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San Diego City Employees' Retirement System

Overview of New GASB Pension Reporting Standards: GASB 67 and 68

October 10, 2012

(Taken from presentation by Gene Kalwarski of Cheiron to SDCERS Board on September 21, 2012)

Agenda

- Background
- Key Changes
- The Details
- Discussion

Background

Prior GASB Standards

- Statement 25 - reporting for plans (SDCERS)
- Statement 27 - reporting for employers (City)
- Both Statements defined an actuarially required contribution (ARC)
- Under Statement 27, the only balance sheet reporting was when employer did not pay the full ARC. The difference (liability) was called the Net Pension Obligation (NPO) and placed on the balance sheet. The City has paid the full ARC for the past eight years.

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Background

New GASB Standards

- GASB 67 and 68 replace Statements 25 and 27
  - GASB 67 for SDCERS is first effective for the 2013-14 plan year
  - GASB 68 for the City is first effective for the 2014-15 fiscal year
  - GASB is encouraging early implementation
- Financial reporting is the focus, not funding

Key Changes

- Significant terminology changes
- Replaces the ARC with a "pension expense"
- Replaces the NPO with the Net Pension Liability (NPL) on the financial statements (NPL=Unfunded Actuarial Liability (UAL), but based on market value of assets)
- Financial reporting of pension expense and NPL will be very volatile, with expanded disclosures
- Discount rate changes for some plans (but not SDCERS)
- Shorter amortization periods for gains and losses, assumption changes, and benefit changes for purposes of pension expense

Terminology Changes

- Total Pension Liability (TPL) = Actuarial Liability under Entry Age cost method
- Fiduciary net position = market value of assets
- Net Pension Liability (NPL) = TPL – Fiduciary net position
  - This would be like the current UAL except that the market value of assets instead of actuarial value is used
- Actuarially Determined Employer Contribution
  - Contribution amount calculated in accordance with Actuarial Standards of Practice
  - Guidance needs to be developed

Pension Expense

- Annual pension expense = change in Net Pension Liability (with adjustments for contributions and deferred gains and losses)
- Recognition periods are much faster than current amortization methods
  - Investment gains and losses over 5 years
  - Benefit enhancements immediate (1 year)
  - Other changes over the expected working lifetime of all plan participants

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Discount Rate Calculation

For Determining the Net Pension Liability (NPL)

- Current discount assumption can be used to measure the NPL *as long as the value of existing and projected assets equals or exceeds the value of all projected benefits*
- Projected assets include future contributions made on behalf of current members, and all future UAL contributions
- SDCERS will be able to use 7.5%, so no impact

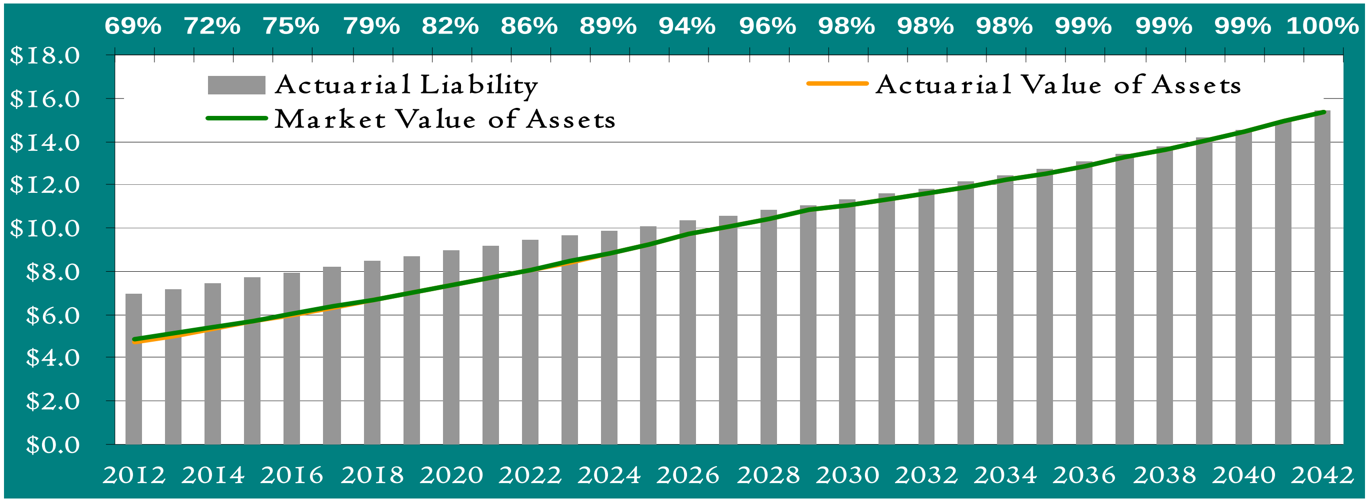
Closed Plan Implications

- Prior GASB standards (for purposes of the ARC) would have required level dollar amortization for the closed plan UAL
- New GASB standards do not promulgate an ARC and instead will immediately book the entire NPL (UAL using market value of assets)
  - So how the UAL is paid is no longer an issue with the GASB standards
  - SDCERS Board will decide how to define the actuarially determined employer contribution
- Cheiron will provide a recommendation later this Fall, after we receive more input from GASB, and can model the financial implications on a closed plan.

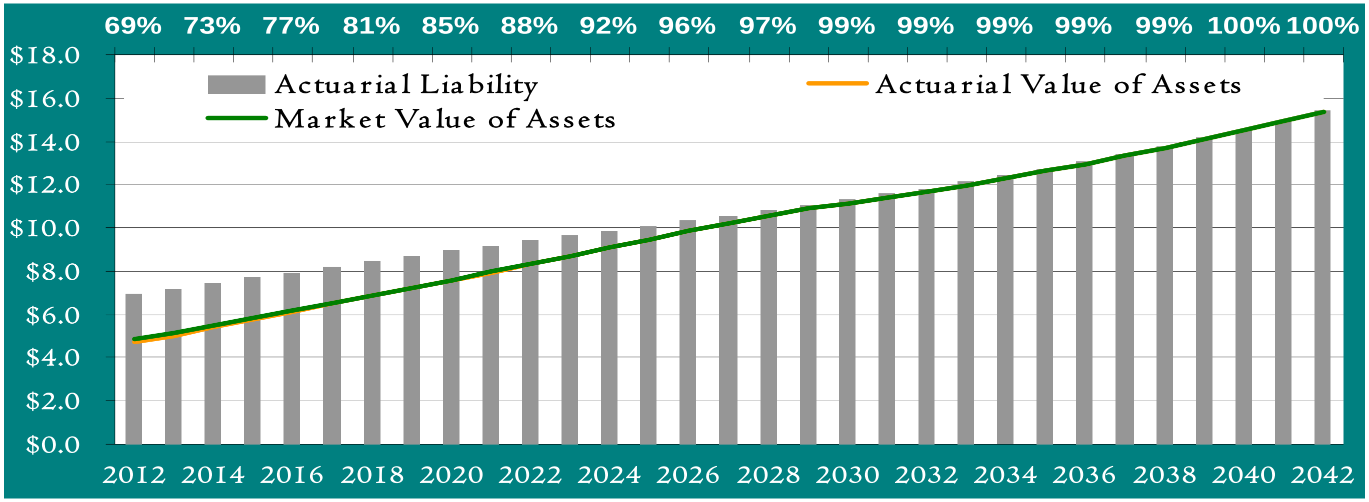
Impact on Projected Financial Status

(assuming an open plan)

Level Percent of Pay Amortization



Level Dollar Amortization



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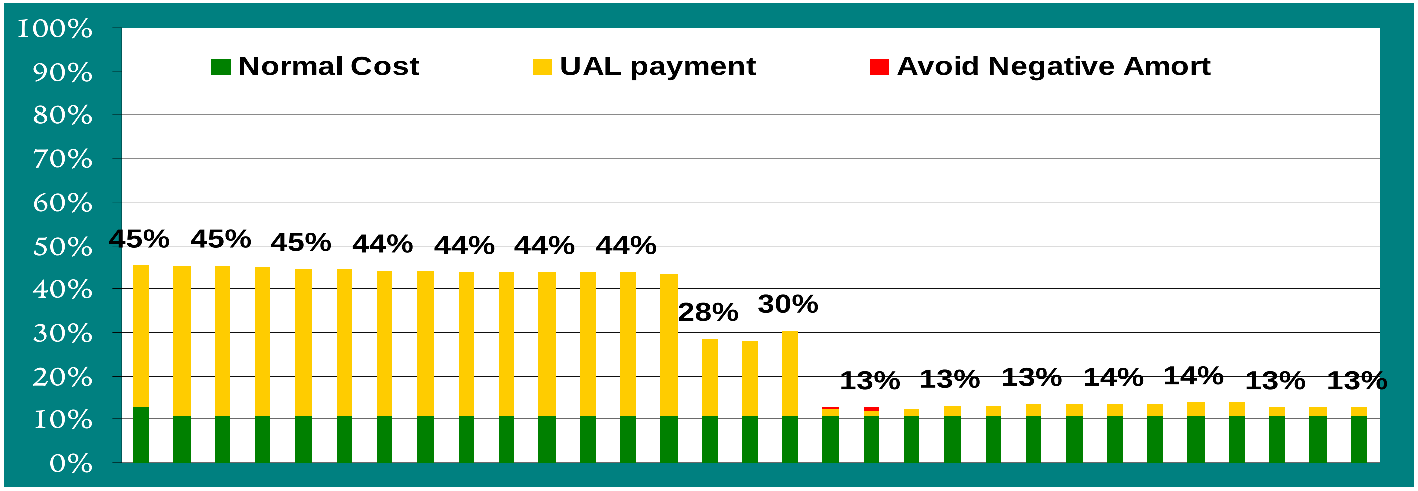
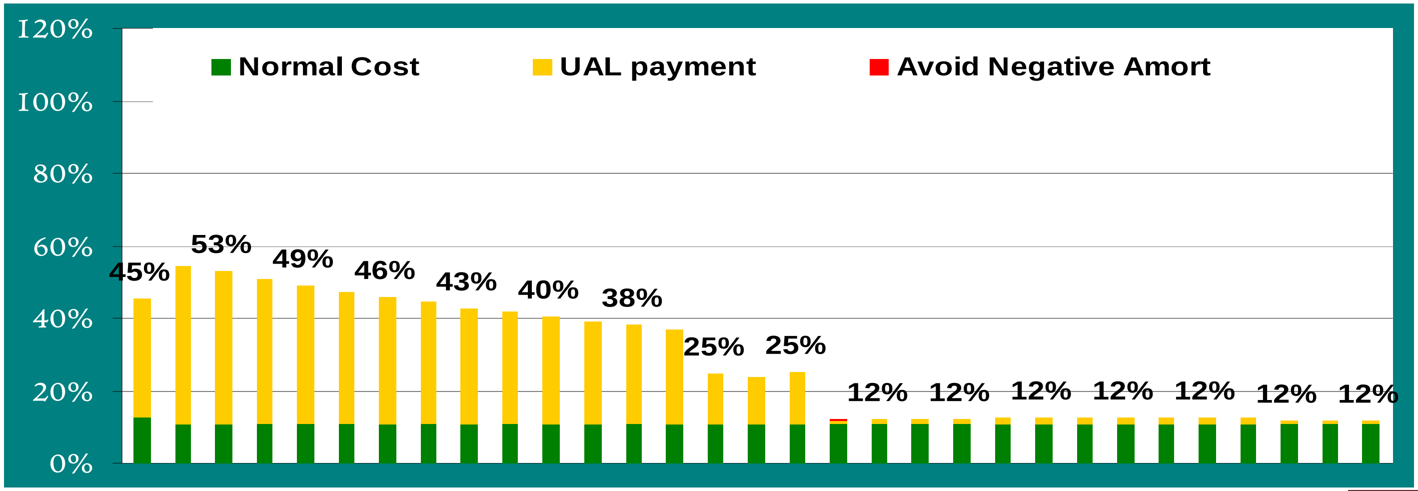


Level Dollar Amortization



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