



# **GASB 67 & 68 in NC**

*State and Local Government Finance Division*

July 22, 2014  
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*State and Local Government Finance*



*Learn. Invest. Grow. Prosper.*

# GASB 67 & 68 in NC

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## Agenda:

- Overview of Standards, particularly 68
- What are we doing in NC to prepare?
- How will all this new data be audited?
- Training and communication
- What is not changing – just as important as what is changing
- Coming attractions



## Overview of GASB 67 & 68 Requirements and How They Differ from Current Guidance for Pensions



# GASB 67 & 68 in NC

Terminology – highly recommend you study the glossary of Statement 68

- Cost sharing plan – multiple employers contribute, assets are comingled and can be used to satisfy liabilities to any retiree in the plan regardless of employer
- Employer participant – employer that is part of a cost sharing plan
- Total pension liability (TPL) – gross liability of pension plan
- Net pension liability (NPL) – TPL less the plan fiduciary net position
- Average expected remaining service life of actives and inactive – actuarially determined figure, used for amortization
- Valuation date – date of actuarial valuation of the TPL, can be no more than 30 months and 1 day before financial report date
- Measurement date – date of measurement of NPL, can be no earlier than end of prior fiscal year



# GASB 67 & 68 in NC

- Current guidance is GASB 25 for pension plans and GASB 27 for participant employers
  - Focus is on funding
  - Reporting is centered around funding as it relates to required contributions
- New standards are GASB 67 for pension **plans** and GASB 68 for **participant employers**
  - Focus is on calculating the net pension liability and pension expense
  - Reporting is centered around the employer's share of the liability (for multi-employer plans) and recognizing appropriate expense for retired, active and inactive employees



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- GASB's intent to separate accounting for the liability from funding
- Effective dates:
  - GASB 67 for years ending after June 15, 2014 – June 30, 2014 is **first** FYE affected in NC
  - GASB 68 for years ending after June 15, 2015 – June 30, 2015 is **first** FYE affected in NC



# GASB 67 & 68 in NC

# Units	FYE	GASB 68 Effective Date	Valuation Date	Initial Measurement Date	Financial Report Due Date	# of Months Gap B/W FYE and Report Due Date	Expected Data Availability Date <sup>4</sup>
855	06/30	6/30/15	12/31/13	6/30/14	10/31/15	4	Spring 2015
14	09/30	9/30/15	12/31/14	6/30/15	3/31/16 <sup>1</sup> and 6/30/16	6 and 9	Spring 2016
8	12/31	12/31/15	12/31/14	6/30/15	4/30/16 <sup>2</sup> and 9/30/16	4 and 9	Spring 2016
10	03/31	3/31/16	12/31/14	6/30/15	7/31/16 <sup>3</sup> and 12/31/16	4 and 9	Spring 2016



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1 –Public housing authorities due 6/30

2 – ElectriCities report due 4/30, remainder are public housing authorities due 9/30

3 – RDU Airport Authority due 7/31; remainder are public housing authorities due 12/31

4 – Assumes 12 months between valuation date and availability of audited data





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- Cost-Sharing Plans – Employer Liability
  - GASB Statement No. 27
    - Liability only reported to the extent that employers fail to make all or a portion of their ARC
  - GASB Statement No. 68
    - Liability represents the employer's proportionate share of the *net pension liability* for the entire plan (collective of all employers participating)



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- Components of Net Pension Liability Under GASB 68
  - Difference between Total Pension Liability and Plan Fiduciary Net Position
  - Total Pension Liability – actuarial present value of projected benefit payments attributable to **past** periods of employee service
  - Plan Fiduciary Net Position – Assets, including investments valued at fair market value as of the indicated date, plus deferred outflows of resources, less liabilities (including amounts owed to plan participants) and deferred inflows of resources



Changes	(A) Total Pension Liability	(B) Plan Fiduciary Net Position	(A) – (B) Net Pension Liability
Beginning Balances	(A)	(B)	(A) – (B)
Service Cost	+	No effect	+
Interest on the TPL	+	No effect	+
Diff B/W Expected and Actual Experience	+/-	No effect	+/-
Contributions ER	No effect	+	-
Contributions EE	No effect	+	-
Net Investment Income	No effect	+	-
Benefit Pymts and refunds of contributions	-	-	No effect
Admin Expense	No effect	-	-
Other changes	No effect	+/-	-/+
Ending Balances	Balance at 6/30/14	Balance at 6/30/14	Balance at 6/30/14

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- Components of Pension Expense Under GASB 68
  - Service Cost (formula)
  - Interest on total pension liability (calculated using same discount rate that is used to calculate service cost)
  - Differences between expected and actual experience (calculated and amortized over estimated remaining service life of all employees in the plan)
  - Changes of assumptions, if any (calculated and amortized over estimated remaining service life of all employees in the plan)



# GASB 67 & 68 in NC

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- Components of Pension Expense Under GASB 68
  - Projected earnings on plan investments (using assumed RoR)
  - Differences between projected and actual earnings on plan investments (amortized over closed 5 year period with new 5 year period starting each year)
  - Plan administrative expense
  - Other changes in fiduciary net position



# GASB 67 & 68 in NC

## Deferred Inflows and Outflows

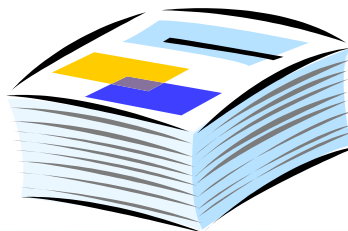
- The components of pension expense that are deferred and amortized will be allocated to each participant employer based on the percentage used to allocate the liability.
- Most data will be provided but each unit will have to track its proportionate share
- One deferred outflow that each unit will have to calculate and track is the full accrual dollar amount of ***employer contributions*** to LGERS for the year gap between the measurement date and the fiscal year end date.
- SLGFD will provide templates for tracking annual amortization amounts as needed



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Note disclosures for employer participants in cost-sharing plans:

- Description of plan, benefits provided, and contribution requirements
- That LGERS does not issue a stand alone report, that it is included in the State's CAFR and how to access a copy
- Assumptions used to measure total pension liability
- By reference to State's CAFR the elements of plan's financials and fiduciary net position
- Discount rate assumptions



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## Note Disclosures (continued):

- Participant employer's proportionate share of collective NPL
- If employer has special funding situation, information relative to employer and non-employer's portions of the employer's share
- Change in the proportion since the prior measurement date
- Measurement date, valuation date, and statement that update procedures were used to roll valuation date information to measurement date
- Brief description of changes in assumptions since prior measurement date that affect measurement of TPL
- Brief description of any changes between the current measurement date and the employers reporting date that will affect proportionate share and an estimate of that affect if possible





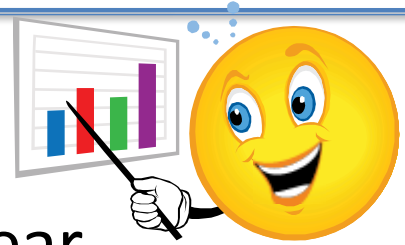
# GASB 67 & 68 in NC

## Note Disclosures (continued):

- The amount of pension expense recognized by the employer during the reporting period
- Employer's balances of deferred outflows and inflows related to pensions and classified into various categories
- A schedule that reflects the next five years' aggregate deferred inflows and outflows that will be recognized in pension expense and the amount of the employer's balance of deferred outflows that will be included as a reduction of the net pension liability (employer's contributions subsequent to measurement date)
- The amount of revenue recognized as support provided by nonemployer contributing entities (special funding)



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## RSI

- Determined as of measurement date, 10 year schedule:
  - Employer's proportionate share of NPL in % and \$ figures
  - Covered payroll
  - Employer's proportionate share in \$ of NPL as a % of covered payroll
  - Funded percentage of plan



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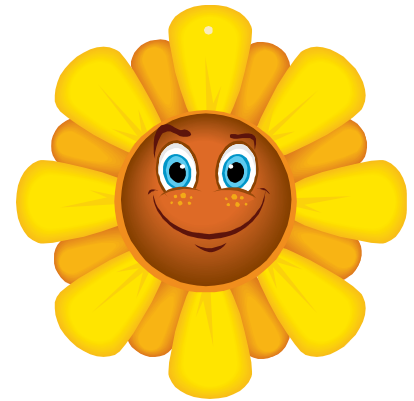
## RSI (continued):

- If you have a special funding situation, all of the above with data broken down between employer portion and non-employer portion
- Determined as of employer FYE, 10 year schedule:
  - Statutorily or contractually required employer contribution (excluding any amounts to finance specific liabilities)
  - Contributions recognized by the plan in relation to employer's contributions
  - Difference if any between the two
  - Employer's covered payroll
  - Contributions recognized by the plan as a % of employer's covered payroll



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- Defined Contribution Plans
  - GASB Statement No. 68 does not change current accounting and reporting guidance for defined contribution plans
    - Pension expense = required contribution
    - Liability only for difference in required and actual contributions



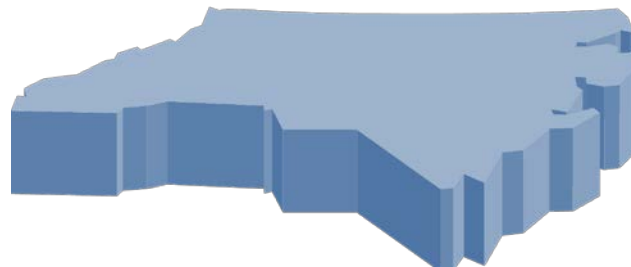
# GASB 67 & 68 in NC

## What are We Doing in NC to Prepare?



# GASB 67 & 68 in NC

- Four defined benefit multi-employer plans that local governments participate in
  - TSERS
  - LGERS
  - Firefighters' and Rescue Squad Workers' Pension
  - Register of Deeds Supplemental Pension Plan
- Are a few single employer plans offered by individual units
- Net Pension Liability (NPL) will be calculated for each State plan and apportioned across participant employers as of June 30 each year



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- Most data you will need will be provided by Retirement Division in conjunction with State's actuary and OSA
- SLGFD will provide templates for disclosures and financial statement presentation
- Data will be timely enough to not interfere with timely completion of financial statements



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- Special funding situation
  - Firefighters' and Rescue Workers' Pension at local/State level
- A special funding situation exists when someone **other than the employer** is legally obligated to make a **pension contribution directly to the pension plan** that is used to provide pensions to the employees of another entity or entities and **either**
  - 1) the amount of contributions for which the non-employer entity is legally responsible is not dependent on one or more events or circumstances unrelated to the pensions; or
  - 2) the non-employer entity is the only entity with a legal obligation to make contributions directly to a pension plan.



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- In special funding situations, the employers for members in those pensions will report an additional pension expense for the amount of proportionate share allocated to the non-employer and a matching revenue along with the proportionate share of deferrals
- For local units, State makes a contribution for firefighters and rescue workers that are not State employees. Local unit's share is 0% so State's share will be the pension expense the local unit will record



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- Data Challenges at State Level
  - Have to apportion liability using enough decimals so that all liabilities that are material to individual participant employers are calculated
  - May have some challenges determining which entities belong together due to how various organizations joined LGERS
  - Participant employers will have to keep track of deferred inflows and outflows each year – one is amortized over 5 year closed period with new periods starting each year, and remaining are amortized over remaining useful service life of members both active and inactive, with a new set of deferrals each year



## How Will All This New Data Be Audited?



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- Guidance on auditing for 68
  - Two AICPA white papers issued February 24, 2014
  - Three Audit Interpretations issued by AICPA on April 22, 2014
  - Still waiting on updated *State and Local Government Auditing Guide*



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- Projected payroll will be used as allocation method
- Sample chosen by OSA will be used to provide assurance on census data for calendar year 2013 (AICPA White Paper)
- Same sample will audit additional census data for DST



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- **Plan management** is responsible for completeness and accuracy of census data
- **Plan auditor** is responsible for testing
- Using a risk based approach, plan auditor can select a sample of employer participants and have employer's auditor test data as part of an attest engagement
- Plan auditor will determine which, if any, participant employers are a large enough percentage of the whole to be considered individually important – those employers would be tested each year
- Remaining employers will be tested on rotating basis unless they are determined to be so small individually that they are insignificant to the whole even when combined with all other employers also deemed to be insignificant
- Plan auditor responsible for testing data on inactives and retirees



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## Auditing Census Data – AICPA White Paper

- Certain pieces of the GASB 68 puzzle are reliant on the accuracy of the data that is either reported to the pension plan and controlled by the participant employers – payroll data for active employees - OR that is controlled by the plan itself – typically data on inactives and retirees





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- OSA requesting sample perform census data testing for the following -
  - Eligibility
  - Compensation
  - Date of birth
  - Gender

Attest document will be required



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- DST requesting additional census data testing by local government units in the OSA sample
  - Class of employee – general, LEO, or firefighter
  - Date of hire/date employee first reported as employee of participant employer
  - Date of termination



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## Reporting for Plans and Participant Employers in Multi-Employer Cost Sharing Plans – AICPA White Paper

- Significant cooperation between plan, participant employers and auditors will be needed to successfully implement
- Decisions to be made:
  - Who will calculate the allocation percentages? Recommend that the plan do this
  - Who determines collective pension amounts such as deferrals? And who calculates allocation of these amounts? Recommend the plan do this as well
  - AICPA recommends that the plan provide a schedule of allocations and related notes and that the plan engage an auditor to obtain reasonable assurance on the schedule and related notes



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AICPA has issued three audit interpretations relevant to GASB 67/68

- AU-C Section 9500 – Is plan statement by itself sufficient for use by participant employers to successfully implement GASB 68?
  - No. Current strategy in NC is to have OSA issue a separate report of the required proportionate share schedule for NPL, the elements of pension expense including deferrals that come from the plan



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- AU-C 9500 – Can participant employer rely on the report by plan auditor as sufficient audit evidence?
  - Yes with consideration given by the participant employer that the plan auditor's report and accompanying schedules are adequate and appropriate for the participant auditor purposes. Participant auditor should recalculate % share



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- AU-C 9600 – Is the Plan a component (for group audit purposes) of the participant employer?
  - No
- AU-C 9805 – sample report that plan auditor can use for schedules



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- What are we doing to prepare?
  - Cross-divisional and cross-departmental team working on implementation – DST, OSA, OSC and the State’s actuary
  - “Dry run” for 67 for TSERS and LGERS essentially complete including disclosures and 100 year run out to determine if either plan ever “crosses over” to where we would have to use a blended discount rate
  - “Dry run” for 68 underway
  - Have met and will continue to meet regularly with OSA, OSC and the State’s actuary to work through issues



# GASB 67 & 68 in NC

- OSA will issue a report with allocation schedule, related notes, and assurance for the NPL
- No decision has been made about schedule of allocation of pension expense and deferrals – coming soon
- OSA is considering hiring its own actuary to provide comfort on the State's actuary work
- OSA has identified participant employer auditors to do census data testing on a sample basis
  - Local government auditors should be doing some of this testing already to make sure payroll expense and liabilities are correctly stated





# GASB 67 & 68 in NC

## Training and Communication

- Training for finance staff and local government auditors
- Communications to citizens and elected officials
- We have a dedicated web page for 67 and 68 – accessible from SLGFD homepage
- Will be developing training tools including webinars, memos, illustrative financials, workbooks, FAQs, and possibly regional training sessions
- Will be developing communications tools to help local governments communicate all of this to citizens and elected officials



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- Important to note what will not change
  - Statements do not dictate funding or benefits
  - Statements do not create any new obligations for pensions
  - GASB's intent to separate accounting for liability from funding of the liability



# ED on OPEB Reporting

- ED on OPEB reporting changes is available on GASB website
  - Comments deadline is Aug 29
- GASB will be looking for comments on the ED
- It appears that OPEB reporting requirement will mirror pensions
- Unlike pensions, almost all units with OPEB have their own plans
  - Unit will have to contract with actuary to provide data
  - Unit's auditors will have to get comfortable with process and numbers
  - Will apply to units that have only implicit rate subsidy plans as well as those that pay for a benefit
  - Will also address the issue that we have with LEO where you have a benefit that is not being administered through an irrevocable trust



# Questions?

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- Website
  - <http://www.nctreasurer.com>
  - State and Local Government
    - Local Fiscal Management – right side of page is link to “New Pension Standards-GASB 67 and GASB 68”

