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2014 Annual Training Seminar

Exploring TMRS



TMRS Pension Reporting for Cities

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Pension Reporting for Cities

That Was Then, This Is Now

GASB 67/68



Session Outline

- What's Changed / What Hasn't?
- Dividing up the Responsibilities for Implementing GASB 67/68
 - **TMRS** — Command Central
 - **TMRS External Auditor** — New Roles and Responsibilities
 - **TMRS Actuary** — From the Background to the Spotlight



Session Outline, cont.

- Dividing up the Responsibilities for Implementing GASB 67/68 (cont.)
 - **Employer** (TMRS City) — Taking Responsibility for the Pension Numbers
 - **Employer Auditor** — and the Verdict is....
- Finish and Questions



What's Changed – Accounting

- GASB 68 — much more complex and mostly prescriptive actuarial calculations
- Exceptions to prescriptive approach:
 - Definition of substantively automatic COLAs
 - Allocations for cost-sharing plans
 - Allocations between funds
- New terminology
 - Specific terms are now assigned to familiar actuarial concepts prepared in accordance with GASB 67/68 requirements



What's Changed – Accounting, cont.

- Recording of a Net Pension Liability (NPL) in the Statement of Net Position (could be large)
- A much more volatile pension expense number
- Deferred Inflows and Outflows
- Extensive notes and RSI



What's Changed – Auditing

- Perceived risk of material misstatement has significantly increased
 - GASB 25/27 — ARC was smaller and calculated using various options
 - GASB 67/68 — NPL could be large, very material, very volatile, and definition is strictly prescribed
- Three AICPA whitepapers and related interpretations issued to address the coordination of auditing procedures between entities:
<http://www.aicpa.org/INTERESTAREAS/GOVERNMENTALAUDITQUALITY/RESOURCES/GASBMATTERS/Pages/default.aspx>



What's Changed – Auditing, cont.

- While roles are divided by who is best positioned to perform the task, it is the employer (city) and their auditor that are ultimately responsible for the pension numbers and related opinion:
 - Entire page dedicated to employer's responsibility
 - Employer auditor must ultimately decide what constitutes sufficient, appropriate audit evidence
 - Relationship between PERS actuary and employer has been enhanced, but TMRS will remain the sole communication point for employers and their auditors



What's Changed – Reporting Packages

Current

- Only one reporting package for both funding and reporting
- Available on TMRS website

Post-GASB 68

TMRS WEBSITE

- System-wide funding policy
- Funding valuation rate letter package (for each individual city)
- Financial reporting package (for each individual city); will include actuarial certification letter by individual city (on GRS letterhead)
- Anticipating other general information (“Eye on GASB” section)
 - Qualifications of consulting actuary
 - FAQs for employers and their auditors
 - Note information on investments (not included in actuarial certification letter)



What's Changed – Reporting Packages, cont.

Post-GASB 68

TMRS WEBSITE

- Individual City Portal
 - SOC-1 Type 2 Audit Report. Includes:
 - Controls over census data
 - Controls over the calculation and allocation to employer's Fiduciary Net Position accounts
 - Census data by individual city as provided to consulting actuary
- TMRS CAFR
 - Schedule of Changes in Fiduciary Net Position by Employer with related notes and audit opinion on the “schedule as a whole”



What Hasn't Changed

- TMRS Statutes and Governance
- TMRS Benefit Options
- TMRS Funding Package (“Annual Rate Letter”)
 - In the past, served both funding and reporting
 - Now it will be for funding only
- TMRS CAFR, with the exception of:
 - Fewer notes and RSI on actuarial topics
 - Inclusion of a Schedule of Changes in Fiduciary Net Position with related notes and audit opinion



Responsibilities – TMRS

Internal Controls and Reporting

- It all begins with reliable, relevant, and verifiable information distributed to the right parties in a timely manner
 - SOC report available mid- to late May
 - System-wide Actuarial Valuation — May (same as previous years)
 - Funding valuation/rate letter packages, by city — June
 - CAFR issued June (same as previous years)
 - To include a Schedule of Changes in FNP, by city
 - GASB 68 financial reporting package, by city — June

Central Communication Point

- Website www.tmrs.com/eye_on_GASB.php
- City Portal www.tmrs.com/city_portal.php
- Conferences
- Phone inquiries (with 850+ member cities, must be minimized)



Excerpt from 2013 Changes in BAF

City Number	Participating Municipality	Balance Jan. 1, 2013	Additions			Deductions					Balance Dec. 31, 2013
			Employer Contributions	Employee Contributions	Interest	Service Retirements	Disability Retirements	Partial Lump Sum Distributions	Refunds	Escheated Accounts*	
01399	Winona	622,284	46,457	26,548	60,390	32,073			3,324		720,282
01400	Winters	2,588,090	50,541	24,241	251,162	117,904	1,685	21,982	4,465	372	2,767,626
01403	Wolforth	1,886,213	83,405	51,676	183,048	71,601			41,545	671	2,090,525
01409	Woodcreek	80,279	904	3,477	7,791	5,202					87,249
01404	Woodsboro	531,936	3,184	17,120	51,622	22,063			5,948		575,851
01406	Woodville	4,283,301	187,904	88,215	415,674	135,294		9,961	11,504		4,818,335
01407	Woodway	14,893,252	633,430	274,042	1,445,320	380,700			54,631	2,216	16,808,497
01408	Wortham	442,360	10,767	18,510	42,929	1,572			4,136	328	508,530
01410	Wylie	30,320,638	1,878,953	1,009,416	2,942,476	562,802	16,989	184,832	200,849	1,553	35,184,458
01412	Yoakum	16,356,188	580,932	194,835	1,587,291	807,017	28,109	108,733	66,052		17,709,335
01414	Yorktown	1,314,189	5,861	23,110	127,536	74,129			26	1,791	1,394,750
01415	Zavalla	470,501	5,036	12,043	45,660	21,510			34,899		476,831
	TOTALS	\$20,351,426,128	\$680,775,833	\$339,906,924	\$1,975,010,474	\$793,765,281	\$16,380,337	\$135,568,703	\$57,727,674	\$1,764,823	\$22,341,912,541



Responsibilities – TMRS, cont.

- GASB 68 required disclosures not contained in actuarial certification letter (i.e., Investments)
- Serving as a conduit to provide the census data used by GRS in the individual valuations
 - Provides GRS with detailed census file
 - GRS performs data cleansing and reformatting before using for valuation
 - Once file is ready for the valuation, certain sensitive information such as SSN is redacted and the relevant data is loaded into an Excel spreadsheet, along with a letter from GRS, documenting its use in the valuation
 - This file will be available on each city's City Portal page



Responsibilities – TMRS Auditor

- Audit of the financial statements with related audit opinion
- Audit of the Schedule of Changes in Fiduciary Net Position by employer and opinion on the “schedule as a whole”
- SOC-1 Type 2 Audit Report, which includes:
 - Controls over census data
 - Calculation and allocation to employer’s FNP accounts (contributions, disbursements, interest allocation)
 - IT-related controls (physical access, applications maintenance, backups, etc.)



Responsibilities – TMRS Actuary

- GASB 68 reporting package addressed to each employer, including certification letter signed by GRS actuaries. To include items such as:
 - Executive summary
 - Financial schedules
 - Schedule of Pension Expense
 - Schedule of Outflows and Inflows (current and prior periods)
 - Schedule of Changes in Net Pension Liability and related ratios (current period)
 - Glossary of terms
- Certification of census data used in the valuation



Excerpts from Actuarial Report

The initial prior period adjustment entry will look similar to:

Deferred Outflow of Resources-Contributions	x,xxx	
Unrestricted Net Position		xx,xxx
Net Pension Liability		yyy,yyy

In addition, those governments that chose to phase in their 2007 valuation rate increase or those that contributed in excess of their ARC, will eliminate the Net Pension Obligation/(Asset) that is currently reported in the government-wide and proprietary fund financial statements with a prior period adjustment entry similar to:

Net Pension Obligation/(Asset)	xxx	
Unrestricted Net Position		yyy



Excerpt from Actuarial Report

PENSION EXPENSE UNDER GASB STATEMENT NO. 68 **Fiscal Year End of the Employer**

Expense	
Total Service Cost	\$ 5,511,524
Interest on the Total Pension Liability	23,583,673
Current Period Benefit Changes	0
Employee Contributions (Reduction of Expense)	(3,305,372)
Projected Earnings on Plan Investments (Reduction of Expense)	(21,349,330)
Pension Plan Administrative Expense	0
Other Changes in Fiduciary Net Position	0
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	(3,329,060)
Recognition of Current Year Outflow (Inflow) of Resources-Assets	(1,649,712)
Amortization of Prior Year Outflows (Inflows) of Resources-Liabilities	0
Amortization of Prior Year Outflows (inflows) of Resources-Assets	<u>0</u>
Sub-Total Pension Expense Prior to Deferral of Contributions	<u>(538,277)</u>
Increase Expense for Prior Year Contributions After Measurement Date ¹	TBD
Reduce Expense for Current Year Contributions After Measurement Date ²	<u>TBD</u>
Total Pension Expense	<u>xxxxxxx</u>

¹This will be the amount recorded as a deferred outflow for initial entry recording the prior period adjustment and must be supplied by the employer.

²This amount will also need to be provided by the employer for contributions made between the measurement date and fiscal year end.



Employer (TMRS City) Responsibilities

The agent whitepaper states:

“The employer is solely responsible for its financial statements and, therefore, employer management is responsible...over the measurement of its specific pension amounts”

Employer responsibilities include:

- Evidence regarding the reasonableness of the assumptions
- Completeness and accuracy of the census data
- Evidence supporting the calculation of the discount rate



Reasonableness of Assumptions

This is most difficult employer responsibility, so keep in mind:

- Reliance must be placed on the expertise of the actuary
- Assumptions are divided into two categories:
 - Economic (Inflation, Long-term Rate of Return, etc.)
 - Demographic (Mortality, turnover, retirement age etc.)
- A reasonable assumption can be high or low in any given year
 - Actuarial gains and losses should have some offset from year to year and between assumptions
 - Remember these are long-term (20-30 year horizon) so a few years of losses or gains in a row does not make an assumption unreasonable, particularly if we are in an economic extreme



Reasonableness of Assumptions

- Actuaries conduct experience studies every four to five years, which will document and support the reasons behind the assumptions. TMRS will have these experience studies available on the website.



Other Employer Responsibilities

Completeness and accuracy of census data

- Possible procedures
 - Tracing active employees from payroll records to census data and checking key information (salary, date of hire, age, etc.)
 - Tracing current year terminations per payroll records to census data to verify status and date of termination
 - Tracing inactives or retirees per the census data back to the originating employment records
 - Analytical review for overall reasonableness



Other Employer Responsibilities, cont.

Discount Rate Calculation

- Not likely to be an issue due to:
 - Strong history of member governments always contributing the required contribution
 - Strong amortization policies in general (also for small governments) and ad hoc COLAs make the possibility of a crossover point remote



Other Employer Responsibilities, cont.

Substantively Automatic Benefits (USC and/or COLAs)

- If your government utilizes Ad Hoc USC/COLAs, GASB does not define “substantively automatic”
- TMRS actuaries have provided a system-wide default definition
 - 1 out of last 2 years AND
 - 2 out of last 5 years, beginning with the first ad hoc adoption on or after January 1, 2015
- TMRS’ in-house actuary has contacted the cities potentially impacted
- Ultimately, however, whether Ad Hoc USC/COLAs should be treated as substantively automatic (repeating) in determining your TPL is the employer and their auditor’s call



Employer Auditor Responsibilities

- All the procedures and documentation — performed by TMRS, TMRS' auditor, TMRS' actuary and the employer city — are designed to assist the employer auditor in gathering sufficient and appropriate audit evidence to support the auditor's opinion on the pension numbers
- Ultimately, however, the opinion on the employer's financial statements including the pension numbers is the employer auditor's responsibility
- The employer auditor must ultimately decide how much and what type of evidence is sufficient



Employer Auditor Responsibilities, cont.

- Evaluation of internal controls affecting pensions
 - Review and understand plan provisions and controls needed to comply
 - For example, all positions working over 1,000 hours a year should be enrolled in TMRS — are there controls in place at the city to make this happen?
 - Reviewing and testing the controls over all information sent to the Plan
 - TMRS has defined what those controls should be in their SOC letter to cities



Employer Auditor Responsibilities, cont.

- Testing of census data for completeness and accuracy
 - Sampling and tracing of data back to or from the payroll records and originating documentation
- Review of the valuation report
 - Qualifications of the PERS actuary
 - Experience studies and actuarial audits
 - Support for methodologies used
 - Support regarding discount rate used



In Conclusion

- Become familiar with the “**Eye on GASB**” section of the TMRS website
- Get your city set up on the **City Portal** if you have not already done so
- Begin discussions with your **City Auditor** now!
 - Have you reviewed your controls as discussed in the TMRS SOC letter to cities?
 - Is the auditor planning any special procedures including use of their own actuary?
 - If your city adopts ad hoc benefits, is your auditor in agreement with TMRS’ default definition of substantively automatic benefits?



QUESTIONS?