Agenda

• **What is GASB 68?**

• **GASB 68 Up Close:**
  – Annual Documentation
    • Actuarial Reports
    • Fiduciary Net Position by Employer
  – SOC-1 Type 2 Report

• **Appendix**
What is GASB 68?

Governmental Accounting Standards Board, a non-governmental, private-sector organization that establishes accounting and financial reporting standards for U.S., state, and local governments that follow GAAP—Generally Accepted Accounting Principles.
What is GASB 68?

IMRF is an Agent Multiple-Employer Public Employee Retirement System.
What is GASB 68?

- GASB 68 replaced Statement #27, Accounting for Pensions by State and Local Governmental Employers.
- In June 2012, GASB issued GASB Statement No. 68, Accounting and Reporting for Pensions.
- GASB 71 amended GASB 68.
- GASB 73 **also** amended GASB 68.
- GASB 82 amended both GASB 68 **and** GASB 73.
What is GASB 68?

PLEASE
KEEP THIS GAS PRACTICE DISCLOSURE STATEMENT FOR THE AUDITORS

THE STATEMENT CAN ALSO BE VIEWED AT IMRF.ORG

EMPLOYER DOCUMENT ARCHIVE

This information is intended to provide your governmental unit with pension information required by the Notes to Financial Statements for your next annual financial report. The following information is patterned after Illustration 6 shown on pages 33 and 34 of the Governmental Accounting Standards Board Statement No. 68 for an employer contributing to an agent multiple-employer defined benefit pension plan.

Employees who have a fiscal year ending other than December 31 will have to adjust the information shown in the three-year trend information to reflect their fiscal year. IMRF has provided a template at www.imrf.org for employers who have a fiscal year ending after December 31, 2016 or later, and who wish to use the optional phase-in rules to assist in calculating their net pension obligation.

This information should be shared with your auditors. Questions can be directed to Audrey Brown-Bryce at 630-780-4246 or ABrown-Bryce@imrf.org.
What is GASB 68?
What is GASB 68?

Net Pension Liability = Unfunded Actuarial Liability
What is GASB 68?

Total Pension Liability \[=\] Plan’s Fiduciary Net Position \[=\] Net Pension Liability
What is GASB 68?

**Net Pension Liability:**

- Calculated on a market basis
- No actuarial smoothing
- Expect volatility in this measure from year-to-year based on annual investment returns, retirements, salary changes, assumption changes, etc.
What is GASB 68?

**Pension Expense:**
- Annual change in Net Pension Liability

**Pension Expense Drivers:**
- Service credit
- Investment returns
- Retirements
- Benefit changes
- Deferred inflows and outflows
What is GASB 68?

*Plan Fiduciary Net Position as a percentage of Total Pension Liability*
What is GASB 68?

\[
\text{Net Pension Liability} \div \text{IMRF payroll} \times 100 = \text{Net Pension Liability as a percentage of covered-employee payroll}
\]
If your employer does not do GAAP reporting, you may not need to take any action.
The first schedule includes:

• Beginning balance of the total pension liability.
• Ending balance of the total pension liability.
• Plan fiduciary net position.
• Net pension liability.

The second schedule includes:

• Plan fiduciary net position.
• Net pension liability.
• Ratio of plan net position to the total pension liability.
• Covered-employee payroll
• Net pension liability as a percentage of covered-employee payroll.
GASB 68 requires:

• A description of the plan and of the benefits provided.

• Significant assumptions used to measure the net pension liability (UAL).

• A description of any benefit changes or changes in assumptions.

• Assumptions related to the discount rate and the impact on the total pension liability of a 1 percent increase or decrease in the rate.

• The net pension liability and deferred outflows and inflows of resources.

• The beginning balance of the net pension liability.

• The ending balance of the net pension liability.

• The effect of changes or differences during the period.
IMRF’s audited financial statements DO NOT include actuarial information nor do they include each employer’s “interest” in the fiduciary net position.
IMFR employers need:

- Total pension liability less fiduciary net position, the total of which is net pension liability.
- Deferred outflows/inflows based on investment experience.
- Deferred outflows/inflows based on changes in assumptions.
- Deferred outflows/inflows based on actuarial gains and losses.
- Pension expense.
**GASB 68 Up Close**

**Measurement Date: December 31, 2016**

<table>
<thead>
<tr>
<th>Executive Summary</th>
<th>As of December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Valuation Date</td>
<td>December 31, 2016</td>
</tr>
<tr>
<td>Measurement Date of the Net Pension Liability</td>
<td>December 31, 2016 *</td>
</tr>
<tr>
<td>Fiscal Year End</td>
<td>December 31, 2017</td>
</tr>
</tbody>
</table>

*Must be within the employer's fiscal year or one day prior to the beginning of the fiscal year.*
GASB 68 Up Close

Measurement of the total pension liability is determined through:

- An actuarial valuation performed as of the measurement date.
- 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 date.
GASB 68 at a Glance
Preliminary information about GASB 68 reporting requirements

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, Accounting and Reporting for Pensions. Many IMRF employers have been requesting information from IMRF about how we will be providing the information your employer needs to comply with GASB 68.

The following document shows a preliminary breakdown of how IMRF will report this information, and defines some of the terms used for GASB 68 reporting. IMRF is continuing to refine this process and will keep you informed as we update our GASB 68 reporting methods.

Section A—Total Pension Liability:
A. Total Pension Liability
   1. Active members $ XXX,XXX
   2. Retired members XXX,XXX
   3. Deferred members XXX,XXX
   4. Total XXX,XXX

Your Total Pension Liability is the amount it will cost your employer to pay for promised pension benefits. “Deferred members” are inactive members.

Section B—Plan Fiduciary Net Position:
B. Plan fiduciary net position
   1. Member Assets $ XXX,XXX
   2. Employee Assets XXX,XXX
   3. Retired Reserve XXX,XXX
   4. Total XXX,XXX

Your Plan Fiduciary Net Position is the value of your employer’s pension assets.

Section C—Net Pension Liability:
C. Net pension liability $ XXX,XXX

Your Net Pension Liability is the amount left over after subtracting the total value of your employer’s pension assets from its Total Pension Liability. “This is also known as your employer’s “unfunded liability” (on a market-value basis).

Section D—Plan fiduciary net position as a percentage of the total pension liability:
D. Plan fiduciary net position as a percentage of the total pension liability XX.4%

The percentage of your employer’s Total Pension Liability that it could pay with its current pension assets. Also known as your employer’s Funded Status or Funded Ratio.

Section E—Covered-employee payroll:
E. Covered-employee payroll $XXX,XXX

The combined annual salaries of your IMRF-participating employees.

Section F—Net pension liability as a percentage of the covered-employee payroll:
F. Net pension liability as a percentage of covered employee payroll XX.4%

A calculation that compares your employer’s Net Pension Liability to its payroll for IMRF-participating employees.

Section G—Discount Rate:
G. Discount rate
   1. Long-Term Discount Rate XX.4%
   2. 20-year Municipal Bond Rate (December 20xx) XX.4%
   3. Bleraded Discount Rate XX.4%

The Long-Term Discount Rate and the 20-year Municipal Bond Rate are used to calculate your employer’s Discount Rate. The Bleraded Discount Rate is used to calculate the present value of your employer’s Total Pension Liability.

- The Long-Term Discount Rate is applied to the portion of your employer’s Total Pension Liability that does not exceed its pension assets.
- The 20-year Municipal Bond Rate is applied to the portion of your employer’s Total Pension Liability that exceeds its pension assets.
GASB 68 Resources

IMRF participating employers who report using Generally Accepted Accounting Principles (GAAP) are required to follow rules established by the Governmental Accounting Standards Board (GASB). In June 2012, GASB issued statement number 68 with the objective of improving accounting and financial reporting on pensions by government entities. IMRF is presenting this online resource to aid participating employers in implementing the new standards required by GASB 68.

The requirements on IMRF employers established by GASB 68 can be summarized into four processes. IMRF employers are required to:

1. Project the future benefit payments for current and former employees and their beneficiaries.
2. Discount those payments to their present value.
3. Allocate the present value over past, present, and future periods of employee service.
4. Disclose future inflows and outflows.

Long Term Expected Real Rate of Return by Asset Class

as of 12/31/2016

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Return 12/31/16</th>
<th>Projected Returns/Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>One Year Arithmetic</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ten Year Geometric</td>
</tr>
</tbody>
</table>

Quick Links

- GASB 68 at a Glance
- Overview of Requirements
- Implementation Toolkit
- IMRF Webinar Presentation
- Webinar Q&A Session
- GASB 68 Pension Footnote & Journal Entry Template - Year of Implementation
- GASB 68 Pension Footnote & Journal Entry Template - Year 2 and Beyond
Wages and Contributions
- Report Wages
- Report Wage Adjustments
- Display Wage Report History
- Display Wage Adjustment History
- Display Contribution Rates

Payments
- Pay Online
- Display Payment History
- Display Account Balance

Members
- Enroll Member
- Display or Change Member Information
- Terminate Member
- Report Disability or Return to Work

Documents
- Display Document Archive
- Display Annual Documents
- Display Adopted Resolutions
- Download Forms
- Display Authorized Agents Manual
- Display Web Transaction History

“GASB68R-GASB 68–Regular Plan”
GASB 68 Up Close
GASB 68 changes the way an employer can calculate the present value of its Total Pension Liability.
### Simplified GASB 68 Discount Rate Example

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer’s Total Pension Liability:</td>
<td>$500,000.00</td>
</tr>
<tr>
<td>Amount of Total Pension Liability the employer has in assets:</td>
<td>$400,000.00</td>
</tr>
<tr>
<td>Amount of Total Pension Liability the employer does not have in assets:</td>
<td>$100,000.00</td>
</tr>
<tr>
<td>The Long Term Discount Rate of 7.50% is used only on the amount of the employer’s liability that it <strong>does have</strong> an equal number of assets to cover.</td>
<td>$30,000.00</td>
</tr>
<tr>
<td>[ 400,000.00 \times 7.5% ]</td>
<td></td>
</tr>
<tr>
<td>The 20-year Municipal Bond Rate is used on the amount of the employer’s liability that it <strong>does not have</strong> an equal number of assets to cover.</td>
<td>$3,580.00</td>
</tr>
<tr>
<td>[ 100,000.00 \times 3.58% ]</td>
<td></td>
</tr>
<tr>
<td>Add these two discount amounts together to obtain the amount to subtract from the Total Pension Liability:</td>
<td>$33,580.00</td>
</tr>
<tr>
<td>[ 30,000.00 + 3,580.00 ]</td>
<td></td>
</tr>
<tr>
<td>Subtract this amount from the Total Pension Liability to get the present value:</td>
<td>$466,420.00</td>
</tr>
<tr>
<td>[ 500,000.00 - 33,580.00 ]</td>
<td></td>
</tr>
<tr>
<td>Present value of the employer’s Total Pension Liability:</td>
<td>$466,420.00</td>
</tr>
</tbody>
</table>

*For illustrative purposes only*
### Simplified GASB 68 Discount Rate Example

<table>
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<tr>
<td>Amount of Total Pension Liability the employer does not have in assets:</td>
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</tr>
<tr>
<td>The Long Term Discount Rate of 7.50% is used only on the amount of the</td>
<td></td>
</tr>
<tr>
<td>employer’s liability that it does have an equal number of assets to cover.</td>
<td></td>
</tr>
<tr>
<td>$400,000.00 x 7.5% =</td>
<td>$30,000.00</td>
</tr>
<tr>
<td>The 20-year Municipal Bond Rate is used on the amount of the employer’s</td>
<td></td>
</tr>
<tr>
<td>liability that it does not have an equal number of assets to cover.</td>
<td></td>
</tr>
<tr>
<td>(The 20-year Municipal Bond Rate for December 2012 is 3.58%)</td>
<td></td>
</tr>
<tr>
<td>$100,000.00 x 3.58% =</td>
<td>$3,580.00</td>
</tr>
<tr>
<td>Add these two discount amounts together to obtain the amount to subtract</td>
<td></td>
</tr>
<tr>
<td>from the Total Pension Liability:</td>
<td></td>
</tr>
<tr>
<td>$30,000.00 + $3,580.00 =</td>
<td>$33,580.00</td>
</tr>
<tr>
<td>Subtract this amount from the Total Pension Liability to get the present</td>
<td></td>
</tr>
<tr>
<td>value:</td>
<td></td>
</tr>
<tr>
<td>$500,000.00 - $33,580.00 =</td>
<td>$466,420.00</td>
</tr>
</tbody>
</table>

Present value of the employer’s Total Pension Liability: $466,420.00

**Blended Discount Rate would be 6.716%**

\[
\frac{\$500,000}{\$33,580} = 6.716\% 
\]

*For illustrative purposes only*
GASB 68 Up Close
GASB 68 Up Close

Illinois Municipal Retirement Fund

Service Organization Control 1 Report
Report on Controls Placed in Operation and Tests of Operating Effectiveness
For the Period
April 1, 2016, through March 31, 2017

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GASB 68 Up Close
GASB 68 Up Close: IMRF’s References

- **GASB 68 Documentation**
  (Available April/May)

- **SOC-1 Type 2 Report**
  (Currently available for April 1, 2016, through March 31, 2017)

- **Schedule of Changes in Fiduciary Net Position**
  (By employer)
Appendix

- IMRF is an Agent Multiple-Employer Public Employee Retirement System

- Cost method of valuation: Aggregate Entry Age Normal
Appendix

**IMRF Mission, Vision, and Values**

**Mission** - To efficiently and impartially develop, implement, and administer programs that provide income protection to members and their beneficiaries on behalf of participating employers in a prudent manner.

**Vision** - To provide the highest quality retirement services to our members, their beneficiaries, and employers.

**Values** - (REAACH)
- Respect
- Empathy
- Accountability
- Accuracy
- Courage
- Honesty
Appendix

Market Funding Status
For The Past 5 Years

Actuarial Funding Status
For The Past 5 Years

<table>
<thead>
<tr>
<th>Year</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>88.3%</td>
<td>87.4%</td>
<td>93.1%</td>
<td>96.9%</td>
<td>85.9%</td>
</tr>
<tr>
<td>Actuarial</td>
<td>88.9%</td>
<td>88.4%</td>
<td>87.3%</td>
<td>87.6%</td>
<td>84.3%</td>
</tr>
</tbody>
</table>
Illinois Municipal Retirement Fund

Contact us:

Louis W. Kosiba
- Email: lkosiba@imrf.org; phone: 630-368-5355

Mark Nannini
- Email: mnannini@imrf.org; phone: 630-368-5345

Employer 800-number: 1-800-728-7971

IMRF website: www.imrf.org
- Comprehensive Annual Financial Report
- Annual Budget
- GASB 68 Resource Page
- Schedule of Changes in Fiduciary Net Position (by employer)
- SOC-1 Type 2 Document (in Employer Access)
- Also available: GASB 50 (in Employer Access)
Thank you for attending!

What GASB 68 Means For You