TEXAS MUNICIPAL RETIREMENT SYSTEM

GASB 68 Employer Reporting Guide

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I. Introduction

TMRS has prepared this GASB 68 Employer Reporting Guide ("Guide" or "68 Guide") to assist participating municipalities (referred to in this Guide as "cities," "municipalities," or "employers," all with the same meaning) in making their pension disclosures in accordance with requirements of the Governmental Accounting Standards Board (GASB).

In June 2012, GASB made major changes to its pension accounting standards with the issuance of GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. This statement applies to the individual employers (TMRS cities) in the TMRS plan and is effective for fiscal years beginning after June 2014. GASB 68 significantly changed what cities must report in their financial statements and pension disclosures. The first TMRS cities required to comply with this standard were those with fiscal years ending June 30, 2015.

The new requirements called for these major changes:

- A "Net Pension Liability" is calculated by TMRS' actuary and is put on the face of each employer's Statement of Net Position ("Balance Sheet") in the government-wide financial statements.
- Pension expense is calculated by the actuary, and is no longer tied to the amount of contributions you submit to TMRS each year; rather, it is tied to the change in net pension liability from year to year. Pension expense is put in each employer's Statement of Changes in Net Position ("Operating Statement") in the government-wide financial statements.
- Some of each year's pension costs may be deferred (deferred inflows and deferred outflows of resources, recorded in the Statement of Net Position) and amortized over a number of years.

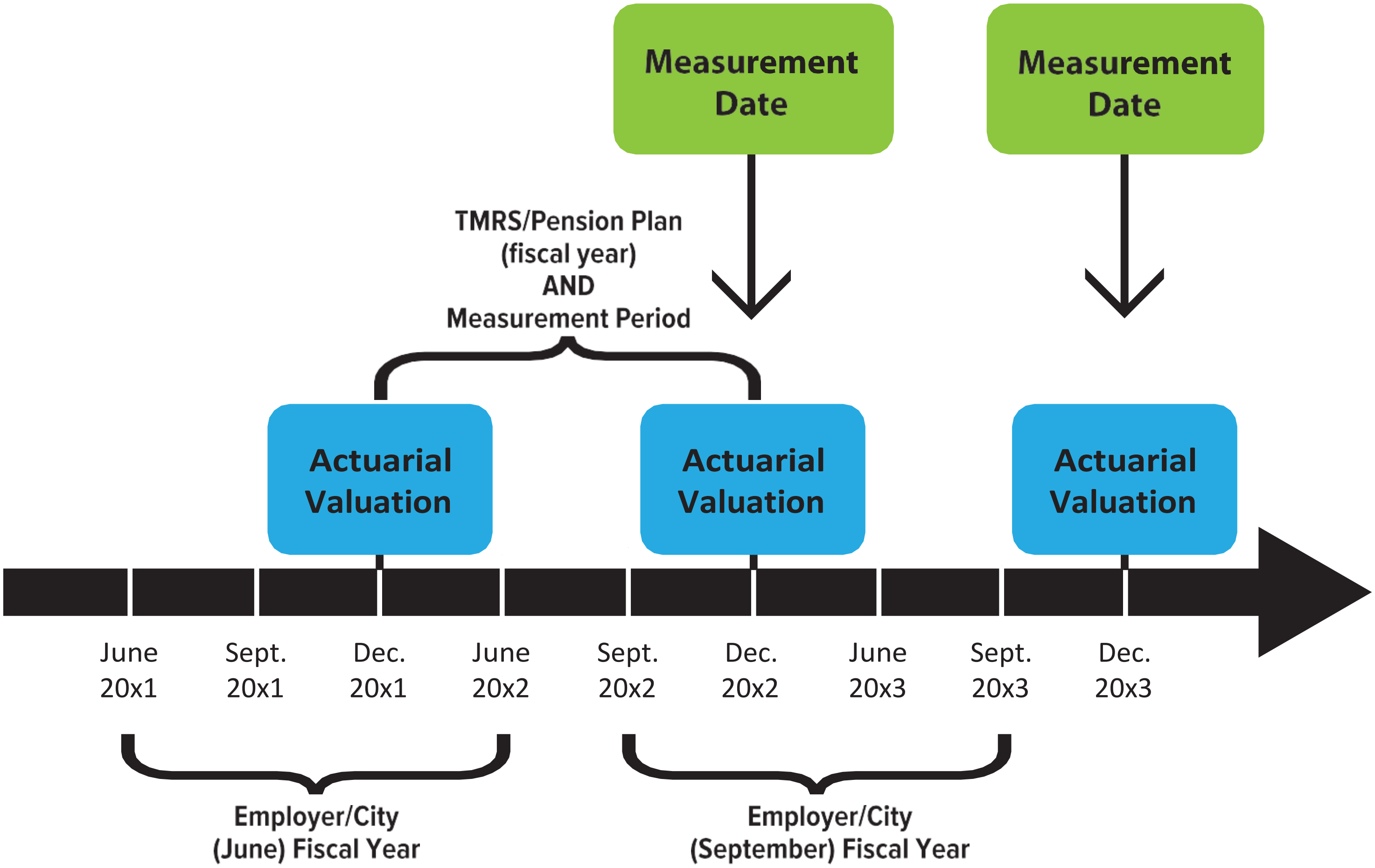
It is important to note that these GASB rules apply only to accounting and financial reporting. They do not apply to funding, and are not used to determine contribution requirements. The actual cost of providing pension benefits has not changed… the only thing that changed with this standard is where and how pension costs are accounted for in the financial statements.

To determine the city's GASB 68 pension liability, TMRS' consulting actuary, Gabriel Roeder Smith & Company (GRS) completes an annual actuarial valuation for each participating municipality. As part of this process, GRS creates an Employer Reporting Package (GRS Reporting Package) for each city, to include a certification letter, as well as numerous data elements needed by the city. This Guide will walk the reader through the materials included in the GRS Reporting Package and also provide additional information to assist the city in locating any other relevant information needed for their disclosures and/or financial audit.

Disclaimer:

TMRS is providing this Guide and its contents as a resource to cities. While we attempt to include all relevant information, we cannot and do not attest to complete accuracy. All financial statement and note disclosures are the responsibility of the city/employer and the city's independent public accountant.

II. Timeline and Measurement Date



The **measurement date** is the date the actuary uses to value the assets and liabilities (Total Pension Liability) of each employer, to ultimately determine the net pension liability.

TMRS' measurement date will be **December 31** each year, which coincides with our fiscal year-end.

According to GASB 68, the measurement date must be between the end of the employer's prior fiscal year and their current fiscal year-end, and must be consistently applied from year to year. Additionally, the measurement must be based on an actuarial valuation performed within 30 months plus 1 day of the employer's year-end. TMRS' consulting actuary, Gabriel Roeder Smith and Company (GRS), performs an actuarial valuation each year as of December 31, covering the 12-month calendar year.

The **measurement period** is the period of time from one measurement date to the next, and is the period of time TMRS' actuary, GRS, uses to calculate the pension expense for each employer. The measurement period for participating employers in TMRS is January 1 through December 31.

III. AICPA Audit Guidance

In May 2014, the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel (SLGEP) issued a whitepaper, which describes accounting and auditing issues faced by governmental employers that participate in **agent multiple-employer defined benefit pension plans** (agent plans), as well as best practice solutions to address those issues. This whitepaper is incorporated as an appendix to Chapter 13 of the *State and Local Government Audit and Accounting Guide.* An agent plan is one in which the assets of the employers are pooled for investment purposes but separate accounts are maintained for each individual employer; cities/employers participating in TMRS are considered to be participants in an agent multiple-employer plan.

Under GASB 68, employers are required to recognize their specific pension amounts, which include net pension liability (NPL), deferred outflows and inflows of resources, and pension expense. The Total Pension Liability (TPL) (present value of actuarially determined pension benefits) less the value of the assets available in the plan to pay the pension benefits (fiduciary net position, or FNP) results in the NPL; this NPL will appear on the face of the employer's financial statements. Cities should note that they may have a Net Pension Asset (NPA), should their fiduciary net position ("assets") exceed their TPL.

As noted in the AICPA guidance, a major challenge for employers in agent plans is obtaining all the necessary information to support their specific pension amounts. These specific pension amounts are dependent on certain accounting records maintained by TMRS, the controls and processes in place at TMRS, as well as the calculations made by TMRS' consulting actuary, GRS. The city/employer is solely responsible for its financial statements; as such, the guidance reminds the employer to establish financial reporting processes and controls over the recognition, measurement, presentation, and disclosure of its various pension amounts.

Additionally, the employer's auditor is challenged to obtain sufficient appropriate audit evidence regarding the specific pension amounts included in the employer's financial statements, when much of that audit evidence resides at TMRS. The city should refer to the AICPA guidance for detailed recommendations regarding appropriate audit processes for your city as a participant in an agent multiple-employer plan.

The AICPA guidance provides a two-part best practice solution to address the above challenges, specifically the two elements of the NPL: the TPL and FNP.

For the liability side of the issue (Total Pension Liability, deferred inflows and outflows of resources and pension expense), AICPA recommends the following:

- The plan actuary (i.e., GRS) should issue a separate actuarial valuation report specific to each employer, which includes an actuarial certification letter addressed to employer management; and
- The plan (TMRS) engages its auditor to issue a service organization controls 1 (SOC-1) Type 2 report on controls over census data maintained by the plan.

TMRS has followed this best practice solution. GRS has completed and issued a separate actuarial valuation specific to each employer, including a certification letter. This is the **GRS – GASB 68 Employer Reporting Package** (located in the "Eye on GASB" section of the TMRS website). In addition, TMRS completed a SOC-1 Type 2 audit covering the measurement period. In the audit opinion, it is noted that TMRS' controls over the completeness and accuracy of census data maintained by TMRS were suitably designed and operated effectively. Due to its confidential nature, cities can review and/or obtain a copy of the SOC-1 audit report from the TMRS City Portal (PDF format), as well as a complete file of their respective city census data (Excel format).

For the Fiduciary Net Position component (or "assets") of the net pension liability, AICPA suggests that:

- The plan (TMRS) prepare a Schedule of Changes in Fiduciary Net Position, by employer; and
- The plan (TMRS) engage its auditor to opine on the schedule as a whole (not on each individual employer), combined with a SOC-1 Type 2 report on the controls over the calculation and allocation of additions and deductions to the employer accounts.

TMRS has followed this best practice solution. The SOC-1 Type 2 audit included controls over the calculation and allocation of additions and deductions to the employer accounts. In the Schedule of Changes in Fiduciary Net Position, by employer (hereinafter referred to as "Schedule of FNP"), cities are able to note the additions (contributions) and deductions (retirements and refunds) to their respective benefit accumulation fund. TMRS is also required to allocate the remaining assets held in trust to each participating municipality. The Schedule of FNP can be found in the "Eye on GASB" section of the TMRS website. The Fiduciary Net Position or "assets" allocated to each city are netted with the Total Pension Liability, to determine the city's net pension liability (or net pension asset).

IV. GRS – GASB 68 Employer Reporting Package

This section of the Guide will walk you through the **GRS – GASB 68 Employer Reporting Package** ("Reporting Package"). References to GASB Statement No. 68 will be noted in [square brackets].

Certification Letter

The package begins with a certification letter from GRS. The letter indicates that the actuarial calculations are in compliance with the requirements of GASB 68, for the city's financial reporting purposes; this is in contrast to the annual actuarial valuations that are also performed for each city, but for funding (rate) purposes. The letters are certified by actuaries with GRS. Complete biographies of the actuaries, as well as company history and information, can be found on the "Eye on GASB" section of the TMRS website, in the "For your financial statement audit" section.

Section A – Executive Summary

Section A, the Executive Summary, contains some abbreviated highlights of the city's membership, net pension liability, and general information regarding the implementation of GASB 68.

The Executive Summary page provides:

- Membership information for the city, by type of member (retirees and active employees) – [40.c – note disclosures]
- Components of the net pension liability, and related ratios, which is required in the city's RSI – [46.a and 46.b]
- A summary of the development of the single discount rate – [26 -31].

Per GASB 68, the **discount rate should be a single rate** that reflects:

a. The long-term expected rate of return on pension plan investments, that are expected to be used to finance the payment of benefits, to the extent that
    1. the Fiduciary Net Position is projected to be sufficient to make benefit payments, and
    2. the assets are expected to be invested using a strategy that achieves that return

b. A yield for 20-year, tax-exempt general obligation municipal bonds, to the extent that conditions in (a) above are not met.

The long-term expected rate of return on TMRS' investments is 6.75%. GRS' projected calculations indicate that sufficient assets are projected to be available to pay benefits in all future years (100-year calculation) for each participating employer; as such, a single discount rate of 6.75% as noted in a. above is used.

Section A continues with information about "Implementing and Reporting your Pension Amounts." A Financial Reporting Overview is provided, giving cities some recommended adjusting (GAAP conversion) journal entries, to properly convert pension contributions recorded in your city's general ledger to the calendar year contributions received by TMRS, and to record entries for the full accrual GASB 68 pension amounts required for the city's government-wide financial statements. Section A then discusses "Notes to Financial Statements" with references to the applicable GASB 68 paragraphs [40 – 45]; TMRS has provided a Pension Disclosure Requirements table as a cross-reference tool, in Section V of this Guide. GRS lists the information that will be needed for the city's Required Supplementary Information (RSI); each of these is provided in Section B of the Reporting Package.

Section A ends with information from GRS regarding Ad Hoc Benefits. GASB 68 [62] requires that the projected benefit payments used in the calculation of the Total Pension Liability (TPL) include future ad hoc benefits, IF they are deemed to be substantively automatic. In TMRS, cities may choose to adopt benefits such as COLAs (cost-of-living adjustments for retirees) and Updated Service Credits on an annually repeating basis, or ad hoc (required action by city council each year). GASB 68 does not explicitly define the term "substantively automatic"; as such, TMRS established a default criteria to determine when these ad hoc benefits should be calculated as automatic or repeating:

> *Ad Hoc benefit enhancements are substantively automatic if they have been granted in i) 1 of the last 2 years AND ii) 2 of the last 5 years, effective with the first ad hoc adoption on or after January 1, 2015.*

For more information, see "Actuarial Resources" in the Eye on GASB section of the TMRS website.

Section B – Financial Schedules

1. Schedule of Pension Expense

GASB 68 [45.g] requires the notes to include the amount of pension expense recognized by the employer in the reporting period.

Pension expense comprises the changes in the net pension liability from one measurement date to the next measurement date, and should be recorded in the current reporting period. There are, however, items that are deferred and recognized in later periods (i.e., deferred inflows and deferred outflows of resources).

- Line 1 is the service cost, which is the portion of the actuarially-determined present value of future benefits, attributable to service accrued during the current year.
- Line 2 is the interest on the TPL, which can be recalculated by the city, as follows:

  ((Beginning TPL plus current year benefit changes) x 6.75%) + ((service cost minus current year benefit payments and refunds) x 3.375%)

  - 6.75% represents the long-term expected rate of return
  - 3.375% is used for the benefit payments and refunds, as these are expected to occur, on average, mid-year.
- If the city adopted benefit changes during the measurement period, the cost of that benefit would be reflected in line 3.
- Line 4 is the employee contributions that were made by the city to TMRS during the measurement period. This amount can be found in the Schedule of FNP. Note that employee contributions reduce pension expense.
- Line 5 represents the projected earnings on plan investments. This is the city's beginning of year FNP, multiplied by the assumed rate of return of 6.75%. Note that these projected earnings reduce pension expense.
- Lines 6 and 7 are additional charges to pension expense, and can be found in the Schedule of FNP.
- Lines 8 and 9 represent the current period expense from amortization of any deferred inflows or deferred outflows of resources that were created in the measurement period [33.a and 33.b]. The current period expense can be found in the GRS "Schedule of Outflows and Inflows – Current and Future Expense." Note that current period amounts can increase (deferred outflows) or reduce (deferred inflows) pension expense.
- Lines 10 and 11 represent the current period expense from amortization of prior deferrals, if any. The current period expense can be found in Section D of GRS' Reporting Package.

2. Schedule of Outflows and Inflows – Current and Future Expense

GASB 68 [45.h] requires the notes to include the employer's balances of deferred outflows and deferred inflows of resources related to pensions. Paragraph 33 describes how the deferrals are to be determined and expensed to the current and future reporting periods.

Deferred outflows and inflows of resources are categorized into four distinct types. GRS provides the deferral amount, the recognition or amortization period, the current year deferral amount, and the resulting deferral for future expense.

Deferrals result from:

a. Differences in expected and actual experience

b. Differences due to changes in actuarial assumptions

c. Difference in projected and actual earnings (6.75% projected investment earnings versus the actual interest credited to the city).

d. Pension contributions made subsequent to the measurement date

For items a and b above, GRS will provide the recognition period or years over which the amount will be amortized (straight-line). This recognition period is the estimated average remaining service lives of all members (active, inactive, and retired) for the city, determined as of the measurement date. This recognition period can change from year to year. Each year, as new deferred outflows or inflows are determined, a new "layer" will be created, to amortize that new deferral over a new recognition period. GRS has provided an Amortization Schedule in Section D of their Reporting Package, which will show the various layers as they are created each year. TMRS has also created a sample amortization schedule (in Excel) for the city to utilize (see "Eye on GASB" section of the website). For item c above, all cities will amortize the difference in projected and actual earnings over a closed five-year period [33.b]. For item d above, the city must calculate this amount, totaling municipal/employer contributions remitted to TMRS subsequent to the measurement date, up to the city's fiscal year-end. This amount will be reported as a deferred outflow of resources, but is not amortized like the other three deferrals. Each year, the previous year deferral is simply reversed and the current year deferral is made.

GASB 68 [45.i.] also requires that the employer provide a schedule of the deferred outflows and inflows of resources, for each of the subsequent five years, and in the aggregate thereafter, that will later be recognized in future pension expense. GRS has created the chart in item B. Each of the five years and thereafter is provided in the Amortization Schedule in Section D of the Reporting Package.

3. Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios – Current Period

Required Supplementary Information (RSI) for agent employers includes a Schedule of Changes in Net Pension Liability [46.a and b]. GRS has provided, in a single schedule, the required information as of the measurement date.

In part A, GRS has provided all the components that comprise the net change in the Total Pension Liability (TPL) over the measurement period. The beginning and ending Total Pension Liability are also provided.

In part B, GRS provides the Plan Fiduciary Net Position (PFNP) for the city. The change in the Plan Fiduciary Net Position represents the net cash flows from contributions, investment earnings and benefit payments for the city, as well as an allocation of administrative expenses. The Schedule of Changes in Plan Fiduciary Net Position, by employer, is audited by TMRS' external auditor. The opinion, for the schedule as a whole, and the FNP by individual employer can be found on TMRS' website.

Part C is the Net Pension Liability (NPL) or Net Pension Asset (NPA), resulting from the difference between the TPL and PFNP; this NPL/(NPA) should be recorded on the employer's balance sheet.

Parts D and F are required ratios to be provided.

Part E is the covered payroll amount for the city, or the payroll on which contributions to a pension plan are based (GASB Statement No. 82, issued in March 2016).

GASB 68 requires that a 10-year Schedule of Changes in Net Pension Liability (and related ratios) be provided. GRS will create a new “current period” schedule each year. The city/employer will be required to maintain and update their schedule each year for their RSI, building this required schedule over the next 10-year period.

4. Schedule of Contributions and Notes to Schedule of Contributions

GASB 68 [46.c] requires the city to provide, as RSI, a 10-year schedule of contributions. The city should note that this schedule should be **determined as of the employer’s most recent fiscal year-end.** Notice that all other schedules and disclosures are based on the measurement date.

An actuarially determined contribution is calculated each year by GRS (for funding purposes). This actuarially determined contribution rate is provided to the city each year in their Rate Letter Package (found on the TMRS website).

As GRS does not maintain contribution records for each employer’s fiscal year, **each city will be responsible for creating its respective Schedule of Contributions.** Similar to the other RSI, this Schedule of Contributions will ultimately include 10 years of information; the city will need to build this schedule over the next 10-year period.

The city must first calculate the Actuarially Determined Contribution (ADC) amount. For each month in the city’s fiscal year, the full retirement rate (excluding the portion for Supplemental Death Benefits) should be multiplied by the payroll amount or gross earnings as noted on line 1 of the Form TMRS-0003 Summary of Monthly Payroll Report; the twelve monthly amounts are then summed. Note that for most cities, the full retirement rate will be different for various months in their fiscal year, as rates are determined annually, and effective January 1 of each year. For example, a city with a June 30 fiscal year-end will have a full retirement rate for six months of their fiscal year (July 1 through December 31) and a different full retirement rate for the other six months (January 1 through June 30).

The actual contributions remitted to TMRS (employer-portion only) during the city’s fiscal year should then be calculated; this would include additional lump-sum contributions, if any. The difference between the ADC and actual contributions then determines the contribution deficiency or excess.

The covered payroll is then listed. The city can utilize the payroll amount or gross earnings as noted on the Form TMRS-0003, for their fiscal year.

The ratio of contributions as a percentage of covered payroll should then be calculated.

GASB 68 [47] requires notes to the required schedules. Significant methods and assumptions used in calculating the actuarially determined contributions should be presented as notes to the schedule; these have been provided by GRS in the Reporting Package.

5. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

GASB 68 [42] requires certain information to be disclosed about the discount rate. In addition to the long-term expected rate of return (6.75% for TMRS), subsection g requires a disclosure of the sensitivity of the NPL to changes in the discount rate. GRS has provided the NPL using a discount rate that is 1 percentage point higher and 1 percentage point lower than the current discount rate.

Section C – Actuarial Assumptions and Plan Provisions

In this section, GRS has provided a complete summary of the actuarial assumptions used for determining the Total Pension Liability for your city.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy.

Section D – Deferred Inflows / Outflows of Resources – Amortization Schedules for Future Pension Expenses

As noted in Section B.2 above, GASB 68 requires some items to be included in pension expense immediately (in the current period). In addition, there are certain items that are to be deferred and recognized in expense over a period of time.

The Amortization Schedule provided here shows how each measurement period can result in new deferred inflows and deferred outflows. Each new deferral will be “layered” and amortized over its respective remaining recognition period. This schedule amortizes each deferral for the five subsequent years, with any remaining amount being categorized in the “thereafter” column.

It is possible that this Amortization Schedule could become quite lengthy, with both numerous “layers” (new deferrals) and numerous run-out periods. TMRS has created a Sample Amortization Schedule in Excel; we encourage each city to create, maintain, and verify their calculations against those provided by GRS. The sample schedule can be found in the “For Your Financial Reporting” subsection, on the Eye on GASB page of the web- site.

Section E – Glossary of Terms

Provided by GRS, this section will help to define terms used in the Reporting Package.

V. Pension Disclosure Requirements Table (cross-reference tool)

Note Disclosures

Disclosure	GASB 68 Paragraph Reference	Source	Additional Information
Name of plan, ID of system that administers the plan, ID as (single-employer or) agent plan	40.a	TMRS CAFR – agent plan	Also in TMRS Guide – sample wording
Description of benefit terms, including types of employees covered, types of benefits, COLAs including automatic or ad hoc, and authority under which benefit terms are established/amended	40.b	TMRS CAFR (pension plan footnote)	Also in TMRS Guide – sample wording
The number of employees covered by the benefit terms, separately identified by: annuitants, inactive entitled to benefits, and active employees	40.c	GRS Reporting Package – Executive Summary	
Description of contribution requirements, including how contributions are determined, authority under which contribution rates can be amended, and amount of contributions recognized by the pension plan for that period	40.d	TMRS CAFR for description; city for contribution rates/amount.	Actuarially determined
How to obtain PERS CAFR	40.e	TMRS website	
Significant assumptions/inputs used to measure the Total Pension Liability, including: inflation, salary changes, COLAs, mortality, and dates of experience studies on which assumptions are based	41	GRS Reporting Package – Section C	Also in TMRS Guide – sample wording
Discount rate applied when measuring TPL and change in the discount rate since the prior measurement date, if any.	42.a	GRS Reporting Package – Executive Summary	6.75%, effective 12/31/2015
Assumptions made about projected cash flows when calculating the discount rate	42.b	GRS Reporting Package – Section A	
Long-term expected rate of return and how it was determined, including significant methods and assumptions used for that purpose	42.c	GRS Reporting Package – Section A	Also in TMRS Guide – sample wording
If the discount rate incorporates a municipal bond, the bond rate used and source of that rate	42.d	GRS Reporting Package – Section A	n/a
Periods of projected benefit payments to which long-term ROR is used and municipal bond rate is used when determining the discount rate	42.e	GRS Reporting Package – Section A	100 years long-term ROR
Assumed asset allocation of portfolio, long-term expected real ROR for each asset class, and whether ROR is presented as arithmetic or geometric	42.f	TMRS website	Also in TMRS Guide – sample wording
Employer’s NPL calculated using discount rates that are 1% higher and lower than the actual discount rate used to calculate the TPL	42.g	GRS Reporting Package – Section B	

Disclosure	GASB 68 Paragraph Reference	Source	Additional Information
Employer's Fiduciary Net Position has been determined on the same basis used by the System/ pension plan, and a brief description of pension plan's basis of accounting, including policies regarding benefit payments and the valuation of plan investments.	43	TMRS Guide	Also in TMRS Guide – sample wording
Schedule of NPL, for the current reporting period; to include beginning balances, effects during the period, and ending balances of the TPL, PFNP, and NPL.	44	GRS Reporting Package – Section B	
Measurement date of NPL and date of actuarial valuation on which the TPL is based	45.a	GRS Reporting Package – Executive Summary	December 31
Assumption changes or other inputs that affected measurement of the TPL since the prior measurement date	45.c	GRS Reporting Package – Section C	
Changes of benefit terms that affected measurement of the TPL since the prior measurement date	45.d	GRS Reporting Package – Section B	
Nature of changes between measurement date of NPL and employer's reporting date if they are expected to have a significant effect on the NPL	45.f	City	City would need to notify TMRS.
Amount of pension expense recognized by the employer in the reporting period	45.g	GRS Reporting Package – Section B	
Employer's balances of deferred outflows/inflows related to pensions, classified in the following categories: ■ Differences between expected and actual experience ■ Changes of assumptions/inputs ■ Difference between expected and actual earnings ■ Employer's contributions to the pension plan subsequent to the measurement date	45.h	GRS Reporting Package – Sections B and D	City will provide contributions subsequent to the measurement date.
Schedule showing net amount of balances of deferred outflows/inflows (subsequent five years and in the aggregate thereafter) that will be recognized in the employer's pension expense and recognized as a reduction in the net pension liability in the future	45.i	GRS Reporting Package – Sections B and D	

Required Supplementary Information			
Note: Each of the two schedules shown below should be built by the employer, over the next 10-year period.			
10- year schedule presenting the following for each year: ■ Employer's TPL ■ Employer's PFNP ■ Employer's NPL ■ Plan Fiduciary Net Position as a percentage of the Total Pension Liability ■ Employer's covered payroll ■ Employer's NPL as a percentage of the employer's covered payroll	46.a and b	GRS Reporting Package – Section B	Based on measurement date.
10- year schedule presenting the following for each year: ■ Actuarially determined employer contribution ■ Actual contributions paid by the employer ■ Difference between required contributions and paid contributions ■ Employer's covered payroll ■ Amount of contributions paid in relation to required contributions as a percentage of the employer's covered payroll.	46.c	TMRS City	Based on the employer's fiscal year.
Significant methods and assumptions used in calculating the actuarially determined contributions should be presented as notes to the Schedule required by 46.c. In addition, for both schedules, information should be presented about factors that significantly affect trends in the amounts reported (i.e., changes in benefit terms, change in size or composition of population, or assumption changes).	47	GRS Reporting Package – Section B	

VI. Sample – GASB 68 Pension Note Disclosures and RSI

NOTE: Cities participating in TMRS should make disclosures as a participant in an agent multiple-employer defined benefit pension plan.

See Illustration 2 in GASB 68 for sample Note Disclosures and Required Supplementary Information.

While we attempt to include all relevant information, we cannot and do not attest to complete accuracy. All financial statement and note disclosures are the responsibility of the city/employer and the city's independent public accountant. In this Sample, the variable information that the city may need to provide is **highlighted.**

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X. Defined Benefit Pension Plans

A. Plan Description

The **[City of__________]** participates as one of xxx plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com*.

All eligible employees of the city are required to participate in TMRS.

Note – the total number of cities/plans in TMRS can be found in the TMRS CAFR.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The city should insert the plan provisions that they have adopted. For example, the city may include retirement eligibility, employee and employer deposit rates, vesting requirements, and other provisions such as cost-of-living adjustments or updated service credit. Plan provisions, by city, are included in the last section of TMRS' Comprehensive Annual Financial Report (CAFR). The city may also want to refer to TMRS' Plan Description footnote, in the TMRS CAFR, to obtain additional language regarding the pension plan.

Employees covered by benefit terms.

At the December 31, 20x2 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	**xxx**
Inactive employees entitled to but not yet receiving benefits	**xxx**
Active employees	**xxx**
	xxx

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the **[City of____]** were required to contribute **[x%]** of their annual gross earnings during the fiscal year [if the City changed its employee deposit rate, it should be noted here]. The contribution rates for the **[City of_________]** were **xx.xx%** and **xx.xx%** in calendar years 20x1 and 20x2, respectively. The city's contributions to TMRS for the year ended **[insert city's fiscal year end here],** were **$__,** and were equal to the required contributions.

D. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 20x2, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 20x2 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103% **[small cities should also include the additional factor used, which adds an additional layer of conservatism; see the GRS Reporting Package, section C].** The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined

Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 20x2 are summarized in the following table:

The city should provide the current target allocation and long-term expected real rate of return here. This information, in a chart format, can found in the *Eye on GASB* section of the website, in the “For Your Financial Reporting” resources.

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan’s Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/20x1	$ 3,333	$ 1,111	$ 2,222
Changes for the year:			
Service cost	1,234	-	1,234
Interest	2,345	-	2,345
Changes in current period benefits*	-	-	-
Difference between expected and actual experience	(500)	-	(500)
Changes in assumptions	-	-	-
Contributions - employer	-	123	(123)
Contributions - employee	-	234	(234)
Net investment income	-	555	(555)
Benefit payments, including refunds of employee contributions	(222)	(222)	-
Administrative expense	-	(11)	11
Other changes	-	(5)	5
Net changes	$ 2,857	$ 674	$ 2,183
Balance at 12/31/20x2	**$ 6,190**	**$ 1,785**	**$ 4,405**

* For TMRS, the "changes in current period benefits" includes substantively automatic benefit status changes, if appliable.

Note: The above schedule is provided for sample purposes only. The city will need to complete the schedule above, using its respective GRS Reporting Package, "Schedule of Changes in Net Pension Liability and Related Ratios – Current Period."

Sensitivity of the net pension liability to changes in the discount rate:

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	**$xx,xxx**	**$xx,xxx**	**$xx,xxx**

The city will insert their respective information, as provided in the GRS Reporting Package.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at *www.tmrs.com*.

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended **[city fiscal year end],** the city recognized pension expense of **$____.**

The calculation and amount is provided in the GRS Reporting Package.

At **[city fiscal year end],** the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	**$x,xxx**	**$x,xxx**
Changes in actuarial assumptions	**$x,xxx**	**$x,xxx**
Difference between projected and actual investment earnings	**$x,xxx**	**$x,xxx**
Contributions subsequent to the measurement date **[to be calculated by the city]**	**$x,xxx**	
Total	**$xxx,xxx**	**$xxx,xxx**

$x,xxx reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending **[city fiscal year end].** Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
20x3	**$x,xxx**
20x4	**$x,xxx**
20x5	**$x,xxx**
20x6	**$x,xxx**
20x7	**$x,xxx**
Thereafter	**$x,xxx**

Required Supplementary Information

The Schedule of Changes in the City's Net Pension Liability and Related Ratios shows the changes in Total Pension Liability less the changes in Fiduciary Net Position, resulting in the net pension liability calculation for the city. Note that this is a 10-year schedule, to be created by the city prospectively, over the next 10-year period. This schedule is provided in the GRS Reporting Package (for the current period).

The Schedule of Employer Contributions shows the city's required annual contributions from the actuarial valuation, compared with the actual contributions remitted. This schedule is based on the city's respective fiscal year-end, and should be created by the city, and built over the next 10-year period. The city should also provide the Notes to Schedule of Contributions, including the methods and assumptions used to determine the contribution rates and information about benefit changes during the year, if any. Information to complete the Notes to Schedule of Contributions is provided in the GRS Reporting Package.

VII. Glossary

Agent multiple-employer defined benefit pension plan (agent plan)

TMRS is an agent plan, based on GASB 68 classifications of pension plans. In agent plans, assets are pooled for investment purposes but separate accounts are maintained for each individual employer, so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees. In TMRS, each city/employer has its own respective fund in which assets are accumulated.

Census data

Specific data on each participant in the Plan, used in the actuarial valuation process. Examples may include: birth date, hire date, gender, pay/salary, etc.

Measurement Date

The date the actuary uses to value the assets and liabilities of each employer.

Net Pension Asset (NPA)

As opposed to a Net Pension Liability (NPL), an asset may result if the Plan Fiduciary Net Position (PFNP) exceeds the Total Pension Liability (TPL). Also see NPL.

Net Pension Liability (NPL)

Total Pension Liability (TPL) less the Plan Fiduciary Net Position (PFNP) results in the NPL. The NPL at the measurement date should be reflected in the employer's financial statement.

Plan Fiduciary Net Position (PFNP)

The total amount of assets allocated to each participating employer. In TMRS, this includes additions (contributions and interest credits) and deductions (service retirements and refunds) to the city's Benefit Accumulation Fund; in addition, each city is allocated a portion of all remaining assets held in trust by the plan.

SOC-1 Audit Report (SOC-1 or SOC audit)

A Service Organization Controls (SOC) Report is a report on the controls at a service organization. AICPA's authoritative guidance, which describes the process to issue such a report, comes from Statement on Standards for Attestation Engagements No. 18 (SSAE 18). A report prepared in accordance with SSAE-18 indicates that the service organization has had its controls examined by an independent accounting firm; the report, which includes the auditor's opinion, is issued to the service organization at the conclusion of the examination. For purposes of this Guide, TMRS is the service organization.

Total Pension Liability (TPL)

In accordance with GASB 68, the TPL is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service. Projections of benefit payments are required to be based on the benefit terms and legal agreements existing at the measurement date.