

Investments and Pensions Oversight Committee

Senator George Munoz, Chair

Representative Monica Youngblood, Vice-Chair

Tuesday, November 1, 2016

NM Educational Retirement Board

GASB 68 Update

Jan Goodwin, Executive Director

Rick Scroggins, Deputy Director

Mary Lou Cameron, Chair

H. Russell Goff, Vice Chair

GASB 67

Accounting disclosures for **pension plans**

NMERB was one of the first pension plans in the US to adopt

GASB 68

Accounting disclosures for **participating employers**

Both GASB statements separate accounting disclosures and presentation from the funding considerations for pensions

Probably not much:

- Balance sheet and income statement will look different, but cash flows (one of the most important considerations for credit rating agencies) remains unchanged
- A negative balance in net position is not necessarily a sign of financial distress
- According to Rating Agency Standard & Poors:
“While there will be a range of new information reported under the GASB 67/68 and year-over-year comparisons may be challenging, we don’t expect significant credit differentiation based solely on the new reporting”.

March 24, 2015

What Does GASB 68 Do?

Separates the accounting and funding concepts for pensions

Provides new information for readers of financials:

- Comprehensive reporting of a government's net pension obligations and expenses
- Each employer includes its share of the actuarial present value of retirement benefits in its financials
- Reflects the pension liability where employment exchange takes place
- Provides 10-year trend information - net pension liability, allocation rate, deferral amounts, pension expense

New information employers reported for FY15:

- Description of the plan and benefits provided
- Significant assumptions used in the measurement of the Net Pension Liability (NPL)
- Amounts of the NPL and deferred outflows and inflows of resources related to pensions
- Analysis of the NPL's sensitivity to changes in the discount rate
- Descriptions of changes in the assumptions used in measuring the NPL
- New 10 year required supplementary information - useful for analysis

New information requirements for FY16:

- NPL and deferrals are cumulative balances on the Balance Sheet. They represent a “snapshot” in time, but need to be updated each year.
 - Employers need both net change and balance information
- Annual employer *journal entry* adds a second deferral layer to be amortized separately to pension expense each year
- Active census data and contributions testing by IPAs produced more interim work for both employers and ERB
 - ERB’s IPA tests to ensure member data received matches employer files
 - Employer IPAs test annual contributions by employer reported by ERB agree to employer financial records

What does GASB 68 not do?

- Create a new liability or obligation
Prior to GASB 68, the obligation was only shown at the pension fund level
- Change what employers contribute to the pension plan.
Employers continue to pay at contribution rates set by statute

Why did GASB Mandate these Changes?

GASB's goals:

- Increase transparency across all pension funds
 - however, not all of the information feels helpful
 - we have to educate ourselves about what the data tells us, and buy in to the detail methodology
- Improve comparability across pension plan employers
 - standardize reporting elements to make the information more meaningful

Prior Approach	GASB 67/68	Result
<p>Actuarial Accrued Liability (AAL): Present value of earned retirement benefits</p>	<p>Total Pension Liability (TPL): Present value of earned retirement benefits</p>	<p>No change for NMERB</p>
<p>Actuarial Value of Assets (AVA): “Smoothed” value of pension plan assets</p>	<p>Fiduciary Net Position (FNP): Fair market value of pension plan assets minus liabilities</p>	<p>All amounts and ratios that use FMV of investments will be more volatile</p>
<p>Unfunded Actuarial Accrued Liability (UAAL): AAL minus AVA</p>	<p>Net Pension Liability (NPL): TPL minus FNP</p>	<p>For ERB, $NPL < UAAL$, as of June 30, 2015 and 2016</p>

Glossary, continued

Prior Approach	GASB 67/68	Result
Funded Ratio: AVA/AAL	Funded Ratio: FNP/TPL	For ERB, results in a higher funded ratio. Will be more volatile
Annual Required Contribution (ARC): Contribution necessary to amortize UAAL in 30 years	No longer applicable	ERB will track Funding Policy Contribution in actuarial valuation report
Discount Rate: Use long-term earnings assumption to calculate AAL	Discount Rate: Use long-term earnings assumption to calculate TPL, if enough assets. If not, blended rate.	No change for ERB.
Contribution expense: Total required employer contributions accrued for fiscal year	Pension expense: Change in NPL from one year to the next	Will be more volatile

In summary, these changes result in a need for two different sets of books: one for funding and budgeting, and one for accounting.

Prior and Current GASB 68 Reporting

	Prior Approach		Under GASB 68	
	<u>ERB FS</u>	<u>School FS</u>	<u>ERB FS</u>	<u>School FS</u>
UAAL	Footnote disclosure	None Mentions participation in ERB	Footnote disclosure, including sensitivity of discount rate	Proportionate share of NPL on Balance Sheet
Contribution Expense	Included in Statement of Changes in Plan Net Assets	Amount of employer contributions accrued	Included in Statement of Changes in Fiduciary Net Position	Difference between current and prior year NPL, plus adjustments

GASB 68 Means...

New disclosures for employers

Now required to recognize and report...

- proportionate share of the Plan's collective Net Pension Liability
- proportionate share of the Plan's pension expense
- proportionate share of the Plan's deferred inflows and outflows

These are reported with a one-year lag

Now required to add...

- More disclosure notes: discount rate, measurement assumptions, deferred flows
- Required Supplementary Information: Schedules of Net Pension Liability, deferral layers over 10 years, contributions, and related ratios.

What are ERB's Reporting Options?

Implementation Level	Benefits	Issues to Resolve
<p>1 Bargain Basement: Implement only required elements of GASB 68</p>	<ul style="list-style-type: none"> • Low cost to ERB • Simpler to prepare 	<ul style="list-style-type: none"> • Employers left with details, unstaffed for reporting • Public image problems
<p>2 Middle of the Road: Provide <i>Schedule of Employer Allocations</i> and key Required Supplementary Information per the SAO Audit Rule</p>	<ul style="list-style-type: none"> • NMERB meets employers halfway • NMERB minimizes audit responsibility 	<ul style="list-style-type: none"> • Employers still face significant reporting challenges • GASB made employers responsible for calculating and presenting their proportionate share
<p>3 Full Service Plan: Prepare GASB 68 Report and schedules with all employer journal entry elements and disclosures</p>	<ul style="list-style-type: none"> • Provides employer detail check figures • Reduces employer stress • Reduces SAO stress 	<ul style="list-style-type: none"> • Plan takes on extra burden and cost; there are currently 218 employers • FY17 FS deadline moves to 11-1 (loss of 30 days) for ERB in deference to State's CAFR timeline • Employers may need to add interim procedures to finish on time

How to Maximize ERB's Service Today?

- **Continue to Increase Communication**
 - Leverage existing ERB website, employer portal
 - Website (AICPA articles, GASB links, employer FAQs)
 - Periodic Email Blasts to employer accounting personnel
 - Fact sheets, handouts, newsletter articles
 - Compliance Auditor employer training to improve reporting information
 - Meeting with State Auditor, IPAs, and other state agencies
- **Share Real Information**
 - Provide audited GASB 68 report and Required Supplementary Information to all employers
 - Employer contribution reconciliations
 - Detail allocation schedules (NPL, Contributions, each deferred flows)
 - SAO already has a sample Roll Forward template for 2016

How Will Each District's Allocation be Calculated?

Each district's employer contribution/Total employer contributions

Example:

Total FY15 employer contributions \$395,129,621

Santa Fe FY15 employer contributions \$10,401,683

Santa Fe/Total=\$10,401,683/\$395,129,621=2.63247%

ERB's Continuing Implementation Plan

- Produce annual audited schedules, engaging ERB's actuary and auditor to provide an opinion on
 - Employer Allocations
 - Collective Pension Amounts and Required Supplementary Information
 - Schedules include detail information for employers financials
- ERB will comply with AICPA best practices ensuring the employer's auditor can rely on ERB's auditor's opinion on proportionate shares
- Employers have responsibility to report accurate census data to ERB
- Employers assume responsibility for presentation of the information used in their own financial statements

New Mexico Educational Retirement Board Schedule of Collective Pension Amounts As of and for the year ended June 30, 2015

Net Pension Liability (7.75% Discount)	\$ 6,477,266,299
Net Pension Liability -- 1.00% Decrease (6.75% Discount)	\$ 8,715,594,530
Net Pension Liability -- 1.00% Increase (8.75% Discount)	\$ 4,596,837,569

Deferred Outflows of Resources

a Differences between expected and actual experience	\$ 0
b Net difference between projected and actual investment earnings on plan investments	359,852,234
c Changes in assumptions	222,797,698
Total deferred outflows of resources excluding employer-specific amounts*	<u>\$ 582,649,932</u>

Deferred Inflows of Resources

a Differences between expected and actual experience	\$ 120,082,567
b Net difference between projected and actual investment earnings on plan investments	389,008,022
c Changes in assumptions	0
Total deferred inflows of resources excluding employer-specific amounts*	<u>\$ 509,090,589</u>

Pension Plan Expense

	<u>\$ 489,442,913</u>
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* Employer specific amounts excluded from this schedule are changes in proportion and differences between employer contributions and proportionate share of contributions as defined in paragraphs .54 and .55 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

2015 GASB 68 - Contributions and Rates

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD

As of and for the Year Ended June 30, 2015

Schedule of Employer Allocations

Employer	Employer Code	2015 Actual Employer Contributions	Employer Allocation %
Albuquerque Public Schools	02003	\$ 67,255,320	17.02108%
University Of New Mexico	02095	64,807,448	16.40157%
New Mexico State University	07098	28,898,896	7.31378%
Las Cruces Public Schools	07023	18,699,722	4.73255%
Rio Rancho Public Schools	29123	11,644,458	2.94700%
Central NM Community College	02123	10,576,660	2.67676%
Gadsden Independent Schools	07021	10,543,413	2.66834%
Santa Fe Public Schools	01002	10,401,683	2.63247%
Gallup Mckinley County Schools	13041	9,440,968	2.38933%
Farmington Municipal Schools	16052	7,935,680	2.00837%
Roswell Independent Schools	04011	6,694,029	1.69413%
Hobbs Municipal Schools	06017	6,016,437	1.52265%
Clovis Municipal Schools	05012	5,695,448	1.44141%

2015 GASB 68 - Deferrals and Expense

STATE OF NEW MEXICO EDUCATIONAL RETIREMENT BOARD
As of and for the Year Ended June 30, 2015

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER (RESTATED)

Code	Current Year Deferred Outflows of Resources			Current Year Deferred Inflows of Resources			Pension Expense			Balances of Deferred Amounts		
	Net Pension Liability	Changes in Proportion	Changes of Assumptions	Net Difference Between Projected and Actual Investments Earnings on Pension Plan Investments	Differences Between Expected and Actuarial Experience	Changes in Proportion	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts	Changes in Proportion	Total Pension Expense	Deferred Outflows of Resources	Deferred Inflows of Resources
02003	\$ 1,102,500,679	\$ 279,453	\$ 37,920,872	\$ 61,250,737	\$ (10,995,516)	\$ -	\$ 110,402,908	\$ (30,523,735)	\$ 607,912	\$ 80,487,085	\$ 38,200,326	\$ (31,849,056)
02095	1,062,373,366	3,092,250	36,540,680	59,021,416	(10,595,316)	-	106,384,614	(20,702,598)	1,552,555	87,234,571	49,795,634	(24,477,433)
07098	473,733,007	-	16,294,202	26,318,801	(4,724,658)	(11,784,332)	47,438,975	(11,037,809)	(3,815,639)	32,585,527	17,430,450	(22,699,296)
07023	306,539,866	1,856,212	10,543,539	17,030,187	(3,057,199)	-	30,696,482	(7,054,825)	778,105	24,419,762	13,299,381	(7,062,780)
29123	190,885,038	-	6,565,553	10,604,845	(1,903,744)	(7,814)	19,114,966	(5,659,792)	86,007	13,541,181	6,565,553	(6,227,040)
02123	173,380,873	569,787	5,963,492	9,632,381	(1,729,171)	-	17,362,123	(1,210,331)	275,683	16,427,475	12,268,369	(3,994,752)
07021	172,835,488	1,590,291	5,944,733	9,602,081	(1,723,732)	-	17,307,509	(4,926,963)	624,917	13,005,463	7,535,024	(5,259,563)
01002	170,512,092	6,466,281	5,864,819	9,473,002	(1,700,560)	-	17,074,847	(4,373,217)	2,293,698	14,995,328	12,331,100	(4,272,333)
13041	154,763,267	-	5,323,133	8,598,057	(1,543,493)	(1,125,134)	15,497,782	(6,355,210)	(313,419)	8,829,153	5,323,133	(9,488,380)
16052	130,087,473	2,308,193	4,474,401	7,227,164	(1,297,395)	-	13,026,781	(1,486,841)	850,914	12,390,854	9,997,612	(2,997,258)
04011	109,733,312	-	3,774,313	6,096,365	(1,094,398)	(282,838)	10,988,544	(2,389,375)	(45,882)	8,553,287	4,352,167	(2,811,130)
06017	98,626,095	3,002,459	3,392,277	5,479,290	(983,623)	-	9,876,282	(1,595,173)	1,074,060	9,355,169	7,952,516	(2,272,378)
05012	93,363,964	-	3,211,284	5,186,946	(931,142)	(998,111)	9,349,340	(2,143,527)	(298,442)	6,907,371	3,495,038	(3,149,247)

Sample Employer GASB 68 Disclosures

Pension Liabilities, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, and Pension Expense (Cont).

For the year ended June 30, 2016 **UABC** recognized pension expense of \$89,813. At June 30, 2016 **UABC** reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources on their Balance Sheet:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	(\$11,155)
Changes of assumptions	20,698	-
Net difference between projected and actual earnings on pension plan investments		(2,709)
Changes in proportion	<u>114,886</u>	<u> </u>
Total	<u>\$ 135,606</u>	<u>(\$ 13,864)</u>

Payable to the Pension Plan: UABC reported a Net Pension Liability of \$601,738 for the year ended June 30, 2016.

***These illustrations include only commonly required Employer disclosures. Employers should consult with their Independent Public Accountants and the Audit Rule for specific financial statement presentations.

Questions?



- Interest on the unfunded liability
- Contributions less than the Annual Required Contributions (ARC)
- Earlier retirement higher than assumed
- Longer life expectancy than assumed
- Salary increases higher than assumed
- Total payroll growth lower than assumed
- Investment losses

Multi-year, multi-prong effort

Legislation

- 2005 SB181 increased member/employer contributions
- 2009 HB573 increased retirement eligibility requirements
- 2013 SB115 increased member contribution, reduced COLA until 100% funded

Investments

- Continued diversification, de-risking of portfolio
- Constantly seeking most cost efficient management structure

Governance

- Annual actuarial valuations and biennial experience studies