ITEM NAME: Governmental Accounting Standards Board (GASB) Statement 68 Implementation

PROGRAM: Actuarial Office

ITEM TYPE: Action

RECOMMENDATION
Subject to budget approval in the regular budget process, that CalPERS provide employers on a voluntary fee for service basis, the actuarial information necessary for their accounting and financial reports as required under the new GASB Statement 68.

EXECUTIVE SUMMARY
Statement 68 was issued by GASB in June 2012, requiring State, School Districts and Public Agency employers to comply with new accounting and financial reporting. Providing employers with the new GASB information will require a significant amount of new work. This new work will require additional actuarial staff, significant enhancements to our Actuarial Valuation System (AVS), and modest enhancements to myCalPERS.

Since GASB Statement 68 work is an employer related requirement, expenses to provide that information to employers cannot be paid for from the PERF Trust. Therefore, in order for CalPERS to assist employers to comply with the new GASB requirements, the actuarial office will design a voluntary accounting valuation fee, to be determined in a later Board agenda item, to support both the computing and personnel resources necessary to provide such data. The revenue generated from these fees is estimated to recover the one-time costs for building a new billing system, and enhancements to AVS to support the GASB Statement 68 requirements. The fee will also fund the on-going costs for additional actuarial staff and additional AVS maintenance. The actuarial office has designed the billing level for this new service to be self-funding by reassessing the fees and employer usage every three years.

STRATEGIC PLAN
This agenda item supports objective 3.1 of the 2012-14 CalPERS Business Plan which calls for necessary changes to systems, processes, and procedures to conform to transparency and disclosure revisions to GASB 67 and 68.
BACKGROUND
In September 2011, the actuarial office presented to the Finance and Administration Committee the provisions, objectives and requirements of GASB Statements 67 and 68. GASB issued Statement 68 in June 2012. Statement 68 replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. The June 30, 2013 actuarial valuations are scheduled to be completed in October of 2014 for the public agencies and this data is expected to be the basis for GASB 68 financial reporting for fiscal year (FY) 2014-15. To meet this timeline and for CalPERS to be in a position to provide the necessary accounting and financial information to the agencies that request GASB 68 accounting valuations, the actuarial office must commence work on system enhancements in the upcoming fiscal year.

ANALYSIS
The following are the four alternatives that were examined:

- Alternative 1
  Do nothing and let employers seek their GASB 68 reporting valuations from private sources.

- Alternative 2
  Attempt to complete the initiative internally with the work to be done by current staff with no additional resources.

- Alternative 3
  Have CalPERS sub-contract with private actuarial firms.

- Alternative 4
  Enhance the Actuarial Valuation system and hire additional actuarial staff, so that CalPERS can provide employers with the new GASB Statement 68 information.

To arrive at the recommended alternative, staff used a multi-faceted comparison of cost, quality and efficiency. Staff compared costs and savings impact of providing or not providing the service to the State, School Districts and Public Agency employers. Staff also examined how the alternatives align with CalPERS mission and core
values, and how realistic the alternatives are in terms of delivery, quality and resource constraints. Below are the considerations for each of the above alternatives:

Alternative 1: This alternative was eliminated because although it may have a limited cost aspect to CalPERS, it would require employers to provide member and financial data directly to the private providers. Additionally, this process has an expected high cost to employers. Employers may have member data readily available but do not have asset or trust reporting information readily available as CalPERS maintains this information. CalPERS will see a surge in Plan information requests under this option due to GASB 68 requirements of the coordination of trust reporting (GASB 67) and employer reporting for cost-sharing employers. This increases workload. This alternative places CalPERS at odds with its core values of quality and accountability.

Alternative 2: This alternative was eliminated due to its unrealistic expectation of completion and probable degradation of current services. The actuarial office estimates that if every State, School District and Public Agency were to request a GASB 68 valuation for each of their plan(s), the number of GASB valuations per year would exceed 5,000. Currently the actuarial office produces about 2,500 valuations per year. With the recent passing of the Public Employees’ Pension Reform Act the actuarial office expects to produce 2,500 additional funding valuations. The current staffing and supporting resource base will likely be overwhelmed with the additional work. As a consequence, CalPERS would likely experience reputational risk and not meet its mission and core value aspirations of quality and accountability in providing services for the State and other employers.

Alternative 3: This alternative was considered as a viable option, but it was eliminated due to its expected higher cost to employers than what CalPERS could provide. This alternative would add a layer of bureaucracy to employers and extra work on CalPERS staff in providing data to the private actuarial firms. Providing this data would include State, School and Public Agency employer membership data and also the PERF’s Trust reporting data required through GASB 67. GASB 68 requires that the reporting for employers’ financial statements must coordinate with the reporting for the trust under which they belong. The extra work done for GASB 68 purposes would need cost allocations outside of the PERF as mentioned above and these two factors would add such extra costs that would probably approach alternative 1’s expected costs with another layer of bureaucracy.

Alternative 4: The actuarial office recommends subject to budget approval in the regular budget process, that CalPERS provide employers, on a voluntary fee for service basis, the actuarial information necessary for their accounting and financial reports as required under the new GASB Statement 68. This would maintain CalPERS quality, accountability, reputation, and would not compromise the PERF’s Trust by having work outside the scope of the PERF funded from a service fee. Also, since CalPERS is required to report GASB 67 information for the pensions it administers this will ultimately tie CalPERS to the employers reporting for GASB 68 purposes. It makes sense from an efficiency perspective and supports nearly all of
CalPERS core values to provide the complete picture of GASB 67 and 68 accounting information.

If the Board accepts this recommendation, providing GASB 68 accounting valuations will require additional staff, hardware and software. To meet this goal the actuarial office is requesting 4 new positions with estimated ongoing costs of $560,000 and one-time AVS software and billing and tracking software costs of $1.4 million for FY 2013-14; and 6 new positions beginning January 2015 with estimated annual ongoing costs of $840,000 and AVS software costs of $4 million for FY 2014-15 and another $5 million for FY’s 2015-16 to 2016-17. More exact costs will emerge after responses to any Requests for Proposal are made on the computer system upgrades.

**Proposed Cost Recovery**

The billing level for this new service is designed to be self-funding. The actuarial office has priced the GASB 68 reporting valuations such that our estimated ongoing and one-time costs from FY 2013-14 through FY 2017-18 are recouped over a ten year amortization period. Ongoing costs for FY 2018-19 and beyond will be offset by the report revenue stream. Staff assumed that 95% of our current employers will purchase the GASB 68 valuations annually from CalPERS (2,375 GASB valuations). The GASB 68 valuation revenue will begin during the FY 2015-16. We expect no revenue during the FY 2013-14 and FY 2014-15. For example, assuming we produce 2,375 GASB 68 reporting valuations per year beginning 2015-16, and we plan on recouping our on-going and one-time costs over a ten year period through the GASB 68 valuation pricing, and we begin receiving revenue in 2015-16, the price per GASB 68 valuation would be $1,400. To give a sense of the sensitivity of the fee costs to volume of requests, if the volume of requests doubles the fee level halves over the 10 year recovery period. The assumption of 2,375 expected valuations may be conservative. This assumption has only included public agency expected requests. If we include the State, School districts, and employers participating in the Judges Retirement System I and II and the impact of pension reform this number may approach 5,000 or more. At 5,000 valuations the fees could be reduced to $675 per valuation requested.

Actual costs for GASB 68 accounting valuations will be determined later. However this initial analysis enables CalPERS and employers to assess the feasibility of providing this information. Staff believes that this will be a very cost effective solution for employers.

**BENEFITS/RISKS**

**Benefits:**
The adoption of the fee for service proposal will provide the following benefits: First, by providing the required GASB information at a cost significantly lower than could be obtained elsewhere, CalPERS will assist employers in avoiding the risk of deterioration in the value that their defined benefit system provides. Second, since CalPERS provides the employers with other pension related services, the relationship
between CalPERS and the employers who sponsor the plan that CalPERS administers will be strengthened.

Risks:
Failure to adopt the fee for service proposal could result in reputational risk for CalPERS. The options that were not recommended all bore risks of increased CalPERS core value degradation. Without a complete product CalPERS will likely be drawn into piecemeal work without clear purpose or direction. Employers’ costs under all non-recommended options will probably see increases in procuring GASB 68 valuations in comparison to a CalPERS product. CalPERS will most likely see increased requests for data that is controlled or maintained within CalPERS and that has no mandate or no clear or discernible manageability. CalPERS will probably need to be prepared to examine these requests and design a fee structure to service their associated costs as they may fall outside the scope of PERF trust work. If CalPERS is unwilling to provide GASB 68 reporting valuations it may risk losing employers to other systems because employers may seek other providers as they may be desirous of a one-stop shop for all pension related work.

If the Board accepts the recommendation to prepare the GASB 68 valuations with fees, it demonstrates that CalPERS is being consistent with its own Business Plan, mission and core values. The recommended option also is designed to be cost neutral over time to CalPERS as it will have fees regularly reviewed to pay for additional resources needed to provide the product. Employers also benefit from the reduced cost of production due to the sheer volume and proximity to data.

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