



Agenda Item 8b

October 14, 2014

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

PROGRAM: Budget & Financial Reporting

ITEM TYPE: Information

EXECUTIVE SUMMARY

This agenda item provides an update on Statement No. 68 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Pensions* (GASB 68). It outlines the approach to employers for providing necessary information to employers to comply with GASB 68 in the preparation of their financial statements.

STRATEGIC PLAN

This agenda item supports Goal A of the 2012-17 CalPERS Strategic Plan to improve long-term pension and health benefit sustainability.

BACKGROUND

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, which revises and establishes new financial reporting requirements for governments that provide their employees with pension benefits. GASB 68 is effective for financial statements for fiscal years beginning after June 15, 2014. For Public Employee's Retirement Fund (PERF), GASB 68 classifies employers as cost-sharing and agent. A cost-sharing multiple-employer plan (cost-sharing plan) is one in which the participating employers pool their assets and their obligations to provide defined pension benefits, such as school employers and employers participating in risk pools. An agent multiple-employer plan (agent plan) is one in which the assets of the employers are pooled for investment purposes but separate accounts are maintained for each individual employer. CalPERS has identified each of these classification of employers within the PERF.

Prior to implementing GASB 68, employers participating in a cost-sharing multiple-employer defined benefit pension plan (cost-sharing plan) administered by CalPERS did not need any additional information beyond what was included in CalPERS' audited financial statements. Similarly, employers participating in an agent multiple-employer defined benefit pension plan (agent plan) administered by CalPERS used information from the CalPERS funding actuarial valuation reports for accounting and financial reporting purposes, and this was sufficient for their reporting purposes.

With the implementation of GASB 68, employers will be required to recognize a liability as employees earn their pension benefits (that is, as they provide services to the government). For the first time, employers will recognize their net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense. Participating employers will need additional information from CalPERS beyond what is currently provided in the funding actuarial valuation reports and audited financial statements to determine their specific pension amounts and related note disclosures.

Additionally, the American Institute of Certified Public Accountants (AICPA) issued a whitepaper that provided recommended solutions for plans (e.g. CalPERS) to provide schedule of employer allocations and schedule of pension amounts by employer for cost-sharing plans. AICPA also issued a whitepaper that provided recommended solutions for plans (e.g. CalPERS) to provide accounting actuarial valuation report, census data controlled by the plan, and schedule of changes in fiduciary net position by employer.

In the March 2013 meeting, staff reported to the Finance and Administration Committee, and the Board of Administration approved, that CalPERS' work to provide GASB 68 information to employers who request this data on a fee for service basis. While we recognize the challenging financial environment the employers are operating in, there is a legal requirement to recover these fees on a fee for service basis.

ANALYSIS

To determine the costs to be charged for preparation of these schedules and reports, CalPERS evaluated the incremental costs of preparing the additional information. The incremental costs are derived from the AICPA changes, accounting valuation reports, and the system changes. Based on the type of plans (i.e. cost-sharing or agent) administered, the time and effort to comply with the GASB 68 will differ and therefore, incremental costs will be determined by the type of plans administered. Within the cost-sharing plan, the public agency and schools pools also require a different time and effort to comply with GASB 68.

The incremental costs that will be incurred for an agent plan relate to:

- preparation of the accounting valuation report,
- correspondence with the employer and its external auditors,
- engaging our external auditors to issue an audit opinion on each employers' column in the schedule of changes in the fiduciary net position by employer,
- engaging our external auditor to issue an attestation report on completeness and accuracy of the census data controlled by CalPERS.

The incremental costs that will be incurred for a cost-sharing plan (public agencies) relate to:

- the preparation of a schedule of employer allocations,
- a schedule of pension amount by employer,
- engaging our external auditor to issue an audit opinion on these schedules.

The incremental costs that will be incurred for schools cost-sharing plan is expected to be minimal. CalPERS will provide the information at a summary level identifying their proportionate share based on their contributions. Each school district will need to determine their schedule of pension amount.

CalPERS has been working directly with employers through educational and informational sessions to determine the need for and timing of their reporting requirements. Actuarial reports are scheduled to be available to employers in the spring of 2015 for fiscal years beginning after June 15, 2014. The current process for administering employer requests on a fee for service basis through the my|CalPERS system will be utilized for the purposes of administering GASB 68 services.

BENEFITS/RISKS

Providing the necessary valuation reports will allow employers to access the necessary information required to complete their financial reporting and comply with GASB 68. Not providing the information to the employers could result in employers having insufficient information to complete their GASB 68 reporting requirements and their external auditors sufficient time to perform audit work necessary to issue an opinion on the financial statements related to the material pension amounts. Employers would have to hire actuarial services and incur additional costs to gain access to CalPERS information if this fee for service was not made available to them.

CalPERS has the knowledge to provide this service directly to the employers and can assist with meeting their financial reporting needs.

BUDGET AND FISCAL IMPACTS

The billing level for this new service is designed to be self-funding. Actual costs for GASB 68 accounting valuations are currently being evaluated which will provide a cost effective solution for employers.

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Controller

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Chief Financial Officer