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2010 NCTR Annual Convention –
Preserving Retirement Security Actuarial Panel

You Want Me To Do What to My Balance Sheet?

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Remember This?

- November 1986 GASB Statement No. 5
  - "…intended to provide information needed to assess (a) funding status of a PERS on a going-concern basis, (b) progress made in accumulating sufficient assets to pay benefits when due, and (c) whether employers are making actuarially determined contributions."
  - Recognizes differences between Single, Agent and Cost Sharing employer plans
  - Standardized Measure of Pension Benefit Obligation (PBO)

And This?

- October 1988 – GASB PV –"State and Local Government Employers' Accounting for Pensions"
- January 1990 - Exposure Draft revised and re-issued in February 1994.
  - A large majority of respondents "especially supported the Board's objective of maintaining the maximum possible consistency between pension accounting and actuarially determined funding measures…"
    - "When users need information about a plan's funded status and funding progress, they use information based on the plan's funding methodology."
- November 1994 – GASB Nos. 25 & 27
  - Marriage of Accounting and Funding
  - Established Annual Required Contribution (ARC) and Net Pension Obligation (NPO)

And Now?

- Latest GASB PV reexamines current pension accounting standards in GASB Statements 25 & 27
  - Underlying Principles
    - Decision usefulness
    - Assessment of inter-period equity
    - Long-term nature of governments
  - Separation of Accounting and Funding
    - PV - accounting only
    - Changes in accounting rules do not require a change to contribution strategy
    - Volatility in accounting measures does not need to cause volatility in actual contributions

History Lessons
Accounting Doesn't Impact Funding?

- GASB 5 – Prior separation of accounting & funding
  - "…as a result, legislators, public officials, and others interpret the required disclosure to mean that plans *should be funded* using…" the methodology used for accounting " … and that GASB prefers that approach."
  - "As a result, legislatures have been pressured to reduce employer contributions or increase benefits without increasing contributions, and some of those efforts have been successful."
  - "PBO has been used …primarily to justify reducing employers' contributions. …. the reduction in contributions had been or was expected to be temporary; the rates would be increased again in the future. …all that had occurred was a deferral of costs to the future and a disruption of an orderly funding process"
- GASB 45 – How many employers at least gave consideration to pre-funding due to accounting requirements?

Is the Direction of the PV a Big Deal?

- Illustration of Impact to Balance Sheet

	State Employees Plan ($ millions)	State Teachers Plan ($ millions)	Large Local Gov't Plan ($ millions)	Small Local Gov't Plan ($ millions)
GASB PV Net Pension Liability(NPL) for Balance Sheet	$7,000	$15,000	$500	$7
Current Pension Liability on Balance Sheet	$0	$0	$0	$0
NPL as a Percent of Unfunded Accrued Liability	233%	188%	167%	233%

Is the Direction of the PV a Big Deal?

- Sample PERS Balance Sheet Implication
  - Present Value of Benefits in valuation (at 8%) = $42 billion
  - Current UAAL = $12 billion ($18 billion based on market value)
  - Employer has always funded the ARC as a minimum
  - GASB 27 Net Pension Obligation = $0
  - State's Current Balance Sheet – Total Liability $7.5 billion

- GASB PV Net Pension Liability
  - Asset depletion at 2033 based on GASB PV Method
  - NPL based upon lower discount rate of 5.41% is $40 billion
  - If Employer's Funding Policy was to contribute 67% of the ARC
    - NPL using 4.90% discount rate = $46 billion
  - If Employer's Funding Policy was to contribute 33% of ARC
    - NPL using 4.64% discount rate = $49 billion
  - If Employer's Funding Policy was to contribute 0% of ARC
    - NPL using 4.59% discount rate = $52 billion

Revisit “Underlying Principles”

- Decision Useful?
  - Decision should be based on realistic numbers
  - Separation of Accounting and Funding
    - Two sets of books with dramatically different stories
  - What decisions will be impacted?
- Inter-period equity?
  - Significant swings in market value of assets and municipal bond rates changes impact to the balance sheet
- Long-term nature of government?
  - Current trend information better than over-emphasis of “one-day” measure of market value

Is There Room for Middle Ground?

- What is wrong with the GASB 25/27 ARC?

- Perhaps there is some relevance for measuring the PV of the net cash flow after asset depletion for those plans where the employer is not fully funding the ARC.

  - NPO is a retrospective accumulation of deficiencies where the NPL could be a prospective measure of the liability to be funded by the employer (after asset depletion) . The liability is primarily due to the decision to fund less than full ARC.
  - Useful for decision makers, similar to the initial GASB 43/45 liability measurements (full funding vs. pay as you go).