Illinois Municipal Retirement Fund

GASB 68

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IMRF Illinois Municipal Retirement Fund
"Locally Funded, Financially Sound."

What We Will Cover Today

- What is GASB?
- What is GASB 67?
- What is GASB 68?
- Measurement Date
- Impact of GASB 68 on Employers
- Employer Report
- SOC 1 Type 2 Reports
- Footnote Disclosure versus a Liability on your Balance Sheet.

What is GASB?

- Governmental Accounting Standards Board
- GASB is the official source of generally accepted accounting principles for U.S. state and local governments and establishes standards of accounting and financial reporting through the issuance of GASB statements.
- GASB is a private, non-governmental organization.

GASB 67 and 68

- Governmental Accounting Standards Board implementation of GASB 67 and 68.
- GASB 67, replaces statement # 25, Financial Reporting for Defined Benefit Plans and Note Disclosure for Defined Contribution Plans. (Employer)
- GASB 68, replaces statement #27, Accounting for Pensions by State and Local Governmental Employers.
- Disclosure previously was a footnote - Net Pension Obligation, now included on your financial statements as a Net Pension Liability (NPL).
- Funding calculations are **not** impacted.
- Annual GASB 50 Statements are still the same and provide employer funding information.

GASB 67 and 68

- No longer a close link between accounting and funding measures.
- Requires substantial changes to methods and assumptions used to calculate the total pension liability.

Employer Accounting differences

- New rules do not allow smoothing of the investment returns on the assets.
- New rules may require lower (or blended) discount rate to value liabilities.
- Does not change the funding contribution rate.
- Does provide a second set of actuarial numbers (may lead to confusion).

What is GASB 67?

- As an employer you will have several changes to your annual CAFR from other plans, (i.e. Police and Fire Pension plans). If you do not have other plans, no impact except IMRF.
- Statement of Changes in Fiduciary Net Position is now expanded.
- Bottom line of this statement after reflecting deferred inflows and outflows of resources is “Net Position Restricted for Pensions”.
- Component Units - separately displayed.
- Investment Policy with procedures for amendment.
- Asset allocation policies, to be disclosed.
- Description of significant investment policy changes for reporting period.

Poll Question #1

GASB 67 is effective for fiscal years beginning after June 15, 2013.

True or False

What is GASB 68?

- IMRF Plan is an:

Agent Multiple Employer Plan

- 2,977 units of local government
- IMRF is **NOT** a Cost Sharing or Single Employer plan.
- Disclosure on your financial statements requires information from IMRF.
- Approximately 23 pages of schedules and information.
- Information supports the new liability on your financial statements.
- Discuss with your Boards, Councils, Auditors, management team, etc. on disclosure of this new information as soon as possible. Effective for fiscal years beginning after June 15, 2014.

Poll Question #2

GASB 68 is effective for fiscal years beginning after June 15, 2014.

True or False

What is GASB 68? (Agent Multiple Employer)

- Agent Employer Challenges – Limitations with the Audited Financial Statements of the Plan
  - Audited financial statements of the plan do not include actuarial information, nor do they include each employer's "interest" in the fiduciary net position
  - Allocation of fiduciary net position reported by plan to employer is unaudited
- Employers need the following elements to record as of the measurement date:
  - Total pension liability less fiduciary net position = net pension liability
  - Deferred outflows/inflows based on investment experience
  - Deferred outflows/inflows based on changes in assumptions
  - Deferred outflows/inflows based actuarial gains and losses
  - Pension expense

What is GASB 68? (Measurement date)

- **The importance of the Measurement Date!**
  - Employers should report in their financial statements a net pension liability (asset) determined as of ***a date (measurement date) no earlier than the end of the employer's prior fiscal year*** for each defined-benefit pension plan in which they participate
  - The measurement date used should be consistently applied from period to period

What is GASB 68? (Measurement date)

Measurement of the total pension liability is determined through:

- An actuarial valuation performed as of the *measurement date,* or
- The use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than *30 months and 1 day* earlier than the employer's year-end
- Use professional judgment in determining extent of update procedures when changes in plan occur between last valuation date and the ***measurement date***

Measurement date will most likely correspond to year-end of plan. In this case, employers with same year-end as plan must choose measurement date as of their prior or current year-end.

Poll Question #3

IMRF is a:

a. Agent Multiple Employer Plan

b. Cost Sharing Employer Plan

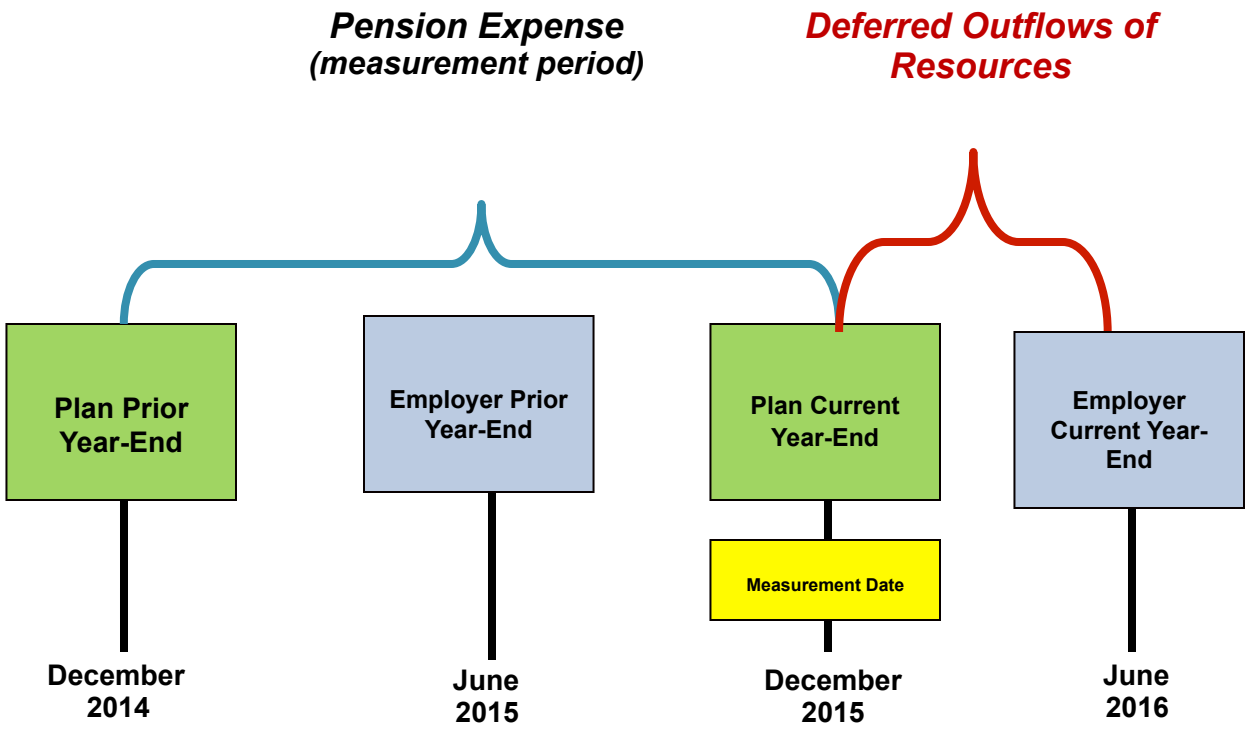
c. Single Employer Plan

d. Defined Contribution Plan

What is GASB 68? (Measurement date)

- Select measurement date that coincides with year-end of plan (i.e. December 31).
- If measurement date and employer year end is the same, first consider the timeliness of the audited information to include in employer financial statements.
- Once selected, measurement date must be consistently applied.
- Anticipated that many employers will select prior year end

GASB 68 – IMRF Timing of Measurement of Total Pension Liability



Measurement date will most likely correspond to year-end of plan. Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer's fiscal year should be recognized as a deferred outflow of resources.

What is GASB 68? (Measurement date)

- Timeliness of information available from pension plans
  - Actuarial valuations
  - Investment valuation
- Impact on precision of recorded amounts
- Significance of changes since measurement date

Poll Question #4

It is recommended that a Measurement Date coincide with:

a. The fifth holiday of the year

b. The 30 days after the year end plan ends

c. The year end of the plan

d. Your birthday

Impact of GASB 68 on Employers

- IMRF.org Employers Access section will have the preliminary GASB Statement 68 Employer Reports as of 12/31/2013.
- This is preliminary **unaudited** information.
- Not intended for early implementation.
- A new report will be provided annually.
- Information could be material for your financial statements and audit considerations.

Impact of GASB 68 on Employers

- IMRF will coordinate this information. A questionnaire has been sent to each employer's authorized agent to determine who will need this information. Please respond back to IMRF by **August 22, 2014**.
- A separate GASB 68 report will be provided to the employers that request it per the above mentioned questionnaire.
- During 2015, IMRF will embark on a SOC 1 Type 2 report for controls over calculations and allocation of additions and deductions to employers. A report will be issued in 2016.
- Your respective auditors will need to perform their own procedures.
- External auditors will have the ultimate authority.
- Again, this information can be material to your financial statements, audit considerations and your audit opinion.

AICPA - White Paper

- ***SOC 1 Type 1*** report, the service auditor expresses an opinion on the fairness of the description of the system and the assertion about the system written by the service organization's management. A Type 1 report only covers the suitability of the design of the controls to achieve specific control objectives; it does not discuss the effectiveness of those controls, which are described in Type 2 report. Additionally, a SOC 1 Type 1 reports on controls as of a specified date.

- ***SOC 1 Type 2*** report covers both the suitability and the effectiveness of the controls. A SOC 1 Type 2 audit includes the information in a Type 1 report as well as the service auditor's opinion on the effectiveness of controls in meeting control objectives over a period of months.

AICPA - White Paper

- Plan prepares "Schedule of Changes in Fiduciary Net Position by Employer" and related notes to the schedule.
- Plan auditor is engaged to opine on the Schedule using one of two options
  - Option 1 – Plan engages auditor to opine on the Schedule as a whole and to issue a SOC 1 type 2 report on the controls over the calculation and allocation of additions and deductions to employer accounts, or
    - » *A SOC 1 type 2 report will be unavailable for 2014 for IMRF, but will be available in 2015*
  - Option 2 – Plan engages auditor to opine on each employer column
    - » *IMRF will select this option for 2014 only.*

SOC 1 Type 2 Reporting

- IMRF external auditors will be engaged to issue a SOC 1 Type 2 report.
- SOC 1 Type 2 report is a report on the controls at a service organization (i.e. IMRF, serves your entities pension plan).
- The SOC 1 Type 2 report provides assurance that appropriate internal controls are in place and operating effectively for the reporting period (2015).
- They will spend more time reviewing this information than in the past.

SOC 1 Type 2 Reporting

- Your external auditor will be reviewing this SOC 1 Type 2 report to gain assurance that the information provide can be relied upon.
- SOC 1 Type 2 report requires IMRF to provide KPMG written descriptions of systems, processes, and controls.
- IMRF has engaged KPMG LLP as an independent auditor to conduct an in depth audit of our control objectives and control activities.
- IMRF will continue to share further developments by GASB and the AICPA for any other matters of concern.

Poll Question #5

Employer questionnaire for GASB 68 are due to IMRF:

a. January 1st

b. July 4th

c. August 22, 2014

d. December 25th

SOC 1 Type 2 Reporting

- KPMG will attest to the fairness of the descriptions, and determine if controls are suitable to achieve the objectives stated.
- These controls start with the employer and the payment process to IMRF, are an example of inflows.
- Payments to members, are an example of outflows.
- Tests include the transfer and calculation of contributions.
- IMRF will continue to share further developments by GASB and the AICPA for any other matters of concern.

Poll Question #6

IMRF will engage their external auditors to issue a SOC 1 Type 2 Report for the year ended 12/31/2015?

True or False

SOC 1 Type 2 Reporting

(IMRF auditors will provide assurances to your auditors)

Example Agent Multiple-Employer PERS

Schedule of Changes in Fiduciary Net Position by Employer

As of and for the year ended December 31, 2015

	Employer 1	Employer 2	Employer 3	Total
Additions:				
Contributions:				
Employer	86,252,000	34,500,000	51,751,000	172,503,000
Member	32,662,000	13,065,000	19,597,000	65,324,000
Investment income:	80,965,000	20,347,000	37,112,000	138,424,000
Total additions	199,879,000	67,912,000	108,460,000	376,251,000
Deductions:				
Pension benefits, including refunds	384,635,000	184,352,000	228,356,000	797,343,000
Administrative expenses	4,716,000	1,886,000	2,829,000	9,431,000
Total deductions	389,351,000	186,238,000	231,185,000	806,774,000
Net increase (decrease)	(189,472,000)	(118,326,000)	(122,725,000)	(430,523,000)
Net position restricted for pension benefits:				
Beginning of year	5,843,645,000	1,468,538,000	2,678,595,000	9,990,778,000
End of year	$ 5,654,173,000	1,350,212,000	2,555,870,000	9,560,255,000

SOC 1 Type 2 Reporting

- Actuarially derived pension amounts (total pension liability, deferred outflows and inflows of resources, and pension expense) are dependent on demographic data of the plan participants, or the census data.
- Underlying records for census data are maintained by different parties
  - Inactive or retired members maintained by plan
  - Active members retained by employers
- Plan acts as record-keeper for all census data
- Employers will need to determine whether
  - The census data maintained by IMRF pertaining to inactive and retired members is complete and accurate
  - IMRF has properly accumulated the employer's census data information for active members reported in the census data file used by the actuary

SOC 1 Type 2 Reporting

- Plan actuary issues a separate actuarial report specific to each employer which includes an actuarial certification letter addressed to employer management
  - Employer management and employer auditor rely on actuary as management specialist for total pension liability for individual employer
- The plan engages its auditor to issue either:
  - Option 1 – A SOC 1 type 2 report on controls over census data maintained by the plan, or
  - **<u>Option 2</u> – An examination engagement over selected management's assertions related to census data maintained by the plan. (IMRF is selecting this option)**

IMRF GASB 68 Statement (table of contents)

IMRF GASB 68 Statement

The following information is provided by IMRF's Actuary

Poll Question #7

The GASB 68 Reports as of 12/31/13 are:

a. Preliminary and Unaudited

b. Look Pretty and brief

c. Need to be longer in length

d. Same as 12/31/12 reports

Certification Letter – GASB 68 Statement

Sample Employer
Illinois Municipal Retirement System

The accounting **schedules submitted in this report are required** under the Governmental Accounting Standards Board (GASB) Statement 68 No. "Accounting and Financial Reporting for Pensions."

Our **calculations for this report were prepared for the purpose of complying with the requirements of GASB No. 68**. These calculations have been made on a basis that is consistent with our understanding of these accounting standards. As Pro Forma calculations, these results are **subject to review by the employers auditor and may be revised**.

Our calculation of the liability associated with the benefits described in this report was performed for the purpose of satisfying the requirements of GASB No. 68. Our calculation of the plan's liability for this report **may not be applicable for funding purposes of the plan**. A calculation of the plan's liability for purposes other than satisfying the requirements of GASB No. 68 may produce significantly different results. **This report may be provided to parties other than the Sample Employer only in its entirety** and only with the permission of Sample Employer.

This report is based upon information, furnished to us by IMRF, concerning retirement and ancillary benefits, active members, deferred vested members, retirees and beneficiaries, and financial data. If your understanding of this information is different than ours, please let us know and do not use or distribute this report until those differences have been resolved to your satisfaction. **This information was checked for internal consistency, but it was not otherwise audited**.

To the best of our knowledge, the information contained in this report is accurate, and fairly represents the actuarial position of Sample Employer. **All calculations have been made in conformity with general accepted actuarial principl**es and practices as well as with the Actuarial Standards of Practice issued by the Actuarial Standards Board. Mark Buis and Francois Pieterse are members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,

Certification Letter – GASB 68 Statement

10 HIGHLIGHTS for certification letter:

- Sample Employer would be the employer requesting the information via the questionnaire.
- The accounting schedules submitted in this report are required under the Governmental Accounting Standards Board (GASB) Statement 68 No. "Accounting and Financial Reporting for Pensions."
- Calculations for this report were prepared for the purpose of complying with the requirements of GASB No. 68.
- ……..subject to review by the employers auditor and may be revised.
- Our calculation of the liability associated with the benefits described in this report was performed for the purpose of satisfying the requirements of GASB No. 68. Our calculation of the plan's liability for this report may not be applicable for funding purposes of the plan
- This report may be provided to parties other than the Sample Employer only in its entirety and only with the permission of Sample Employer.
- This report is based upon information, furnished to us by IMRF……
- This information was checked for internal consistency, but it was not otherwise audited.
- To the best of our knowledge, the information contained in this report is accurate, and fairly represents the actuarial position of Sample Employer
- All calculations have been made in conformity with general accepted actuarial principles and practices…….

IMRF GASB 68 Statement (4 Sections)

- **Section A** - Executive Summary and Discussion.
- **Section B** - Financial Statements
  - Employer portions of:
    - Expenses
    - Outflows and Inflows
    - Changes in Net Pension Liability
    - Contributions
- **Section C** - Calculation of the Single Discount Rate
- **Section D** - Glossary of Terms

Section A – GASB 68 Statement

- Executive Financial Summary of your employer information.
- Discussion on:
  - Accounting Standards
  - Financial Statements
  - Notes to Financial Statements

Section A – GASB 68 Statement

EXECUTIVE SUMMARY
as of December 31, 2013

		2013
Actuarial Valuation Date		December 31, 2013
Measurement Date of the Net Pension Liability		December 31, 2013
Membership		
Number of		
- Retirees and Beneficiaries		2,274
- Inactive, Non-Retired Members		2,397
- Active Members		2,478
- Total		7,149
Covered Valuation Payroll	$	120,419,214
Net Pension Liability		
Total Pension Liability/(Asset)	$	704,837,573
Plan Fiduciary Net Position		671,898,339
Net Pension Liability/(Asset)	$	32,939,234
Plan Fiduciary Net Position as a Percentage of Total Pension Liability		95.33%
Net Pension Liability as a Percentage of Covered Valuation Payroll		27.35%
Development of the Single Discount Rate		
Long-Term Expected Rate of Investment Return		7.50%
Long-Term Municipal Bond Rate*		4.73%
Last year ending December 31 in the 2014 to 2113 projection period for which projected benefit payments are fully funded		2084
Resulting Single Discount Rate based on the above development		7.50%
Total Pension Expense/(Income)	$	(1,928,712)

Section A – GASB 68 Statement (continued)

EXECUTIVE SUMMARY
as of December 31, 2013
(CONTINUED)

Deferred Outflows and Deferred Inflows of Resources by Source to be recognized in Future Pension Expenses

	2013	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 0	$ 3,516,133
Changes in assumptions	$ 0	$ 3,680,906
Net difference between projected and actual earnings on pension plan investments	$ 0	$55,290,260
Total	$ 0	$62,487,299

*Based on the Bond Buyer 20-Bond Index of general obligation municipal bonds as of December 26, 2013 (i.e., the weekly rate closest to but not later than the Measurement Date).

Discussion follows:

- Accounting Standards
- Financial Statements
- Notes to Financial Statements
- Required Supplementary Information
- Timing of the valuation
- Single Discount rate
- Effective date and Transition

Section A – GASB 68 Statement

Discussion follows:

Accounting Standards:

- Defined benefit plan administered through a trust or equivalent arrangement
- Employer must account for and disclose pension liability, pension expense and other information associated with providing retirement benefits

Timing of the valuation:

- GASB 68 requires contribution to Defined benefits pension plans
- Recognize Pension Liability and expense on their financial statements
- Expense is equal to the change in the net pension liability from beginning to end of the year

Notes to Financial Statements

- Disclose total pension expense
- Liabilities and assets
- Deferred outflows of resources related to pensions
- Inflows of resources related to pensions
- 10 bullet points on page 3 of the report, required for footnote disclosure

Section A – GASB 68 Statement

Discussion follows:

Required Supplementary Information

- Timing of the valuation
- Single Discount rate
- Effective date and Transition

Financial Statements:

- GASB 68 requires contribution to Defined Benefits pension plans
- Recognize Pension Liability and Expense on their financial statements
- Expense is equal to the change in the net pension liability from beginning to end of the year

Notes to Financial Statements

- Disclose total pension expense
- Liabilities and assets
- Deferred outflows of resources related to pensions
- Inflows of resources related to pensions

Section A – GASB 68 Statement

Discussion follows:

Notes to Financial Statements

In addition, GASB Statement No. 68 requires the notes of the financial statements for the employers to include certain additional information, including (page numbers refer to page numbers from this report unless specified otherwise):

- a description of the types of benefits provided by the plan, as well as automatic or ad hoc COLAs (please see page B-5 of the December 31, 2013 Annual Actuarial Valuation report dated March 31, 2014);
- the number and classes of employees covered by the benefit terms (page 1);
- for the current year, sources of changes in the net pension liability (page 8);
- significant assumptions and methods used to calculate the total pension liability (page 11);
- inputs to the single discount rate (page 12);
- certain information about mortality assumptions and the dates of experience studies (page 11);
- the date of the valuation used to determine the total pension liability (page 1);
- information about changes of assumptions or other inputs and benefit terms (page 11);
- the basis for determining contributions to the plan, including a description of the plan's funding policy, as well as member and employer contribution requirements (please see page A-5, B-5 and section D of the December 31, 2013 Annual Actuarial Valuation report dated March 31, 2014);
- the total pension liability, fiduciary net position, net pension liability, and the pension plan's fiduciary net position as a percentage of the total pension liability (page 8);
- the net pension liability using a discount rate that is 1% higher and 1% lower than used to calculate the total pension liability and net pension liability for financial reporting purposes (page 8); and
- a description of the system that administers the pension plan (to be provided by IMRF).

Section A – GASB 68 Statement

Discussion follows:

Single Discount Rate :

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects: (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.50%; the municipal bond rate is 4.73% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve); and the resulting single discount rate is 7.50%.

Effective date and Transition :

GASB Statement No. 68 is effective for an employer's fiscal years beginning after June 15, 2014.

Section B – GASB 68 Statement

- Financial Statements:
  - Expenses
  - Statement of Outflows and Inflows Current Reporting Period
  - Statement of Outflows and Inflows Current and Prior Reporting Period
  - Schedule of Changes in Net Pension Liability and Related Ratios
  - Schedule of Required Supplementary Information (RSI), for a buildable 10 year period for disclosure.
  - Schedule of Contributions Multiyear
  - Notes to Schedule of Contributions

Section B – GASB 68 Statement

PENSION EXPENSE/(INCOME) UNDER GASB STATEMENT NO. 68

Calendar Year Ended December 31, 2013

A. Expense/(Income)

1. Service Cost	$	12,928,372
2. Interest on the Total Pension Liability		50,534,837
3. Current-Period Benefit Changes		0
4. Employee Contributions (made negative for addition here)		(5,861,936)
5. Projected Earnings on Plan Investments (made negative for addition here)		(42,467,555)
6. Other Changes in Plan Fiduciary Net Position		(327,616)
7. Recognition of Outflow (Inflow) of Resources due to Liabilities		(2,912,249)
8. Recognition of Outflow (Inflow) of Resources due to Assets		(13,822,565)
9. Total Pension Expense/(Income)	**$**	**(1,928,712)**

Section B – GASB 68 Statement

STATEMENT OF OUTFLOWS AND INFLOWS ARISING FROM CURRENT REPORTING PERIOD

Calendar Year Ended December 31, 2013

A. Outflows (Inflows) of Resources due to Liabilities

1. Difference between expected and actual experience of the Total Pension Liability (gains) or losses	$(4,938,920)
2. Assumption Changes (gains) or losses	$(5,170,368)
3. Recognition period for Liabilities: Average of the expected remaining service lives of all employees {in years}	3.4713
4. Outflow (Inflow) of Resources to be recognized in the current pension expense for the Difference between expected and actual experience of the Total Pension Liability	$(1,422,787)
5. Outflow (Inflow) of Resources to be recognized in the current pension expense for Assumption Changes	$(1,489,462)
6. Outflow (Inflow) of Resources to be recognized in the current pension expense due to Liabilities $(2,912,249)	
7. Deferred Outflow (Inflow) of Resources to be recognized in future pension expenses for the Difference between expected and actual experience of the Total Pension Liability	$(3,516,133)
8. Deferred Outflow (Inflow) of Resources to be recognized in future pension expenses for Assumption Changes	$(3,680,906)
9. Deferred Outflow (Inflow) of Resources to be recognized in future pension expenses due to Liabilities	$(7,197,039)

B. Outflows (Inflows) of Resources due to Assets

1. Net difference between projected and actual earnings on pension plan investments (gains) or losses	$(69,112,825)
2. Recognition period for Assets {in years}	5.0000
3. Outflow (Inflow) of Resources to be recognized in the current pension expense due to Assets	$(13,822,565)
4. Deferred Outflow (Inflow) of Resources to be recognized in future pension expenses due to Assets	$(55,290,260)

Section B – GASB 68 Statement

- **This section continues to include a statement to further breakdown the Outflows and Inflows.**
  - **Page 7 presents the:**
    - STATEMENT OF OUTFLOWS AND INFLOWS ARISING FROM CURRENT AND PRIOR REPORTING PERIODS
  - Page 8 presents the:
    - SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS CURRENT PERIOD.
  - The most important change on this page is the Discount Rate at the bottom of page 8.

SENSITIVITY OF NET PENSION LIABILITY/(ASSET) TO THE SINGLE DISCOUNT RATE ASSUMPTION

	1% Decrease 6.50%	Current Single Discount Rate Assumption 7.50%	1% Increase 8.50%
Total Pension Liability	$ 789,772,430	$ 704,837,573	$ 634,607,100
Plan Fiduciary Net Position	$ 671,898,339	$ 671,898,339	$ 671,898,339
Net Pension Liability/(Asset)	$ 117,874,091	$ 32,939,234	$ (37,291,239)

Section B – GASB 68 Statement

- **Page 9 now includes a new schedule.**
  - **SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION (RSI)**
    - **This is a multi- year schedule**
    - **Expected to present 10 years of history going forward**
  - **Unaudited data collection will begin with the calendar year 2013**

Section B – GASB 68 Statement

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION

Fiscal year ending December 31,2013

Total Pension Liability Service Cost	$12,928,372
Interest on the Total Pension Liability	50,534,837
Benefit Changes	0
Differences between Expected and Actual Experience	(4,938,920)
Assumption Changes	(5,170,368)
Benefit Payments	(30,761,235)
Refunds	(938,749)
Net Change in Total Pension Liability	21,653,937
Total Pension Liability – Beginning	683,183,636
Total Pension Liability - Ending (a)	704,837,573
Plan Fiduciary Net Position Employer Contributions	14,333,462
Employee Contributions	5,861,936
Pension Plan Net Investment Income	111,580,380
Benefit Payments	(30,761,235)
Refunds	(938,749)
Other	(327,616)
Net Change in Plan Fiduciary Net Position	99,748,178
Plan Fiduciary Net Position – Beginning	572,150,161

(Continued)

Section B – GASB 68 Statement

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION

Plan Fiduciary Net Position - Ending (b)	$671,898,339
$ Net Pension Liability/(Asset) - Ending (a) - (b)	32,939,234
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	95.33%
Covered Valuation Payroll	120,419,214
Net Pension Liability as a Percentage of Covered Valuation Payroll	27.35%

**********GOOD News this is provided to you as an IMRF employer.**********

Section B – GASB 68 Statement

- **Page 10**

MULTIYEAR SCHEDULE OF CONTRIBUTIONS

Will build to 10 years of data.

- **Page 11**

NOTES TO SCHEDULE OF CONTRIBUTIONS

  - Information on this page reflects
    - Valuation Date
    - Methods and Assumptions Used to Determine Contribution Rates
    - Other Information

Section C – GASB 68 Statement

- Calculation of the Single Discount Rate
  - Discusses the method and the requirements for calculating the Single Discount Rate.
- Projection of Single Discount Rate Development
  - Projection goes out to 100 years, based on longest living participants life expectancy, on page 13, 14, 15, 16, 17 and 18. Actuary provides this information.
  - Three different schedules, two pages each.

Section C – GASB 68 Statement

- Three Schedules are of various Single Discount Rate Development Presentations:
  - Projection of Contributions Ending December 31, 2113 - Pages 13 and 14.
  - Projection of Plan Fiduciary Net Position Ending December 31, 2113 – Pages 15 and 16.
  - Present Values of projected Benefits ending December 31, 2113 – Pages 17 and 18.
  - Note all three schedules go out for 100 years.

Section C – GASB 68 Statement

- NPL is similar to the Unfunded Actuarial Accrued Liability (UAAL).
- Key difference is the Single Discount Rate.
  - Is a blend of the long-term expected investment rate of return to the extent projected plan fiduciary net position (Assets) is sufficient to pay future benefits.
  - The tax-exempt municipal bond index rate to the extent projected plan fiduciary net position (Assets) is not sufficient to pay future benefits.
  - NPL is based upon market value of assets.

Section C – GASB 68 Statement

- Reasons assets may not be sufficient to pay benefits:
  - Projection excludes certain contributions made on behalf of future members
  - System contributions based on statutory method
  - Contributions less than recommended contributions
  - Rolling amortization period, unfunded not paid down.
  - Differences in methods and/or assumptions between funding and GASB valuations
    - Traditional Entry Age versus Aggregate Entry Age
    - Gain sharing features.

Section C – GASB 68 Statement (continued)

- Sensitivity analysis is +/- 1% of the single discount rate.
  - For instance if the single discount rate was 7.5% then the sensitivity would be done at 6.5% and 8.5%

Section D – GASB 68 Statement

- Glossary of terms used throughout the GASB 68 report.
- Intended to assist with explanation of terms, processes and general understanding of GASB 68.

GLOSSARY OF TERMS (Sample)

Actuarial Accrued Liability (AAL)	The AAL is the difference between the actuarial present value of all benefits and the actuarial value of future normal costs. The definition comes from the fundamental equation of funding which states that the present value of all benefits is the sum of the Actuarial Accrued Liability and the present value of future normal costs. The AAL may also be referred to as "accrued liability" or "actuarial liability".
Actuarial Assumptions	These assumptions are estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and compensation increases. Actuarial assumptions are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (compensation increases, payroll growth, inflation and investment return) consist of an underlying real rate of return plus an assumption for a long-term average rate of inflation.
Accrued Service	Service credited under the system which was rendered before the date of the actuarial valuation.
Actuarial Equivalent	A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.
Actuarial Cost Method	A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of the pension trust benefits between future normal cost and actuarial accrued liability. The actuarial cost method may also be referred to as the actuarial funding method.

ETC, ETC, ETC,……..

Poll Question #8

The former Net Pension Obligation (NPO) that was disclosed as footnote is now disclosed as Net Pension Liability (NPL) in the employer's financial statements.

True or False

GASB 68 (Inflows/outflows)

- Employers calculation of inflows and outflows is the essence of GASB 68

Where does the money come from?

- As an Agent Multiple –Employer Public Employee Retirement System, funds are derived from:
  - Employees
  - Employers
  - Investment returns

GASB Statements

Employer Reserve Statements:

- IMRF provided employer reserve statements on individual employer funded status, GASB 50
- GASB 50 disclosures
  - Show funded status of each employer plan for last three years for its active and inactive members only
  - Reflects **actuarial** funded status using five year smoothing of investment returns subject to 20% corridor
  - Footnote on schedule discloses funded status on market basis
- These statements will still be produced for two reasons.
  - Comparison purposes
  - Employers who do not report using GAAP.

GASB 68, why, what and how?

- GASB 68 Preliminary format was released by IMRF on January 22, 2014 for the data as of 12/31/12.
- IMRF Actuary - Gabriel Roeder Smith and Company, assisted with the compilation of the GASB 68 Implementation Guide.
- GASB 68 data for 12/31/13 is on the website.
- Please share this information with your auditors

GASB 68, why, what and how?

- GASB 68 will impact each employers financial statements.
- Potential for greater volatility from year to year for the NPL.
  - Pension Expense at the entity-wide level will change NPL.
  - Changes in assumptions
  - Differences in expected and actual investment returns.
  - No smoothing of investment returns for accounting purposes

GASB 68, why, what and how?

- Net Pension Liability (NPL) recorded as a liability on Financial Statements.
- Pre-implementation it was a footnote disclosure.
- Can be a large number on the liability side of the financial statements
- Actuarial Assets measured at market value and discounted using assumed return unless assets are insufficient then deficit is discounted using a tax-exempt high quality bond rate.

GASB 68, why, what and how?

- Blended discount rate results in 96.6% of employer accounts are greater than 6.50% for the discount rate computation as presented in the illustration in the GASB 68 pronouncement, +/- 1.0% presentation.
- SOC 1 Type 2 Report will be in place for calendar year 2015.

On-line Presentation

- IMRF presentation on this material via a webinar on August 15 at 9:30 AM. Information will be available in the near future www.imrf.org.
- Members of employers' governing bodies were encouraged to participate in this webinar. For those who missed it, IMRF will post a link to it on our website after the presentation.

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- Thank you for your interest in IMRF!
- Reminder: IMRF employers must submit their completed GASB 68 questionnaire by August 22, 2014.
- Contacts at regarding this presentation:
  - louiskosiba-executivedirector@imrf.org
  - 630-368-5355
  - marknannini-finance@imrf.org
  - 630-368-5345

Additional information on legislative and other matters impacting IMRF, its employers and members is available at our website,

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Staff as well as the audit firm of KPMG, and actuarial firm GRS are available to answer question in regards to GASB 67 and 68.

Please type in your questions.