



GASB 67/68 Implementation: School District Impacts

Schools for Equity in Education

February 20, 2015

On the doorstep of implementation

Governmental Accounting Standards Board (GASB)

GASB 67: Pension Plan Reporting

- PERA and TRA will implement for their CAFRs for the period ending June 30, 2014.

GASB 68: Accounting and Financial Reporting for Pensions

- School districts will implement for CAFRs for the period ending June 30, 2015.

School districts required to prepare financial statements complying with GASB statements.



TRA Actuarial Valuation Reports: December 2014

Two reports

1. Accounting valuation  TRA Annual Financial Report for financial reporting, not funding determinations.
2. Funding Valuation Report  Prepared with statutory assumptions and requirements determined by Minnesota Legislature.

Two reports – different assumptions and methodologies.

June 30, 2014: Final results, TRA unfunded pension debt

	Pension liabilities	Assets	Unfunded pension debt
Funding valuation (market method)	\$24.5	\$20.3	\$4.2 billion
Accounting valuation (GASB)	\$24.9	\$20.3	\$4.6 billion
Funding valuation (actuarial method)	\$24.5	\$18.2	\$6.3 billion

Amount to be allocated to TRA employer units

Scheduled to be paid off by June 30, 2037 for selection of contribution rates

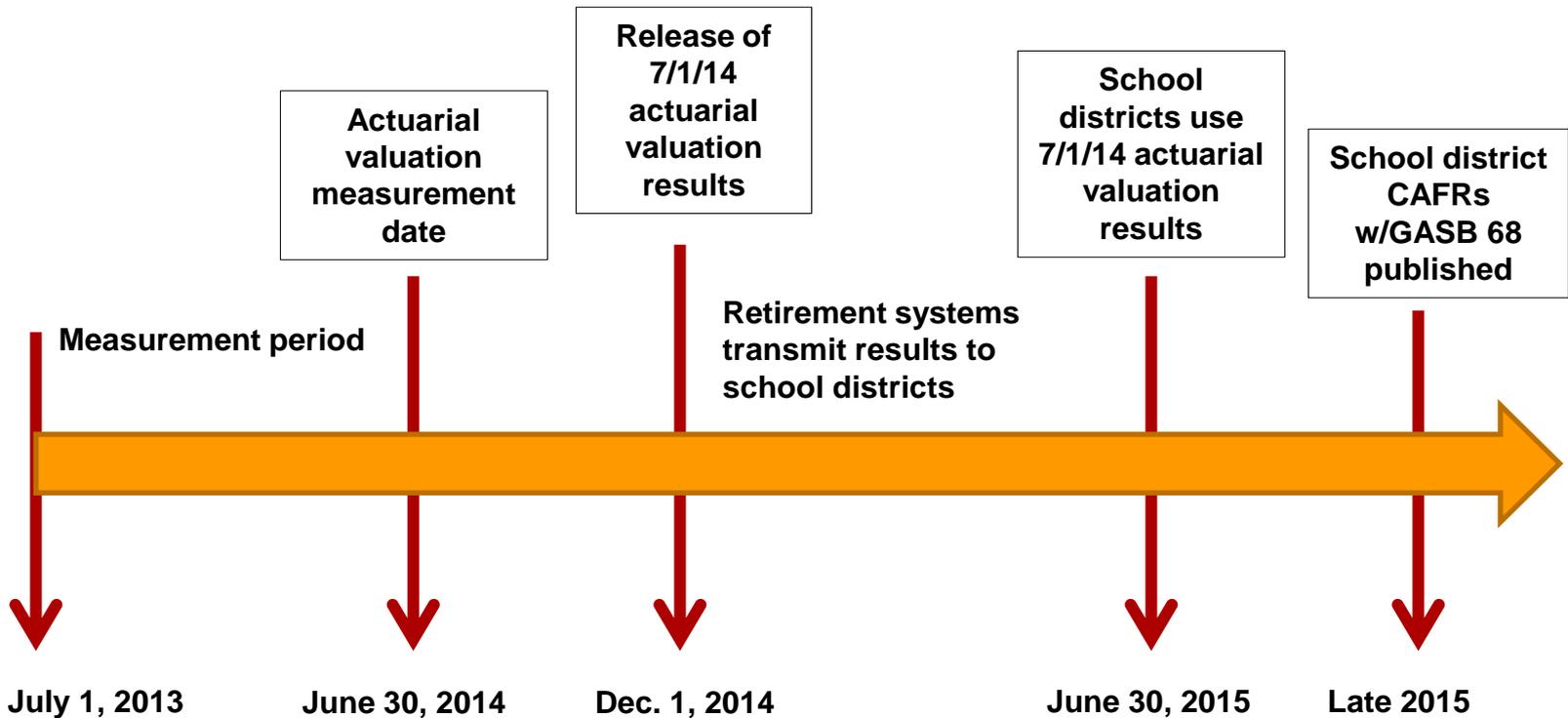
GASB Statement 68 impact on employer units (FY2015)

- Government-wide financial statements, not fund-level statements.
- PERA/TRA transmits assets, liabilities, disclosure data, Required Supplementary Information to each employer.
- No impact upon statutory debt calculation for Minnesota Department of Education financial reporting.
- Large unfunded actuarial liabilities exist (now called Net Pension Liability).

Result:

- Many employers will experience sticker shock at their share of the net pension liability, higher than net assets reported. (Remember: Liabilities paid over decades.)

GASB 67-68 timeline: Measurement dates for school districts



- There will be a one-year lag in school district reporting of GASB 68 results. Example: School districts, in their FY2015 reporting, will use FY2014 actuarial valuation results from PERA and TRA.

Determination of employer proportionate share

- Allocation based on employer contributions for fiscal year
- Time lag – schools will use FY14 results and data for their FY15 CAFR
- TRA to provide GASB 68 allocations to each employer based on plan totals calculated by actuary
- TRA report to employers expected by April





GASB 68 calculation: Net pension liability (NPL) (in thousands)

(Dollars in thousands)	PERA	TRA
Total pension liability	\$22,102,321	\$24,901,612
Fiduciary net position	17,404,822	20,293,684
	<hr/>	<hr/>
Net pension liability	\$4,697,499	\$4,607,928



Calculation of employer proportionate share

PERA

ER unit ER contributions
Total PERA ER contributions

X

\$ 4,697,499,000

= Each employer unit's share of the PERA NPL

TRA

ER unit ER contributions
Total TRA ER contributions

X

\$ 4,607,928,000

= Each employer unit's share of the TRA NPL



GASB 68: Example of likely allocations (unaudited)

Example:	PERA FY14 NPL	TRA FY14 NPL	Total FY14 (PERA + TRA)	School's latest net financial position reported
Suburban district	\$22.1 million	\$66.5 million	\$88.6 million	\$126.8 million
Regional outstate school district	\$6.9 million	\$20.4 million	\$27.3 million	\$48.7 million
Small town Greater MN	\$1.8 million	\$4.6 million	\$6.4 million	\$4.1 million

What PERA and TRA are doing

- Finalizing “Employer Proportionate Share” methodology.
- Engaging in audit work with TRA’s external auditor (Office of the Legislative Auditor and Office of the State Auditor). PERA’s GASB 68 external auditor is Abdo, Eick & Myers.
- Planning that centralized audit work at the retirement systems will be sufficient audit evidence for the school district’s external auditors.
- Preparing report to deliver needed GASB 68 results and disclosures to school districts by April 2015.
- Establishing communications plan with employers and other stakeholders.

Key points:

How to talk about GASB

- **The information disclosed under the new GASB rules is not new.** Pension debt has always been disclosed by the pension plans. What's new is the allocation of that debt to each local government unit, moving that number from the pension system's books to the employer unit's books.
- The new rules affect accounting and reporting, not TRA's funded status.
- The reported pension liabilities have no impact on funding, employer contribution rates or local tax levies.
- **Pension expenses are not crowding out essential services.** Local government employers and school districts have always budgeted pension payments.
- **Pension costs are not bankrupting the school district/city/county.** Pension debt will continue to be paid down by employees and employers through annual contributions to the pension funds over many years, much like the amortizing of a home mortgage.

Key points:

How to talk about GASB

- After 2010 and 2013 reforms that reduced Minnesota pension benefit liabilities by \$6.44 billion, credit ratings agencies (Moody's, Fitch, Standard & Poor's) have positive things to say about the state's handling of pension obligations.
- **Minnesota exercises financial discipline**, correcting problems as they occur and proactively proposing benefit reforms. Employer pension contributions in Minnesota are only 2 percent of state and local government spending, compared to 3.7 percent in other states. Teachers and other public employees are required to contribute half the cost of their pensions.
- Minnesota has a highly successful investment program: The State Board of Investment has averaged 10.3 percent annual returns over the last 30 years, consistently outperforming its peers.

Help wanted!

News reporters in every community cover school board meetings. **Anyone who might field questions from the press, general public, or taxpayer groups about GASB should be able to answer the questions accurately.**

Fact sheets should be included in your organization's newsletters and materials going to school boards timed for when GASB changes first hit the books and discussion of district statements first appears on school board agendas. We have fact sheets ready for immediate distribution.

- What is the best way to get GASB talking points and fact sheets into the hands of your organization's members, including superintendents and school board members statewide?
- Employer stakeholders: Can you facilitate TRA communications to your members to distribute talking points and fact sheets?
- MSBA has accepted an article for its newsletter about GASB. This article is available to other stakeholders to use in their newsletters. Contact Susan Barbieri, sbarbieri@minnesotatra.org or 651-205-4247 to get a copy.

Resources

Teachers Retirement Association of Minnesota - Internet Explorer

https://www.minnesotatra.org/

File Edit View Favorites Tools Help

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Welcome to the Teachers Retirement Association

The Teachers Retirement Association (TRA) is the Minnesota state-wide pension fund that provides retirement, disability, and death benefits to public school teachers, administrators, college faculty, retirees, and beneficiaries.

Members

Retirees and Beneficiaries

Employers

- Administration
- Members
- Retirees and Beneficiaries
- Employers
- Legislation

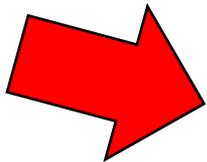
Study: Public pensions give boost to Minnesota's economy

JULY 30 — Benefits paid by state and local pension plans support a significant amount of economic activity in Minnesota, according to the new study, "Pensionomics 2014" from the National Institute on Retirement Security. Pension benefits received by

Live Help

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We would like to hear about



PERA/TRA resources

Visit the “Employer” tab on PERA’s and TRA’s websites.

www.mnpera.org

www.minnesotatra.org/employerinfo/gasb

You’ll find:

- Links to GASB publications.
- Links to AICPA audit guidance.
- Toolkit of informational guides/articles.
- Frequently asked questions.
- News and developments on implementation.

Questions: E-mail Dave Dejonge (PERA),
dave.dejonge@mnpera.org, or John Wicklund (TRA),
jwicklund@minnesotatra.org.



TRA's mission + impact on state

TRA's mission: Retirement security for Minnesota teachers.

TRA members:

Active members	77,765
Inactive members	42,891
Benefit recipients	58,803
Total	179,459



TRA benefits: \$1.6 billion per year

- Retirement, survivor and disability benefits
- Average benefit: \$2,300/month
- 87 percent of TRA retirees live in Minnesota
- Economic impact of Minnesota public pensions
 - \$7 billion impact on state economy
 - 46,581 jobs
 - \$1.2 billion annually in federal, state and local revenue



Fun facts about TRA membership

January 2015 active member statistics

Number of active members:	77,710 (includes disabilitants)
Oldest active member with contributions in the last year:	85
Number of active members with pre-July 1, 1989, first service:	14,280 or 18.4 percent
Number of active members with July 1, 1989, or later first service:	63,485 or 81.6 percent
Average age of members:	44.1 years
Number of female members:	57,431 or 73.9 percent
Number of male members:	20,279 or 26.1 percent
Average years of formula service credit (6/30/14):	12.1 years



Fun facts about TRA membership

January 2015 benefit recipients

Benefit recipient payments on 1/1/15:	60,130
Benefit recipients (people) on 1/1/15:	57,488
Benefit recipient who has received payment status the longest:	7/1/1967 (48 years)
Oldest benefit recipient:	109.5 years
Average monthly benefit amount:	\$2,180.75
Number and percent of retirees with effective date prior to Jan. 1, 2000 (15 years ago):	19,470 or 35.3 percent

Investment returns critical to funding

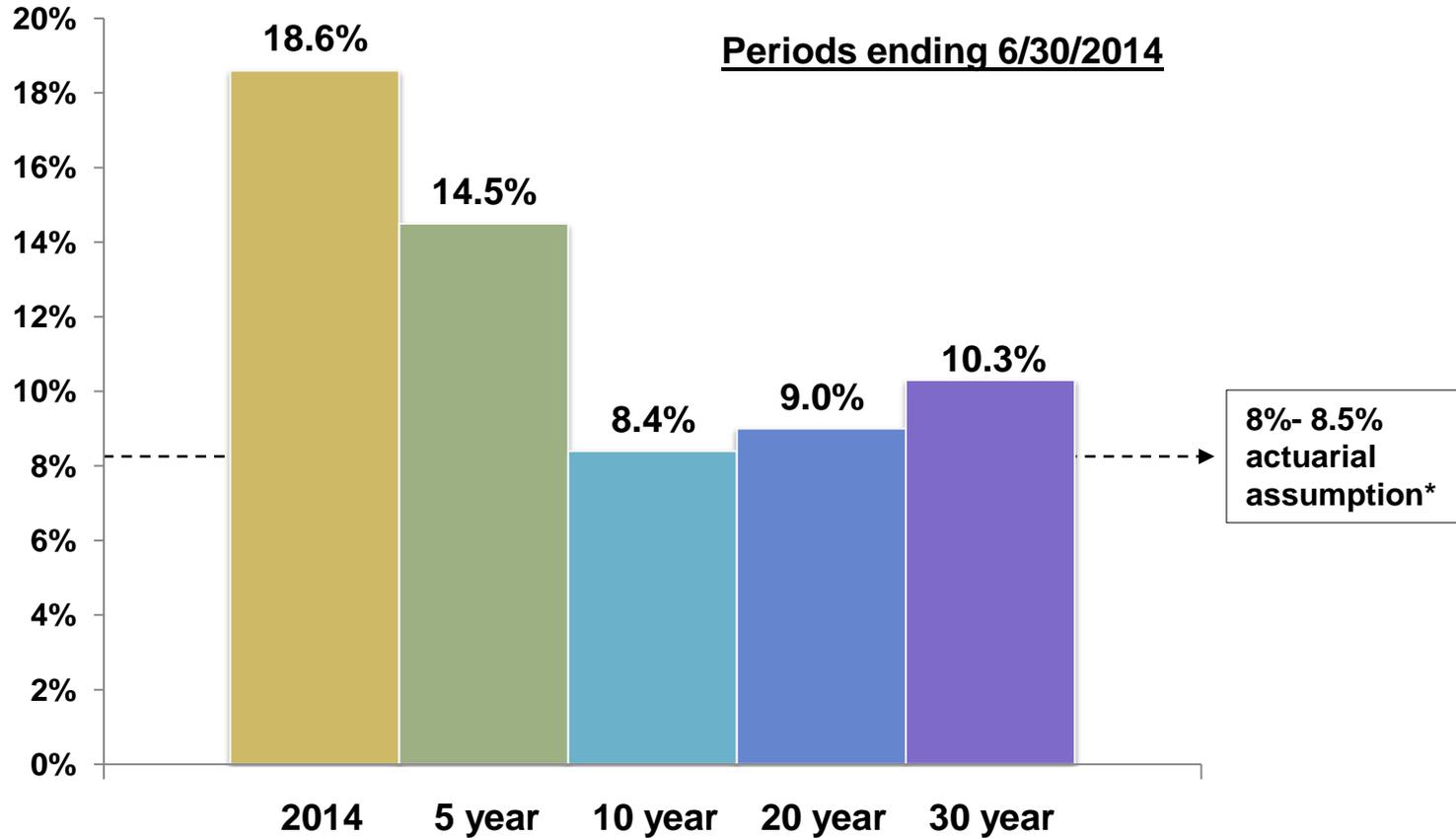


Sources of MN public pension fund revenue, 1990-2014
(PERA, MSRS, TRA)

National public pension average:
(Source: National Association of State Retirement Administrators)



State Board of Investment returns

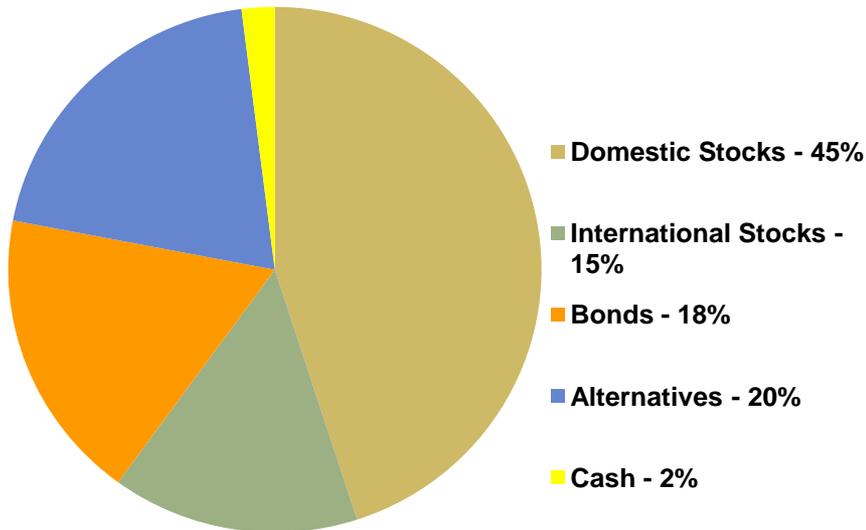


*Select-and-ultimate rate of 8% temporarily, 8.5% thereafter

SBI: Successful long-term investors

How funds are invested

(as of 6/30/14)



SBI ranks high among other funds

	1 Yr	3 Yr	5 Yr	10 Yr
SBI rank vs. all private/public funds (1 = best, 100 = worst)	4th	10th	11th	14th

SBI vs. Public Fund Median Returns, Annualized (for periods ending 6/30/2014)				
	1 Yr	5 Yr	10 Yr	25 Yr
SBI	18.6%	14.5%	8.4%	9.4%
Public pension median	16.1%	12.5%	7.3%	8.8%



TRA actuarial status

	MARKET VALUE BASIS		ACTUARIAL VALUE BASIS		
	FY 13 Select/ Ultimate	FY 14 Select/ Ultimate	FY 13 Select/ Ultimate	FY 14 Select/ Ultimate	FY 14 8% Assumption
Actuarial Accrued Liability	\$23.4 billion	\$24.5 billion	\$23.4 billion	\$24.5 billion	\$25.4 billion
Asset Value	18.0 billion	20.3 billion	16.8 billion	18.2 billion	18.2 billion
Unfunded Liability	5.4 billion	4.2 billion	6.6 billion	6.3 billion	7.2 billion
Funded Ratio	76.9%	82.9%	71.6%	74.3%	71.7%
Contribution Surplus/(Deficiency)	(1.73%)	(0.01%)	(3.74%)	(3.43%)	(5.71%)
2.5% COLA projected to be paid	30+ years	2027	30+ years	2027	2041

Impact of using 8% investment assumption (instead of current select/ultimate of 8%/8.5%):

- Decreases TRA funded ratio by 2.6%
- Increases TRA contribution deficiency by 2.28%
- TRA projected to be 85% to 90% funded by the end of its amortization period (2037) instead of 100% under select/ultimate assumption.



Contact us

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