

GASB 68

GUIDE FOR PUBLIC AGENCY COST-
SHARING MULTIPLE-EMPLOYER
DEFINED BENEFIT PENSION PLAN

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1. Introduction

A. Objective of Guide

This guide for the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (the Plan) has been prepared to assist the Plan's employers and their auditors with the calculation of the employers' proportionate shares of the collective pension amounts and the preparation of accounting journal entries as part of the 2nd year implementation of Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* (GASB 68) for measurement period ended June 30, 2015.

B. Methodology

In determining the allocation methodology, CalPERS applied paragraph 49 of GASB Statement 68. CalPERS administers the Plan by assessing different contribution rates to employers based on separate relationships that constitute the collective net pension liability of the Plan. Different contribution rates arise due to varying benefit levels within the risk pools. The approach reflects those separate relationships.

The basis for the calculations of total pension liability and actuarial valuations for funding purposes described below includes the most recent assumptions adopted by the CalPERS Board in February of 2014, the Entry Age Normal actuarial cost method and the Fair Value of Assets, all of which are consistent with Statement 68.

Effective for measurement period 2015, CalPERS provides a GASB 68 Accounting Valuation Report for the Miscellaneous risk pool and a GASB 68 Accounting Valuation Report for the Safety risk pool (GASB 68 reports). Along with the GASB 68 reports, CalPERS provides audited schedules of employer allocations and collective pension amounts for the Miscellaneous and Safety risk pools. The same allocation methodology is used for both risk pools. Note: the employer should determine their proportion shares at the risk pool and employer rate plan level.

The schedules of employer allocation include three ratios to be used by the employers. It includes allocation for the Total Pension Liability, Plan Fiduciary Net Position and all others pension amounts (e.g. deferred outflows/inflows of resources and pension expense). The Total Pension Liability is allocated based on the Actuarial Accrued Liability from the most recent Actuarial Valuation Report as of June 30, 2014 used for funding purposes. The Plan Fiduciary Net Position is allocated based on the sum of the Market Value of Assets from the most recent Actuarial Valuation as of June 30, 2014 used for funding purposes plus supplemental payments made by employers during the current measurement period to reduce their unfunded actuarial accrued liabilities. All other pension amounts (deferred outflows/inflows of resources and pension expense) are allocated based on the legally or statutorily required employer contributions for the fiscal year ended June 30, 2015, including reported contribution adjustments and suspended payroll information. Note that no adjustments have been made for contributions subsequent to the Measurement Date.

2. Calculations

A. Required Data

- **GASB 68 Reports for 2015 Measurement Date**
- **Employer Pension Amounts from the 2014 Measurement Period (reported in the 2015 financial statements)**

The following information is provided within the GASB 68 reports for the measurement period ended June 30, 2015, which can be found on CalPERS' website.

Source: 2015 GASB 68 Reports									
EARSL:	2015	3.8 years			Employer Contributions (pg 5)				
							376,902,997	Misc Risk Pool	
							476,688,774	Safety Risk Pool	
		Changes of Assumptions	Differences between Expected and Actual Experience	Net Difference between Projected and Actual Earnings on Investments	Total	TPL	FNP	NPL	Pension Expense
Misc Risk Pool:									
	Def Outflows	-	18,852,710	-	18,852,710				
	Def Inflows	(178,364,381)	-	(89,416,230)	(267,780,611)				
	Net Amount	(178,364,381)	18,852,710	(89,416,230)	(248,927,901)	13,639,503,084	10,896,036,068	2,743,467,016	169,012,983
Safety Risk Pool:									
	Def Outflows	-	-	-	-				
	Def Inflows	(240,480,839)	(52,285,670)	(121,877,190)	(414,643,699)				
	Total	(240,480,839)	(52,285,670)	(121,877,190)	(414,643,699)	18,131,714,318	14,011,269,803	4,120,444,515	300,366,268
Allocation Percentages									
	Rate Plan (RP) #	TPL	FNP	All Others			RP's Proportionate Share of Risk Pool ER Contributions		
Misc Risk Pool:									
City of Example	Example #	0.500000%	0.600000%	0.200000%			2,261,418		

Assumed Reported Balances in the Employer’s 2015 Financial Statements

The following are example balances reported by the employer in their 2015 Financial Statements based on the GASB 68 reports for the measurement period ended June 30, 2014:
 (Note, a negative amount denotes a liability and a positive amount denotes an asset.)

2015 F/S Reported balances (Source: 2014 GASB 68 Report)											
EARSL:	2014	3.8 years									
		Unamortized	Unamortized	Unamortized	Unamortized	Unamortized					
			Differences between Expected and Actual Experience	Difference in 2014 actual contribution and proportionate share of contribution	Change in Proportion	Net Difference between Projected and Actual Earnings on Investments	Deferred 2015 contribution	TPL	FNP	NPL	Net Position Impact
City of Example at Fiscal Year Ended June 30, 2015		-	-	(1,000,000)	1,500,000	(3,000,000)	600,000	(100,000,000)	90,000,000	(10,000,000)	(11,900,000)
Remaining amortization		n/a	n/a	2.8 years	2.8 years	4 years					
Remaining amortization											
2016		-	-	(357,143)	535,714	(750,000)					
2017		-	-	(357,143)	535,714	(750,000)					
2018		-	-	(285,714)	428,572	(750,000)					
2019		-	-			(750,000)					

B. Change in Proportion Calculation

In conformity with paragraph 54 of Statement 68, the net effect of the change in proportion is determined at the beginning of the measurement period. For the measurement period ended June 30, 2015, the amounts to be recognized for the change in the employer’s proportion are determined as follows:

- Total Deferred of Outflows of Resources (Total Deferred Outflows)¹ = Total Deferred Outflows * All others percentage²
- Total Deferred of Inflows of Resources (Total Deferred Inflows)¹ = Total Deferred Inflows * All others percentage²
- Total Pension Liability (TPL) = TPL¹ * TPL percentage²
- Fiduciary Net Position (FNP) = FNP¹ * FNP percentage²

¹ Balance is derived from the measurement period ended 2014 at the risk pool level.

² Allocation percentage is derived from the audited schedules of employer allocations for the measurement period ended 2015 for the respective employer rate plan.

The Net Pension Liability (NPL) is the difference between TPL and FNP. Net Position Impact is the sum of Total Deferred and NPL.

The change in proportion is determined by taking the difference between the calculated balance at the beginning of the measurement period and the reported balances for the 2014 measurement period.

F/S 2016 Change in Proportion Calculation:									
		Changes of Assumptions	Differences between Expected and Actual Experience	Net Difference between Projected and Actual Earnings on Investments	Total Deferred	TPL	FNP	NPL	Net Position Impact
Misc Risk Pool (2014 GASB 68 Report):									
	Def Outflows		-	-	-				
	Def Inflows	-		(728,797,653)	(728,797,653)				
	Net Amount	-	-	(728,797,653)	(728,797,653)	(13,110,948,452)	10,639,461,174	(2,471,487,278)	(3,200,284,931)
2015 Measurement Date Basis for 2014 Measurement Date Balances:				(1,457,595)		(65,554,742)	63,836,767	(1,717,975)	(3,175,571)
2014 Measurement Date reported balances				(3,000,000)		(100,000,000)	90,000,000	(10,000,000)	(13,000,000)
Difference				(1,542,405)		(34,445,258)	26,163,233	(8,282,025)	(9,824,429)
Change in Proportion at beginning of FY 2016									

C. Difference in Actual Contributions and Proportionate Share of Aggregate Employer Contributions Calculation

This is calculated by multiplying the total contributions of the respective risk pool by the respective employer rate plan’s FNP allocation percentage and subtracting the actuarial determined contributions. The actuarial determined contributions are the employer’s statutorily required contributions.

F/S 2016 difference in actual contribution and proportionate share of contribution calculation:			
Proportionate Share of Aggregate Employer Contributions:			2,261,418
Actuarial Determined Contributions (Estimate for FY 2016)			700,000
Difference			(1,561,418)

D. Allocated Financial Statement Balance for the 2015 Measurement Period

Using the 2015 GASB 68 reports provided, calculate the employer’s proportionate share of collective pension amounts for the respective risk pool by using the following appropriate allocation basis:

- Changes of assumptions = Changes of assumptions from the report * All Others allocation percentage (Deferred Outflows/Inflows of Resources and Pension Expense Allocation Basis)
- Difference between Expected and Actual Experiences = Difference between Expected and Actual Experiences from report * All Others allocation percentage (Deferred Outflows/Inflows of Resources and Pension Expense Allocation Basis)
- Difference in actual contributions and proportionate share of contributions – see below
- Change in proportion – see below
- Net Difference between Projected and Actual Earnings on Investments = Net Difference between Projected and Actual Earnings on Investments from report * All Others allocation percentage (Deferred Outflows/Inflows of Resources and Pension Expense Allocation Basis)
- Deferred 2016 contribution = Actuarial Determined Contribution (made in fiscal year ending 2016)
- TPL = TPL from report * TPL allocation percentage
- FNP = FNP from report * FNP allocation percentage
- NPL = TPL - FNP
- Impact on Net Position = Changes of assumptions + Difference between Expected and Actual Experiences + Difference in actual contributions and proportionate share of contribution + Change in Proportion + Net Difference between Projected and Actual Earnings on Investment+ Deferred 2016 contribution + NPL

		Changes of Assumptions	Differences between Expected and Actual Experience	Difference in actual contribution and proportionate share of contribution	Change in Proportion	Net Difference between Projected and Actual Earnings on Investments	Deferred 2016 contribution	TPL	FNP	NPL	Net Position Impact	Pension Expense
At June 30, 2016		(356,729)	37,705	(1,793,376)	(6,274,767)	(178,832)	700,000	(68,197,515)	65,376,216	(2,821,299)	(10,687,297)	338,026
				See Page 8	See Page 9							

Difference in Actual Contributions and Proportionate Share of Contributions

The difference in actual contributions and proportionate share of contributions at fiscal year ending June 30, 2016 will include the unamortized balances relating to the 2014 and 2015 measurement periods.

The first step is to calculate the difference in actual contributions and proportionate share of contributions related to the 2014 measurement period. This is calculated by subtracting current year amortization from the unamortized balance reported in fiscal year ended June 30, 2015. The amortization is calculated by dividing the unamortized balance by the 2014 remaining EARSL years. The EARSL information can be found in the June 30, 2014 GASB 68 reports.

The second step is to calculate the difference in contributions as of the 2015 measurement date. This is calculated by subtracting current year amortization from the balance for the June 30, 2015 measurement period. The amortization is calculated by dividing the balance for the June 30, 2015 measurement period by the 2015 EARSL. This information can be found in the June 30, 2015 GASB 68 reports. The balance for the June 30, 2015 measurement period was calculated previously (see Difference in Actual Contributions and Proportionate share of Contributions Calculation section on page 6).

Calculation of difference in actual contribution and proportionate share of contribution at June 30, 2016 F/S:							
			<u>2014 Measurement Date</u>		<u>2015 Measurement Date</u>		<u>Total</u>
	Balance reported at June 30, 2015		(1,000,000)		(1,561,418)	(See Page 6)	(2,561,418)
	CY amortization		357,143	2.8 years	410,899	3.8 years	768,042
	Balance reported at June 30, 2016		(642,857)		(1,150,519)		(1,793,376)

Change in Proportion

The change in proportion at fiscal year ending June 30, 2016 will include the unamortized balances relating to the 2014 and 2015 measurement period.

The first step is to calculate the change in proportion for the 2014 measurement date. This is calculated by subtracting current year amortization from the unamortized balance reported in fiscal year ended June 30, 2015. The amortization is calculated by dividing the unamortized balance by the 2014 remaining EARSL years. The EARSL can be found in the June 30, 2014 GASB 68 reports.

The second step is to calculate the change in proportion for the 2015 measurement date. This is calculated by subtracting current year amortization from the balance for the June 30, 2015 measurement period. The amortization is calculated by dividing the balance for the 2015 measurement period by the 2015 EARSL. This information can be found in the June 30, 2015 GASB 68 reports. The balance for the June 30, 2015 measurement period was calculated previously (see Change in Proportion Calculation section).

Calculation of change in proportion at June 30, 2016 F/S:							
			<u>2014 Measurement Date</u>		<u>2015 Measurement Date</u>		<u>Total</u>
	Balance reported at June 30, 2015		1,500,000		(9,824,429)	(See Page 5)	(8,324,429)
		CY amortization	(535,714)	2.8 years	2,585,376	3.8 years	2,049,662
	Balance reported at June 30, 2016		964,286		(7,239,053)		(6,274,767)

3. Journal Entries (JE)

The first step of the JE is to summarize the beginning balances (resulting from the 2014 measurement period JE). See 2015 Financial Statement Reported Balances (page 4) for this example.

		Debit	Credit
Beginning Balances (reported in the 2015 F/S)			
	Net Position	11,900,000	
	Deferred - Contributions	600,000	
	Deferred - Difference in actual vs. proj. Contributions		1,000,000
	Deferred - Change in Proportion	1,500,000	
	Deferred - Difference in Projected and Actual Earnings		3,000,000
	Net Pension Liability		10,000,000

The next step is to record the impact of employer contributions.

		Debit	Credit	
Record impact of employer contributions				
	Net Pension Liability	600,000		PY deferred amount
	Deferred - Contributions		600,000	
	Deferred - Contributions	700,000		FY 2015 measurement date Actuarially Determined Contribution
	Contribution / Expenses		700,000	

The next step is to record pension expense excluding differences in actual vs. proportionate share of contribution. Note, the pension expense may need to be adjusted. For this particular example, the pension expense was adjusted for difference in proportion recognized immediately in the 2015 measurement period. The deferred balances are calculated by taking the difference between the prior year and current year balances.

		Debit	Credit						
	Record impact of CY pension expenses excluding difference in actual vs. proportionate share of contribution								
	Pension Expenses/(Credit)		1,280,745		Include pension credit for difference in proportion recognized immediately during FY 2015 measurement date				
	Deferred - Changes of Assumptions		356,729		Difference in PY and CY ending. No PY balances				
	Deferred - Differences between Expected and Actual Experiences	37,705			Difference in PY and CY ending. No PY balances				
	Deferred - Difference in Projected and Actual Earnings	2,821,168			Difference in PY and CY ending				
	Deferred - Change in Proportion		7,774,768		Difference in PY and CY ending				
	Net Pension Liability	6,553,368							
	Total	9,412,241	9,412,241						

The last step is to record the impact of difference in actual vs. proportionate share of contributions.

		Debit	Credit		
	Record CY impact of difference in actual vs. proportionate share of contribution				
	Pension Expenses	768,042			
	Deferred - Difference in actual vs. proj. Contributions		793,376		Difference in PY and CY ending
	Net Pension Liability	25,333			Recalculated.

4. Pension Amounts Summary As of June 30, 2016

The following is a summary of the example pension amount balances, as of June 30, 2016:

Summary - Reported balances as of June 30, 2016		
	NPL - Reported	(2,821,299)
	Deferred - Changes of Assumptions	(356,729)
	Deferred - Differences between Expected and Actual Experiences	37,705
	Deferred - Difference in actual vs. proj. Contributions	(1,793,376)
	Deferred - Change in Proportion	(6,274,768)
	Deferred - Difference in Projected and Actual Earnings	(178,832)
	Deferred - Contributions	700,000
	Net Position	(10,687,298)