

Questions and Answers Concerning Accounting and Financial Reporting for Pensions

A CCMA White Paper for California Local Governments

Issued October 2016

CCMA issued a White Paper on Implementing GASB Statement No. 68 in April 2015. Since then, CCMA has received questions that would apply to many California local governments. This CCMA White Paper summarizes and responds to some of those questions.

Summary of Changes to the CCMA White Paper on GASB 68

1. Question:

Are there revisions or corrections to the original CCMA White Paper on Implementing GASB 68 that affect the example disclosures?

Response:

Yes. Below is a summary of corrections to the example footnote disclosures and Required Supplementary Information Schedules, as well as revisions necessary to update the examples for the 2015 Measurement Date and other CalPERS-specific changes:

- **Corrections:**

- Page 38 – Summary of Significant Accounting Policies paragraph – references to the “plans” throughout the paragraph should be made singular (plan, Plan or Plan’s).
- Page 38 – Plan Description – The Miscellaneous and Safety Risk Pools are part of one Plan administered by CalPERS, as discussed in Question 15. Therefore, the Plan Description should be revised to make that clarification – Suggested verbiage that can be customized to the local government’s arrangement and specific number of rate tiers follows:

Plan Description – All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees’ Retirement System (CalPERS.) The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other.) Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The Local Government sponsors four rate plans (two miscellaneous and two safety). Benefit provisions under the Plan are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

- Page 39 – The sentence prior to the summary of plan benefit provisions should read “The rate plan provisions and benefits in effect at...”
- Page 39 – Contributions – the table should be removed and instead, the sentence before the table should be “The Local Government’s contributions to the Plan for the year ended June 30, 20xx were \$X,XXX,XXX .
- Page 40 – Pension Liability – remove the table and instead disclose: As of June 30, 20xx, the Local Government reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$XX,XXX,XXX.
- Page 40 – second paragraph – redraft paragraph to refer to the Plan (a single plan as defined in the bullet point above.) Miscellaneous and safety rate plans are not separate plans. .
- Page 40 – Table of the change in the proportion – report information for the Plan in total (do not break out between miscellaneous and safety).
- Page 41 – Actuarial Assumptions Table – remove the headings of Miscellaneous and Safety and disclose the information in only one column for the Plan total.
- Page 44 – Sensitivity Disclosure - remove the word “each” before Plan to read “for the Plan” in the paragraph.
- Page 44 – Sensitivity Disclosure Table - remove the headings of Miscellaneous and Safety and disclose the information in only one column for the Plan in total.
- Page 44 – Pension Plan Fiduciary Net Position – the sentence should read “Detailed information about the Plan’s fiduciary net positions is available in the separately issued CalPERS financial reports.”
- Page 49 – RSI Schedule of the Proportionate Share of the NPL – following line should be removed:
 - Plan’s fiduciary net position \$54,800,000

Also, the \$54.8 million that was included in the White Paper was the example Proportionate Share of the Plan’s FNP, and not the Plan’s FNP as it was labeled.

- Page 50 – Cost-Sharing Plan’s Schedule of Contributions – the actuarial assumptions are not required to be included in the Notes to Schedule, but the Notes to Schedule should include any notes that significantly affect trends in the amounts reported in the Schedule, for example, changes of benefit terms, changes in the size or composition of the population covered by benefit terms, or the use of different assumptions.

- ***Updates for the June 30, 2015 Measurement Date:***

- Pages 34 and 42 - Discount Rate discussion should be revised to reflect the change in the discount rate to 7.65% and remove the discussion of why 7.50% was used – see page 5 of the CalPERS “Notes to the Agent Multiple-Employer Defined Benefit Pension Plan - GASB 68 Accounting Valuation Reports Measurement Date of June 30, 2015” document on CalPERS’ website for the suggested verbiage.
- Pages 35 and 43 – Table of Investments by Asset Class – update the “Current Target Allocation” percentages, again see page 5 of the CalPERS “Notes to the Agent Multiple-Employer Defined Benefit Pension Plan - GASB 68 Accounting Valuation Reports Measurement Date of June 30, 2015” document for the percentages for the 2015 Measurement Date.
- Pages 33 and 41 - Discount Rate – change the discount rate to 7.65%.
- Pages 33 and 41 – Change of Assumptions – add a disclosure for the change of assumptions (discount rate). See page 4 of the CalPERS “Notes to the Agent Multiple-Employer Defined Benefit Pension Plan – GASB 68 Accounting Valuation Reports Measurement Date of June 30, 2015” document.
- Page 39 – required contribution rates – CalPERS changed its method of collecting contributions from employers starting in fiscal year 2016; therefore, employers may want to consider including the following disclosure after the provisions and benefits table (or with the local government’s discussion of contribution rates):

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund [if applicable]. The dollar amounts are billed on a monthly basis. The Local Government’s required contribution for the unfunded liability and side fund [if applicable] was \$_____ in fiscal year 2016.

- **Other Considerations:**

- Pages 46 and 49 – Covered-employee payroll – consider reporting the employer’s actual covered-employee payroll for the measurement period, rather than the CalPERS estimate that is based on CalPERS records of covered payroll. The CalPERS estimate represents covered payroll (pensionable earnings provided by the employer) increased by a stated percentage. Consider early-implementing GASB 82 and disclosing covered payroll. See Question 2 below for definitions of covered-employee payroll and covered payroll.
- Pages 47 and 50 – Covered-employee payroll – disclose the employer’s actual covered-employee payroll for the fiscal year. Consider early-implementing GASB 82 and disclosing covered payroll. See Question 2 below for definitions of covered-employee payroll and covered payroll.
- Local governments should consult the GASB 68 section of CalPERS’ website on an annual basis for other future revisions to the footnote disclosures, assumption changes and other information that affects the GASB 68 calculations and disclosures.

2. **Question:**

How does GASB Statement 82 affect the guidance in the CCMA White Paper and what is the difference between Covered-Employee Payroll and Covered Payroll?

Response:

Paragraphs 46 and 81 of GASB 68 require the disclosure of *Covered-Employee Payroll* in the Required Supplementary Information Schedules. Covered-Employee Payroll is the total payroll of employees that are provided with pensions through the pension plan, or total compensation.

Paragraph 5 of GASB 82 amends those paragraphs to instead require the disclosure of *Covered Payroll* in the Required Supplementary Information Schedules. Covered Payroll is the payroll on which contributions to a pension plan are based, or pensionable compensation. CalPERS has indicated in its Agent Multiple-Employer Accounting Valuations for the 2015 Measurement Date that:

Covered-Employee Payroll presented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

This means that CalPERS is reporting Covered Payroll, rather than Covered-Employee Payroll in the Required Supplementary Information Schedules. Therefore, if the employer is to comply with the provisions of paragraphs 46 and 81 of GASB 68, the employer will need to calculate the actual Covered-Employee Payroll for the measurement period and recalculate the applicable ratios in the Required Supplementary Information Schedules.

The provisions of paragraph 5 of GASB 82 are effective for periods beginning after June 15, 2016. Although an employer may wish to early implement the provisions of GASB 82 and disclose the Covered Payroll in the Required Supplementary Information Schedules, it should be noted that the Statement contains two other unrelated provisions and all provisions applicable to the employer would need to be implemented simultaneously.

In addition, as noted in the CalPERS Accounting Valuations, the Covered Payroll reported by CalPERS is based on the prior year payroll with an assumed 3.00 percent payroll growth assumption. Whether or not employers early implement the provisions of GASB 82, the employer should consider disclosing the *actual* Covered-Employee Payroll or Covered Payroll for the measurement period.

CalPERS Accounting Valuation Reports for Measurement Dates Subsequent to 2014

3. Question:

The CalPERS Accounting Valuation reports both deferred outflows of resources and deferred inflows of resources for the Net Difference between Projected and Actual Earnings on Pension Plan Investments resulting from the 2014 and 2015 measurement periods – shouldn't these balances be combined and reported as a net deferred outflow or inflow, as applicable, in the Statement of Net Position?

Response:

Yes – while the balances for other deferred outflows and inflows of resources from different measurement periods should not be reported net, paragraph 33b of GASB 68 indicates that the deferred outflows and inflows of resources from the Difference between Projected and Actual Earnings on Pension Plan Investments should be reported net as follows:

Deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan investment earnings *in different measurement periods* should be aggregated and reported as a net deferred outflow of resources related to pensions or a net deferred inflow of resources related to pensions.

In addition, the 2015-1 GASB Implementation Guide addresses the matter with Question 5.142.3.

4. Question:

CalPERS Agent Plans – What adjustments need to be made to the CalPERS Accounting Valuation Reports?

Response:

Generally no adjustments need to be made to the CalPERS Accounting Valuations for Agent Multiple-Employer Plans. However, as noted in the AICPA State and Local Government Audit and Accounting Guide, “The employer is solely responsible for its financial statements and, therefore, it is the employer management’s responsibility to establish financial reporting processes and controls over the recognition, measurement, presentation and disclosure of its various pension amounts.”

Therefore, the employer should evaluate the Accounting Valuation Report, which may include, but is not limited to, evaluating the appropriateness of assumptions, checking the mathematical accuracy of the schedules used to record the net pension liability and related deferred outflows/inflows of resources, recalculating the amortization of the deferred outflows/inflows of resources, and reconciling the employer contributions for the measurement period to its accounting records. In addition, the employer should determine if the covered-employee payroll needs to be revised for reporting in its Required Supplementary Information Schedules, as discussed in Question 2 above.

5. Question:

CalPERS Agent and Public Agency Cost-Sharing Plans – Do employers need to amortize the deferred outflows/inflows of resources that are included in the CalPERS reports?

Response:

The actuarially-determined deferred outflows/inflows of resources included in the CalPERS Accounting Valuations have already been amortized for the measurement period. The amortization schedules are included in Section A of the Accounting Valuations.

However, for any Cost-Sharing Plans, employer-determined deferred outflows/inflows of resources, such as the Difference Between the Employer’s Actual Contributions and Proportionate Share of Contributions and the Change in Proportion, the employer will need to create and maintain amortization schedules.

It should also be noted that CalPERS calculated the Change in Proportion for Cost-Sharing Plans for the 2014 Measurement Date, but that information is not included in the 2015 Measurement Date Accounting Valuations. Therefore, the employer needs to use the amortization schedule from Appendix B of its 2014 Measurement Date Accounting Valuation, in addition to calculating the current year balance as discussed in Question 6 below.

6. Question:

CalPERS Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan – CalPERS no longer issues entity-specific GASB 68 Accounting Valuation Reports for the individual rate tiers in the Miscellaneous and Safety pools of Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan). What calculations are necessary for the 2015 Measurement Date?

Response:

Employers that participate in the Miscellaneous and/or Safety Risk Pools of the Plan will need to calculate their proportionate share of the following for the 2015 Measurement date for each risk pool and then add together the applicable components for reporting the totals for the Plan:

- Collective Net Pension Liability
- Deferred Outflows of Resources - actuarial
- Deferred Inflows of Resources – actuarial
- Sensitivity of Net Pension Liability to changes in the discount rate (See question 15)

In addition, the employer will need to calculate the following employer-specific deferred outflows/inflows of resources:

- Difference in Actual Contributions and Proportionate Share of Contributions
- Change in Proportion
- Contributions after the Measurement Date

The changes in the balances from year to year are reflected in pension expense.

To assist employers with these calculations, CalPERS has included instructions for calculating the proportionate shares of the Collective Net Pension Liability and the Collective Actuarial deferred outflows/inflows of resources on page 87 of the *Public Agency Cost-Sharing Multiple-Employer Defined Benefit Plan Schedules of Employer Allocations by Rate Plan and Collective Pension Amounts for the Miscellaneous and Safety Risk Pools as of and for the Fiscal Year Ended June 30, 2015*, which have been audited by CalPERS' auditor, as well as in its *CalPERS' GASB 68 Guide for Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan* that can be found on CalPERS website at <https://www.calpers.ca.gov/docs/gasb-68-cost-sharing-guide.pdf>. However, there appear to be two typographical errors in that document as discussed in Question 16 below.

CalPERS will provide the annual amortization information for the actuarial deferred outflows/inflows of resources, but the employer will need to create its own amortization schedules for the employer-specific deferred outflows/inflows of resources.

7. Question:

CalPERS Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) – If an employer participates in both the safety and miscellaneous risk pools, with multiple tiers within each, and one risk pool had a gain due to actuarial experience (deferred inflow) while the other risk pool had a loss due to actuarial experience (deferred outflow), are they reported separately as deferred inflows and outflows, or are they netted?

Response:

As discussed in Question 1, both risk pools are part of the same Plan. Although the employer must perform the calculations of the proportionate share of deferred outflows/inflows separately for each risk pool, the components of deferred outflows and inflows within each measurement period are added together for reporting the totals for the Plan. Using the example in the question, if the safety risk pool's deferred inflow related to actuarial experience exceeded the miscellaneous risk pool's deferred outflow related to actuarial experience, the employer's proportionate shares of those amounts would be reported net as a deferred inflow.

This treatment also applies to the employer-specific deferred outflows/inflows discussed in Question 6. However, the Plan total balances for each measurement period are not reported net. For example, if the change in proportion for the 2014 measurement period was a deferred outflow, but the change in proportion for the 2015 measurement period is a deferred inflow, those are reported separately (or gross).

It should be noted that if the employer has one Agent Plan and one Cost Sharing Plan, the individual deferred inflows or outflows are not netted between those Plans.

8. Question:

Agent Plans - CalPERS provides a Schedule of Changes in Net Pension Liability and Related Ratios for the Measurement Period in the annual Accounting Valuation – should employers use the information to prepare the Required Supplementary Information Schedule in the financial statements?

Response:

Yes, however, as discussed in Question 2, the employer should consider revising the Covered-Employee Payroll to the actual Covered-Employee Payroll (or Covered Payroll as discussed in Question 2) for the measurement period and adjusting the related ratio.

9. Question:

Agent Plans - CalPERS provides a Schedule of Plan Contributions for the Measurement Period in the annual Accounting Valuation – should employers use the information to prepare the Required Supplementary Information Schedule in the financial statements?

Response:

No – the Schedule of Contributions included in the Agent Plan Accounting Valuation is not only prepared as of the measurement date, but it includes an estimate of Covered-Employee Payroll. Paragraph 46 of GASB 68 requires that the Schedule of Plan Contributions report information for the employer’s most recent fiscal year (and 9 years prior), therefore the employer should prepare the Schedule from its accounting records for each fiscal year presented.

Required Supplementary Information

10. Question:

Required Supplementary Information – Should the Schedule of Plan Contributions present information as of the measurement date or as of the financial statement reporting date?

Response:

Paragraph 46 of GASB 68 requires that the Schedule of Plan Contributions report information for the employer’s most recent fiscal year (and 9 years prior).

The information in the CalPERS Schedule of Plan Contributions will not agree to the information included in the Schedule of Changes in Net Pension Liability and Related Ratios for Agent Multiple-Employer Plans. For example, if the measurement date is one fiscal year prior to the financial statement date, the actual contributions included in this Schedule should agree to the balance of the deferred outflows for contributions made after the measurement date.

11. Question:

Required Supplementary Information – Should the notes to the Schedules be presented for the most recent year presented, or should they be presented for each year included on the schedule. For example, if the actuarial assumptions changed for a new valuation date, is the information disclosed for the old and new valuation date, or just the most recent valuation date?

Response:

The notes to the Required Supplementary Information Schedules should be presented for each year. Accordingly, the notes should disclose the actuarial assumptions for the current period. There are disclosure options for how an employer may want to present the actuarial assumptions for prior years. An employer may choose to include the assumptions for each year presented or simply describe changes of assumptions occurring during the presented periods. Both are acceptable options. Paragraphs 47 and 82 of GASB 68 indicate that the notes should include information about factors that significantly affect trends in the amounts reported in the schedules.

The information could be presented in either a narrative or tabular format. For examples of the narrative format, see GASB 68 Illustrations 2 and 3.

Section 115 Trusts

Although there is no clear accounting guidance in the area of Section 115 Trusts, below are some considerations for governmental agencies. At its Board meeting on September 13, 2016, GASB discussed accounting and reporting issues related to Section 115 Trusts. However, no conclusions were made. Accordingly, governmental agencies should be aware that future GASB guidance could change the responses in this White Paper.

The governmental agency should consult with their actuary and auditor to determine the impact of a Section 115 Trust may have on the Local Government's GASB 68 calculations and reporting.

12. Question

If an agency establishes a Section 115 trust to set aside and restrict assets for future contribution to a CalPERS or other pension trust, must the Section 115 trust be restricted to a specific pension plan to be eligible for credit in the calculation of the agency's GASB 68 net pension liability?

Response:

Yes, the Section 115 trust assets would need to be restricted for the benefit of a specific pension plan to reduce the specific plan's net pension liability for GASB 68 financial reporting purposes. An agency might achieve other financial planning objectives by establishing a Section 115 trust with resources for the collective benefit of all its pension plan obligations. Accordingly, trust assets may be available to pay pension benefits of more than one pension plan and would not be dedicated to a specific pension plan. The agency should consult with their actuary and auditor to determine the impact on its GASB 68 calculations.

13. Question:

If an agency has a Section 115 trust, how are the GASB 68 calculations for CalPERS Agent Multiple-Employer Plans impacted?

Response:

If an agency has a separate Section 115 employer trust dedicated to funding pension benefits for the same employee group covered by the CalPERS agent plan, the assets of the trust as of the Measurement Date may qualify to be applied as a reduction of the net pension liability reported by CalPERS. The agency should consult with their actuary and auditor to determine the impact of adjustments to the GASB 68 calculations. Other adjustments could include the following:

- Deferred outflows/inflows relating to the difference between expected and actual return on investments of the Section 115 trust
- Impact on discount rate, if any, because the Section 115 trust providing benefits to the same employee group may have a different investment portfolio
- Calculation of sensitivity of discount rate on net pension liability for footnote disclosure
- Calculation of pension expense for footnote disclosure
- Additional footnote disclosures of the invested asset allocation and expected returns

14. Question:

If an agency has a Section 115 trust, how are the GASB 68 calculations for CalPERS Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan impacted?

Response:

The Section 115 trust assets would not be included as part of the cost-sharing plan assets. In a cost-sharing plan, the plan assets can be used to pay the benefits of any employer in the plan. However, in a Section 115 trust, the assets only benefit one government. While the trust assets should be reported in a separate fiduciary fund of the government, the assets would not reduce the net pension liability of the cost-sharing plan. The agency should consult with their actuary and auditor to determine the impact on its GASB 68 calculations.

GASB 68 Disclosures for the CalPERS Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

15. Question:

How should employers present GASB 68 note disclosures and required supplementary information for their participation in the Miscellaneous and/or Safety rate plans in the CalPERS Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan?

Response:

CalPERS administers the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the CalPERS Cost-Sharing Plan) for employers with generally less than 100 active members. The CalPERS Cost-Sharing Plan is managed in two risk pools: Miscellaneous and Safety. Within those risk pools are a variety of rate plans, which provide different benefit levels.

Under GASB 68, if the pension obligations to the employees of more than one employer are pooled, and the pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan, the pension plan is considered to be a cost-sharing multiple-employer defined benefit pension plan. Since CalPERS has determined that the pension plan assets for the CalPERS Cost-Sharing Plan can legally be used to pay the benefits to any member of any employer, regardless of risk pool/rate plan, the “plan”, as the defined by GASB 68 for financial reporting purposes, is the CalPERS Cost-Sharing Plan as a whole. The individual rate plans within the Miscellaneous Risk Pool and the Safety Risk Pool are not separate “plans” for purposes of GASB 68 reporting. GASB presents guidance on this concept in Questions 5.63.1 and 5.63.2 of the 2015-1 GASB Implementation Guide.

CalPERS has also included information in its Cost-Sharing Accounting Valuations for the June 30, 2015 Measurement Date as follows:

The public agency cost-sharing multiple-employer defined benefit pension plan (PERF C or the Plan) is administered by the California Public Employees' Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. Each employer should combine information provided for their participation in the miscellaneous and/or safety pools to report them as one Plan in their financial statements.

Accordingly, an employer should present the total for all risk pools/rate plans in the CalPERS Cost-Sharing Plan for the GASB 68 required disclosures in the notes to the financial statements and the required supplementary information.

For the measurement period ended June 30, 2015, CalPERS has provided the following GASB 68 schedules:

- Schedule of Collective Pension Amounts for the Miscellaneous Risk Pool and the Safety Risk Pool and the Plan as a whole.
- Schedule of Employer Allocations by Rate Plan for the Miscellaneous Risk Pool and Safety Risk Pool

These schedules will be used to calculate the proportionate share of the collective pension amounts for each rate plan within the Miscellaneous Risk Pool and Safety Risk Pool. The total for the calculated proportionate share of the collective pension amounts for all rate plans in the Miscellaneous Risk Pool and Safety Risk Pool is the amount that should be presented in the notes to the financial statements and required supplementary information. We suggest that employers refrain from presenting detail of amounts by rate plans/risk pools to avoid confusion as to what constitutes the GASB 68 "plan." However, for purposes of describing benefit levels, employers may disclose the various benefit levels under each rate plan or may consolidate those disclosures

Proportionate Share of the Collective Net Pension Liability Sensitivity Calculation for CalPERS Cost Sharing Plan

16. Question:

How should the sensitivity of the proportionate share of the collective net pension liability be calculated for changes in the discount rate for CalPERS Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) for fiscal year ended June 30, 2016?

Response:

CalPERS prepares Accounting Valuations for each risk pool in the Plan, which provide the sensitivity disclosure information for the net pension liability for the risk pool. An employer's proportionate share of the net pension liability needs to be calculated based on the employer's proportionate share of the total pension liability and the fiduciary net position of the risk pool. In order to calculate the total proportionate share of the net pension liability, the amounts reported in the risk pool's Accounting Valuation must be grossed up into the total pension liability and fiduciary net position components and then the employer applies the allocation factors to calculate its proportionate share of each component. If an employer participates in both the miscellaneous and safety risk pools, then the amounts calculated for each risk pool should be combined to present the sensitivity disclosure for the Plan as a whole. Attached is a sample calculation. For financial statements with years ended June 30, 2016, the measurement date of June 30, 2015 is used.

The attachment also includes sample calculations for the other amounts that an employer needs to determine for its participation in the Plan as discussed in Question 6. The attachment uses the same amounts reported in the CalPERS *GASB 68 Guide Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan* (CalPERS Guide.) We did note that there appear to be two typographical errors in the CalPERS Guide and we believe that the calculations in the attachment to this document are appropriate. The typographical errors related to the contributions made after the measurement date, which should be \$600,000 rather than \$700,000, and the direction of the pension expense in the fourth journal entry appears to be backward.

See *CalPERS' GASB 68 Guide for Public Agency Cost-Sharing Multiple Employer Defined Benefit Pension Plan* that can be found on CalPERS website at <https://www.calpers.ca.gov/docs/gasb-68-cost-sharing-guide.pdf> for guidance on calculating other amounts.

JOURNAL ENTRIES

GASB 68 Journal Entries EXAMPLE

Cost- Sharing Plans

Fiscal Year Reporting Date June 30, 2016

Measurement Date June 30, 2015

Draft

step 1 - CONTRIBUTION AFTER MEASUREMENT DATE

Reclassification of Pension Contributions - **Journal Entry 1**

Current year contributions that occurred after the measurement date of 6/30/2015 = 2016 contributions

	DR	CR
Dr - Deferred Outflows of Resources - 2016 contributions	\$ 700,000.00	
Cr - Pension expense		\$ 700,000.00

step 2 - RECOGNITION OF CONTRIBUTION MADE IN MEASUREMENT DATE

Reclassification of Pension Contributions - **Journal Entry 2**

Prior year contributions that occurred within the measurement period of 6/30/2014 (2015 contributions)

	DR	CR
DR - Net Pension Liability	\$ 600,000.00	
CR - Deferred Outflows of Resources - 2015 Contributions		\$ 600,000.00

JOURNAL ENTRIES

step 3 - Enter CY Pensions expense and Deferred In/Outflows for plan portions

NEW INITIAL AMOUNTS FOR MEASUREMENT DATE 2014 (PY)

Changes of Assumptions
Differences between Expected & Actual Experience
Net Difference between Projected and Actual Earnings on Pension Plan Investments
Adjustment due to change in Proportions
Difference in actual to proportionate share contribution

DR - Outflows "+" 2014	CR - Inflows "-" 2014	Total 2014
-	-	-
-	-	-
-	(3,000,000)	(3,000,000)
1,500,000	-	1,500,000
-	-	-
\$ 1,500,000	\$ (3,000,000)	\$ (1,500,000)

NEW INITIAL AMOUNTS FOR MEASUREMENT DATE 2015 (CY)

Changes of Assumptions
Differences between Expected & Actual Experience
Net Difference between Projected and Actual Earnings on Pension Plan Investments
Adjustment due to change in Proportions

DR - Outflows "+" 2015	CR - Inflows "-" 2015	Total 2015
-	(356,729)	(356,729)
37,705	-	37,705
-	(178,832)	(178,832)
964,286	(7,239,053)	(6,274,768)
\$ 1,001,991	\$ (7,774,615)	\$ (6,772,624)

DIFFERENCE IN PY AND CY ENDING

Changes of Assumptions
Differences between Expected & Actual Experience
Net Difference between Projected and Actual Earnings on Pension Plan Investments
Adjustment due to Differences in Proportions

DR - Outflows "+" DIFF	CR - Inflows "-" DIFF	TOTAL DIFF
-	(356,729)	(356,729)
37,705	-	37,705
-	2,821,168	2,821,168
(535,714)	(7,239,053)	(7,774,768)
\$ (498,009)	\$ (4,774,615)	\$ (5,272,623)

Calculation of Journal Entry - Journal Entry 3

Pension Expense
 Net Pension Liability
Changes of Assumptions
Differences between Expected & Actual Experience
Net Difference between Projected and Actual Earnings on Pension Plan Investments
Adjustment due to Differences in Proportions

	DR	CR
Pension Expense	\$ -	\$ 3,009,401
Net Pension Liability	\$ 8,282,025	\$ -
<i>Changes of Assumptions</i>	-	356,729
<i>Differences between Expected & Actual Experience</i>	37,705	-
<i>Net Difference between Projected and Actual Earnings on Pension Plan Investments</i>	2,821,168	-
<i>Adjustment due to Differences in Proportions</i>	-	7,774,768
	11,140,898	11,140,898

JOURNAL ENTRIES

step 4 - Record Difference due to change in proportions

	DR - Outflows "+" 2014	CR - Inflows "-" 2014	Total 2014
NEW INITIAL AMOUNTS FOR MEASUREMENT DATE 2014 (PY) <i>Difference in actual to proportionate share contribution</i>	-	(1,000,000)	(1,000,000)
NEW INITIAL AMOUNTS FOR MEASUREMENT DATE 2015 (CY) <i>Difference in actual to proportionate share contribution</i>	2015	2015	2015
	-	(1,867,060)	(1,867,060)
DIFFERENCE IN PY AND CY ENDING <i>Difference in actual to proportionate share contribution</i>	DIFF	DIFF	DIFF
	-	(867,060)	(867,060)

	DR	CR
Calculation of Journal Entry - Journal Entry 4		
Pension Expense	\$ -	\$ 794,358
deferred diff in actual vs proj contrib		867,060
Net Pension Liability	1,661,418	-
	\$ 1,661,418	\$ 1,661,418

step 5 - Record Differences in proportions 2015

Beg. Balance of NPL	(10,000,000)
Adjustment of proportions at beginning of year	8,282,025
Contributions recognized in cy	600,000
Difference in change in actual vs proj contributions	1,661,418
Proportionate share of NPL at end of year	2,821,299
Variance due to difference in proportions	<u>3,364,742</u>

	DR	CR
Calculation of Journal Entry - Journal Entry 5		
Pension Expense	\$ 3,364,742	\$ -
Net Pension Liability	\$ -	\$ 3,364,742
	3,364,742	3,364,742

TOTAL MISC POOL

Cost-sharing Plan CalPERS Miscellaneous Risk Pool Example

Measurement Date: 2014					
	TPL	FNP	NPL/(NPA)	Def Outflows	Def Inflows
Total Misc Pool	13,110,948,452	10,639,461,174	2,471,487,278		(728,797,653)
	Beginning balance for 2015 GASB 68 report Miscellaneous Pool				

Source: CalPERS Miscellaneous Pool GASB 68 Report for measurement period 2014 (Page D-2)

Measurement Date: 2105			
	TPL	FNP	NPL/(NPA)
Changes Recognized for the Measurement Period:			
Service Cost	335,248,541		335,248,541 P
Interest on TPL	977,551,637		977,551,637 P
Changes of Benefit Terms	485,762		485,762 P
Changes of Assumptions	(242,065,946)		(242,065,946) D
Differences between expected and actual experiences	25,585,821		25,585,821 D
Net Plan to Plan			
Resources Movement		65,452,197	(65,452,197) P
Contributions - Employer		376,902,997	(376,902,997) NPL
Contributions - Employees		154,112,658	(154,112,658) P
Net Investment Income		240,587,946	(240,587,946) D/P*
Benefit Payments, including Refunds of			
Employee Contributions	(568,251,183)	(568,251,183)	- P
Administrative Expense		(12,229,721)	12,229,721 P
Net Changes during 14-15	528,554,632	256,574,894	271,979,738
Balance 6/30/2015	\$ 13,639,503,084	\$ 10,896,036,068	\$ 2,743,467,016

Source: Page 5 GASB 68 Accounting Valuation Report Miscellaneous Risk

P = hit directly to pension expense
D = Deferred (inflow)/outflow over Expected Average Remaining Service Lifetime (EARSL)
D/P* = A portion is deferred over 5 years and remaining is directly to pension expense. Calculated as follows:

Net Investment Income (above)	(240,587,946)	D/P*
Less: NET Diff between projected & Actual earning on pension plan investments (PAGE 7) -		
Deferred (inflow)/outflow	(89,416,230)	D
Pension Expense portion	(151,171,716)	P

Source: Page 7 GASB 68 Accounting Valuation Report Miscellaneous Risk Pool - CalPERS 457,182,010 Def Outflow (546,598,240) Def Inflow

TOTAL MISC POOL

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

	Discount Rate -1% 6.65%	Current Discount Rate 7.65%	Discount Rate +1% 8.65%
Risk Pool's Net Pension Liability/(Asset)	\$ 4,600,985,615	\$ 2,743,467,016	\$ 1,209,869,645

Source: Page 5 GASB 68 Accounting Valuation Report Miscellaneous Risk Pool - CalPERS

Deferred Outflows and Deferred Inflows

	Deferred Outflows	Deferred Inflows
Changes of Assumptions	\$ -	\$ (178,364,381)
Differences between Expected and Actual Experiences	18,852,710	-
Net Difference between Projected and actual Earning on Pension Plan Investments	457,182,010	(546,598,240)
TOTAL	\$ 476,034,720	\$ (724,962,621)

Source: Page 7 GASB 68 Accounting Valuation Report Miscellaneous Risk Pool - CalPERS

Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Periods Ended June 30:	Deferred Outflows/(Inflows) of Resources
2016	\$ (124,872,364)
2017	(124,872,364)
2018	(113,478,674)
2019	114,295,501
2020	-
Remaining	-

Source: Page 7 GASB 68 Accounting Valuation Report Miscellaneous Risk Pool - CalPERS

Cost-sharing plan example

Employer Allocation for CalPERS Example Rate Plan			
	TPL	FNP	DEF I/O & EXPENSE
Proportionate Rates	0.00500000	0.00600000	0.00200000

Source: Example used in CalPERS' GASB 68 Guide for public agency cost-sharing multiple-employer defined benefit pension plan - **Page 3**
 Obtain your employer specific rate from CalPERS **Schedule of Employer Allocations by Rate Plan** on the CalPERS website

Employer's 2015 Beginning Balances

Do not include prior year employer- specific deferred outflows/(inflows) in this calculation

Adjustment due to differences in Proportions - Deferred Outflow/(Inflow)						
	TPL	FNP	NPL (TPL-FNP)	Def Outflows	Def Inflows	Def Out(In)
CalPERS Example Adjusted portion with 2015 rates	100,000,000	90,000,000	(10,000,000)	-	(3,000,000)	
Adjustment due to difference in proportions	65,554,742	63,836,767	(1,717,975)	-	(1,457,595)	
			(8,282,025)	-	(1,542,405)	(9,824,429)

Source: Example used in CalPERS' GASB 68 Guide for public agency cost-sharing multiple-employer defined benefit pension plan - **Page 5**
 (Calculated by obtaining 2015 Miscellaneous Risk Pool beginning balance multiplied by new Employer Allocation Rate compared to the ending balance the employer reported for measurement period 2014.)

$\$13,110,948,452$ Beg Bal
 $\times .00500000$ New rate
 $\$65,554,742$ Adj TPL portion

$\$10,639,461,174$ Beg Bal
 $\times .00600000$ New rate
 $\$63,836,767$ Adj FNP portion

$\$(728,797,653)$ Beg Bal
 $\times .00200000$ New rate
 $\$(1,457,595)$ Adj Def Inflow portion

Change in Proportionate Share Contribution - Deferred Outflow/(Inflow)

2014-2015 Actual Contributions
 2014-2015 Employer Proportionate Share of Contributions
Difference in actual to proportionate share contribution

600,000	(prior year def outflow - contribution subsequent to meas date)
2,261,418	(RP's Proportionate Share of Risk Pool ER Contribution)
(1,661,418)	

Source: Page 4 - CalPERS Guide "Deferred 2015 Contribution"

Source: Page 3 - CalPERS Guide "RP's Proportionate Share of Risk Pool ER Contribution"
 Obtain your employer specific FNP rate from CalPERS **Schedule of Employer Allocations by Rate Plan** on the CalPERS website

$\$376,902,997$
 $\times .00600000$
 $\$2,261,418$

Proportionate Share Net Pension Liability Ending Balance			
Measurement Date	TPL	FNP	NPL (TPL-FNP)
6/30/2015	\$ 68,197,515	\$ 65,376,216	\$ 2,821,299

$\$13,639,503,084 \text{ End Bal}$ $\times .00500000 \text{ New rate}$ <u>\$68,197,515 2015 TPL</u>	$\$10,896,036,068 \text{ End Bal}$ $\times .00600000 \text{ New rate}$ <u>\$65,376,216 2015 FNP</u>
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Sensitivity of the Net Pension Liability to Changes in the Discount Rate

	Discount Rate -1% 6.65%	Current Discount Rate 7.65%	Discount Rate +1% 8.65%
Risk Pool's Net Pension Liability/(Asset)	\$ 12,108,892	\$ 2,821,299	\$ (4,846,688)

How to calculate Sensitivity of the NPL

1,209,869,645 Risk Pool NPL @ 8.65% discount rate
 +10,896,036,068 Risk Pool FNP
 12,105,905,713 TPL @ 8.65% discount rate
 X .00500000 Rate Plan's TPL %
 60,529,529
 - 65,376,217 Rate Plan's Proportionate Share of FNP
(4,846,688) NPL @ 8.65% discount rate

Proportionate share of Deferred Inflows and Outflows

	Deferred Outflows	Deferred Inflows
Changes of Assumptions	\$ -	\$ (356,729)
Differences between Expected and Actual Experiences	37,705	-
Net Difference between Projected and actual Earning on Pension Plan Investments	-	(178,832)
TOTAL	\$ 37,705	\$ (535,561)

Source: Misc Risk Pool GASB 68 Accounting Valuation Report -Page 7 - multiplied by the Allocation Rate for Deferred I/O for 2015. Note - The amounts are already ending balances after current year amortization

For example: Changes of Assumptions (178,364,381) X .00200000 = (356,729)

Added EMPLOYER-SPECIFIC Deferred Outflows/(Inflows) - calculated above

Adjustments due to changes in proportions	\$ -	\$ (6,274,768)
Differences between actual and in Proportionate Share of Contributions	-	(1,867,060)
TOTAL	\$ -	\$ (8,141,828)

These are ending balances after current year amortization. (Include both the unrecognized portion of new amounts calculated on previous page and unrecognized employer-specific amounts from previous years.)

Proportionate share of amounts to be recognized in future pension expense as follows:

Measurement Periods Ended June 30:	CalPERS provided Deferred Outflows/(Inflows) of Resources	Employer Specific Deferred Outflows/(Inflows)	Total Deferred Outflows/(Inflows)
2016	(249,745)	(2,844,020)	(3,093,765)
2017	(249,745)	(2,879,734)	(3,129,479)
2018	(226,957)	(2,418,073)	(2,645,031)
2019	228,591	-	228,591
2020	-	-	-
Remaining	-	-	-
	(497,856)	(8,141,828)	(8,639,683)

Source: Page 7 - CalPERS GASB 68 Accounting Valuation Report Miscellaneous Risk Pool Multiplied by Employer Allocation Rate for Def In/(out) - in this example .002000

Source: Each Employer would need to track "employer-specific" deferred outflows/ (inflows) amortizations. These are amortized by the Expected Average Remaining Service Life (EARSL) provided in the CalPERS GASB 68 Accounting Valuation Report Miscellaneous Risk Pool - Page 7. This example is 3.8 years