

Select Committee on Pension Policy

GASB Update

Luke Masselink, ASA, EA, MAAA
Actuary

Aaron Gutierrez, JD, MPA
Senior Policy Analyst

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Overview

- Follow up to informational briefing last year
 - Staff briefing in October
 - State Treasurer addressed SCPP in November
- Executive Committee scheduled update

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Today's Presentation

- Refresher
- Impacts of GASB 67
- Presentation is informational – no action required

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Governmental Accounting Standards Board

- Private non-governmental organization
- One source of Generally Accepted Accounting Principles (GAAP)
 - Actions are generally binding on entities that use GAAP or where statute requires conformity with GAAP

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Two Statements: GASB 67 And 68

- GASB 67: Reporting at plan level
 - In effect now
 - Impacts DRS reporting
- GASB 68: Reporting at employer level
 - Not in effect until FY 2015
 - Impacts
 - OFM reporting
 - Local government reporting



Different Measures For Different Purposes

- Not changing funding standards or actual financial condition of the plans
- Changing how governments report pensions for accounting purposes
 - Assets and liabilities measured differently
 - Pension costs will appear on balance sheet for the first time
- More details in last year's briefing



How Are They Different?

- “Funding” – Used to determine contribution rates
 - OSA publishes Actuarial Valuation Report (AVR) each summer
- “Accounting” – Reported in financial statements
 - Plan level results published in DRS CAFR each fall
- Three main differences
 - Timing
 - Asset method
 - Discount rate



Timing

- Most recent funding results based on a June 30, 2013, measurement date for assets and liabilities
- GASB 67 results required to be measured at plan’s fiscal year-end
 - Both assets and liabilities measured as of June 30, 2014
 - Liabilities are based on the June 30, 2013, valuation and “rolled forward” to June 30, 2014



Asset Method

- Funding assets are based on the actuarial value of assets (AVA)
 - Gains and losses smoothed over a period of up to eight years
 - Reduces volatility year over year
- Under GASB, assets based on the market value of assets (MVA)
 - No deferral of gains or losses
 - Can be volatile

Fiscal Year (Dollars in Millions)	Total AVA	Total MVA	% of AVA to MVA
2014	TBD	\$72,553	N/A
2013	\$65,458	62,213	105%
2012	63,122	56,753	111%
2011	60,654	57,350	106%
2010	58,442	48,700	120%
2009	56,991	44,205	129%
2008	54,345	58,040	94%
2007	50,787	60,095	85%
2006	47,771	52,438	91%
2005	45,412	46,673	97%
2004	\$44,129	\$41,248	107%



Discount Rate – Funding

- Rate used to measure liabilities for contribution rate setting
 - Often referred to as “investment rate of return”
- Funding discount rate established in statute per RCW 41.45.035
- Reviewed as part of the biannual *Economic Experience Study*
 - Pension Funding Council adopts rate based on input from OSA
 - Study scheduled for next year

Biennium	Rate
2015-17	7.80%
2017-19 +	7.70%

Discount rate for LEOFF 2 is 7.5% for all years.



Discount Rate — Accounting

- GASB requires solvency test to determine discount rate
 - Project assets, benefit payments, and contributions
- For years plan is projected to be solvent, liabilities are discounted at the plan's long-term expected rate of return (7.50 percent at June 30, 2014)
 - Expected return based on capital market assumptions from WSIB
- For years, if any, plan is projected to be insolvent, liabilities are discounted at a municipal bond rate (4.29 percent at June 30, 2014)
 - OST provided feedback on bond index that met GASB criteria
 - Bond rate only applies to years plan is projected to be insolvent, e.g. not "all or nothing"
- Final discount rate is a blend of the two rates



Discount Rate — Accounting

- As of June 30, 2014, all plans are projected to remain solvent
 - Discount rate for all plans is therefore 7.50 percent
- Test is re-run each year
- Large changes to MVA could impact projected solvency



Plan Summary

- Total represents all plans in the PERS, TRS, SERS, PSERS, LEOFF, and WSPRS systems.

Funding 6/30/2013	PERS		TRS		Total
	Plan 1	Plans 2/3	Plan 1	Plan 2/3	
Accrued Liability*	\$12,884	\$23,798	\$9,449	\$8,016	\$69,828
Actuarial Value of Assets	\$8,053	\$24,335	\$6,717	\$8,406	\$65,458
Unfunded Liability	\$4,831	(\$537)	\$2,732	(\$390)	\$4,370
Funded Ratio	63%	102%	71%	105%	94%

*Accrued Liability is based on the Projected Unit Credit actuarial cost method.
Funding results relied on for contribution rate setting.

Accounting 6/30/2014	PERS		TRS		Total
	Plan 1	Plans 2/3	Plan 1	Plan 2/3	
Total Pension Liability (TPL)**	\$12,979	\$30,120	\$9,444	\$10,113	\$80,514
Market Value of Assets (MVA)	\$7,942	\$28,099	\$6,494	\$9,790	\$72,553
Net Pension Liability (TPL - MVA)	\$5,038	\$2,021	\$2,949	\$323	\$7,961
MVA/TPL	61%	93%	69%	97%	90%

**TPL is based on the Entry Age Normal actuarial cost method.
Accounting results reported in financial statements.



No Direct Impacts To SCPP

- No formal SCPP action or response required
- Possible indirect impacts to SCPP
 - GASB impacts may garner continued press coverage in future reporting cycles and as local governments are impacted
 - Different measures may lead to questions about which is the "correct" measure



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Plan-By-Plan Accounting Results

6/30/2014 GASB 67 Results by Plan										
(Dollars in Millions)	PERS		TRS		SERS	PSERS	LEOFF		WSPRS	Total
6/30/2014	Plan 1	Plans 2/3	Plan 1	Plans 2/3	Plans 2/3	Plan 2	Plan 1	Plan 2	Plan 1/2	
Total Pension Liability (TPL)	\$12,979	\$30,120	\$9,444	\$10,113	\$4,066	\$289	\$4,506	\$7,924	\$1,072	\$80,514
Market Value of Assets (MVA)	\$7,942	\$28,099	\$6,494	\$9,790	\$3,856	\$303	\$5,719	\$9,251	\$1,098	\$72,553
Net Pension Liability (TPL - MVA)	\$5,038	\$2,021	\$2,949	\$323	\$210	(\$14)	(\$1,213)	(\$1,327)	(\$26)	\$7,961
MVA/TPL	61%	93%	69%	97%	95%	105%	127%	117%	102%	90%

Discount Rate: 7.5% for all plans.

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Sources

- All funding results gathered from historical actuarial valuation reports produced by OSA
 - http://osa.leg.wa.gov/Actuarial_Services/Publications/Valuations.htm
- All accounting results gathered from the 2014 CAFR available on the DRS website
 - <http://www.drs.wa.gov/administration/annual-report/cafr>

