



Public Plan Issues - Update on GASB Project

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Postemployment Benefits Project - Outline

- Process
- Scope
- Actuaries input into the process
- Financial reporting objectives
- Core issues from the Invitation to Comment
 - *Questions posed and GASB's tentative conclusions*
- Next steps



GASB's postemployment benefits (PEB) project

- GASB 25/27/43/45
- Research project
- Task Force
- Invitation to Comment (ITC)
- Staff Issue Papers
- Board Meetings / Tentative decisions
- "Due Process Document" (Preliminary Views)
- Exposure Draft
- Final Standard



Accounting/Reporting Scope

- Government-wide employer financial statements
- Plan financial statements later
- Pensions now (OPEB later)
- Sole and Agent employers now (cost sharing later)
- Financial statement presentation
 - Liability recognition
 - Expense recognition
 - Disclosures (later)



Financial Reporting Objectives

- Accountability
- Decision Usefulness
 - Including assessment of interperiod equity



Actuaries' input to the process

- Input but limited influence
- Representation on
 - Research oversight committee
 - Task Force
- Two educational workshops conducted for GASB Board Members
- Participation in December Task Force meeting
- Informal discussions with Staff
- CCA's PPC offer of assistance

Actuaries' input to the process

- Responses to GASB ITC
- Three-part response from AAA
 - *"Bridge document" overview*
 - *Financial Economics viewpoint*
 - *"Modified Conventional" viewpoint*
- Response developed by CCA Public Plans Committee
 - *Level cost / long term earnings viewpoint*
 - *Signed by over 40 individual CCA PPC members*
- Testimony at Hearings in August on ITC responses
- Comment on GASB Staff Issue Papers and Recommendations

Role of the Annual Required Contribution (ARC)

- GASB sets rules for accounting, not funding
 - *The ARC is only an expense requirement*
- Under current practice, the ARC is a viable funding requirement standard
 - *For pensions, ARC is often a de facto funding standard*
 - *Much less so for OPEB*
- PEB Project likely outcome: breaking any linkage between expensing and funding
 - *Actuaries raised this “accountability” issue*
 - *Without ARC, no source for contribution standards*



Core issues from the Invitation to Comment

- Issued framed by series of ITC questions
- GASB's tentative conclusions

Focus of Accounting and Reporting

- Which process related to pensions should be the focus? (ITC Chapter 2, Question 1)
 - a. Employer incurs an obligation to employees for defined pension benefits earned by them, or
 - That is, "the value of accrued benefits"
 - b. Employer finances its projected future cash outflows for defined pension benefits with contributions to the plan, or
 - That is, "level cost of services" (cost to taxpayers)
 - c. Both processes
- This is really selection of cost allocation method



Focus of Accounting and Reporting

GASB's Tentative Decision

- At the November Board Meeting, GASB chose not to decide this question.

Pension Liability Recognition

- What Obligations meet the definition of a liability in Concepts Statement No. 4? (ITC Ch. 3, Q. 2)
 - a. Cumulative difference between (1) amounts expensed, based on ARC (2) actual employer contributions, or
 - That is, current “net pension obligation” (NPO)
 - b. Employer’s unfunded accrued benefit obligation [however measured]
 - That is, some type of larger liability (depending on previous answer, some version of the unfunded actuarial accrued liability - “UAAL”; might be called “net pension liability”)
- Current practice: NPO on balance sheet, UAAL in Notes (using the plan’s cost method)

Pension Liability Recognition

GASB's Tentative Decision

- At the November Board Meeting GASB tentatively decided:
 1. Employer-employee exchange transaction
 2. Plan is the primary obligor, to the extent funded
 3. Employer is the secondary obligor, becoming primary to the extent unfunded
 4. There is a Concept 4 liability on the employer. "However measured", it is a present obligation with little or no discretion to avoid and it is sufficiently reliable for balance sheet status

Pension Expense Recognition

- Which expense recognition pattern is more consistent with the concept of interperiod equity? (ITC Ch 3, Q. 3)
 - a. Immediate recognition of events that affect the unfunded accrued benefit obligation [aka "UAAL"] as they occur, or
 - b. Deferred recognition (deferral and amortization) over a number of future years
- Current practice
 - Immediate recognition of UAAL in Notes
 - Deferred recognition in expense statement
 - And in NPO if not funded when expensed

Pension Expense Recognition

GASB's Tentative Decision

- At the November Board Meeting, GASB tentatively decided that changes in the “UAAL” other than by reason of a normal cost might have differing treatments:
 5. Changes in the “UAAL” because of changes to benefits of current retirees would be recognized immediately.
 6. Changes in the “UAAL” because of changes to benefits of active employees associated with collective bargaining agreements or similar arrangements might be amortized over the term of the agreement.

Pension Expense Recognition

GASB's Tentative Decision (continued)

7. Changes in the "UAAL" because of investment earnings within corridors might be amortized over a period (to be explored at a later meeting)
8. Changes in the "UAAL" because of actuarial gains/losses might be amortized over a period, except for events not likely to reverse (to be explored at a later meeting)
9. Changes in the "UAAL" because of changes in actuarial assumptions might be amortized over a period, except those associated with events that are not likely to reverse (to be explored at a later meeting)

Liability and Expense Recognition

- Chapter 3 has two interrelated questions
 - What goes on the balance sheet? NPO or “UAAL”
 - How are “UAAL” changes expensed? Immediate or deferred
- ITC Chapter 3 presents three “Alternatives”
 - Deferred recognition, only NPO on balance sheet
 - Immediate recognition, full “UAAL” on balance sheet
 - Deferred recognition, “UAAL” on balance sheet with offsetting “deferred charge asset”

Measurement Issues

- What future changes should the “projection of pension benefits” include or exclude? (ITC Ch 4, Q. 4)
 - a. Automatic cost-of-living adjustments (COLAs)
 - b. Future ad hoc COLAs, based on employer’s pattern of practice
 - c. Projected future salary increases
 - d. Projected future service credits.
- Unfortunately (and confusingly) selection of cost allocation method is delayed to Chapter 5
 - Closely related to both Focus (Chapter 2) and Measurement (Chapter 5)

Measurement Issues

GASB's Tentative Decision

- At the January Board Meeting, GASB tentatively decided that for the purpose of measuring the liability ("UAAL"):
 10. That the effects of automatic COLAs should be included in the projection of benefits
 11. That projected future ad hoc COLAs, referring in this context to COLAs that are dependent upon a decision to grant by a responsible authority, should be included in the projection of benefits when certain criteria for inclusion (to be further discussed at a subsequent meeting) are met.

Note: Wording taken from GASB documents verbatim.

Measurement Issues

GASB's Tentative Decision (continued)

12. That projected future salary increases should be included in the projection of benefits in circumstances in which the pension benefit formula is based on future compensation levels.
13. That projected future service credits should be included both in determining an employee's probable eligibility for benefits and in the projection of benefits in circumstances in which the pension benefit formula is based on years of service.

Note: Wording taken from GASB documents verbatim.

Measurement Issues

- Discount rate to use for discounting projected pension benefits to their present value for accounting purposes (ITC Ch 4, Q. 5)
 - a. Estimated long-term investment yield for the plan
 - b. Risk-free rate (or a yield curve of risk-free rates applied to cash flows of different maturities)
 - c. Employer's borrowing rate
 - d. Average return on high-quality municipal bonds
 - e. Other

Measurement Issues

GASB's Tentative Decision

- At the January Board Meeting, GASB tentatively decided that for the purpose of measuring the liability ("UAAL"):
 14. The discount rate(s) should be a blend reflecting the funded status.
"To the extent current and projected pension plan assets are expected to be sufficient to provide for payment of benefits in future periods, the projected benefit payments should be discounted at the long-term expected yield on plan assets. Additional benefit payments, if any, payable beyond the point at which plan assets are projected to be fully depleted should be discounted using a current high-quality municipal bond index rate."

Note: Wording taken from GASB documents verbatim.

Attribution Methods

No GASB Tentative Decisions Yet

- Actuarial and amortization methods (ITC Ch 5, Q. 6)
 - a. What actuarial cost method? [non sequitur?]

If accounting expense measurements include amortization:

- b. Maximum amortization period?
- c. Different periods for different "UAAL" changes?
- d. Amortization periods for past service benefit changes? What period for actuarial gains/losses?
- e. Amortization methods (level dollar; level % of pay)
- f. What method(s) for actuarial asset values?

Other issues

No GASB Tentative Decisions Yet

- Rules for Cost-sharing multiple employer plans as compared to sole or agent employer plans (ITC Ch. 6 Q.7)
 - a. Cost-sharing different in economic substance?
 - b. Cost-sharing different in economic substance, but additional disclosures needed?
 - c. Cost-sharing NOT different in substance; rules should be similar to sole and agent employer rules

Other issues (continued)

No GASB Tentative Decisions Yet

- Liability recognition in plan's financial statement (ITC Ch. 7, Q. 8)
 - a. Liability only for benefit currently due and payable, or
 - b. Some larger liability (however measured; i.e., some version of the "UAAL", not necessarily the same as the employer's "UAAL")

- Should changes in the "UAAL" be presented in the employer's financial statement? (ITC Ch. 7, Q. 9)



Tentative decisions by GASB

1. Employer-employee exchange transaction
2. Plan is primary obligor
3. Employer is secondary obligor
4. There is a Concept 4 liability on the employer
5. Immediate recognition of retiree benefit changes
6. Explore treatment of active employee benefit changes
7. Explore treatment of investment changes
8. Explore treatment of actuarial gains and losses

Tentative decisions by GASB (continued)

9. Explore the treatment of changes in actuarial assumptions and methods
10. Immediate recognize automatic COLAs
11. Explore ad hoc COLA and other patterns
12. Recognize future salary increases
13. Recognize future service credits for accrual, vesting and eligibilities
14. Blend the use of an expected long term return and a government borrowing rate.

Remaining Schedule

PEB Topic	Timetable
Attribution under actuarial cost method(s)	February 17 Bd Mtg
Expensing and amortizations, if any	February 17 Bd Mtg
Summary review on Sole and Agent employers	March 9 Teleconference
Cost sharing employers	March 9 Teleconference
First draft of Preliminary Views document	March 29-31 Bd Mtg
Pre-ballot review	May 11-13 Bd Mtg
Review ballot draft of Preliminary Views	June 1 Teleconference
Posted on GASB Web Site	June 30

Next Major Steps

- “Due process” document, probably a Preliminary Views (PV), released by end of June
 - Comment period for the PV
- Exposure Draft (ED) released
 - Comment period for ED
- Final Standard adopted (Statement No. XX)
 - Effective date(s)