



**PERA**

**New Mexico Public Employees Retirement Association's  
GASB 67 and Net Pension Liability**

*Investments and Pensions Oversight Committee*

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*November 1<sup>st</sup>, 2016*

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# Governmental Accounting Standards Board

- *GASB 67 – The Governmental Accounting Standards Board (GASB) is the independent organization that establishes and improves standards of accounting and financial reporting for the U.S. state and local government.*
- *The GASB is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments.*
- *The standards are not federal laws or regulations and the organization does not have enforcement authority. Compliance with GASB's standards, however, is enforced through the laws of some individual states and through the audit process, when auditors render opinions on the fairness of financial statement presentations in conformity with GAAP.*

# GASB 67

- GASB changes under statements 67 and 68 were intended to promote consistency and transparency of employer reporting.
- Approach based on GASB's decision that reporting the Net Pension Liability (NPL) on the face of a government's financial statements allows users of the financial statements to better assess:
  - ✓ *The long-term benefit obligations of a governmental entity;*
  - ✓ *The general long-term financial health of a governmental entity;*
  - ✓ *How well a governmental entity has supported and maintained the pension promises made to their employees.*

# GASB 67 & 68 – Who Does it Apply To?

## GASB 67

- GASB approved Statement No. 67, Financial Reporting for Pension Plans
- Applies to plans that administer pension benefits, such as the Public Employees Retirement Association (PERA) of New Mexico
- PERA is a cost-sharing multiple employer defined benefit plan covering state and local governmental employees and members of the judicial and legislative branches of government.

## GASB 68

- GASB also approved Statement No. 68, Accounting and Financial Reporting for Pension Plans
- Applies to governments that provide pension benefits to their employees
  - Examples: The State, Counties, Municipalities, Housing Authorities, Water and Sanitation Districts

# GASB's Change to Pension Accounting - Overview

## Underlying Principals

- Pensions are part of the exchange between employees and employers
  - ✓ *Pension plans are part of total compensation*
  - ✓ *Employer incurs a pension obligation as a result of the “employment exchange”*
  - ✓ *Cost (expense) should be recognized in the period services are provided*
- The pension plan is primarily responsible for paying pension benefits to the extent the plan has sufficient assets
- The employer is primarily responsible for paying benefits to the extent the plan does not have sufficient assets

# GASB Change to Pension Accounting - Overview

## Summary of Changes

- Separate accounting and funding
- Net Pension Liability (NPL) moves to balance sheet of employers. NPL is:
  - ✓ *Actuarially accrued liability (referred to in 67 as Total Pension Liability (TPL)) based on Entry Age Normal funding method, less*
  - ✓ *Plan's Fiduciary Net Position (market value of assets).*
- Annual pension expense or pension income with no direct relationship to actuarially determined contributions.
- Deferred Inflows and Outflows created.

# GASB 67 – Total Pension Liability Calculation

## Total Pension Liability (TPL)

- Three essential steps for measure:
  - Project total future pension current and former employees
    - ✓ *Based on terms of the plan*
    - ✓ *Actuary assumptions, such as how long the employees are expected to work for a participating government, what salaries are expected to be, and period of collection of benefits after retirement.*
  - Discount the projected benefit payments to their value at the time of the measurement (present value)
  - Attribute the present value of projected payments to the periods when they were or will be earned – past and future.
- Actuary provides a GASB 67 supplemental report that is *separate* from the actuarial valuations used for funding decisions.

# GASB 67 – Net Pension Liability Calculation

## Net Pension Liability (NPL)

- To the extent that the cumulative long-term obligations to provide pension benefits of the participating governments in a cost-sharing plan (TPL) is larger than the value of the assets available in the pension plan's trust to pay pension benefits.*

TPL	-	FNP	=	NPL
\$20 Billion	-	\$13.8 Billion	=	\$6.2 Billion
<i>PERA multi-employer cost sharing fund FY 2016</i>				



# GASB 67 – Total Pension Liability Calculation

## Net Pension Liability *vs.* Unfunded Actuarial Accrued Liability (UAAL)

- Market value of assets (Fiduciary Net Position) is different than the actuarial value of assets used in the actuarial valuations for funding purposes.
  - ✓ *4 year smoothing (UAAL) vs. Fair Market Value (GASB/NPL)*
    - ✓ *Fluctuations more volatile with GASB 67*

# What is PERA's Role - 2016

- **Implement GASB 67 and include required information in PERA's FY2016 financial report**
  - ✓ *Work with PERA Actuaries and Auditors*
  - ✓ *Pay for additional costs associated*
- **Work on GASB 68 information to be conveyed to employers:**
  - ✓ *Gather and review employer contribution info*
  - ✓ *Comprehensively assess contribution info for completeness and accuracy in order to achieve consistent application for each employer participant*
  - ✓ *Work with PERA Actuaries and Auditors*

# What is PERA's Role - 2016

- **Although it is not required, PERA is paying for the calculation of each participating entities' employer allocations and paying for the related audit.**
  - ✓ *Two years of audited "Schedule of Employer Allocations" available (June 30, 2014 and June 30, 2015).*
  - ✓ *Anticipate June 30, 2016 Schedule being available early Spring 2017*
  - ✓ *The Schedule includes information to assist employer participants with the required GASB disclosures.*
- **Allocation Process/Schedule of Employer Allocations:**
  - ✓ *PERA compiled the data of contributions made and projected contributions for untimely remittances.*
  - ✓ *The data was given to PERA actuaries who computed the net pension liability and prepare schedule data.*
  - ✓ *PERA's independent auditor then audited the data.*
  - ✓ *The office of the State Auditor reviews and approves the release of the audited data.*
  - ✓ *The audited data is disseminated to all participating employers for implementation.*

# Financial Statements – Notes DRAFT

## Required GASB 67 Note Disclosure (NPL of Plan Membership)

- The components of the net pension liability of the plan's membership at June 30, 2016 by Fund:

PERA	
Total Pension Liability (TPL)	\$20.0 Billion
Plan's Fiduciary Net Position (FNP)	13.8 Billion
Net Pension Liability (NPL)	6.2 Billion
Ratio of Fiduciary Net Position to Total Pension Liability	69.18%

Judicial	
Total Pension Liability (TPL)	\$191 Million
Plan's Fiduciary Net Position (FNP)	84 Million
Net Pension Liability (NPL)	107 Million
Ratio of Fiduciary Net Position to Total Pension Liability	44.34%

Magistrate	
Total Pension Liability (TPL)	\$74 Million
Plan's Fiduciary Net Position (FNP)	31 Million
Net Pension Liability (NPL)	43 Million
Ratio of Fiduciary Net Position to Total Pension Liability	41.65%

Volunteer Firefighter	
Total Pension Liability	\$49 Million
Plan's Fiduciary Net Position	61 Million
Net Pension Liability	(12 Million)
Ratio of Fiduciary Net Position to Total Pension Liability	124.76%

**Actuarial assumptions**—The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016.

# Financial Statements - Notes

## Required GASB 67 Note Disclosure (Sensitivity of NPL to discount rate):

- Discount rate for the PERA and Volunteer Firefighter Funds.** A select and ultimate rate of return assumption has been adopted for funding purposes for the PERA and Volunteer Firefighter Funds. The rate is 7.25% for the first 10 years (select period) and 7.75% for all other years (ultimate). **The equivalent blended rate is 7.48%** and will be used as the discount rate used to measure the total pension liability. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASB Statement No. 67. Therefore, the 7.48% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.
- The discount rate used to measure the total pension liability for the Judicial fund is 4.861 percent.** The discount rate used to measure the total pension liability for the **Magistrate fund is 4.40 percent.** The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's (both Judicial and Magistrate) fiduciary net position together with the expected future contributions are not sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASB Statement No. 67. Therefore, for the Judicial fund, a 4.861% and for the Magistrate fund, a 4.40% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. This rate is a blend of the 7.48% and the 20-year tax-exempt municipal bond rate of 3.01% as of the measurement date.

### Sensitivity of the Net Pension Liability (NPL) to changes in the discount rate *PERA Fund*

<i>PERA</i>	<i>1% Decrease (6.48%)</i>	<i>Current Discount Rate (7.48%)</i>	<i>1% Increase (8.48%)</i>
<i>Net Pension Liability</i>	<i>\$8.6 Billion</i>	<i>\$6.2 Billion</i>	<i>\$4.1 Billion</i>

# Financial Statements – Required Supplementary Information

## RSI (Schedule of Changes in Net Pension Liability) PERA Fund only

	2014	2015	2016	2017	2018
<b>Total pension liability</b>					
Service Cost	\$ 418,995,891	\$ 389,052,473	\$ 390,220,766		
Interest	1,286,996,350	1,335,949,923	1,393,557,454		
Benefit changes	-	-	-		
Difference between expected and actual experience	-	59,112,343	330,750,820		
Changes of assumptions	(91,856,820)	-	424,791,570		
Benefit payments	(905,329,141)	(966,236,566)	(1,024,399,237)		
Refunds of contributions	(47,376,975)	(46,010,197)	(44,937,505)		
<b>Net change in total pension liability</b>	<b>\$ 661,429,305</b>	<b>\$ 771,867,976</b>	<b>\$ 1,469,983,868</b>		
<b>Total pension liability - beginning</b>	<b>\$ 17,082,757,593</b>	<b>\$ 17,744,186,898</b>	<b>\$ 18,516,054,874</b>		
<b>Total pension liability - ending (a)</b>	<b>\$ 17,744,186,898</b>	<b>\$ 18,516,054,874</b>	<b>\$ 19,986,038,742</b>		
<b>Plan net position</b>					
Contributions - employer <sup>1</sup>	\$ 370,766,329	\$ 317,163,961	\$ 324,751,997		
Contributions - member <sup>2</sup>	174,037,205	258,919,779	265,529,178		
Net investment income	2,118,284,928	251,488,279	47,444,548		
Benefit payments	(905,329,141)	(966,236,566)	(1,024,399,237)		
Administrative expense	(10,336,324)	(9,885,765)	(10,753,722)		
Refunds of contributions	(47,376,975)	(46,010,197)	(44,937,505)		
Other	17,005,791	25,296,313	13,494,565		
<b>Net change in plan net position</b>	<b>\$ 1,717,051,813</b>	<b>\$ (169,264,196)</b>	<b>\$ (428,870,176)</b>		
<b>Plan net position - beginning</b>	<b>\$ 12,707,740,926</b>	<b>\$ 14,424,792,739</b>	<b>\$ 14,255,528,543</b>		
<b>Plan net position - ending (b)</b>	<b>\$ 14,424,792,739</b>	<b>\$ 14,255,528,543</b>	<b>\$ 13,826,658,367</b>		
<b>Net pension liability - ending (a) - (b)</b>	<b>\$ 3,319,394,159</b>	<b>\$ 4,260,526,331</b>	<b>\$ 6,159,380,375</b>		

