



North Carolina Retirement Systems

Summary of GASB 67 and 68

Replacement for GASB 25 and 27

November 14, 2012
Investment Advisory Committee Meeting

GASB Amendments

- GASB Board approved final statements amending pension accounting and financial reporting requirements on June 25, 2012
 - GASB Statement No. 25:
 - Financial Reporting for Pension Plans
 - Amended by GASB Statement No. 67
 - GASB Statement No. 27:
 - Accounting for Pensions by Employers
 - Amended by GASB Statement No. 68

GASB Highlights

- Highlights of GASB Changes:
 - Separates Funding Policy from Accounting Expense
 - Balance sheet of employer will reflect the funded status of plan
 - On Market Value basis
 - Entry Age Normal Cost Method must be used
 - Discount rate may be different than funding discount rate
 - Additional financial statement notes and supplementary information

Accounting/Reporting vs. Funding Policy

Accounting and financial reporting are de-linked from actuarial funding policy:

➤ Funding Policy

- Annual Required Contribution (ARC) is eliminated
- New “Actuarially Determined Contribution”
 - Based on plan’s funding policy
 - Disclosed in Required Supplementary Information
- Bottom line: NO change in the Plan’s current Funding Policy Contribution, methods or assumptions, but perhaps a need to state a Funding Policy to the extent the policy is linked to GASB 25/27

➤ Accounting and Reporting

- Annual Pension Cost (APC) replaced by Pension Expense
- Net Pension Liability (NPL) added to balance sheet for all employers (replaces Net Pension Obligation)

Net Pension Liability (NPL)

Net Pension Liability (NPL) is added to the balance sheet for all employers

- Assets based on Fair Value (not Actuarial value)
- Liabilities based on:
 - Entry Age Normal cost method
 - Discount rate equal to expected investment rate of return, except for...
 - Benefit payments not expected to be funded
 - Discounted at a high quality 20-year tax-exempt municipal bond index rate
 - “Run-out date” projections used to determine cross-over point
- NPL equals Liability minus Assets (as described above)
- First-year impact likely to be significant due to size of NPL compared to old NPO standard
- Proportionate share of plan NPL allocated to all participating employers in Cost-Sharing plans (i.e., LGERS)
- NPL likely to be volatile from year to year with changing market value of assets

Pension Expense

- Pension Expense is recognized during each fiscal year and reflects recognized changes in the NPL
 - Service Cost is equal to the normal cost determined under Entry Age Cost Method, Plus
 - Interest on the NPL, Less
 - Expected investment return on MVA, Plus (or Minus)
 - Recognition of changes for:
 - Liability gain/loss (amortized over average remaining service life of active and inactive employees)
 - Asset gain/loss (closed 5-year period)
 - Plan changes (recognized immediately)
 - Assumption changes (amortized over average remaining service life of active and inactive employees)
- Pension Expense is **not** an annual contribution or funding amount, rather a change in the NPL recognized from one year to the next.
- Deferred inflows and outflows will change by additions to, or recognition of, the above items.

Allocation of NPL and Pension Expense

- Reasonable allocation of proportionate employer share of NPL and Pension Expense for Cost-Sharing plans (i.e., LGERS) allowed including:
 - Ratio of current employer contributions or payroll to plan total.
 - Ratio of average employer contributions or payroll to plan total over a number of past years.
 - Ratio based on the present value of projected future employer payroll to present value of projected future plan total payroll .
 - Method of allocating plan liabilities and assets by employer if the plan has one.

Additional Disclosures

- Notes to the Financial Statements are to include:
 - Components of TPL (total pension liability) and NPL(net pension liability), net position, and ratio of assets to TPL.
 - Descriptions of methods and assumptions used in calculating the actuarially determined contribution.
 - Investment policy, asset allocation, the assumed long-term investment rate of return (discount rate) and how it was determined.
 - Sensitivity of the NPL to changes in the discount rate illustrated by showing a 1% increase and a 1% decrease in the discount rate.

- Required Supplementary Information for each of the most recent 10 fiscal years to be disclosed includes:
 - Sources of changes in the NPL.
 - Information about the components of the NPL, including total pension liability, assets (net position), net pension liability, payroll, and related ratios.
 - Information about the actuarially determined contribution, amounts contributed, and related ratios.
 - History of annual money-weighted investment rates of return.
 - Changes in benefits, assumptions, and membership.

Effective Date for Pension Plan Financials

- **Pension plans** are required to meet the new standards for financial reporting under GASB No. 67 for fiscal years beginning after June 15, 2013
 - 2013-2014 Fiscal Year for North Carolina Retirement Systems
 - All required disclosure / supplemental information required other than Pension Expense
 - Will require disclosure of the Total Pension Liability (TPL) and Net Pension Liability (NPL) a year before required in employer financial statements

Effective Date for Employer Financials

- **Employers** are required to meet the new accounting standards under GASB No. 68 for fiscal years beginning after June 15, 2014.
 - 2014-2015 Fiscal Year for North Carolina Retirement Systems
 - Inclusion of NPL on employer balance sheet rather than NPO
 - Inclusion of Pension Expense in employer income statement
 - All required disclosure / supplemental information required
 - Will require allocation of Pension Expense and NPL for cost sharing employers

GASB Estimates for North Carolina Retirement Systems

- Buck Consultants estimated the impact of GASB Changes
 - Compared estimated NPL (GASB 68) to NPO (GASB 27)
 - For State and Local Plan
 - As if GASB 68 in effect for current and prior two valuations
- Basis for NPL estimates:
 - Assume current discount rate (7.25%) not impacted by asset “run out” date
 - Entry Age Normal cost method for accrued liabilities (no change to State Plan)
 - Market Value of Assets
 - All other assumptions based on actuarial valuations as of 12/31/2009, 12/31/2010 and 12/31/2011
- Results presented on next two slides

GASB Estimates for State Plan

Estimated NPL (GASB 67/68) vs. NPO (GASB 25/27)

GASB 67/68

Valuation Date	12/31/2011	12/31/2010	12/31/2009
Market Value of Assets	\$ 53,402,204,951	\$ 54,108,134,326	\$ 50,382,551,504
Entry Age Accrued Liability	\$ 61,846,696,903	\$ 59,876,065,931	\$ 58,178,272,142
Unfunded Actuarial Accrued Liability	\$ 8,444,491,952	\$ 5,767,931,605	\$ 7,795,720,638
Funded Ratio	86.3%	90.4%	86.6%
Run Out Date	None	None	None
Discount Rate	7.25%	7.25%	7.25%
Measurement Date	12/31/2011	12/31/2010	12/31/2009
Reporting Date (fiscal year ending)	6/30/2012	6/30/2011	6/30/2010
Net Pension Liability (NPL) (balance sheet liability)	\$ 8,444,491,952	\$ 5,767,931,605	\$ 7,795,720,638

GASB 25/27

Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial Value of Assets	\$ 58,125,010,880	\$ 57,102,198,448	\$ 55,818,099,117
Entry Age Accrued Liability	\$ 61,846,696,903	\$ 59,876,065,931	\$ 58,178,272,142
Unfunded Actuarial Accrued Liability	\$ 3,721,686,023	\$ 2,773,867,483	\$ 2,360,173,025
Funded Ratio	94.0%	95.4%	95.9%
Run Out Date	N/A	N/A	N/A
Discount Rate	7.25%	7.25%	7.25%
Reporting Date (Fiscal Year Ending)	6/30/2012	6/30/2011	6/30/2010
Net Pension Obligation (NPO) (balance sheet liability)	\$193,352,000	\$ 206,646,000	\$ (36,207,000)

Increase in Balance Sheet Liability \$8,251,139,952 \$5,561,285,605 \$7,831,927,638

GASB Estimates for Local Plan

Estimated NPL (GASB 67/68) vs. NPO (GASB 25/27)

GASB 67/68

Valuation Date	12/31/2011	12/31/2010	12/31/2009
Market Value of Assets	\$ 17,908,429,907	\$ 17,758,651,398	\$ 16,137,374,092
Entry Age Accrued Liability	<u>19,899,555,149</u>	<u>\$ 19,042,111,838</u>	<u>\$ 18,335,809,427</u>
Unfunded Actuarial Accrued Liability	\$ 1,991,125,242	\$ 1,283,460,440	\$ 2,198,435,335
Funded Ratio	90.0%	93.3%	88.0%
Run Out Date	None	None	None
Discount Rate	7.25%	7.25%	7.25%
Measurement Date	12/31/2011	12/31/2010	12/31/2009
Reporting Date (fiscal year ending)	6/30/2012	6/30/2011	6/30/2010
Net Pension Liability (NPL)* (balance sheet liability)	\$ 1,991,125,242	\$ 1,283,460,440	\$ 2,198,435,335

GASB 25/27

Valuation Date	12/31/2011	12/31/2010	12/31/2009
Actuarial Value of Assets	\$ 19,326,359,293	\$ 18,570,513,903	\$ 17,723,253,496
Frozen Entry Age Accrued Liability	<u>\$ 19,373,799,717</u>	<u>\$ 18,646,430,030</u>	<u>\$ 17,804,791,750</u>
Unfunded Actuarial Accrued Liability	\$ 47,440,424	\$ 75,916,127	\$ 81,538,254
Funded Ratio	99.8%	99.6%	99.5%
Run Out Date	N/A	N/A	N/A
Discount Rate	7.25%	7.25%	7.25%
Reporting Date (Fiscal Year Ending)	6/30/2012	6/30/2011	6/30/2010
Net Pension Obligation (NPO)** (balance sheet liability)	N/A	N/A	N/A

* Each participating employer will need to disclose their proportionate share of the Net Pension Liability

** Each participating employer reports their Net Pension Obligation

Questions?

THANK YOU