

# GASB Pension Accounting and Financial Reporting Exposure Drafts

# Introductions & Webinar Process

## Agenda

1. Overview of the Exposure Drafts presented to the CalSTRS board
2. CalSTRS feedback to GASB
3. Recap of the San Francisco GASB Hearing
4. Events Since the GASB Hearing
5. Next steps

# Overview of the Exposure Drafts presented to the CalSTRS board

# GASB Exposure Drafts

- These proposed amendments will significantly affect CalSTRS and its employers (i.e. school districts)
- Alters CalSTRS financial reporting relationship with employers
- Effective for Fiscal Year 2013-14

## Adds a Net Pension Liability

- Impact

- This new liability may dwarf most numbers on the statement of net position (balance sheet)
- Increases CalSTRS administrative burden and may significantly increase actuarial valuation costs
- We are unclear as to what liability will be shown for non-employer contributor (i.e. State of California)
- Gives the impression of control by the employers

- Our response

- We will share our field test experience and projected cost of preparing all the information necessary for CalSTRS and employers to follow GASB's proposed requirements
- We will seek clarification as to what liabilities a non-employer contributor/guarantor will recognize

# Allows only a single actuarial method

## • Impact

- No impact to the DB plan since the use of Entry Age Normal is appropriate
- The use of Entry Age Normal is not appropriate for the DBS and CB plans and if used may mislead readers of the financial statements

## • Our response

- Request that GASB consider including other allowable actuarial methods for cash balance type plans

# Redefines Pension Expense

- Impact

- May result in a larger pension expense amounts
- Pension expense may fluctuate dramatically from year to year
- Dictates a 5 year smoothing the difference between actual and assumed investment earnings regardless if this is right for a particular entity
- May create confusion associated with the new deferred amounts

- Our response

- CalSTRS actual response focused on the change in relationship between the employers and CalSTRS to provide employers the information necessary to report on their financial statements

# Creates a New Single Discount Rate

- Impact

- Will significantly lower our expected rate of return for this projection and consequently will result in a large Net Pension Liability for the employers to recognize
- Potentially could create confusion between the actuarial projection used for funding and this new “accounting” projection

- Our response

- CalSTRS actual response focused on requesting GASB allow the use of a taxable municipal bond index rather than the proposed non tax municipal bond index

# Requires New Note Disclosures

- **Impact**

- Alters CalSTRS financial reporting relationship with employers
- Increases CalSTRS administrative burden and may significantly increase actuarial costs

- **Our Response**

- We will share our field test experience and projected cost of preparing all the information necessary for CalSTRS and employers to follow GASB's requirements

## Adds a New Rate of Return Disclosure

- **Impact**

- May require significant effort and cost by CalSTRS and our custodian to capture, record and present the information
- May create significant confusion and distract focus from enhancing investment performance

- **Our Response**

- We will express our concern over the apparent lack of due process of this disclosure with the pension and investment communities
- We will express our concern over the potential confusion that this requirement may create

## Adds a New Required Supplementary Information

- **Impact**

- Changes CalSTRS financial reporting relationship with employers
- Increases CalSTRS administrative burden and may significantly increase actuarial costs
- May create confusion due to the prospective nature of the required information

- **Our response**

- We will share our concern over the potential confusion created by these estimates
- We will share our field test experience and projected cost of preparing all the information necessary for CalSTRS and employers to follow GASB's requirements

# CalSTRS' feedback to GASB

- Comment Letter
- Attended Hearing
- Participated in comment letter from coalition of cost sharing plans
- Assisted with the creation of the P2F2 comment letter

Public Hearing on the GASB Exposure Drafts—  
*Accounting and Financial Reporting for Pensions,*  
and *Financial Reporting for Pension Plans*

California State Teachers' Retirement System

Presented by

Robin Madsen, Rick Reed, and Art Martinez

October 13, 2011

# CalSTRS Response to GASB Exposure Drafts

## We support

- The Exposure Drafts attempt to create more consistency in measuring the total pension liability and enhanced transparency from increased disclosures
- The use of Entry Age Normal as the most representative of pension benefits being earned over an employee's employment for Defined Benefit Plans
  - GASB should consider exceptions for other types of plans

## Significant Comments

- Cost-sharing plans have uniquely different characteristics
- Allocation of collective pension amounts may not be reliably measurable
- Accounting for special funding situations needs to align with legal/statutory requirements

## Our Recommendations

- Establish a separate project to evaluate and explore how best to present and disclose pension liability and expense to address the significant differences inherent in cost-sharing plans
- Provide additional time to communicate these changes to cost-sharing employer governments

## Other comments and recommendations

- Use time-weighted return based on investment performance results as sole measure to communicate investment rate of return
- Effective date needs to be extended
- Discount rate should use a taxable municipal bond index

# Overall Field Test Results

- The resulting change in our relationship with the employers will result in significant increase in staffing cost (about 48,000 hours annually)
- The cost overall represents about a 10% increase of our current administrative budget
- Actuarial Perspective
  - Who should perform the allocation calculations?
  - If pension plans—who pays for the additional cost?
  - External actuary cost may increase dramatically
- Accountant's Perspective
  - Where do our administrative expenses fit into the “net of investment expense” portion of the Time or Money-Weighted return calculation?
  - What does the first year of implementation look like on the financial statements?
  - Need GASB to provide examples for employers and plans

# Recap of the San Francisco GASB Hearing

# San Francisco GASB Hearing

## The GASB board heard from:

- Accountants and Auditors of financials statements
- Representatives of affected groups
  - California Teachers Association
  - Coalition of cost-sharing plans
  - Public Pension Financial Forum
- Cost-Sharing Pension Plan Administrators
  - Ohio PERS
  - CalSTRS
  - CalPERS
- Former Public Officials

# San Francisco GASB Hearing

There were a variety of messages, but many of the groups testifying that day echoed our message

- Cost-sharing plans are different from other public pension plans
- Cost-sharing plans are not all the same
- These changes will alter our relationship with our employers

# San Francisco GASB Hearing

## GASB heard us

- GASB's questions gave the impression that they felt they had addressed our situation related to special funding from the state
- They listened to our suggestions to remove cost-sharing pension plan from their proposed standards

## However,

- GASB has set its course and we have no way of knowing whether they will alter that course

# Events Since the GASB Hearing

## Updated the CalSTRS board in November

- Board asked that we:
  - Focus on communicating to the school districts about the potential impacts
  - Educate GASB on the impact of the unintended consequences of these accounting standard changes

# Your next steps

1. Spend some time with the Exposure Draft labeled amendment to *GASB 27 Accounting and Financial Reporting for Pensions*
2. Initiate dialog with GASB
3. Begin communicating the potential changes with your boards
4. Watch for additional information from CalSTRS and the Department of Education
5. Watch for the final standards next summer

# Contact GASB at

Governmental Accounting Standards Board

401 Merritt 7

PO Box 5116

Norwalk, CT, 06856-5116

or email [director@gasb.org](mailto:director@gasb.org)

# Final Comments

- GASB's proposed accounting standards, affect the CalSTRS funded ratio only for purposes of the financial statements, and not on an actuarial valuation.
- Although the liability may be reported on a balance sheet as a new, significantly amount, the actual current shortfall of \$56 billion projected by CalSTRS would not change as a result of any action taken by GASB.

Questions?