# Questions and Answers regarding MPERA & TRS Implementation of GASB Statements 67, 68, and 71

## October 2014

### New GASB Rules Will Impact Montana MPERA and TRS Employers

The Governmental Accounting Standards Board (GASB) recently approved two new statements that will change the way a public retirement system like MPERA and TRS discloses its pension information. Statement No. 67, *Financial Reporting for Pension Plans*, affects the financial statements in MPERA's and TRS' Comprehensive Annual Financial Report (*CAFR)*. Statement No. 68, *Accounting and Financial Reporting for Pensions*, affects the financial statements of the MPERA and TRS-affiliated employers. Statement No.68 financial disclosures made by MPERA and TRS *will* be published each year on the pension plans' respective websites. The new GASB Statements are a change from the way financial disclosures have been made in the past. Employers will need to consult with their own independent auditor or accountant. State Accounting, Local Government Services, Office of Public Instruction (OPI), MPERA, and TRS will be assisting affiliated employers in the development of the required information for employer reporting.

Any questions about audits performed by the Legislative Audit Division (LAD) should be directed to the LAD at 406-444-3122.

### 1. What is GASB?

GASB is an independent, non-profit, non-governmental regulatory body charged with setting authoritative standards of accounting and financial reporting for state and local governments.

### 2. Why are we required to follow the GASB pronouncements?

Governmental entities are required to follow the Generally Accepted Accounting Principles as noted below and therefore, must follow GASB pronouncements.

State Agencies: 17-1-102(2), Montana Code Annotated (MCA) - The department [of Administration] shall prescribe and install a uniform accounting and reporting system for all state agencies and institutions, reporting the receipt, use, and disposition of all public money and property in accordance with generally accepted accounting principles.

School Districts: 20-9-213(1), MCA - The trustees of each district have the authority to transact all fiscal business and execute all contracts in the name of the district. A person other than the trustees acting as a governing board may not expend money of the district. In conducting the fiscal business of the district, the trustees shall cause the keeping of an accurate, detailed

accounting of all receipts and expenditures of school money for each fund and account maintained by the district in accordance with generally accepted accounting principles and the rules prescribed by the superintendent of public instruction.

Local Governments: 2-7-504, MCA – (1) Unless otherwise required by law, the department [of Administration] shall prescribe by rule the general methods and details of accounting for the receipt and disbursement of all money belonging to local government entities and shall establish in those offices general methods and details of accounting. All local government entity officers shall conform with the accounting standards prescribed by the department.

(2) The rules adopted by the department must be in accordance with generally accepted accounting principles established by the governmental accounting standards board or its generally recognized successor.

Administrative Rule of Montana (ARM) 2.4.401 - All counties, cities, and towns shall adhere to the accounting and financial reporting standards adopted by the Governmental Accounting Standards Board (see ARM 2.4.411).

Failure to comply with the required standards may result in an adverse opinion during your audit.

### 3. Which GASB Statements are being replaced?

Statement No. 67 replaces the requirements of the existing Statement No.25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and is effective for fiscal years beginning after June 15, 2013, which means these new requirements will be included in the respective year-end 2014 *CAFR*.

Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. This reporting requirement applies to the GAAP-based financial statements of MPERA and TRS-affiliated employers and is effective for fiscal years beginning after June 15, 2014.

Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* is an amendment to Statement No. 68 and is effective for fiscal years beginning after June 15, 2014.

Both Statement Nos. 67 and 68 replace the requirements of Statement No. 50, *Pension Disclosures*.

### 4. Statements shift from a funding approach to an accounting approach, what does that mean?

The new Statements relate to accounting and financial reporting issues and how pension costs and obligations are measured and reported in audited external financial reports. While there has

been a close relationship between how governments fund pensions and how they account and report information until now, the new guidance establishes a decided shift from a funding-based approach to an accounting-based approach. This shift was designed to improve pension information and increase the transparency, consistency, and comparability of pension information across governments.

Historically, GASB viewed an unfunded pension obligation as a liability to be reported in future financial statements, rather than as an existing liability of the employer or plan and information about the total liability was disclosed in the required supplemental information. GASB has adopted a formal definition of a liability for purposes of governmental financial reporting, known as the Net Pension Liability, which now will show on participating employers' balance sheets. It is important to note that these new reporting requirements will not necessarily reflect the financial condition of a governmental entity because a pension liability cannot be made immediately due and payable. In an instance where there might be a surplus attributable to the pension plan, the assets belong to the employees, not to the governmental employer and cannot be used for any purpose other than to pay retirement distributions to employees once they are eligible to receive them.

## 5. What do these new standards mean for employers?

Each employer is part of at least one pension trust fund at MPERA or TRS. GASB now will require, for purposes of governmental financial reporting, that the employer allocated share of the total net pension liability (unfunded liability) of the pension trust fund be shown on the face of each employer's financial statements. Similarly, the employer allocated share of the total pension expense and collective deferred inflows of resources and deferred outflows of resources of the pension trust fund will also be shown on the face of each employer's financial statements. In addition, these standards will require employers to include additional footnote disclosures and schedules about the pension trust fund in their financial statements.

## 6. Is this liability due and payable immediately?

No, the net pension liability is unlike any of the other liabilities reported on an employer's balance sheet, in that it is not immediately due and cannot be paid off under any accelerated schedule. Contribution rates are set in statute; an employer would only remit their statutory contribution amount. An employer would not be able to remit payment, for the employer allocated share of the net pension liability, in order to remove this liability from their financial statements.

## 7. Will these changes affect the amount of contributions sent to the retirement systems?

No, only the Montana Legislature has the power to change the contribution rate through the statutes that govern the retirement systems. Although the employer allocated share of the

collective net pension liability is shown on the face of each employer's financial statements, contribution requirements to the retirement systems are not impacted by this change.

## 8. Do the new GASB Statements establish requirements for how governments should fund their pensions?

No, the new reporting standards break the link between actuarial funding and financial accounting for pensions. Previous GASB standards required pension plans to calculate the annual required contribution (ARC) and report payments toward the ARC. This measured the plan's funding of the pension obligation. The new standards consider only how systems account for and report pension costs. The term used in the new standard is the Actuarial Determined Contributions (ADC). This is the recommended contribution to evaluate if the contributing entities are keeping pace with actuarial contribution measures.

## 9. What steps are MPERA and TRS taking to reduce the net pension liability of each pension trust fund?

The financial crisis of 2008 resulted in a significant reduction in Montana's public pension investment portfolios. With support from the Governor's Office, the Legislature and other stakeholders, House Bill 122 was passed and approved in 2011 to reduce the cost of benefits for PERS and two bills were passed and approved during the 2013 Legislature to reduce the unfunded liability of TRS and PERS-DBRP by increasing funding and reducing the cost of benefits to each system. House Bill 377 for TRS and House Bill 454 for PERS increased funding available to amortize the unfunded liability of each system through additional contributions from the State, increased employee and employer contributions while reducing the cost of benefits by increasing the normal retirement age of plan participants of TRS and reducing the Guaranteed Annual Benefit Adjustment (GABA) paid to retirees of both systems. The reduction to the GABA payable to retirees has been challenged and is currently in District Court pending a decision. As a result of the measures taken by the 2013 Legislature, the amortization period for TRS decreased from "Infinite" to 20 years with a reduction to GABA or 29 years without a reduction to GABA while the amortization period for PERS decreased from "Infinite" to 14 years with a reduction to GABA or 43 years without a reduction to GABA.

## 10. Will MPERA and TRS provide net pension liability and other pension-related amounts to assist employers with GASB Statement No. 68?

Yes, MPERA and TRS will provide several calculated items to assist employers. These items will be at the employer level for each pension trust fund including: employer net pension liability, employer deferred outflows of resources, employer deferred inflows of resources, and employer pension expense amounts. The information will be available in May 2015 following the end of the plan year end. Additional information will be posted on the TRS website

https://trs.mt.gov/trs-info/EmployersGasb or the MPERA website http://MPERA.mt.gov/Gasbinfo.shtml as it is available.

## 11. Will MPERA and TRS provide the total employer allocated share of the net pension liability?

Yes, MPERA and TRS will provide the allocation percentage and the schedule of the employer allocated share for each pension trust fund on an annual basis. The appropriate allocation percentage then can be used by an employer to determine the pension-related amounts to be included in their financial statements. The AICPA has published a white paper containing a proposed schedule of employer allocations. It's important to note that MPERA and TRS can only provide the allocation percentage at the employer level. An employer's allocation percentage will be calculated for each reporting agency. However, if the reporting agency is a primary government or fiscal agent with component units or is a component unit of a separate government or fiscal agent, employers may need to perform further allocations or roll-ups of pension-related amounts based on their financial reporting structure.

## 12. Will MPERA and TRS provide other pension-related amounts?

Please refer to the GASB memo for details. This memo which was sent out in May 2014 itemizes the information that will be distributed by MPERA and TRS to the employers. The memo also communicates the source of the information.

## 13. What will the cost of disclosures be for employers?

Many employers are wondering how the cost of the new GASB disclosures may impact their budgets.

MPERA and TRS are working with their actuaries to determine which schedules will be provided and what the preparation of those schedules will cost. MPERA and TRS will treat the costs from the actuary as administrative expenses of the retirement systems and the employers will not incur direct costs as a result of the expense incurred in preparing the disclosures.

Employers will be responsible for any additional costs if they choose to utilize a methodology for determining the liability and preparation of disclosures other than that provided by the retirement systems.

## 14. What is the basis used for calculating the employer's allocation percentage?

MPERA and TRS will calculate the allocation percentage using the current year's employer contributions on an accrual basis based on the MPERA and TRS year-end of June 30.

## 15. Will MPERA and TRS assist employers with the note disclosures required by the new reporting standards?

No. State Accounting Bureau, Local Government Services Bureau and OPI will provide sample footnote disclosures about the pension trust fund which employers can use as a starting point for inclusion in their financial statements. It may be difficult for some employers to complete these pension trust fund disclosures without assistance; therefore, employers should work with their accountants or financial statement preparers and their auditors to ensure disclosures meet the requirements of the new reporting standards.

## 16. What is the employer's responsibility?

The census data submitted to the retirement system by the employers is the responsibility of the employer. This data is extracted by the retirement system administrator and forwarded to the actuary for the purpose of performing the annual valuation and the GASB schedules.

Employers are responsible for the appropriate financial presentations and footnotes, when applicable. Please refer to question #2 above or refer to the appropriate contact as listed in question #22.

The lowest level of information MPERA and TRS can provide employers is at the reporting entity level, which does not necessarily match the amounts an employer would need to report on their financial statements. Employers will have to assign the liability to the appropriate financial statement reporting unit.

## 17. When are the MPERA and TRS *CAFR*s published?

MPERA's and TRS' fiscal year-end is June 30th and the *CAFR* is normally published by December following the fiscal year-end. It's also important to note that actuarial valuations for both MPERA and TRS are performed on an annual basis as of fiscal year end. The valuation results for a given year are included in the current year's *CAFR*. Both the *CAFR*s and the valuations are published on our respective websites.

## 18. Where can I find additional information about the new pension reporting standards?

Please view the MPERA and TRS websites for information relating to the new GASB standards. A memo was released in May 2014 that answers many common questions. The new reporting pronouncements are available on the GASB website. GASB also published a plain language document covering these pronouncements which may prove helpful. Consultation with an

independent auditor or your own accountant about these GASB standards and their implementation also is encouraged.

MPERA and TRS are also developing an educational series covering specific aspects of the new reporting standards in greater detail. Notices will be sent regarding the release of these materials.

### 19. Will MPERA and TRS provide any information I can use to communicate these new reporting standards for pensions to my governing board?

Yes. MPERA and TRS have provided a memo to help employers communicate the issues surrounding the new reporting standards to their governing boards. We are also providing a high level communication tool to assist in providing information to your governing body. Members of the governing boards may contact MPERA and/or TRS for more information on the new GASB standards.

### 20. How and when do I receive specific updates regarding the new reporting standards from MPERA and TRS?

All updated information will be posted in the GASB section of the MPERA and TRS websites.
The link to the GASB section of the MPERA website is: http://MPERA.mt.gov/gasbinfo.shtml
The link to the GASB section of the TRS website is: https://trs.mt.gov/trs-info/EmployersGasb
The retirement systems expect to have the GASB 68 employer schedules and disclosures available May 2015.

### 21. Are the new reporting standards, detailed in Statement Nos. 67 and 68, applicable to Other Postemployment Benefit (OPEB) plans?

No. GASB Statement Nos. 67 and 68 do not apply to OPEB plans. Currently, GASB is deliberating the possibility of adopting improvements to the existing standards for accounting and financial reporting for OPEB plans. New guidance pertaining to OPEB plans currently is in Exposure Draft form with final guidance anticipated in June 2015.

## 22. Who do I contact with specific questions about the new reporting standards?

State Accounting Bureau:
Julie Feldman (406-444-4609)
Anthony Cacace (406-444-4689)

Local Government Services:
Kay Gray (406-841-2903)

Office of Public Instruction:
T. Janelle Mickelson (406-444-3249)
Steve Hamel (406-444-0783)
Jay Phillips (406-444-4523)

MPERA:
Barbara Quinn (406-444-5457)
Diann Levandowski (406-444-3193)

TRS:
Nolan Brilz (406-444-3679)

Information will be provided on the following websites:
www.MPERA.mt.gov or www.TRS.mt.gov

or Email: MPERA@mt.gov

or trswebadmin@mt.gov