



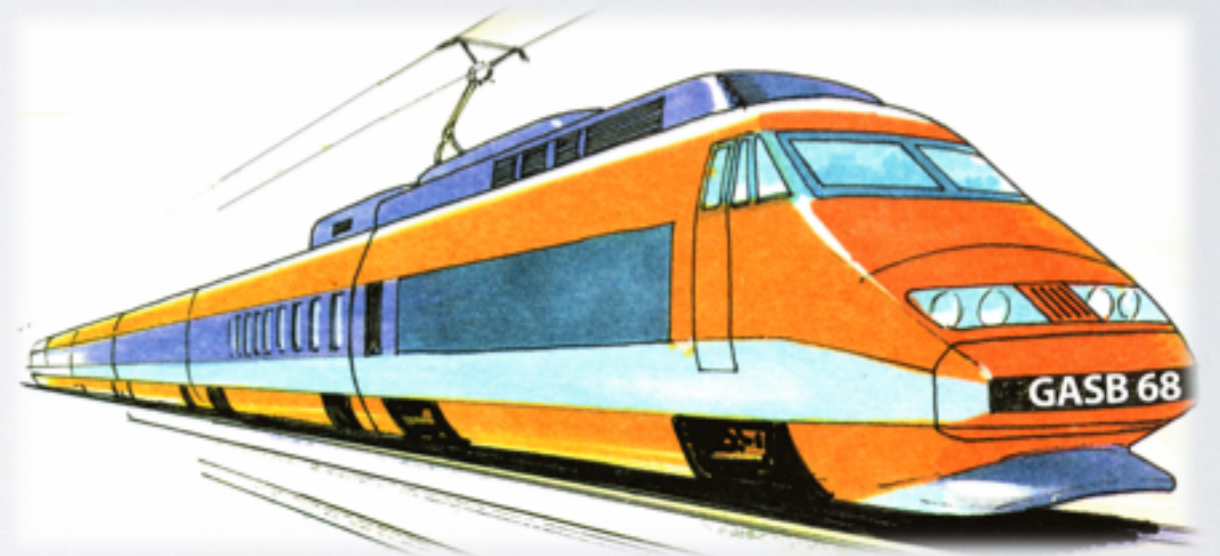
GovInvest

Insights to your financial future

Presentation to CSMFO Central Coast
September 10th, 2015

PLAN FOR TODAY

1. What is GASB 68?
2. What is required?
3. Employer Responsibilities
4. How to implement GASB 68
5. Tips to make it painless
6. Presenting to council



WHAT IS GASB 68?

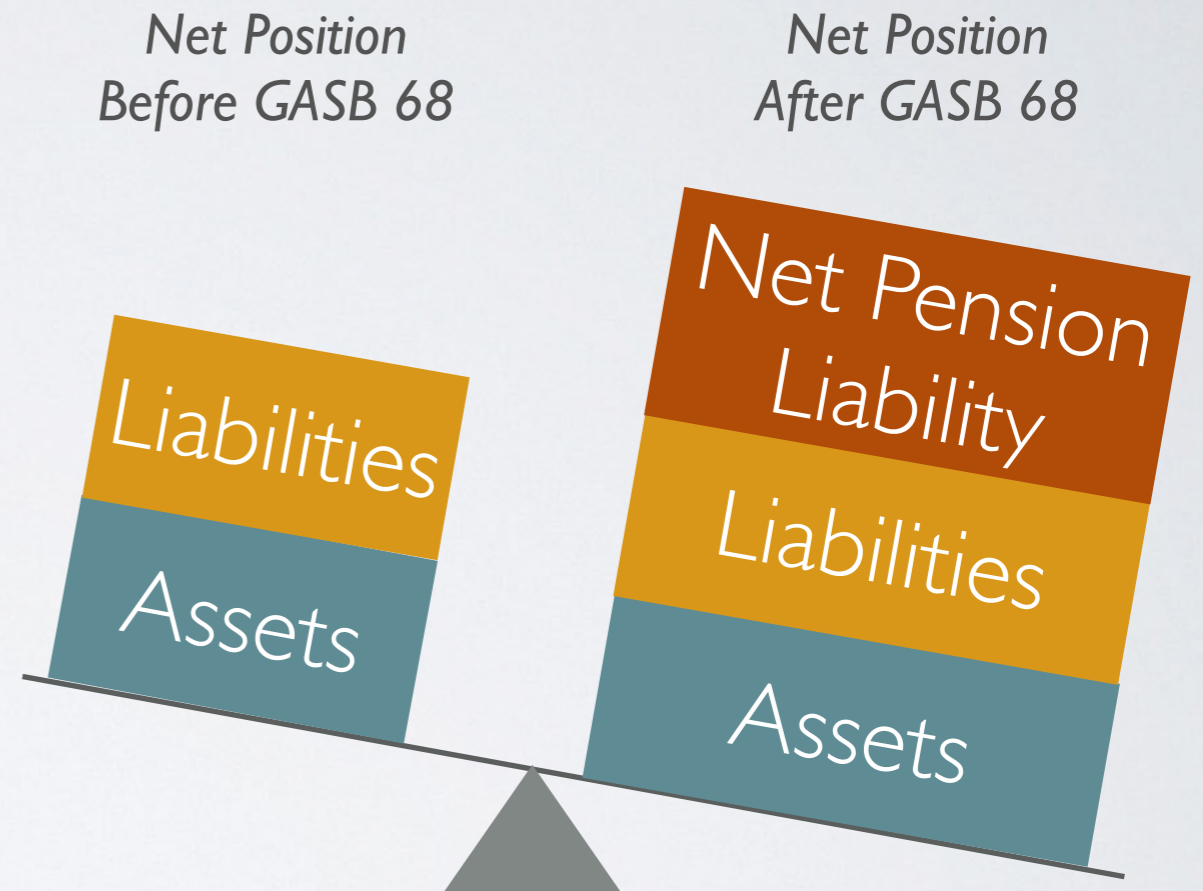
- New accounting standard for pensions
- Reporting of key pension liability information on financial statement
- Designed to increase transparency and alert potential problems
- Work with your auditors to get comfortable with the requirements

WHY GASB 68?

- Preceding statement, GASB 27, is more than a decade old
- Detroit & Stockton bankruptcy rulings
- Pensions survive through proceedings
 - ▶ Senior to bonded debt
- Previously only deficiency in contribution reported
 - ▶ Now report total net liability as with bonded debt

WHAT IS REQUIRED?

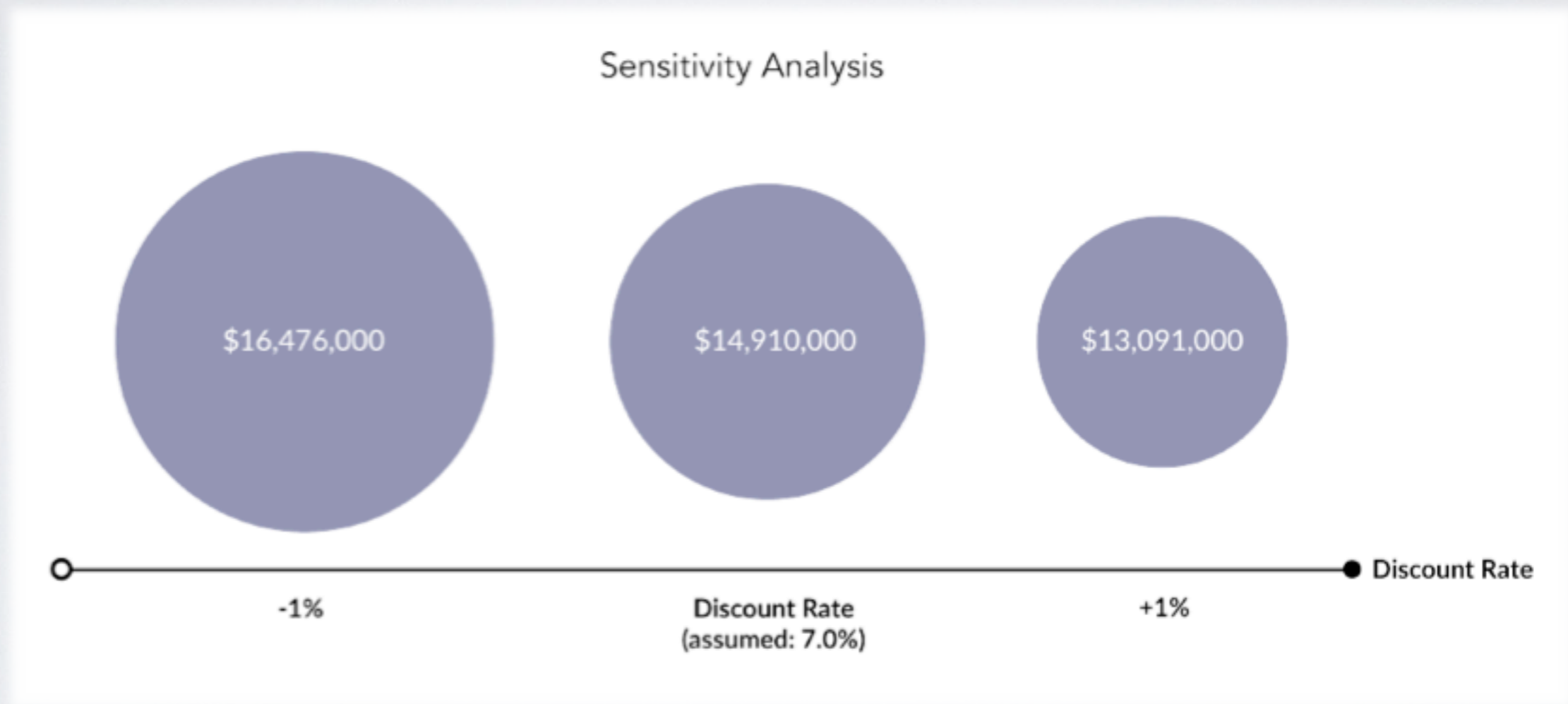
- Reporting net pension liability (unfunded liability)
 - Designed to increase transparency
 - May dramatically decrease city's net position (balance sheet)
- Reporting of changes to NPL



WHAT IS REQUIRED?

- Note Disclosures:
 - Discount rate assumption and how it was determined
 - Asset allocation information
 - NPL measured at a discount rate +/- 1%

WHAT IS REQUIRED?



OUTCOME

- Will likely not greatly affect employers seeking external funding
 - Rating agencies agree with GASB 67/68 and what is required (rate, etc.)
 - Agree with reporting each employer's liability and not just the state
- Rating agencies already take into account unfunded pensions and OPEB obligations

EMPLOYER RESPONSIBILITIES

- Responsible for numbers included in financial statements
- Verify the accuracy of all amounts in audited reports
- Prepare a roll-forward of the census data from one year to the next and review a reconciliation for any significant differences

EMPLOYER RESPONSIBILITIES

- Review assumptions in actuarial evaluation report such as:
 - Long-term investment rate of return
 - Future salary increases
 - Future medical cost increases
 - Mortality rate
 - Inflation
- If you disagree with these assumptions and are using CalPERS, you will need to engage an outside actuary or use analytical actuarial software

HOW DO I IMPLEMENT GASB 68?

- Discuss options with your auditor:
- CalPERS
 - CalPERS is offering to issue reports for each separate benefit tier
 - \$850 per plan: cost-sharing
 - \$2,500 per plan: agent
- Agencies may plan to issue financial statements with a “disclaimer” if they do not wish to purchase reports

HOW DO I IMPLEMENT GASB 68?

- Engage outside actuary:
 - Be comfortable with the actuary
 - Be sure to know what you are getting
 - Provide a brief description of changes to membership
- Auditor:
 - Compare summary data to previous year and evaluate for reasonableness
 - Evaluate competence of actuarial work
 - Despite the hype, CalPERS data is NOT required to complete a roll-forward actuarial evaluation. HR has to validate CalPERS information anyway

PAYING DOWN YOUR UNFUNDED LIABILITY

- Make a plan
- Pension obligation bonds
- Borrow from general fund
 - Pay GF back like a loan
 - Payments come from all funds
- Shorter amortization period
- Lump sum payments

Case Study: Huntington Beach, CA

- Combination of additional payments & shorter amortization periods
- Resulted in \$70.3 M in savings

WHAT'S NEXT?

- Similar accounting measure for OPEBs - GASB 74/75
 - Will dramatically increase reported OPEB liability
- All agencies will need more frequent reports (at least every 2 years)
- Likely implementation in FY 2017-2018
- Many agencies will choose to implement early
 - To avoid doing extra valuation
 - To avoid actuarial resource crunch in 2017 and 2018

WHAT'S A FINANCE OFFICER TO DO?

- Prepare for implementation:
 - For GASB 68, be comfortable with your actuary and reports given
 - For OPEB
 - ▶ Implement earlier to avoid extra actuarial work and limited actuary availability
 - ▶ Wait to avoid dealing with new issues immediately
- Be prepared for additional actuarial and accounting costs and involvement
 - Work with a firm that can support you in your overall goals

WHAT'S A FINANCE OFFICER TO DO?

- Be aware of issues and prepared to present liability information to Board/Council
 - Identify & explain net position
 - Explain assumptions and reasonable alternatives
 - Discuss funding strategies (prepayment, amortization)
- Educate and notify stakeholders of new regulations and the results
 - Valuation reports / transparency & bargaining tools
- In the spirit of GASB and new regulations, agencies are encouraged to find ways to increase transparency - stay on top of these important issues

TOTAL LIABILITY CALCULATOR

- How can you communicate all that complicated actuarial information?
- Total Liability Calculator
 - ▶ Presentations
 - ▶ Complex, valuable analysis made easy
 - ▶ Manipulate assumptions
 - ▶ Cost-saving
 - ▶ Transparency
 - ▶ Bargaining with labor groups
- Designed in the spirit of GASB 68, putting you on the cutting edge