THE KEY

TRSL *SPECIAL* BULLETIN

GASB 68: Frequently Asked Questions (FAQs)

What are the main requirements for a TRSL employer?

Answer: GASB 68 significantly changes pension accounting and financial reporting for state and local governments by separating pension accounting methodology from pension funding methodology.

For purposes of governmental financial reporting, GASB now will require that a proportionate share of the total net pension liability (unfunded liability) of the pension trust fund at TRSL be shown on the face of each employer's financial statements.

Similarly, a proportionate share of the total pension expense and collective deferred inflows and outflows of resources associated with the TRSL pension trust fund will also be shown on the face of each employer's financial statements. In addition, these standards will require employers to include additional footnote disclosures about the pension trust fund in their financial statements.

Is this liability due and payable immediately?

Answer: No, the net pension liability is not like other liabilities reported on an employer's balance sheet; it is not immediately due and cannot be paid off under any accelerated schedule.

The annual required contribution (ARC) for employers is calculated using the system actuary's funding methodology, which is presented in the annual valuation and adopted by the Public Retirement System's Actuarial Committee (PRSAC).

As a result, an employer would not be able to remit their annual required contribution payment as well as the proportionate share of their net pension liability as a means to remove this liability from their financial statements.

What information will TRSL provide employers for implementation of GASB 68?

Answer: TRSL will provide employers with the following:

1. The employer's prior year and current year proportion of future contribution effort, as determined by the system's actuary and approved by the systems auditors.

2. The employer's proportionate share of the following items (using the percentage provided above):

   - Net pension liability
   - **Collective** pension expense
   - **Collective** deferred inflows and outflows
   - **Collective** deferred inflows and outflows expected to be recognized in reporting periods for each of the next five years and in total thereafter.
   - Net pension liability using discount rate less 1%
   - Net pension liability using discount rate plus 1%

Each employer will provide the following information to complete the note disclosures and required supplementary information:

- Current year employer contributions during the measurement period
- Employer contributions to the plan subsequent to the measurement date of the collective net pension liability
- Employer's covered-employee payroll

TRSL will also provide sample footnote disclosures about the pension trust fund which employers can include in their financial statements. TRSL has been working with the State GASB Task Force and the system's actuary to come up with standard note disclosures.

Will the schedules that TRSL provides to employers be audited?

Answer: The information listed above is being prepared by the system actuary, using a process approved by the Legislative Auditor's Office and reviewed by members of the State GASB Task Force.

In an independent report, TRSL's external audit firm, Duplantier, Hrapmann, Hogan & Maher, L.L.P., will issue an opinion as to the fair presentation of these schedules.

The schedules will be provided to employers upon release of the auditor's opinion.

Will payroll and census data testing, required by the recent American Institute of CPAs (AICPA) white paper, have any impact on employers?

Answer: Potentially yes. TRSL's external auditor, Duplantier, Hrapmann, Hogan & Maher, L.L.P., will select and conduct testing on a sample of employer payroll and census data provided to TRSL.

Employers could be contacted to assist with the audit of their census data as early as this month.

Our agency is not required to follow General Accepted Accounting Principles (GAAP). Does this mean we do not have to comply with the above rules?

Answer: All participating employers who prepare financial statements in accordance with GAAP are required to prepare their financial statements in compliance with GASB 68.

For more information on this subject, please refer to Questions 128 and 232 of the Implementation Guide for GASB 68.

Will this new GASB affect our bond ratings?

Answer: While we cannot speak for rating agencies, it is important to note that rating agencies have been aware of the funding policies and status of governmental pension plans. They have historically incorporated that information into their analysis of a government's ability to meet its debt obligations.

Will the implementation of GASB 68 cause contribution rates to increase or change the amount of contributions sent to TRSL?

Answer: No, GASB 68 amounts recorded on your financial statements are "paper" entries used for accounting purposes only.

Employers will be required to recognize and report on their financial statements an annual "Pension Expense" (PE), which will have no direct relationship to the "Annual Required Contribution" (ARC).

Employer contribution requirements will continue to be based on TRSL's actuarial funding methodology, the objective of which is to maintain reasonably stable contribution rates and to achieve an ultimate funded status of 100% over time.

Need more information?

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Visit the Employer Section of the TRSL website, www.trsl.org, for additional GASB information.

GASB 68:
Glossary of Terms

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Census Data: Census data refers to all information regarding members in the retirement systems, including birth date, gender, date of hire, years of service, compensation, and date of termination. Census data is used in the actuarial evaluation that determines the net pension liability.

Collective Net Pension Liability (NPL): The Total Pension Liability minus the Pension Plan's Fiduciary Net Position

Collective Pension Expense (PE): Pension expense arising from certain changes in the collective net pension liability. The annual collective Pension Expense includes:

- Normal Cost, calculated using the Entry Age Normal actuarial cost method
- Interest on the employer's proportionate share of the Net Pension Liability
- Immediate recognition of changes in active and inactive liability due to plan amendments;
- Deferred recognition (over average remaining service life) of changes due to assumption changes and actual experience; and
- Deferred recognition of investment gains and losses over five years.

Covered employee payroll: The payroll of employees that are provided with pensions through the pension plan. These amounts are to be determined based on total payroll for the covered employee, (the monthly salaries remitted to TRSL) as opposed to pensionable payroll (per question 210 in the implementation guide for Statement 68).

Discount Rate: A blended or single rate (expressed as a percentage) that reflects (1) the long-term expected rate of return on pension plan investments to the extent (a) this rate will support projected benefit payments of the plan, and, (b) assets will be invested using the current allocation targeted to achieve that return; and (2) for the period that benefit payments not supported will incorporate an index rate for 20-year tax-exempt municipal bonds.

Entry Age Normal Actuarial Cost Method: A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s).

Fiduciary Net Position (FNP): A plan's net assets at market value.

Proportionate Share: Portions of a plan's collective Net Pension Liability, collective Pension Expense and collective deferred inflows and outflows attributable to a specific employer.

Total Pension Liability (TPL): The portion of the actuarial present value of projected benefit payments (reflecting projected service and anticipated salary and benefit increases) that is attributed to past periods of member service. TPL is similar to current Actuarial Accrued Liability (AAL) determined under the Entry Age Normal Actuarial Cost Method, using the Discount Rate.