Swinging from Theory into Practice

Accounting for your Pension Plan and Resources for Employers

Rhonda Covarrubias, TMRS
Bob Scott, City of Carrollton
The Direct Approach

GASB Resources for Employers

Rhonda Covarrubias,
TMRS Director of Finance
• GASB issued new pension standards (GASB 68) in June 2012

• First TMRS cities to implement are those with June 30, 2015 fiscal year-ends

• In the interim = lots of planning
Planning in the Interim

• Numerous players: TMRS, GRS, KPMG, city perspective (Bob Scott)

• Determine avenues of information distribution
  
  ➢ TMRS E-Bulletin  
    • Normally goes out after TMRS Board meetings
  ➢ TMRS website  
    • “Eye on GASB”
  ➢ TMRS City Portal  
    • Requires log-in; confidential info
“Eye on GASB”

When GASB announced its intention to change pension accounting standards, TMRS started this page as a service to employer cities. To get there, go to the TMRS website.
“Eye on GASB”

Under the City Services pull-down menu, click on Eye on GASB:
These sections open up to give you resources for each topic.
For Your Financial Statement Audit

GASB Resources

For Your Financial Statement Audit

Items that your city may need to share with your auditor:

- Census Data – found on the TMRS City Portal
- SOC-1 Audit Report – found on the TMRS City Portal
- TMRS’ Comprehensive Annual Financial Report, for the year ended December 31, 2014
  - Schedule of Changes in Fiduciary Net Position, by employer, as of December 31, 2014
- Qualifications of Actuary

If you are not registered to access the City Portal, see the City Portal Information page.

GASB information for years prior to 2015 can be found as an attachment to your city’s Rate Letter for that year.

For Your Financial Reporting

Actuarial Resources
For Your Financial Reporting

GASB Resources

For Your Financial Statement Audit

For Your Financial Reporting

- GASB Employer Reporting Package
  (See box at left for your city’s GASB 68 reporting package)
- GASB Employer Reporting Guide
- General information about the TMRS Plan
- Investment allocation and rates of return

Actuarial Resources

Other GASB Resources

GASB Archive
GASB Resources

For Your Financial Statement Audit

For Your Financial Reporting

Actuarial Resources

- TMRS Funding Policy
- Substantively Automatic Benefits Criteria
- Actuarial Experience Studies

Other GASB Resources

GASB Archive
Questions for TMRS?

Please send your GASB-related questions to:

pensionaccounting@TMRS.com
The Direct Approach

Swinging From Theory to Practice

Bob Scott, ACM/CFO
Carrollton, Texas
Good News-It Can Be Done!

Carrollton has essentially completed its GASB 68 implementation and related audit procedures at interim.

This presentation will discuss:
- Key planning considerations
- Beginning and annual journal entries
Key Planning Considerations

• Intra-Entity Allocations
  • How many accounting units need an allocation?
  • Streamline or complex?

• Timing
  • Most work can be done before FY end
  • Journal entries cannot be complete until final Form TMRS-3 of the FY is complete.

• Contributions per TMRS must tie to Employer
• Harmonize entries to produce same answer as TMRS reporting package
• Support pension numbers with the Due Diligence Program
GASB 68
Sample Journal Entries

City of Perpetual Pensions
Background

The City of Perpetual Pensions (CPP) is a long time member of TMRS, a state-wide multiple employer agent PERS. The city is a September year-end. TMRS, a December year-end, has decided the following:

• A December 31st measurement date will be used for reporting pension amounts to all member cities.
• TMRS has chosen not to provide any beginning deferred inflows or outflows of resources.
• Actuarial related pension numbers including calendar year contributions will be provided through the consulting actuary. Fiscal year contributions will be determined by each employer.
• The consulting actuary has determined that CPP’s remaining service for all plan participants was 7 years in CY 2013 and 6 years in CY 2014.
The following applies to the CPP:

Net Pension Liability 12/31/13 $5,000,000
Net Pension Liability 12/31/14 6,000,000
Actuarial gains for period 12/31/13 700,000
Actuarial losses for period 12/31/14 600,000
Investment earnings over expectation 12/31/13 2,000,000
Investment earnings over expectation 12/31/14 1,000,000
CPP contributions for FYE September 2014 4,000,000
CPP Contributions for FYE September 2015 4,400,000
CPP contributions made 1/1/14 to 9/30/14 3,000,000
CPP contributions made 1/1/15 to 9/30/15 3,300,000
Actuarial loss due to Ad Hoc COLA 1/1/15 800,000
Net Pension Obligation at 9/30/14 due to phase-in 2,500,000
You are CPP’s finance director, I.M. Savvy, CPA, and you have the responsibility for making the journal entries necessary for properly recording the NPL and related pension amounts as of 9/30/15.

MAKE THOSE ENTRIES!!
Initial Entries

To record the beginning NPL as an adjustment to prior periods per GASB 68 par. 137

Net Position 5,000,000
  Net Pension Liability 5,000,000

To record beginning deferred outflow for contributions made after the MD per GASB 71

Deferred Outflow of Resources-Contributions 3,000,000
  Net Position 3,000,000

To Eliminate the GASB 27 NPO now superseded by GASB 68 requirements

Net Pension Obligation 2,500,000
  Net Position 2,500,000
### Alternative Initial Entry

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
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<tbody>
<tr>
<td>Deferred Outflow-contributions after MD</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Net Pension Obligation</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Net Pension Liability</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Net Position</td>
<td>500,000</td>
</tr>
</tbody>
</table>
Annual Entry for 2015

Pension Expense 5,400,000
Deferred Outflow- contributions 300,000
Deferred Outflow –actuarial losses 500,000

Net Pension Liability 1,000,000
Deferred Inflow-Excess Earnings 800,000
Pension contributions/expenditures 4,400,000
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Change in Net Pension Liability</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Deferral of 2015 Actuarial Losses</td>
<td>(500,000)</td>
</tr>
<tr>
<td>Deferral of 2015 earnings over expectation</td>
<td>800,000</td>
</tr>
<tr>
<td>Flow through of 2014 contributions after MD</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Deferral of 2015 contributions after MD</td>
<td>(3,300,000)</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>4,400,000</td>
</tr>
<tr>
<td><strong>2015 Pension Expense</strong></td>
<td><strong>$5,400,000</strong></td>
</tr>
</tbody>
</table>
Pension Amounts on Statement of Net Position

Deferred Outflow-Contributions  3,300,000
Deferred Outflow –Actuarial Losses  500,000

Deferred Inflow-Excess Earnings  800,000
Net Pension Liability  6,000,000
2016 Amortization of Deferred Amounts

The annual entry for 2016 will look similar to 2015 except that there will now be deferred balances that need to be amortized. The entries to record the amortization for the 2015 deferred amounts are:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Pension Expense</td>
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</tr>
<tr>
<td>Deferred Outflow-Actuarial losses</td>
<td>100,000</td>
</tr>
<tr>
<td>Deferred Inflow-Excess Earnings</td>
<td>200,000</td>
</tr>
<tr>
<td>Pension Expense</td>
<td>200,000</td>
</tr>
</tbody>
</table>
1) Par. 137 requires the beginning NPL to be recorded as an adjustment of prior periods.

2) Par. 137 takes an “all or nothing” approach to beginning deferred inflows and outflows. Since CPP and TMRS elected not to show beginning deferrals, the 2013 actuarial losses and excess earnings were not needed. If beginning deferrals were shown, CPP would have needed to go back 5 years in order to capture all unamortized deferrals.

3) The purpose of GASB 71 is to avoid an understatement of pension expense in the first year. If CPP’s MD and FYE were the same there would be no need for this deferral.

4) Deferred outflow for contributions is the one deferred outflow that is not amortized. The previous years deferral simply flows through in the current year with a new deferral being made for the current year. The annual entry shows this impact at net and the reconciliation of pension expense shows the individual entries separate from each other.
5) While not an element of pension expense, contributions must be included as part of calculation because the ending NPL is net of the current year’s contributions, so in order to determine the real change in the NPL, contributions must be added back.

6) GASB 68 requires that first year’s amortization be taken in the same year. Therefore only 5/6 of the actuarial losses and 4/5 of the excess earnings were deferred.

7) There was no need to adjust for the ad hoc COLA as it was already reflected in the 12/31/14 NPL, and GASB 68 does not allow deferrals of benefit changes.
1) Amortization periods will change each year.
2) GASB 68 requires “layered amortization,” so once the amortization schedule is determined in the year of deferral, it must be followed until the deferral is fully amortized.
3) Deferred actuarial losses or gains can be aggregated across years for disclosure purposes but gains cannot be netted with losses.
4) Investment earnings over expectation or under expectation can be netted together across years for disclosure purposes.
QUESTIONS?