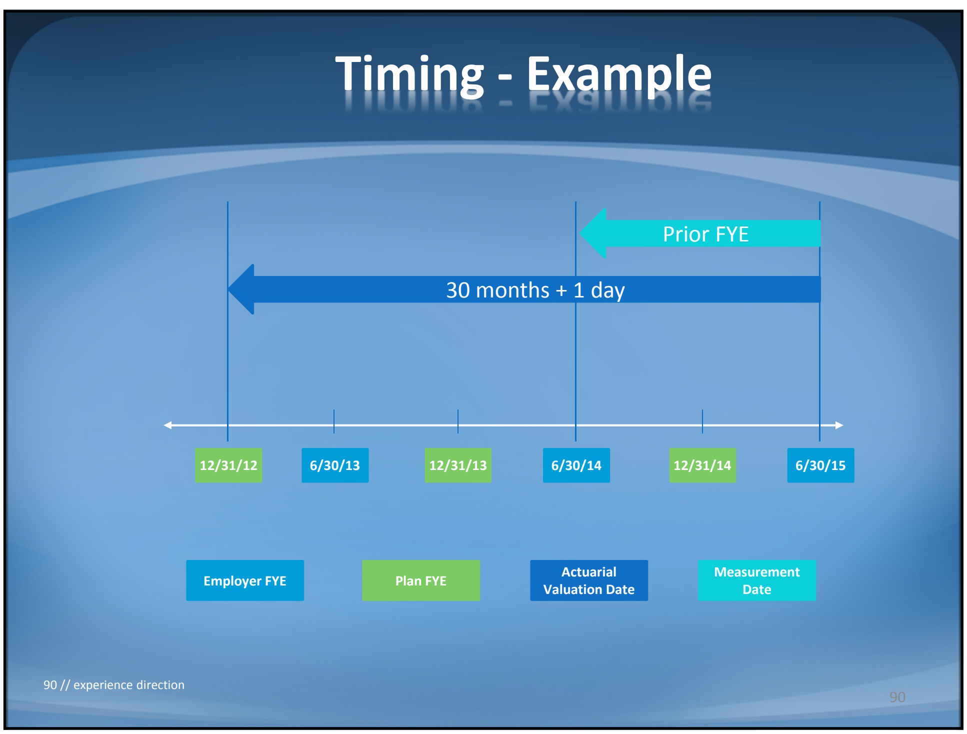
Key Dates

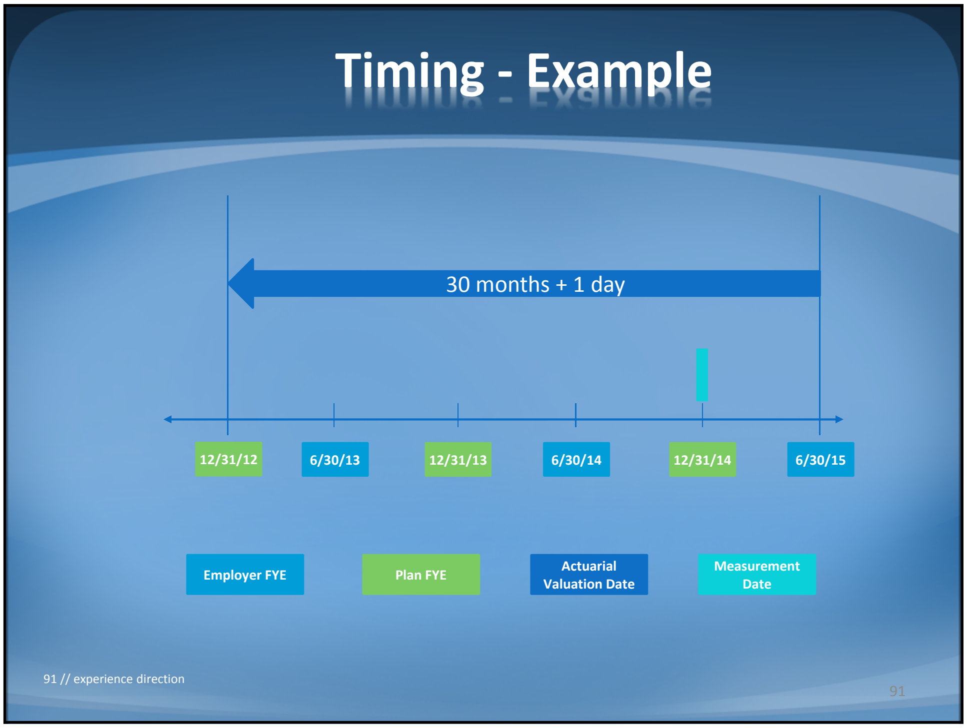
- Potentially 3 different dates we need to think about
  - Employer fiscal year-end
  - Measurement date (of NPL)
    - As of date no earlier than end of prior fiscal year
    - Both components (TPL/plan net position) as of the same date
  - Actuarial valuation date (of TPL)
    - If not measurement 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

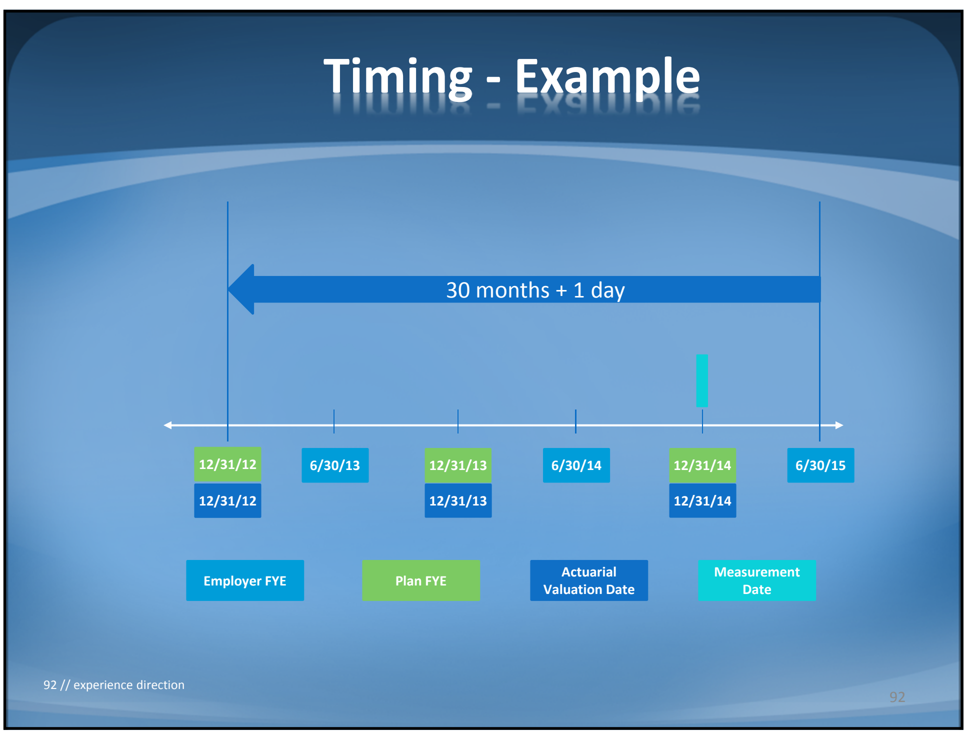

Timing - Example
6/30/13
6/30/14
6/30/15
Employer FYE
87 // experience direction
87

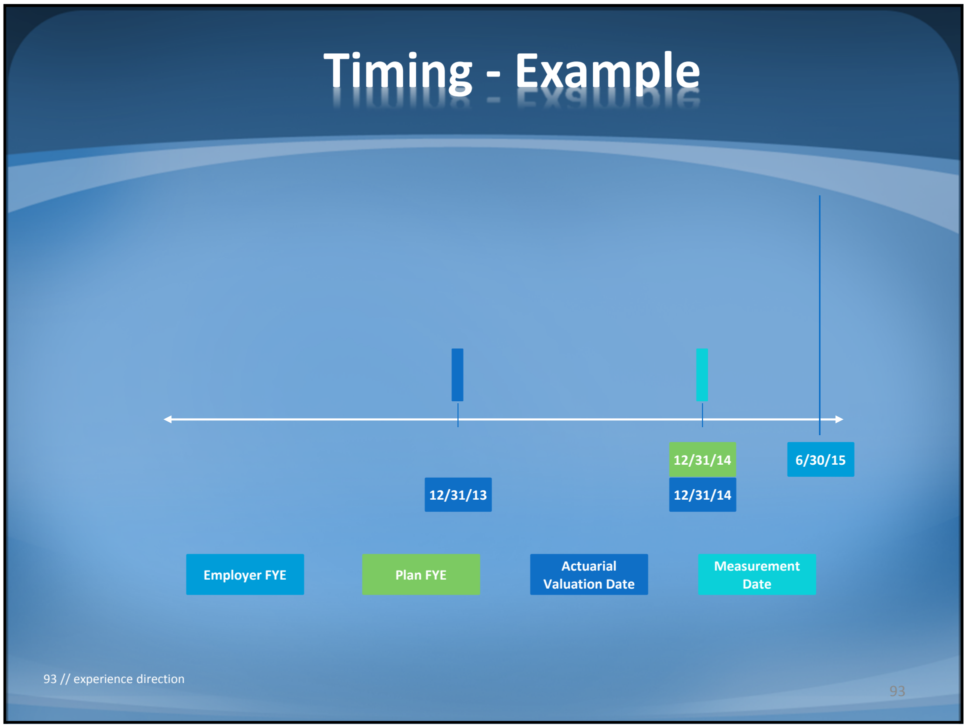

Timing - Example
Prior FYE
6/30/13
6/30/14
6/30/15
Employer FYE
Measurement Date
88 // experience direction
88

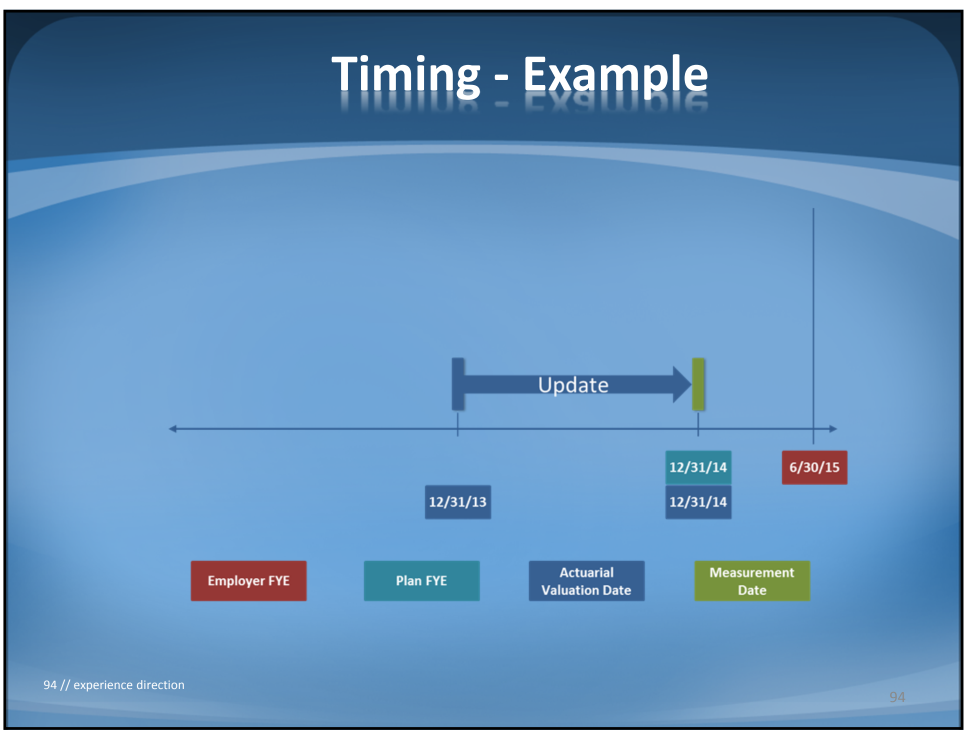

Timing - Example
Prior FYE
30 months + 1 day
12/31/12
6/30/13
6/30/14
6/30/15
Employer FYE
Actuarial Valuation Date
Measurement Date
89 // experience direction
89


Timing - Example
Prior FYE
30 months + 1 day
12/31/12
6/30/13
12/31/13
6/30/14
12/31/14
6/30/15
Employer FYE
Plan FYE
Actuarial Valuation Date
Measurement Date
90 // experience direction
90

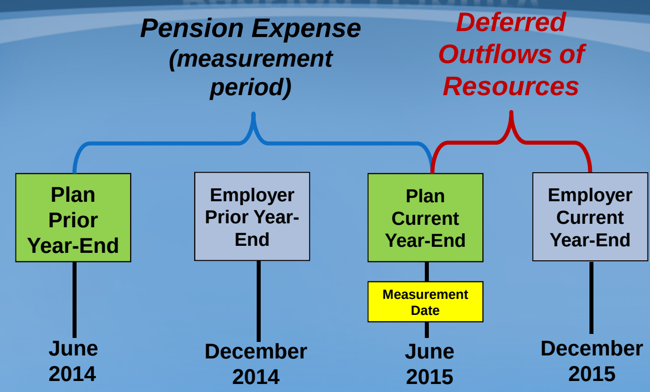

Timing - Example
30 months + 1 day
12/31/12
6/30/13
12/31/13
6/30/14
12/31/14
6/30/15
Employer FYE
Plan FYE
Actuarial Valuation Date
Measurement Date
91 // experience direction
91


Timing - Example
30 months + 1 day
12/31/12
6/30/13
12/31/13
6/30/14
12/31/14
6/30/15
12/31/12
12/31/13
12/31/14
Employer FYE
Plan FYE
Actuarial Valuation Date
Measurement Date
92 // experience direction
92


Timing - Example
12/31/14
6/30/15
12/31/13
12/31/14
Employer FYE
Plan FYE
Actuarial Valuation Date
Measurement Date
93 // experience direction
93


Timing - Example
Update
12/31/14
6/30/15
12/31/13
12/31/14
Employer FYE
Plan FYE
Actuarial Valuation Date
Measurement Date
94 // experience direction
94

Timing of Measurement of Total Pension Liability



Measurement date will most likely correspond to year-end of plan. Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer's fiscal year should be recognized as a deferred outflow of resources.

AUDIT CONSIDERATIONS - ACTUARIAL INFORMATION

Where to Start?

- Read statutes/plan document
  - Gain understanding of key provisions
- Obtain actuarial valuation report
  - Measurement date
  - Key assumptions
  - Plan provisions
- Obtain and test census data from actuary and payroll
- Obtain confirmation from actuary
- Evaluation of management's specialist
- Consider need for auditor specialist

Actuarial Valuation Report

Table of Contents

Actuarial Assumptions

Investment Return Rate	7.25%
Wage Inflation Rate	4.0%
Pay Increase Assumptions	4.0%
Assumed Retirement	62
Rates of: Mortality, Disability, Retirement and Marriage	Actual Experience during 2008-2010 Period

The auditor must obtain an understanding of the actuarial methods and assumptions and assess their reasonableness and consistency of application.

Investment Return Rate

- Employer should be able to prove out based on investment mix and expected rates of return
- Auditor test for reasonableness
- Example

Investment Type	Allocation (A)	Expected Return (B)	Total (A x B)
Equities	60%	10%	6.0%
Fixed Income	30%	6%	1.8%
Cash Equiv.	10%	2%	0.2%
			8.0%

Discount rate calculation

			Projected Benefit Payments		Actuarial Present Values of Projected Benefit Payments		
Year (a)	Projected Beginning Fiduciary Net Position (b)	Projected Benefit Payments (c)	"Funded" Portion of Benefit Payments (d)	"Unfunded" Portion of Benefit Payments (e)	Present Value of "Funded" Benefit Payments (f) = (d) ÷ (1 + 7.5%)[a]	Present Value of "Unfunded" Benefit Payments (g) = (e) ÷ (1 + 4%)[a]	Present Value of Benefit Payments Using the Single Discount Rate (h) = (c) ÷ (1 + 5.29%)[a]
1	$ 1,431,956	$ 109,951	$ 109,951	$ -	$ 102,280	$ -	$ 104,427
2	1,500,197	116,500	116,500	-	100,811	-	105,088
3	1,565,686	123,749	123,749	-	99,613	-	106,019
4	1,628,547	131,690	131,690	-	98,610	-	107,154
5	1,687,890	140,229	140,229	-	97,678	-	108,370
6	1,742,722	149,168	149,168	-	96,655	-	109,487
7	1,792,194	158,466	158,466	-	95,516	-	110,468
8	1,835,463	168,332	168,332	-	94,384	-	111,450
9	1,871,402	178,591	178,591	-	93,150	-	112,302
10	1,898,930	189,069	189,069	[illegible]	[illegible]	[illegible]	112,918
26	547,880	322,779	322,779	[illegible]	[illegible]	[illegible]	84,503
27	316,985	326,326	-	[illegible]	[illegible]	[illegible]	81,140
28	64,800	328,997	-	[illegible]	[illegible]	[illegible]	77,694
29	-	330,678	-	[illegible]	[illegible]	[illegible]	74,168
30	-	331,266	-	331,266	-	102,135	70,567
96	-	1	-	1	-	-	-
97	-	-	-	-			
Total					$ 2,109,333 +	$ 1,724,534 =	$ 3,833,867

The sum of the present values of the two benefit payment streams is calculated.

Census Data

- Key census data
  - Date of birth
  - Gender (male or female)
  - Date of hire or years of service
  - Date of termination or retirement
  - Marital status
  - Spouse date of birth
  - *Eligible* compensation (may NOT equal W-2s, especially in higher education)
  - Employment status
- Auditing census data
  - Active employees
  - Inactive/retired
- Resolving exceptions

The auditor must test the reliability and completeness of the census data provided to the actuary.

Census Data - Multiple-Employer PERS

- When auditing participant data in a multiemployer benefit plan, the auditor is often unable to directly test payroll records
- AICPA EBP Guide (10.10) states census data for participating employers should be subject to test work on a cycle basis - with a four-year cycle being typical. Testing may be performed by
  - In-house compliance personnel,
  - Employer auditors, *i.e.*, agreed upon procedures, or
  - Auditor of plan

103 // experience direction

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AUDIT CONSIDERATIONS - YOU MAY HAVE TO USE A SPECIALIST

104 // experience direction

Specialists

Definitions

- **Auditor's Specialist** - Individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's specialist may be either an auditor's internal specialist or an auditor's external specialist
- **Management's Specialist** - An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements

105 // experience direction

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Determining Whether to Use work of Management's specialist as Audit Evidence

- The nature, scope and objectives of the work of specialist
- Whether specialist is employed by entity or is party engaged to provide relevant services
- Extent to which management exercises control or influence or work of specialist
- Competence and capabilities of specialist
- Whether specialist is subject to technical performance standard or professional or industry requirements
- Auditor's ability to evaluate work and findings of specialist without assistance of auditor's specialist

106 // experience direction

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AICPA White Papers

- Cost-sharing
- Cost-sharing census data
- Agent

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AICPA Interpretations

- Cost-sharing
- Agent

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ISSUES & AICPA RECOMMENDATIONS RELATED TO COST-SHARING MULTIPLE-EMPLOYER PLANS

109 // experience direction

Cost Sharing Employers

- 2 White Papers published by AICPA
  - Census data testing
  - Plan reporting to employers
- Census data testing would be **based on risk**
  - Testing coordinated by plan auditor
    - Employers > 20% of plan active employees tested annually
      - **Likely State only?**
    - Between 5% and 20% - tested every 5 years **Any?**
    - Less than 5% - tested every 10 years **but some tested annually to get comfort**
    - Very small employers may never get tested – immaterial
  - Report is an attestation report

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Cost-Sharing Plan Issues

- Audited plan financial statements don't give participating employers everything they need
- Determining allocation percentages
  - Who will make the determination?
  - Do all employers have to use same allocation method?
- How will allocation percentages and other relevant information be audited?
- *Potential* solutions AICPA whitepapers at
  - http://www.aicpa.org/INTERESTAREAS/GOVERNMENTALAUDITQUALITY/RESOURCES/GASBMATTERS/Pages/default.aspx
  - Remember – these are "best practices" and NOT GAAS until / if auditing standards board approves

111 // experience direction

111

Cost-Sharing Plan Issues - Potential Solutions

- Plan provides supplemental "schedule of employer allocations" for which plan auditor is engaged to provide opinion
  - Use allocation method based on covered payroll or required (actual) contributions representative of future contributions and appropriate based on classes of benefits provided
  - Projected future contributions could be used if necessary (harder to audit)
  - **# of decimal places may become important for plans with large number of participating employers**

Note: Above not required by standard, but other alternatives create inconsistency and additional audit burden

112 // experience direction

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Reminder - Example Schedule of Employer Allocations

EXAMPLE COST SHARING PENSION PLAN
Schedule of Employer Allocations
June 30, 2015

Employer/ Nonmployer (special funding situation)		2015 Actual Employer Contributions	Employer Allocation Percentage	
State of Example	$	2,143,842	38.9	%
Employer 1		268,425	4.9	
Employer 2		322,142	5.8	
Employer 3		483,255	8.8	
Employer 4		633,125	11.5	
Employer 5		144,288	2.6	
Employer 6		95,365	1.7	
Employer 7		94,238	1.7	
Employer 8		795,365	14.4	
Employer 9		267,468	4.9	
Employer 10		267,128	4.8	
Total	$	5,514,641	100.0	

Allocation may be historical or actuarial

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Cost-Sharing Plan Issues - Potential Solutions

- Plan provides supplemental "schedule of plan pension amounts by employer" for which plan auditor engaged to provide opinion
  - Supplemental schedule showing the following amounts by employer
    - Net pension liability
    - Deferred outflows (by category)
    - Deferred inflows (by category)
    - Pension expense
- Alternative - "schedule of collective pension amounts"
  - Apply allocation percentages from other schedule
  - Would not reflect employer-specific deferrals

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Reminder - Example Schedule of Employer Pension Amounts

EXAMPLE COST-SHARING PENSION PLAN
Schedule of Pension Amounts
June 30, 2015

		Deferred Outflow of Resources				Deferred Inflows of Resources				Pension Expense	
Employer/ Nonmployer (special funding situation)	Net Pension Liability	Differences Between Expected and Actual Economic Experience	Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Differences Between Expected and Actual Economic Experience	Differences Between Actual and Projected Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Propotion and Proportionate Share of Pension Expense
State of Example	$ 38,589,135	428,768	2,058,088	1,500,690	782,365	380,371	1,063,285	–	584,365	1,878,717	12,375
Employer 1	4,831,647	53,685	257,688	187,898	96,633	47,625	133,131	–	125,325	235,229	(1,793)
Employer 2	5,798,553	64,428	309,256	225,499	115,971	57,156	159,773	–	245,386	282,303	(8,088)
Employer 3	8,698,585	96,651	463,925	338,279	173,972	85,742	239,681	–	125,632	423,492	3,021
Employer 4	11,396,244	126,625	607,800	443,188	227,925	112,332	314,012	–	386,325	554,828	(9,900)
Employer 5	2,597,183	28,858	138,516	101,002	51,944	25,600	71,563	–	42,358	126,444	599
Employer 6	1,716,569	19,073	91,550	66,756	34,331	16,920	47,298	–	24,325	83,571	625
Employer 7	1,696,283	18,848	90,468	65,967	33,926	16,720	46,739	–	125,325	82,584	(5,712)
Employer 8	14,316,562	159,073	763,550	556,756	286,486	141,118	394,478	–	152,005	697,004	8,405
Employer 9	4,814,421	53,494	256,769	187,228	68,325	47,456	132,657	–	87,325	234,391	(1,188)
Employer 10	4,808,301	53,426	256,443	186,990	67,528	47,395	132,488	–	41,035	234,093	1,656
Total	$ 99,263,485	1,102,928	5,294,055	3,860,249	1,939,406	978,435	2,735,105	–	1,939,406	4,832,655	–

Cost-Sharing Plan - Employer Auditor Considerations

- Evaluate plan auditor's report on supplemental schedules (AU-C 805)
  - If plan auditor doesn't report on, evaluate necessary audit procedures
- Test amounts in schedules relating to employer
- Test census data
- Additional procedures as considered necessary
- Objective - sufficient appropriate audit evidence

Allocation Methodology May Also Be For Single / Agent Employers

- Further allocation in multiple levels necessary to
  - Proprietary Funds
  - Component Units
    - Presumes entities contribute through primary government to a plan
    - Required for full accrual financial statements and full cost of services

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ISSUES & AICPA RECOMMENDATIONS RELATED TO SINGLE / AGENT MULTIPLE-EMPLOYER PLANS

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Single / Agent Plan Issues

- Audited plan financial statements don't give participating employers everything they need
- Allocation of fiduciary net position by employer is unaudited
- AICPA whitepapers in progress - will be posted at
  - http://www.aicpa.org/INTERESTAREAS/GOVERNMENTALAUDITQUALITY/RESOURCES/GASBMATTERS/Pages/default.aspx

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Single / Agent Plan Issues - Potential Solutions

- Plan provides supplemental "combining schedule of changes in fiduciary position by employer" for which plan auditor is engaged to provide opinion
- Plan auditor engaged to issue SOC 1 (type 2) report on allocation of inflows, *i.e.*, contributions, investment income, etc., and outflows, *i.e.*, benefit payments, administrative expenses, etc., of plan to individual employer accounts
  - Alternative - plan auditor issue opinion on each column of schedule or issue opinions on employer elements that cannot be tested by employer auditor

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Single/Agent Plan Issues - Potential Solutions

- Plan actuary issues separate actuarial report for each participating employer which includes all relevant information
  - Employer management and employer auditor rely on actuary as management specialist for total pension liability for individual employer
- Plan auditor engaged to issue SOC 1 (type 2) report on census data controlled by plan, *i.e.*, retired employees
  - User controls at the plan level - plan controls most of the information needed by the actuary (inactives/retirees)
  - User controls at the employer level - employer controls the active employee information
  - (Solution is complex and is still in development - watch for AICPA whitepaper)

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Single / Agent Plan Issues - Potential Solutions

- Employer auditor tests census data of active employees and confirms actuarial information used by actuary
- Employer and employer auditor responsible for validating deferred outflows/inflows and pension expense related to individual employer
  - Deferred outflows/inflows resulting from current year can be recalculated from condensed statement of changes in fiduciary position (by employer) included as supplemental information in plan financial statements
  - Rely on actuarial report for deferred outflows/inflows related to actuarial experience

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Single / Agent Multiple-Employer Plans - Other Issues

- Different actuarial assumptions for each participating employer
- Involvement of employer in establishing actuarial assumptions
- Ability of auditors of employers to evaluate appropriateness of actuarial assumptions
- Communication of auditors with plan actuary
- Ability of plan actuary to provide actuarial report directly to each employer

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SAS-128 – *Using Work of Internal Auditors*

- Key Changes
  - Harmonization with ISA-610 (International)
  - Effective for periods ending on or after 12/15/14
  - Clarification of the risk assessment process
    - More ability to inquire of internal auditors
    - Stresses the importance of 2 way communication between internal and external auditors and 2 way communication between auditors and those charged with governance
    - Inquiries may include
      - information about operational and regulatory risks that may affect financial reporting.
      - information about system changes, system or control failures, or other information system-related risks.
  - The term "engagement team" now includes internal audit function, if independent

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Questions?

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