



GASB 68 Information For 2016 Financial Statement Purposes

Introduction

The Governmental Accounting Standards Board (GASB) has adopted Statements 67, 68 and 71 as they relate to accounting and financial reporting for pensions. GASB Statement 71 is a one page amendment to GASB 68. Within the context of this document, readers should consider the terminology “GASB Statement 68” to also include Statement 71.

GASB Statement 67 applies to public pension plans such as the Tennessee Consolidated Retirement System (TCRS). The June 30, 2015 TCRS financial statements were presented in accordance with the provisions of GASB 67. The TCRS financial statement for June 30, 2015 can be found at http://treasury.tn.gov/TCRS_Annual_Reports.html.

GASB Statement 68 applies to governmental employers and is applicable for fiscal years beginning after June 15, 2014. The concept behind GASB 68 is the separation of “*accounting for pensions*” from “*funding of pensions*.” Previously, “*accounting for pensions*” and “*funding of pensions*” were closely linked. GASB 68 establishes the accounting and financial reporting standards for pension benefits, while pension fund administrators are responsible for the funding methodology used to finance pension benefit accruals. Accordingly, the TCRS Board of Trustees has adopted a pension funding policy. This policy can be found at <http://treasury.tn.gov/tcrs/PDFs/FundingPolicy.pdf>.

Components of GASB 68

There are five main components included in GASB 68 related to accounting entries and disclosures.

First, an employer is to record a *net pension liability (asset)* on the Statement of Net Position when there is a difference between the *total pension liability* and *fiduciary net position*. GASB 68 describes how *total pension liability* is to be calculated. *Total pension liability* is the accrued pension liability for benefits payable to employees (including terminated vested employees) and retirees at the measurement date (i.e. June 30, 2015 for the enclosed materials). *Fiduciary net position* is the value of net assets held by the pension plan at the measurement date (i.e. June 30, 2015 for the enclosed materials). If *total pension liability* is more than net assets, a *net pension liability* is recorded and presented in the Statement of Net Position. Net pension

liability is shown much like long-term debt in the financial statements. Conversely, if *total pension liability* is less than net assets, a *net pension asset* is recorded and presented in the Statement of Net Position.

Second, GASB 68 describes how *pension expense (negative pension expense)* is to be calculated. Previously, *pension expense (negative pension expense)* was the amount of the employer's actuarially determined contribution (previously called annual required contribution) made to the pension plan. This is no longer the case under GASB 68. Going forward, there is no relationship between *pension expense (negative pension expense)* and employer pension contributions. It is important to recognize that employer pension contributions can be more or less than *pension expense (negative pension expense)* in any particular year.

Third, GASB 68 describes how *deferred outflows of resources*, related to pensions, are to be calculated. *Deferred outflows of resources* include actuarial losses related to the differences between expected and actual experience for the pension plan's adopted economic and demographic assumptions, as well as employer contributions. Changes in actuarial assumptions that result in an actuarial loss are included in *deferred outflows of resources*.

Fourth, GASB 68 describes how *deferred inflows of resource*, related to pensions, are to be calculated. *Deferred inflows of resources* include actuarial gains related to the differences between expected and actual experience for the pension plan's adopted economic and demographic assumptions. Changes in actuarial assumptions that result in an actuarial gain are included in *deferred inflows of resources*.

Fifth, GASB 68 describes pension information to be included in the Notes to the Financial Statements and Required Supplementary Information (RSI).

Types of Pension Plans Pursuant to GASB's Definition

Based on GASB definitions, there are two types of pension plans within TCRS: *agent* and *cost-sharing*. All employers participating in TCRS, with the exception of Local Education Agencies (LEAs), do so as *agent plans*. LEAs participate in a *cost-sharing pension plan* for the benefit of employees classified as teachers. However, non-professional employees of LEAs, if members of TCRS, are covered through *agent plans* that are sponsored by their local government.

Information Provided

The following information will be provided at some point via the TCRS website:

- Suggested Notes to the Financial Statements and RSI for pension data.
 - Notes for agent plans are provided for participating governmental entities, whether the plan is open or closed to new employees.

- Two set of notes for cost-sharing plans are provided for LEAs.
 - Closed plan (Teacher Legacy Plan)
 - New plan (Teacher Retirement Plan)
- Suggested accounting entries required pursuant to GASB 68.
- Specific to LEAs for the Teacher Legacy Pension Plan, a Schedule of Pension Amounts showing each LEAs proportionate share of *net pension liability (asset), pension expense (negative pension expense), deferred outflows of resources, and deferred inflows of resources*.
 - This Schedule of Pension Amounts will show the LEA’s employer contributions, total employer contributions from all LEAs, and the percentage allocation among LEAs.
- Actuarial certification statement and report by the actuarial firm of Bryan, Pendleton, Swats, and McAlister, LLC.
- List of governmental employers that do not provide COLAs to retirees.
- List of governmental employers that have closed membership to new employees.
- List of governmental employers that have non-contributory employees.

While all this information is provided for your convenience, as the employer you are responsible for your financial statements, including application of the GASB 68 provisions. We recommend that you utilize the services of your internal and external auditors to understand the requirements of GASB 68 and determine the appropriate disclosures and accounting entries.

Access to Census Data by Participating Agent Plans

Census data used in the actuarial calculations of the GASB 68 pension data was previously made available to you. If for some reason you need this census data again, please contact Jamie Wayman (615-253-3847) or Mary Collins (615-770-1744).

Additional Information Specific to Cost-Sharing Plans (LEAs)

Two sets of *Notes to the Financial Statements* and *RSI* are being provided to LEAs. One set will relate to the Closed Teacher Legacy Pension Plan, and the other set will relate to the Teacher Retirement Plan which became effective for teachers hired on or after July 1, 2014.

Additional Information Specific to Agent Plans

If a governmental employer does not provide cost-of-living adjustments (COLA) to retirees, the COLA language, within the “benefits provided” paragraph and the “actuarial assumptions table”, should be omitted.

If a governmental entity has closed membership to new employees, the *Notes to the Financial Statements* should denote this and the effective date of closure.

If a governmental entity has non-contributory employees, the “contributions” paragraph should be adjusted to reflect this.

Lists of governmental employers that do not provide COLAs to retirees, have closed membership to new hires and have non-contributory employees are included as appendices to this report.

Measurement Date and Actuarial Valuation Date

GASB gives governmental employers some flexibility as to the measurement date of *net pension liability (asset)* and *pension expense (negative pension expense)*. Accordingly, the measurement date for the enclosed data is June 30, 2015 for inclusion in your June 30, 2016 financial statements. The pension data is the result of the June 30, 2015 actuarial valuation. Therefore, auditors will audit pension data for the period July 1, 2014 to June 30, 2015.

The measurement date for your June 30, 2017 financial statements will be June 30, 2016. The pension data will be the result of a June 30, 2016 actuarial valuation.

Schedule of Changes in *Net Pension Liability (Asset)*

Since there were not any changes of assumptions or changes in the benefit terms during the period of July 1, 2014 to June 30, 2015, there is nothing to report for these items in the schedule of changes in *Net Pension Liability (Asset)* within the enclosed material this year.

Covered Payroll

Information regarding covered payroll in the *Schedules of Required Supplementary Information* is based on the earnable compensation reported to TCRS.

Fair Value of Assets

The *Fiduciary Net Position* at June 30, 2015 is based on fair value, in accordance with generally accepted accounting principles.

Schedule of Employer Contributions

The provided *Schedule of Employer Contributions* reflects your agency's contributions as of June 30, 2015. You will need to add the employer contributions as of June 30, 2016. By contributing the required Actuarially Determined Contributions, you can show the contribution deficiency (excess) as zero. In August 2016, we intend to provide this information on the website.

Actuarial Services Provided to TCRS

Bryan, Pendleton, Swats and McAlister, LLC is the actuarial firm engaged by TCRS to perform the following actuarial services:

- Preparation of annual actuarial data required by GASB 68 beginning with June 30, 2015 to be used for the June 30, 2016 financial statements.
- Perform annual actuarial valuations to calculate the *actuarially determined contribution (ADC)*.

You should note a change beginning with the June 30, 2015 actuarial valuation. Previously, the employer contribution rate was determined for a two year period. Going forward, the employer contribution rate will be determined for a one year period. For example, the June 30, 2016 actuarial valuation will establish the employer contribution rate for the period July 1, 2017 through June 30, 2018. The June 30, 2017 actuarial valuation will establish the employer contribution rate for the period July 1, 2018 through June 30, 2019. This information only relates to actuarial contribution rates and is not to be confused with the above information related to GASB Statement 68 and the determination of *net pension liability (asset)*, *pension expense (negative pension expense)*, and related deferrals.

- Perform an actuarial experience study to establish economic and demographic assumptions to be utilized in the annual actuarial valuation. The next actuarial experience study is scheduled for June 30, 2016 which will be utilized in the June 30, 2017 actuarial valuation. When the actuarial experience study is performed and adopted by the TCRS Board of Trustees, additional information will be required in the *Notes to the Financial Statements* and the *RSI*.

Volatile Nature of Net Pension Liability (Asset)

The *net pension liability (asset)* at June 30, 2014, which was recorded in the June 30, 2015 financial statements, included several favorable trends that occurred during that fiscal year. Generally, *net pension liability (asset)* was less favorable at June 30, 2015 and will be reflected

in the June 30, 2016 financial statements. Moreover, the *net pension liability (asset)* is expected to be less favorable at June 30, 2016 which will be reflected in the June 30, 2017 financial statements.

Contact information

If you or your auditors have any questions about the information we have provided or the information in the actuarial report, please feel free to contact any of the following persons:

- Jamie Wayman, Assistant Director of TCRS (615) 253-3847
- Mary Collins, Manager of Employer Pension Accounting (615) 770-1744

To ensure your questions are handled promptly and efficiently, all communication regarding the GASB 68 pension information should be directed to the TCRS staff listed above.