Georgia Municipal Association
Pre-Convention Workshop:
Big Changes Coming to Retirement Plans

June 21, 2013

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Agenda

GASB 67/68

- Details
- Implementation
- Concerns
- Other Issues
The GASB Changes

- New standards approved June 25, 2012
  - Statement 67 replaces Statement 25 for Plan reporting
  - Statement 68 replaces Statement 27 for Employer reporting

- Major Game Changers in the new rules
  1. Placing the Net Pension Liability on the Balance Sheet
  2. Decoupling Expense from Funding
  3. Accounting for Cost-Sharing Plans
  4. Expanding Disclosure Information (Notes & RSI)

- “Mythconceptions” about discount rates, contributions

- Timing and Frequency, Effective Dates
The GASB Changes

Effective dates

- Statement 67 for plan reporting: Effective for all plans for plan years beginning after June 15, 2013 (2013/2014 for fiscal year plans or 2014 for calendar year)

GASB “Implementation Guides” will be essential – to be released in late June 2013 (for plans) and early 2014 (for employers)
GASB Objectives and Goals

**Financial Reporting Focus**
- GASB establishes accounting and financial reporting standards, not funding policies
- Focus on pension obligation, changes in obligation, and attribution of expense

**Long-Term Nature of Governments**
- Cost of services to long-term operation
- “Interperiod equity” matches current period resources and costs

**Employer-Employee Exchange**
- Employer incurs an obligation to its employees for pension benefits
- Transaction is in context of a career-long relationship
Game Changer #1: Net Pension Liability Reported on Balance Sheet

Net Pension Liability (NPL)
- Total pension liability minus plan assets at market value ("plan net position")
- Similar to Unfunded Actuarial Accrued Liability (UAAL) but using market assets, not "smoothed" assets

NPL must be reported on the employer’s balance sheet
- Currently, UAAL is reported in the Required Supplementary Information (RSI)
- Currently, only the Net Pension Obligation is reported on the balance sheet
  - Cumulative difference between annual required contribution (ARC) and actual contributions
Net Pension Liability Reported on Balance Sheet

- Total Pension Liability is an Actuarial Accrued Liability, calculated using:
  - Projected future benefits
    - Includes projected future service, salary increases and automatic Cost-of-Living Adjustments (COLAs)
    - Includes the cost of ad hoc COLAs if substantially automatic
  - A new “blended” discount rate
  - “Entry age” actuarial cost method

- NPL is then TPL minus market value of assets
  - Asset smoothing allowed in determining pension expense, but reported separately
    - In Schedule of Deferred Inflows and Outflows of Resources
The New “Blended” Discount Rate

- Discount rate is based on projected benefits, current assets, and projected assets for current members
  - Projected assets include future contributions that fund benefits for current members
  - Projected assets do not include employer or employee contributions that fund service cost for future employees

- For projected benefits that are covered by projected assets
  - Discount using long-term expected rate of return on assets

- For projected benefits that are not covered by projected assets (i.e., after the “cross-over date”)
  - Discount using yield on 20-year AA/Aa tax-exempt municipal bond index

- Solve for a single rate that gives the same total present value
  - Use that single equivalent rate to calculate the total pension liability (TPL)

The TPL standardizes the actuarial cost method, and adjusts the discount rate based on future funding.
Discount Rate Clarifications

How are contributions projected in determining the discount rate?

- Depends upon how employer contributions are determined

  - Is one of the following true?
    - Contributions are subject to statutory or contractual requirements, or
    - A formal, written policy related to contributions exists

  - If so, then use professional judgment to project contributions
    - Consider the employer’s 5-year history as indicator for future contributions
    - Reflect all known events and conditions

  - If neither is true, projected contributions are based on average of contributions for past 5 years
    - Average can be percentage of pay, percentage of actuarially determined contribution, or percentage of Annual Required Contribution
    - Potentially modified for subsequent events
Discount Rate Clarifications continued

- Long-term rate of return
  - Long-term is period between time employees are hired until when they retire
  - Based on investment strategy
  - Should be net of investment expense, but not net of administrative expense
    - Administrative expenses are a separate, future cash flow

- Municipal bond index rate
  - Modified from 30 year to 20 year based on availability of rate information
  - Can be a yield or an index rate
  - Must have average rating of AA/Aa or higher
Discount Rate Clarifications continued

- Projection of benefits and assets
  - No safe harbor to avoid the projecting benefits and assets
  - Requires projection of the long term cash flow of the pension plan
    - Benefit payment stream until last current member dies
    - Projected assets including only future contributions that fund benefits for current members
  - However, sufficiency of projected plan assets to pay projected benefits “might be determined through other methods”
    - Not clear what this will allow

The derivation of the discount rate will require significant additional calculations by the actuary.
Let's Play…

TRUTH

OR

Scare
The “blended” discount rate is not based on the plan’s current funded status, but on projected benefits and assets. This includes future contributions to fund benefits for current employees. Most plans with contributions based on a written actuarial funding policy will continue to use their long-term earnings assumption as the discount rate.

Scare

The new GASB rules will require Plan Sponsors to use a lower discount rate based on their current funded status. This will greatly increase the unfunded liability that they will now have to include on the balance sheet.
Long-term Rate of Return Disclosures

- Note disclosures on the long-term rate of return must include:
  - Description of how it was determined
  - Significant methods and assumptions used
  - Expected asset allocation
  - Real rates of return for each major asset class
  - Whether rates of return are arithmetic or geometric means

- Disclosures required regardless of whether or not they were actually used as direct inputs to determine the long-term rate of return

- Disclosures highlight the methodology for selecting the long-term rate of return
  - May result in a more disciplined process for selecting the long-term rate of return for some entities
Game Changer #2: Decoupling Expense and Funding

Current Pension Expense

- Based on an actuarially determined funding requirement – Annual Required Contribution (ARC)
  - Normal cost plus
  - Amortization of the unfunded actuarial accrued liability (UAAL)
    - Period not greater than 30 years
    - Closed or open amortization period
    - Level dollar or level percent of payroll
  - Can be based on any of six actuarial cost methods
  - Serves as a defacto funding standard

- Pension expense is:
  - ARC, plus
  - Interest on any Net Pension Obligation (NPO),
  - Adjustment to the ARC

If contribution always equals ARC, then pension expense equals ARC.
New Pension Expense Component

New GASB pension expense is the change in NPL each year, with deferred recognition of certain elements

- Specifically **NOT** intended to be a funding standard

Components of the new pension expense include:

- Service cost (i.e., normal cost)
- Interest on the total pension liability (TPL) as of the beginning of the year
- Changes in total pension liability over the year (with certain deferrals)
- Differences between actual and projected earnings over the year (with certain deferrals)
- Projected investment returns over the year
- Employee contributions
- Other changes in plan net position (i.e., market value of assets)
New Pension Expense Components

Changes in Total Pension Liabilities that Are Recognized Immediately

- Changes in total pension liability over the year (*no deferrals allowed*)
  - Service cost
  - Annual interest on the TPL
  - Projected investment returns over the year
  - All plan amendments
Changes in Total Pension Liabilities where Some Deferrals are Allowed

- Changes in total pension liability over the year (with deferrals)
  - Changes in actuarial assumptions
  - Actuarial gains and losses

- These changes are recognized in expense over average expected remaining service lives of active and inactive members (including retirees)
  - Resulting recognition periods will be very short (often less than 10 years)
  - Method must be systematic and rational, using closed periods

Simpler calculation than was in the Exposure Draft, but similar impact on expense.
New Pension Expense Components continued

Changes in Assets where Some Deferrals Are Allowed (i.e. expensed over multiple periods)

- Differences between actual and projected earnings over the year (i.e., investment gain/loss)
  - Recognized in expense over closed 5 year period
  - Somewhat similar to current 5-year actuarial asset smoothing

- NPL on the balance sheet will be “market volatile” but effect on expense will reflect smoothing
  - Through “Deferred Inflows and outflows”

- Effect on expense will be different from funding (and ARC)
  - Smoothed over 10 years for GMEBS plans or as adopted
  - Also amortized past of UAAL (pursuant to GA law and policy)
The faster — often immediate — recognition of net pension liability changes will introduce much greater volatility in the reported expense.

- This volatility will be reflected directly on the income statements of plan sponsors.

This volatility is what disqualifies this new expense as a basis for determining a funding policy.

- Result is two competing measures of plan cost.

Plan sponsors may need to adopt funding policies in response to GASB’s divorce of plan expensing and funding.
Game Changer #3: Proportioned Reports for Cost-Sharing Plans

**Current standards are simple:**

- Pension expense is contractually required contribution
- Balance sheet liability is the accumulated difference between the contractually required contribution and the actual contribution
- No ARC or NPO
- Unfunded actuarial accrued liability is not reported at all
Cost-Sharing Plans

New standards treated like single employer plans:

- Recognize proportionate share of collective net pension liability and pension expense
- Determining an Employer’s “proportionate share”
  - “The use of the projected long-term contribution effort of the employer(s)… is encouraged.”
  - If “different contribution rates are assessed based on separate relationships that constitute the net pension liability …. the determination of the employers’ net pension liability should … reflect those separate relationships.”
    – “For example, separate rates are calculated based on internal allocation of liabilities and assets for different classes or tiers of employees”
Cost-Sharing Plans continued

**Proportionate share of NPL**
- Calculation must reflect any different contribution rates associated with different components of the collective NPL
  - For example, rates based on separate assets and liabilities for different classes or tiers
- A description of the basis for determining the proportionate share of NPL must be disclosed in the notes

**Proportionate share of collective pension expense**
- Collective pension expense
  - Amortization of items based on average expected remaining service life of all employees
- Proportionate share of pension expense
  - Multiply collective pension expense by the ratio of the employer’s portion of NPL to collective NPL
Cost-Sharing Plans continued

Measurement date

- Under the Exposure Draft, the calculations had to be as of the employer’s fiscal year end
  - Would have required liabilities and assets to be measured as of the fiscal year end for each employer
  - Could have been up to 12 dates each year (every month)

- A cost sharing plan can determine its total pension liability and plan net position (market assets) at one date each year
  - Probably the plan’s valuation date
  - Each employer’s share can be as of that same date

Allowing the assets and liabilities NPL to be measured once per year is a welcome improvement over the ED, but this is still a new burden for cost-sharing plans.
Special Funding Situations

- Covers situation where state or government that is not the employer contributes to the plan may be assuming a portion of the NPL
  - Example – Law governing a teacher retirement system requires the State to contribute 50% of the school district contributions on their behalf

- These entities do not have to report a portion of the NPL on their balance sheets if:
  - The entity has no legal obligation to contribute or
  - The entity’s contribution requirement is defined in terms of a dedicated revenue stream

- If neither of the above two conditions apply, these entities must disclose their proportionate share of the collective NPL
Game Changer #4
Expansion of Disclosure Information (Notes and RSI)

- Includes both Notes and Required Supplementary Information
- Greatly expanded employer disclosures, including:
  - Description of the plan and assumptions
  - Policy for determining contributions
  - Sensitivity analysis of the impact on NPL of a one percentage point increase and decrease in the discount rate
  - Changes in the NPL for the past 10 years
- Development of long-term earnings assumption
- Annual rates of investment return for past 10 years (plan only)

The expanded disclosures will greatly increase the information employers need from the plan for the employer’s financial statements.
More new disclosure information

- “Actuarially determined contribution”
  - ADC is the “New ARC”
  - Basis and amount – if determined!
  - Comparison to amount actually contributed
  - May encourage review (or creation) of actuarial funding policy

Expanded disclosures greatly increase the pension information needed for plan and employer’s financial statements.

- New and challenging questions for employer’s financials:
  - Which actuary develops this information?
  - Who pays for it?
Timing and Frequency

- Net Pension Liability measurement date can be earlier than the fiscal year end reporting date
  - No earlier than the end of prior fiscal year
  - Must be consistently applied from period to period

- Total Pension Liability component determined by:
  - Actuarial valuation as of NPL measurement date, or
  - Actuarial valuation as of a date no more 30 months (plus one day) before reporting date, rolled forward to NPL measurement dated

- Asset component of Net Pension Liability:
  - Must be fair value of assets as of NPL measurement date
  - No roll forwards allowed
Timing and Frequency \textit{continued}

- Actuarial valuations must be at least biennial
- Recognition of significant changes between the actuarial valuation date and the measurement date:
  - Changes to benefit provisions
  - Size or composition of the membership
  - Change in municipal bond rate component of the discount rate
  - Other factors or assumptions that affect the valuation results
Effective Dates

- For plan reporting, the statement is effective for all plans for fiscal years beginning after June 15, 2013 (FYE 2014)

- For employer reporting, the statement is effective for fiscal years beginning after June 15, 2014 (FYE 2015)

The effective dates were delayed from the preliminary drafts, allowing for more time to establish processes for complying with the new standards, including GASB Implementation Guides.
Key Implications of the GASB Standards

- The new rules represent a shift of focus from the long-term commitment to fund to a short-term snapshot of funded status based on market assets and a blended discount rate.

- Putting the NPL on the balance sheet will add a large and unstable element to an employer’s net financial position as presented in the basic financial statements.

- Having two different “cost” numbers – funding and expense – will present a communications challenge around what is the “true cost” of the plan.

- Cost-sharing plans in particular will have new expense and liability reporting that may be difficult both to produce and to interpret.
Key Implications of the GASB Standards continued

- Both the timing and the scope of the new reporting will require greater coordination between the plan and employer, as well as between the actuary and the auditor.

- Plan will need to determine where the cost of reporting the financial information that employers will require for their financial statements will be charged.

- Having the NPL on the balance sheet could mean more involvement by the auditor in actuarial results. This could change the roles of the auditor and actuary.

- Under current GASB rules, the ARC serves as a *de facto* contribution standard. With pension expense no longer a basis for funding, public plans will need new guidelines for setting funding policies.

- For Georgia plans, state law establishes minimum funding.
Implementation
The following slides compare current accounting and funding elements.

The illustrations are examples based on current understanding of the new standards.

These could change based on details found in the implementation guides.

The sample is for a GMEBS member.
## Contributions for fiscal year beginning from July 1, 2012 valuation for a sample public sector Plan:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommended Contribution</td>
<td>$802,451</td>
<td>11.02%</td>
<td>0 years</td>
</tr>
<tr>
<td>Absolute Minimum</td>
<td>$685,142</td>
<td>7.67%</td>
<td></td>
</tr>
<tr>
<td>Funding Percentage</td>
<td>102.78%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Active Demographics as of valuation date:

- **Number of active employees**: 86
- **Total valuation payroll**: $7,158,000
- **Average age**: 48.9
- **Average service**: 12.6
The following table compares the current actuarial numbers with the new GASB accounting standard. The NPL shown below will appear directly on the balance sheet of the sample memeber. The estimated expense for 2013 presumes actual experience matches the actuarial assumptions. The member will be able to use the long-term investment return assumption due to the strong funding position.

<table>
<thead>
<tr>
<th></th>
<th>7/1/2012 Valuation Results</th>
<th>7/1/2012 GASB 67/68 Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Accrued Liability</td>
<td>$32,926,474</td>
<td>$34,527,455</td>
</tr>
<tr>
<td>Valuation Assets</td>
<td>$33,840,937</td>
<td>$29,471,567</td>
</tr>
<tr>
<td>Unfunded Liability (NPL)</td>
<td>($914,463)</td>
<td>$4,466,495</td>
</tr>
<tr>
<td>Ratio of Assets to Accrued Liability</td>
<td>102.78%</td>
<td>87.06%</td>
</tr>
<tr>
<td>Normal Cost</td>
<td>$741,534</td>
<td>$604,803</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>$31,520</td>
<td>$31,520</td>
</tr>
<tr>
<td>Recommended Contribution for 2013</td>
<td>$802,451</td>
<td>$802,451</td>
</tr>
<tr>
<td>Estimated Expense for 2013</td>
<td>$802,451</td>
<td>$1,077,469</td>
</tr>
<tr>
<td>NPL projected to 12-31-2012</td>
<td>N/A</td>
<td>$5,188,022</td>
</tr>
</tbody>
</table>
GASB 67/68 Implementation

The Chart below was taken from the July 1, 2012 actuarial valuation for the sample plan. It reflects the plan’s funding policy. The GASB changes do not directly affect the recommended contribution.

<table>
<thead>
<tr>
<th>CHART 8</th>
<th>Recommended Contribution</th>
<th>Valuation Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Total benefit normal cost</td>
<td>$741,534</td>
</tr>
<tr>
<td>2.</td>
<td>Administrative expenses</td>
<td>31,520</td>
</tr>
<tr>
<td>3.</td>
<td>Expected employee contributions</td>
<td>0</td>
</tr>
<tr>
<td>4.</td>
<td>Employer normal cost: (1) + (2) + (3)</td>
<td>$773,054</td>
</tr>
<tr>
<td>5.</td>
<td>Actuarial accrued liability at valuation date</td>
<td>$32,926,474</td>
</tr>
<tr>
<td>6.</td>
<td>Actuarial value of assets at valuation date</td>
<td>33,840,937</td>
</tr>
<tr>
<td>7.</td>
<td>Unfunded/(surplus) actuarial accrued liability: (5) – (6)</td>
<td>-$914,463</td>
</tr>
<tr>
<td>8.</td>
<td>Payment on unfunded/(surplus) actuarial accrued liability</td>
<td>0</td>
</tr>
<tr>
<td>9.</td>
<td>Full funding credit</td>
<td>0</td>
</tr>
<tr>
<td>10.</td>
<td>Recommended mid-year contribution at valuation date: (4) + (8) + (9)</td>
<td>$773,054</td>
</tr>
<tr>
<td>11.</td>
<td>Adjustment to fiscal year*</td>
<td>29,397</td>
</tr>
<tr>
<td>12.</td>
<td>Total recommended mid-year contribution, for fiscal year</td>
<td>$802,451</td>
</tr>
<tr>
<td>13.</td>
<td>Recommended contribution as a percentage of expected payroll</td>
<td>11.02%</td>
</tr>
</tbody>
</table>

* Fiscal year begins January 1, 2013.
The following shows the development of the expected 2013 expense under the new GASB rules. Interest is applied at 7.75%.

<table>
<thead>
<tr>
<th>Description</th>
<th>7/1/2012 GASB 67/68 Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Pension Liability (TPL)</td>
<td>$34,527,455</td>
</tr>
<tr>
<td>Market Value of Assets</td>
<td>$29,471,567</td>
</tr>
<tr>
<td>Net Pension Liability at 7-1-2012</td>
<td>$5,055,888</td>
</tr>
<tr>
<td>Net Pension Liability at 12-31-2012</td>
<td>$5,188,022</td>
</tr>
<tr>
<td>Service Cost</td>
<td>$604,803</td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>$31,520</td>
</tr>
<tr>
<td>Interest on NPL</td>
<td>$391,831</td>
</tr>
<tr>
<td>Service Cost with interest to Year End</td>
<td>$651,675</td>
</tr>
<tr>
<td>Administrative Expense with interest to Year End</td>
<td>$33,963</td>
</tr>
<tr>
<td>Expected 2013 Pension Expense</td>
<td>$1,077,469</td>
</tr>
</tbody>
</table>
GASB 67/68 Implementation

Implementation Issues

- How many plans will need the new GASB disclosures?
- Should the funding policy be changed to Entry Age Normal?
  - This will have different impact for individual plans.
- The valuation reports will have to be modified for compliance.
  - Should the valuation include all of the new disclosure requirements or should this be a separate document?
- What will be the relationship between the plan and the auditor?
- How or will plan sponsors, legislative members, city councils and others be educated?
Concerns
GASB 67/68 Concerns

Delinkage of Funding and Expensing (from slide 20)

- The faster — often immediate — recognition of net pension liability changes will introduce much greater volatility in the reported expense.
  - This volatility will be reflected directly on the income statements of plan sponsors.

- This volatility is what **disqualifies** this new expense as a basis for determining a funding policy.

Sponsors must review funding policies in response to GASB’s divorce of plan expensing and funding.
Communication Challenges (from slide 31)

➢ The new rules represent a shift of focus from the long-term commitment to fund to a short-term snapshot of funded status based on market assets and a blended discount rate.

➢ Putting the NPL on the balance sheet will add a large and unstable element to an employer’s net financial position as presented in the basic financial statements.

➢ Having two different “cost” numbers – funding and expense – will present a communications challenge around what is the “true cost” of the plan.

➢ Under previous GASB rules, the ARC serves as a de facto contribution standard. With pension expense no longer a basis for funding, public plans will need new guidelines for setting funding policies.

➢ Fortunately, most Georgia plans have a well formed funding policy in place that can adapt to the new accounting requirements.
GASB 67/68 Concerns

Coordination Challenges (from slide 32)

- Both the timing and the scope of the new reporting will require greater coordination between the plan and employer, as well as between the actuary and the auditor.
- Having the NPL on the balance sheet could mean more involvement by the auditor in actuarial results. This could change the roles of the auditor and actuary.
- Coordination between developing the budget and completing the CAFR will be a greater challenge.
The following graphs are based on:

- The Plan is open and ongoing
- The funding % on an actuarial asset basis is 92%
- On a market basis the funding % is 71%
- The Member has a funding policy that amortizes its unfunded actuarial accrued liability over 10 years as a level dollar
- The current investment return assumption is 7.75% and inflation is assumed at 3.50%
- The projected cash flow will allow the Member to use the long-term expected rate of return on assets
- Projections are based on our current understanding of the new GASB standards but are subject to change after reviewing the implementation guide
GASB 67/68 Concerns

Graph 1

- The following graph presents the GASB 25/27 ARC and the new GASB 67/68 expense
- It is assumed for this graph that all assumptions are met including the 7.75% investment return
- ARC and expense are shown as a % of covered payroll
- As expected the two amounts are very consistent with each other
Graph 1
Projected Contribution or Expense as a % of Salary
All Assumptions Met

% of Salary

-20% -10% 0% 10% 20% 30%

0 1 2 3 4 5 6 7 8 9 10

Assumed ARC
11% 13% 14% 14% 14% 14% 14% 14% 13% 13% 13%

Assumed Expense
11% 13% 13% 13% 13% 13% 13% 13% 13% 13% 12%
GASB 67/68 Concerns

Graph 2

- The following graph presents the GASB 25/27 ARC and the new GASB 67/68 expense
- It is assumed for this graph that all assumptions are met except that the first 10 years are like the 1990s and the next 10 years are like the 2000s
- ARC and expense are shown as a % of covered payroll
- The graph emphasizes the annual volatility of expense under GASB 67/68
GASB 67/68 Concerns

Graph 2
20 Year Demonstration of Expense Volatility
Under the New Standards

% of Salary

Sample ARC 1990s
11% 14% 14% 14% 14% 14% 13% 12% 11% 10% 8% 7% 8% 9% 9% 9% 10% 10% 16%

Sample Expense 1990s
11% 15% 12% 11% 11% 11% 8% 2% -5% -15% -16% -7% 10% 29% 30% 22% 17% 6% 12% 27% 27%
The following slides present some of the information that will be included in future Comprehensive Annual Financial Reports (CAFRs).

Including:

- Balance sheet changes
- Notes to financial statements
- And Required Supplemental Information (RSI)
## Sample CAFR Exhibits – Balance Sheet

### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Pre GASB 68</th>
<th>GASB 68</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and investments in marketable securities</td>
<td>$16,971,572</td>
<td>$16,971,572</td>
</tr>
<tr>
<td>Other current assets</td>
<td>1,835,491</td>
<td>1,835,491</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>18,807,063</strong></td>
<td><strong>18,807,063</strong></td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>6,515,070</td>
<td>6,515,070</td>
</tr>
<tr>
<td>Other assets</td>
<td>219,956</td>
<td>219,956</td>
</tr>
<tr>
<td><strong>Net Pension Asset</strong></td>
<td>1,151,360</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td><strong>7,886,386</strong></td>
<td><strong>6,735,026</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>26,693,449</strong></td>
<td><strong>25,542,089</strong></td>
</tr>
</tbody>
</table>

### Liabilities, Deferred Inflows of Resources, and Fund Equity

<table>
<thead>
<tr>
<th>Description</th>
<th>Pre GASB 68</th>
<th>GASB 68</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td>$4,121,088</td>
<td>$4,121,088</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>674,796</td>
<td>674,796</td>
</tr>
<tr>
<td><strong>Net pension liability</strong></td>
<td>-</td>
<td>4,466,496</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>4,795,884</td>
<td>9,262,380</td>
</tr>
</tbody>
</table>

### Deferred inflows of resources

<table>
<thead>
<tr>
<th>Description</th>
<th>Pre GASB 68</th>
<th>GASB 68</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred inflows of resources related to pensions</td>
<td>-</td>
<td>708,109</td>
</tr>
</tbody>
</table>

### Net Position

<table>
<thead>
<tr>
<th>Description</th>
<th>Pre GASB 68</th>
<th>GASB 68</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in capital assets</td>
<td>6,515,070</td>
<td>6,515,070</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>15,382,495</td>
<td>11,544,130</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>21,897,565</td>
<td>18,059,200</td>
</tr>
</tbody>
</table>

### Total liabilities, deferred inflows of resources, and net position

<table>
<thead>
<tr>
<th>Description</th>
<th>Pre GASB 68</th>
<th>GASB 68</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total liabilities, deferred inflows of resources, and net position</strong></td>
<td><strong>26,693,449</strong></td>
<td><strong>28,029,689</strong></td>
</tr>
</tbody>
</table>
The Notes section will include the following items:

- **General Information**
  - A description of the employer
  - A description of the retirement plan
  - A summary of the plan of benefits
  - A summary of plan participation
  - The plan sponsor’s funding policy

- **Net Pension Liability (NPL) Information**
  - A summary of actuarial assumptions
  - The current asset allocation
  - A derivation of the discount rate
  - A summary of changes in the NPL
  - A summary of deferred inflows and outflows
### Sample CAFR Exhibits - RSI

<table>
<thead>
<tr>
<th>Total pension liability</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$622,781</td>
</tr>
<tr>
<td>Interest</td>
<td>2,531,614</td>
</tr>
<tr>
<td>Differences between expected and actual experience</td>
<td>(896,938)</td>
</tr>
<tr>
<td>Benefit payments, including refunds of employee contributions</td>
<td>(791,981)</td>
</tr>
<tr>
<td><strong>Net change in total pension liability</strong></td>
<td>1,465,476</td>
</tr>
<tr>
<td><strong>Total pension liability - beginning</strong></td>
<td>33,061,980</td>
</tr>
<tr>
<td><strong>Total pension liability - ending (a)</strong></td>
<td>$34,527,456</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Plan fiduciary net position</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions - employer</td>
<td>$1,918,070</td>
</tr>
<tr>
<td>Net investment income</td>
<td>943,006</td>
</tr>
<tr>
<td>Benefit payments including refunds of employee contributions</td>
<td>(791,981)</td>
</tr>
<tr>
<td>Administrative expense</td>
<td>(37,778)</td>
</tr>
<tr>
<td><strong>Net change in plan fiduciary net position</strong></td>
<td>2,031,317</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Plan fiduciary net position - beginning</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Plan fiduciary net position - ending (b)</strong></td>
<td>$30,060,960</td>
</tr>
</tbody>
</table>

| Association's net pension liability - ending (a) - (b)       | $4,466,496|

| Plan fiduciary net position as a percentage of the total pension liability | 87.06% |
| Covered employee payroll                                          | 7,645,129|
| Association's net pension liability as a percentage of covered employee payroll | 58.42% |

Notes to Schedule:
Sample CAFR Exhibits - RSI

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarily determined contribution</td>
<td>$ 808,090</td>
</tr>
<tr>
<td>Contributions in relation to the actuarially determined contribution</td>
<td>$ 1,959,447</td>
</tr>
<tr>
<td>Contribution deficiency (excess)</td>
<td>$(1,151,357)</td>
</tr>
<tr>
<td>Covered-employee payroll</td>
<td>7,645,129</td>
</tr>
<tr>
<td>Contributions as a percentage of covered-employee payroll</td>
<td>25.63%</td>
</tr>
</tbody>
</table>

Notes to Schedule:
Valuation Date:
Actuarially determined contribution rates are calculated as of March 31, 21 months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions to determine contribution rates:
Actuarial cost method: Projected unit credit
Amortization method: Closed level dollar for remaining unfunded liability
Remaining amortization period: N/A
Asset valuation method: Sum of actuarial value at beginning of year and the cash flow during the year plus the assumed investment return, adjusted by 10% of the amount that the value exceeds or is less than the market value at end of year. The actuarial value is adjusted, if necessary, to be within 50% of market value for 2009, 44% of market value for 2010, 38% of market value for 2011, 32% of market value for 2012, 26% of market value for 2013, and 20% of market value for 2014 and later years.
Inflation: 3.50%
Salary increases: 3.50% plus age and service based merit increases
Investment rate of return: 7.75%
Retirement age: Class 00 - age 60 with 5 years of service; Class 01 and Class 02 - age 62 with 5 years of service
Mortality: RP-2000 Healthy Mortality Table with sex-distinct rates, set forward two years for males and one year for females. RP-2000 Disabled Retiree Mortality Table with sex-distinct rates, set forward two years for males and one year for females.

2012 is the first year that data has been measured in accordance with GASB Statement 68.
GASB 67/68 Suggestions

Provide Education to

- Pension Board members
- Government staff in finance and personnel
- Elected Officials
- Bond developers
- The press
The underlying financial position of the Plan has not changed.

- Plans that have historically been funded fully each year over a reasonably short amortization period are expected to continue to be adequately funded.
- Plans that have historically been underfunded still have to contend with the results of that underfunding.
- The new GASB standards may increase interest, and possibly concern, in some quarters with Plans, but care and resolve should be taken to assure that figures and disclosures are not taken out of context for nonfinancial purposes.

Regular plan review and pension changes should move forward based on the principles and concepts necessary for good long-term planning, not because an accounting presentation has changed.

Stay very attuned to any response or change in the perception bond underwriters may have toward pension plans due to these changes.
GASB 67/68 Suggestions

Take Measured Action to Limit Disruption

- Review state law for possible modifications
- Develop Projections of expense and contribution requirements
- Be prepared to replace perceptions with quantifiable information
GASB 67/68 Suggestions

- Be knowledgeable of your entity’s fiscal condition
- Understand national financial, market, and economic environments and how they impact the pension system
- Determine pension principles
- Understand risk and design options
- Consider long term budget impact, costs, benefit levels, recruitment and retention

Have courage
Moody’s Proposed Adjustments to Pension Liabilities and Costs

Moody’s issued Request for Comment on its proposal to implement four adjustments to pension liabilities and cost information.

Proposed adjustments to estimate the following changes:

- Actuarial accrued liability discounted using a high-grade long-term corporate bond index rate
  - For adjustments to 2010 and 2011 pension data, discount rate would be 5.5%
- Assets smoothing is eliminated – results based on fair value
- Annual pension contributions
  - Based on 5.5% discount rate
  - Unfunded actuarial accrued liability amortized over 17 years as a level dollar amount
- Multiple employer cost-sharing pension plans
  - Liabilities allocated proportionally based on employer’s share of total contribution
  - Similar to GABS 68 allocation of NPL and expense
Moody’s Proposed Adjustments – Sample Impact

<table>
<thead>
<tr>
<th>2011 Valuation Results</th>
<th>Reflecting Moody’s Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term discount rate</td>
<td>Long-term discount rate</td>
</tr>
<tr>
<td>8.00%</td>
<td>8.00%</td>
</tr>
<tr>
<td>Short-term discount rate</td>
<td>Short-term discount rate</td>
</tr>
<tr>
<td>n/a</td>
<td>5.50%</td>
</tr>
<tr>
<td>Actuarial Accrued Liability</td>
<td>Actuarial Accrued Liability</td>
</tr>
<tr>
<td>$17.0 bil</td>
<td>$23.0 bil</td>
</tr>
<tr>
<td>Actuarial Value of Assets</td>
<td>Market Value of Assets</td>
</tr>
<tr>
<td>$10.0 bil</td>
<td>$10.3 bil</td>
</tr>
<tr>
<td>Unfunded Liability</td>
<td>Unfunded Liability</td>
</tr>
<tr>
<td>$ 7.0 bil</td>
<td>$12.7 bil</td>
</tr>
<tr>
<td>Funded Percentage</td>
<td>Funded Percentage</td>
</tr>
<tr>
<td>59%</td>
<td>45%</td>
</tr>
<tr>
<td>Employer Normal Cost</td>
<td>Employer Normal Cost</td>
</tr>
<tr>
<td>$ 124 mil</td>
<td>$ 185 mil</td>
</tr>
<tr>
<td>Amortization Payment</td>
<td>Amortization Payment</td>
</tr>
<tr>
<td>$ 387 mil</td>
<td>$1,100 mil</td>
</tr>
<tr>
<td>Annual Contribution</td>
<td>Annual Contribution</td>
</tr>
<tr>
<td>$ 511 mil</td>
<td>$1,295 mil</td>
</tr>
</tbody>
</table>
Questions?