TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

2014 TCDRS ANNUAL CONFERENCE

GASB: The Great Divide

Kim Kizer
Director of Employer Services
Amy Campbell
Employer Services Manager

A Long, Happy Union

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

A Long, Happy Union

Financial reporting reflected your plan funding:

- ★ Pension expense = employer contributions on your income statement
- ★ Pension liability is only shown on your balance sheet if the required contributions aren't entirely being made

What's Happening?

What's Happening?

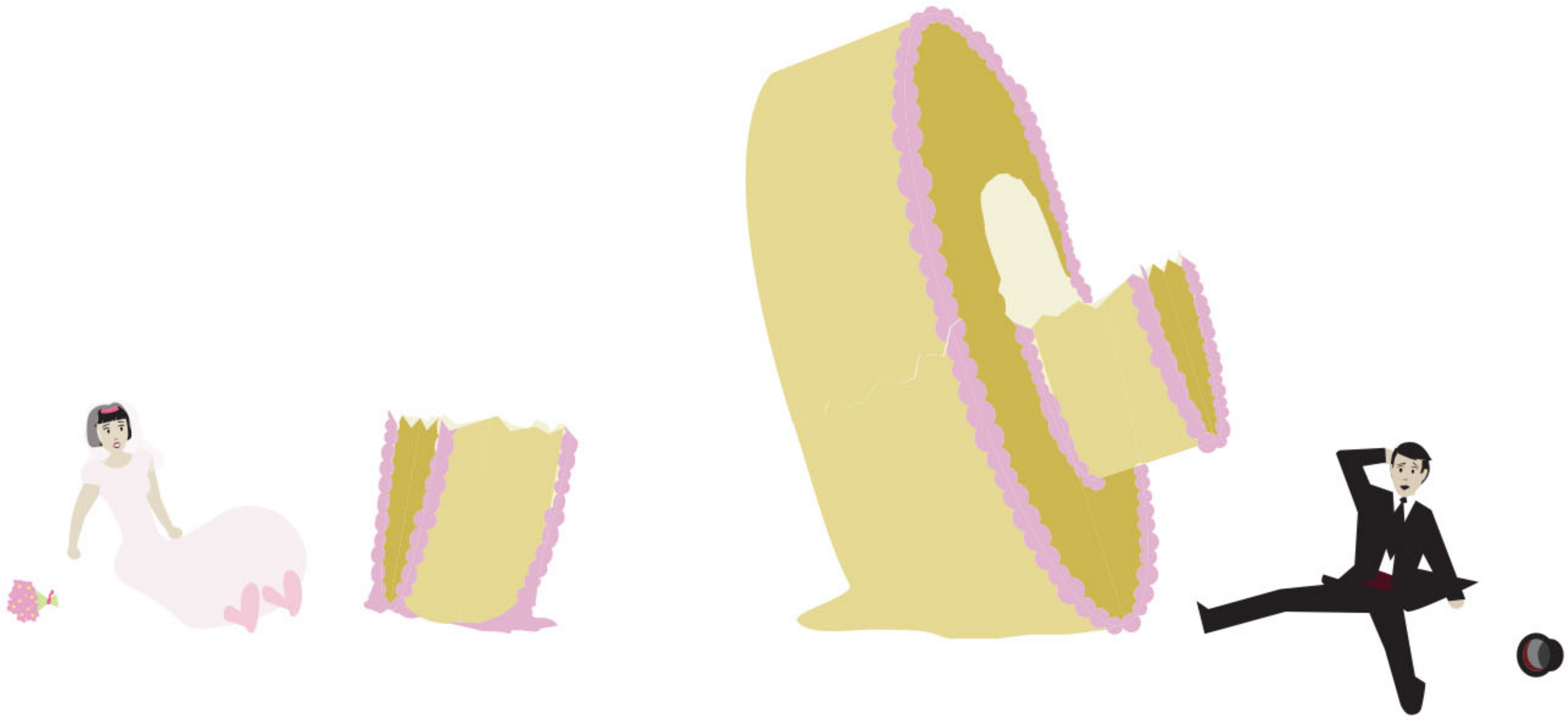
New financial reporting standards divorce financial reporting from your plan funding.

The new standards impact:

- ★ **Your financials:** Net pension liability reported on your balance sheet.
- ★ **Your audit:** Plan data processes get more attention.
- ★ **Your decision-making:** COLA adoption may affect liabilities you report on your books.

New standards do NOT impact plan funding.

How Did This Happen?



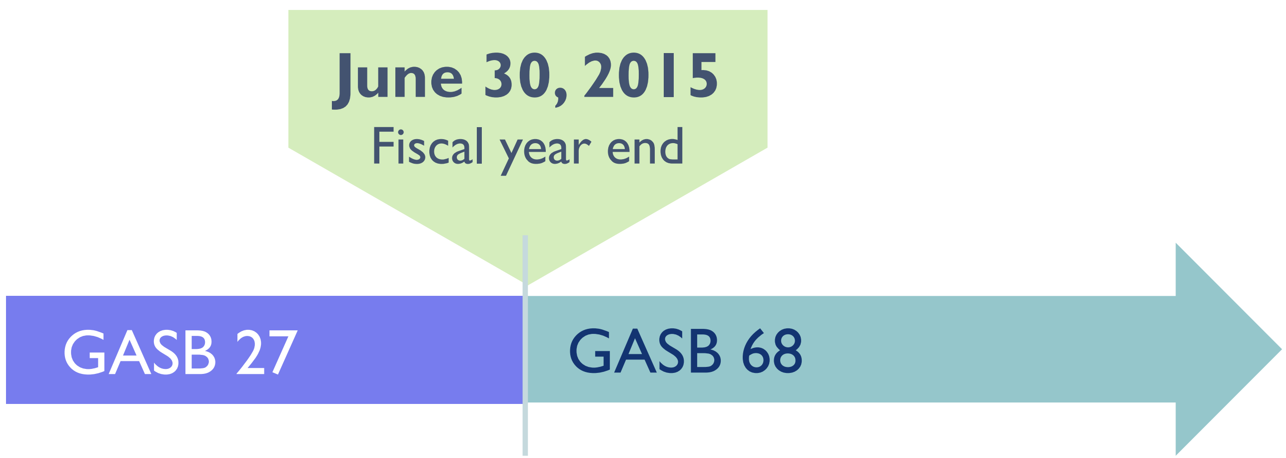
How Did This Happen?

- GASB = Governmental Accounting Standards Board
  - Accounting industry organization
  - Board appointed by Financial Accounting Foundation trustees
- Standards make state and local government reporting uniform and comparable
- Auditors use these standards to issue opinions on financial statements
- GASB issued Statement No. 68
  - Provides standards for reporting pensions
  - Replaces GASB No. 27

Time to Move on

Time to Move on

Beginning with
fiscal years ending June 30, 2015 or later.



GASB and
Your Financial Statements

Affect on Your Financial Statements

GASB 68 will affect your financial statements in three ways:

- ★ Balance sheet line items:
  - — Net pension liability (new)
  - — Deferred inflows/outflows of resources (new)
- ★ Income statement line item:
  - — Pension expense

Net Pension Liability

- ★ Net pension liability: Difference between the value of total pension liability and plan assets.

Total pension liability

– Plan assets

Net pension liability

- ★ Calculated using GASB rules instead of TCDRS' funding policy.

Deferred Inflows/Outflows of Resources

- Items that aren't fully recognized immediately.
- Three types:
  - Investment gains and losses (provided by TCDRS)
  - Actuarial gains and losses (provided by TCDRS)
  - Employer contributions made from the GASB report to your fiscal year end (you calculate) [GASB 71]

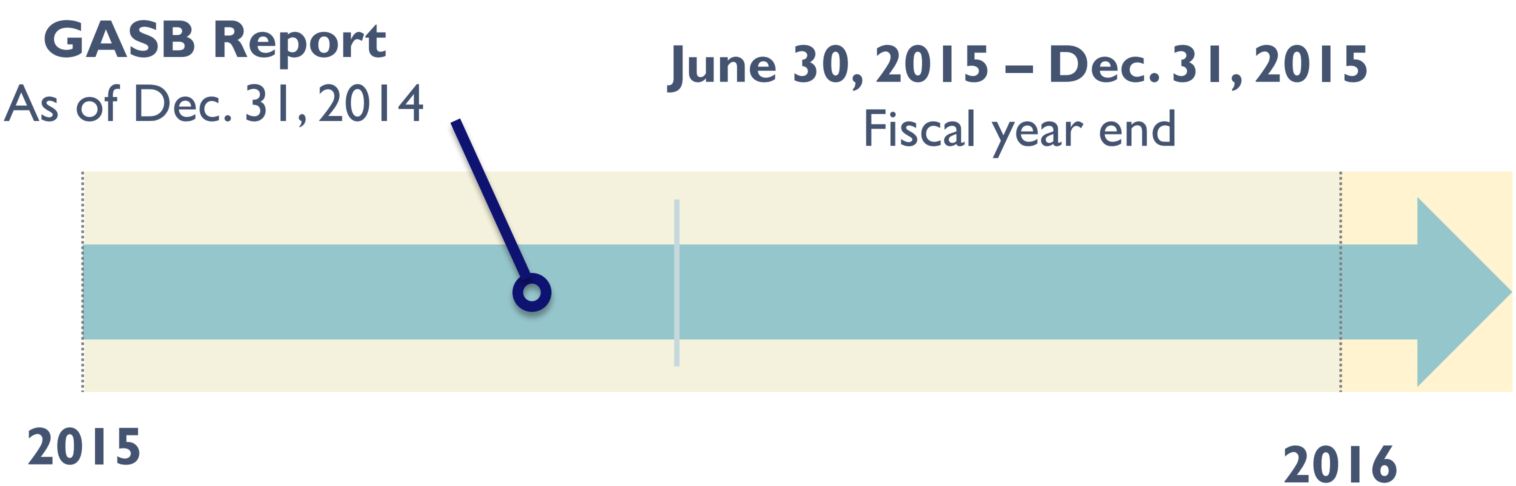
Pension Expense

- **Pension expense:**
  The change in your net pension liability from year to year, adjusted by the change in deferred inflows/outflows.
- Will appear on your income statement.

Fiscal Year End and Measurement Date

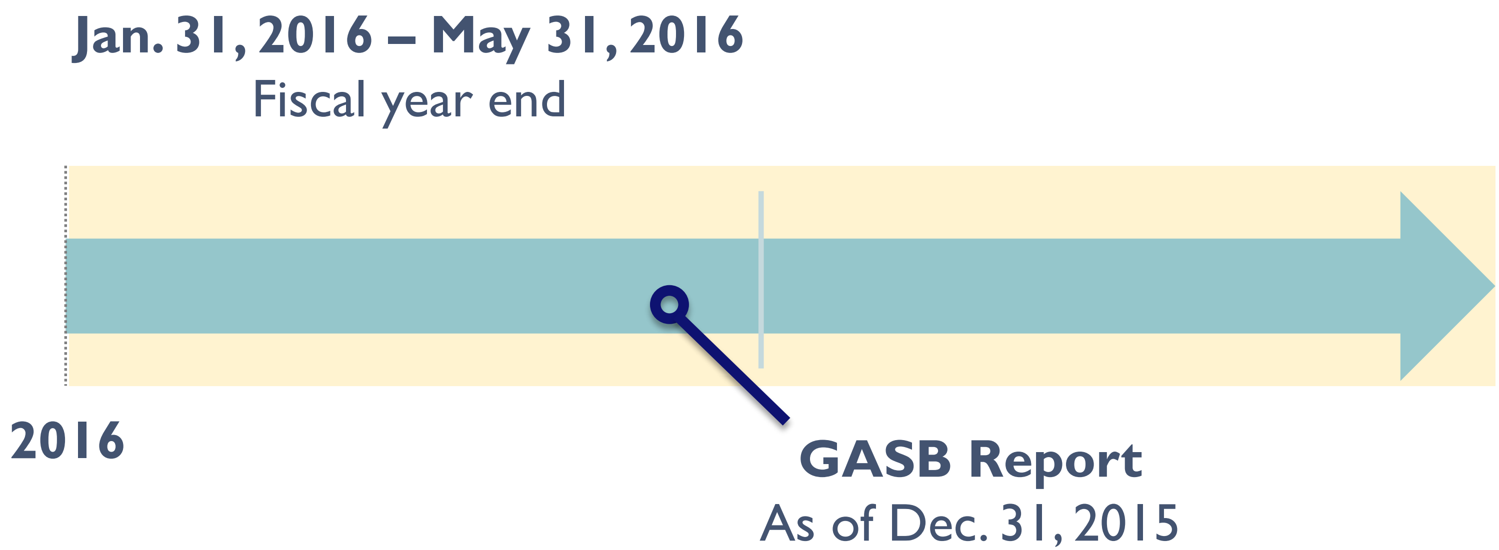
Fiscal year end determines which GASB report (measurement date) you will use for financial reporting.

- ★ Group 1: Fiscal year end from June 30, 2015 through Dec. 31, 2015
  - — Use GASB report as of Dec. 31, 2014
  - — Available May 2015



Fiscal Year End and Measurement Date

- Group 2: Fiscal year end between Jan. 31, 2016 and May 31, 2016
  - Use GASB report as of Dec. 31, 2015
  - Available May 2016



Required Supplementary Information

Two new required supplementary information schedules:

- ★ Changes in Employer's Net Pension Liability and Related Ratios
- ★ Employer Contributions

Changes in Employer's Net Pension Liability

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE COUNTY'S NET PENSION LIABILITY AND RELATED RATIOS

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6
Total pension liability				
Service cost	$ 75,864	$ 74,276	$ 71,157	$ 69,344
Interest	216,515	205,038	188,845	174,694
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(37,539)	(15,211)	(3,562)	38,438
Changes of assumptions	-	-	61,011	-
Benefit payments, including refunds of employee contributions	(119,434)	(112,603)	(104,403)	(95,376)
Net change in total pension liability	135,406	151,500	213,048	187,100
Total pension liability—beginning	2,853,455	2,701,955	[illegible]907	2,301,807
Total pension liability—ending (a)	$ 2,988,861	$ 2,853,455	[illegible] 2,70[illegible]55	$ 2,488,907
Plan fiduciary net position				
Contributions—employer	$ [illegible]713	$ [illegible],607	[illegible],828	$ 91,963
Contributions—employee	[illegible]	[illegible]	29,137	28,547
Net investment income	1[illegible]4	[illegible],099)	(16,138)	298,260
Benefit payments, including refunds of e[illegible]e contri[illegible]	(11[illegible]	(112,603)	(104,403)	(95,376)
Administrative expense	(3,373)	(3,287)	(2,774)	(2,582)
Other	8	(83)	173	(175)
Net change in pla[illegible]posi[illegible]	184,519	(42,915)	(4,177)	320,637
Plan fiduciary net po[illegible]nning	2,052,589	2,095,504	2,099,681	1,779,044
Plan fiduciary net posi[illegible]ending (b)	$ 2,237,108	$ 2,052,589	$ 2,095,504	$ 2,099,681
County's net pension liability—ending (a) – (b)	$ 751,753	$ 800,866	$ 606,451	$ 389,226
Plan fiduciary net position as a percentage of the total pension liability	74.85%	71.93%	77.56%	84.36%
Covered-employee payroll	$ 449,293	$ 436,424	$ 416,243	$ 407,812
County's net pension liability as a percentage of covered-employee payroll	167.32%	183.51%	145.70%	95.44%

Notes to Schedule:

Benefit changes. In 20X1, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes of assumptions. In 20X7, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of general employees. In 20X4, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of public safety employees. In 20X1, amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the RP-2000 Healthy Annuitant Mortality Table for purposes of developing mortality rates.

> This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Schedule of Employer Contributions

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

SCHEDULE OF COUNTY CONTRIBUTIONS

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6
Actuarially determined contribution	$ 79,713	$ 86,607	$ 89,828	$ 91,963
Contributions in relation to the actuarially determined contribution	79,713	86,607	89,828	91,963
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 449,293	$ 436,424	$ 416,243	$ 407,812
Contributions as a percentage of covered-employee payroll	17.74%	19.84%	21.[illegible]	22.55%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calc[illegible] as [illegible] years p[illegible] the end of the fiscal year in which contributions are reported

Methods and assumptions used to det[illegible] contri[illegible]:

Actuarial cost method	[illegible]try age
Amortization method	Level percentage of payroll, closed
Remaining amortization p[illegible]	15 years
Asset valuation method	5-year smoothed market
Inflation	3.5%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Retirement age	In the 20X7 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience. In the 20X4 actuarial valuation, expected retirement ages of public safety employees were adjusted to more closely reflect actual experience.
Mortality	In the 20X1 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Healthy Annuitant Mortality Table. In prior years, those assumptions were based on the 1994 Group Annuity Mortality Table.

Other information:

In 20X1, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is

Expanded Note Disclosures

You will disclose:

- ★ Plan information
- ★ Net pension liability disclosures, including:
  - — Actuarial assumptions
  - — Long-term rate of investment return
  - — Target allocation and rates of return by asset class
  - — Discount rate used
  - — Sensitivity analysis
- ★ Changes in the net pension liability for the current fiscal year end
- ★ Pension expense and deferred inflows/outflows breakdown
- ★ Contributions payable as of year end

Multiple Financial Reports

- Applies to you if you plan to allocate your net pension liability, pension expense and deferred inflows/outflows among separate financial reporting funds/groups
- TCDRS will let you know what data we need

How TCDRS Will Help

TCDRS will provide your GASB report, which will include:

- ★ Information for balance sheet and income statement line items
- ★ Note disclosures
- ★ Two new RSI schedules:
  - — Changes in Employer's Net Pension Liability and Related Ratios
  - — Employer Contributions

GASB and Your Audit Process

How GASB Affects Your Audit Process

- ★ Net pension liability will now be reported on your balance sheet.
- ★ Your auditors will need assurance that the information we provide you is reliable.
- ★ This applies to employers that have audited financial statements.
- ★ In addition, you and your auditors will be responsible for verifying that the data TCDRS publishes about your plan matches the data you provided.

Assurance From TCDRS

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Service **O**rganization **C**ontrols report = SOC 1 report

The SOC 1 report …

- ★ Lists high-level business control objectives.
- ★ Details the supporting controls that we have in place to mitigate operational risk.
- ★ Shows the results of our auditor's tests of those controls.
- ★ Outlines the controls that you, as an employer, are also responsible for.

Contributions

Control Objective 2
Controls provide reasonable assurance that contributions received from employers are completely and accurately posted to the employee and employer accounts.

Control Number	Description of Controls	Tests of Controls	Control Results
2.01	Employer Services investigates and resolves contributions that are identified by an exception report noting a 1% differences in the contribution amounts actually received to amounts expected.	For a selected month, inspect a selection of records exceeding the threshold and inspect the subsequent month's report or supporting documentation to determine whether Employer Services resolved the issue.	Analysts are responsible for only resolving the employers assigned to them and there is no overall monitoring of the 1% threshold reports to determine their completion.
2.02	Employer Services reviews the monthly "Subdivisi[illegible] Deposit Report Not Verified" report to inv[illegible] and resolve employers wh[illegible] co[illegible] been processed i[illegible]	[illegible] Subdivision Deposit Report Not V[illegible]fied" report note an exis[illegible]ing employer whose contributions had not been [illegible]ssed in Pension+. Observed as the emp[illegible] co[illegible]ibution was processed a[illegible] the s[illegible]quent "Subdivision Dep[illegible] Re[illegible]t N[illegible] V[illegible]fied" report to determine w[illegible]yer is removed from the report. Insp[illegible] the "Subdivision Deposit Report Not Ver[illegible]d" report for a selected month to determine whether the report was reviewed by Employer Services.	Effective
2.03	Pension + has an automated edit check enforcing the amount of the contributions entered into Pension+ to agree to the amount entered by the employer through the TCDRS website.	Observe an attempt to upload an employee contribution file with an incorrect total entered into Pension + to determine if the upload was denied until the amounts agreed.	Effective
2.04	Pension+ validates data (e.g. matching SSN, validation of existing member account) during the upload employee contribution process and denies processing files until validations are corrected.	Observe an attempt to upload an employee contribution file with an employee with an unmatched SSN and another employee without an account in Pension + to determine if the upload was	Effective

Diagnostic Report

When Will SOC 1 Be Available?

- The first SOC 1 report will be available in May 2015.
- To access the SOC 1 report, sign in at www.tcdrs.org/employer.

Your Employer Controls

- Employer controls: The processes you have in place to help ensure the TCDRS retirement plan information generated for financial reporting is reliable.
- Called "Complementary User Entity Controls" in the SOC 1 report.

Four Objectives

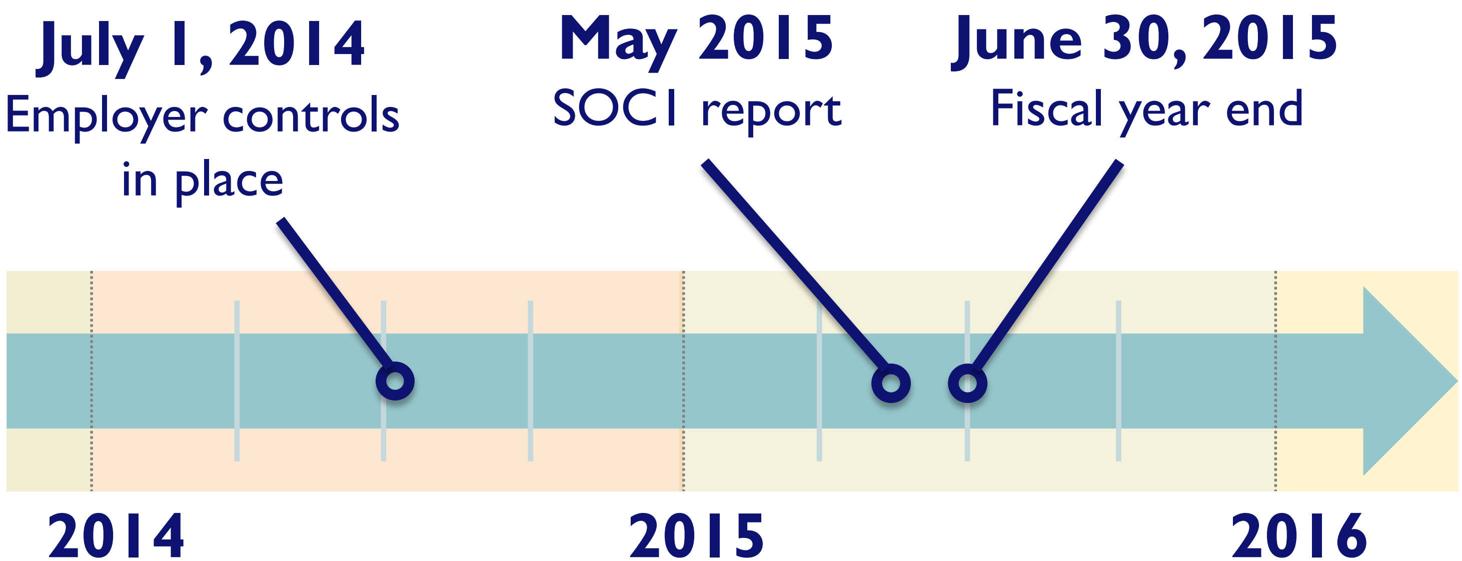
- ★ Census Reports and Accounting Valuation Process
- ★ Contributions
- ★ Distributions
- ★ Logical Access

Webinar: "GASB 68: Impact on Your Audit Process"
Available at www.tcdrs.org/employer > Employer Services > Webinars

GASB 68: Employer Controls and Verifications flyer
Available at www.tcdrs.org/employer > Publications

Implement Controls Soon

- ★ Have controls in place at the beginning of your fiscal year that ends on or after June 30, 2015
- ★ Sooner is better so you can start the discussion with your auditor.



Talk to Your Auditor

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

- Discuss the processes you have in place to ensure that you meet the control objectives.
- Ask your auditor what documentation you need to provide to assure them these controls are in place.
- Your auditors will identify gaps in your controls. You may want to develop additional processes to support your controls.

Verification

You are responsible for reviewing:

- ★ Schedule of Changes in the Employer's Net Plan Liability and Related Ratios (your financial report)
- ★ Schedule of Employer Contributions (your financial report)
- ★ Your GASB census data

Your auditor is responsible for:

- ★ Reviewing data in the GASB census data and comparing it to the GASB 68 report.
- ★ Confirming the GASB report.
- ★ Evaluating the adequacy of TCDRS' SOC 1 report.

How TCDRS Will Help

TCDRS will provide:

- ★ SOC 1 report
- ★ Schedules and files necessary to comply with additional responsibilities

On the TCDRS employer website you can:

- ★ Get tips for implementing your employer controls
- ★ Watch the webinar for more details about the controls

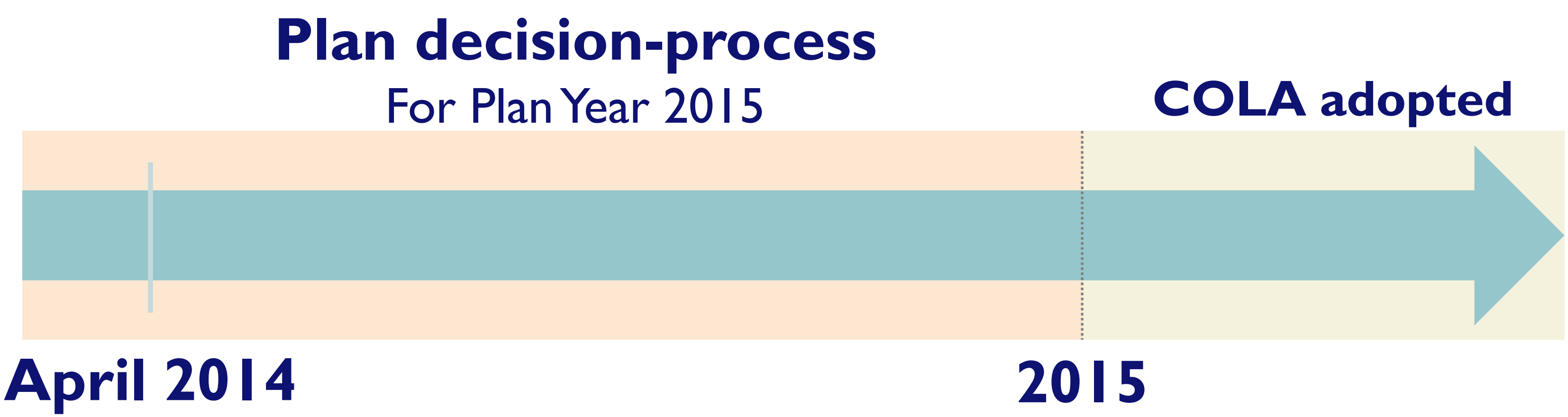
Call your TCDRS Employer Services Representative at 800-651-3848.

GASB and Retiree Cost-of-Living Adjustments

GASB 68 and Retiree COLAs

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

- ★ If you regularly adopt COLAs, your next one could be designated as a “repeating COLA”.
  - — COLA = Cost-of-living adjustment for TCDRS retirees
- ★ Repeating COLA designation causes total pension liability on balance sheet to increase
- ★ Does not affect your plan funding.
- ★ Effective for plan year 2015 and on.



Repeating COLA Designation

- GASB 68 does not provide a definition for a repeating COLA.
- Definition developed using GASB guidelines and input from our consulting actuaries and auditors.
- GASB doesn't consider funding in determining a repeating COLA designation.
- Rule of thumb: Avoid a repeating COLA designation by adopting a COLA no more than once every three years.

Effect on Your Balance Sheet

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Estimate of Potential Impact of Repeating COLA on Financials Under GASB 68 for Hazzard County Based on Dec. 31, 2013 valuation

Assumed Annual COLA	No Designation	Designation
1. Total Pension Liability	$15,962,000	$20,202,000
2. Plan Net Assets	$13,483,000	$13,483,000
3. Net Pension Liability (line 2 – line 1)	$ 2,479,000	$ 6,719,000
4. Plan Net Assets as a % of Total Pension Liability (line 2 / line1)	84.5%	66.7%

EXAMPLE

How TCDRS Will Help

TCDRS will …

- ★ Monitor your COLA adoptions.
- ★ Notify you if your next adoption will result in a repeating COLA designation.
- ★ Let you know how the repeating COLA designation will affect your financial reporting.

What You Can Do

Be aware of the impact on …

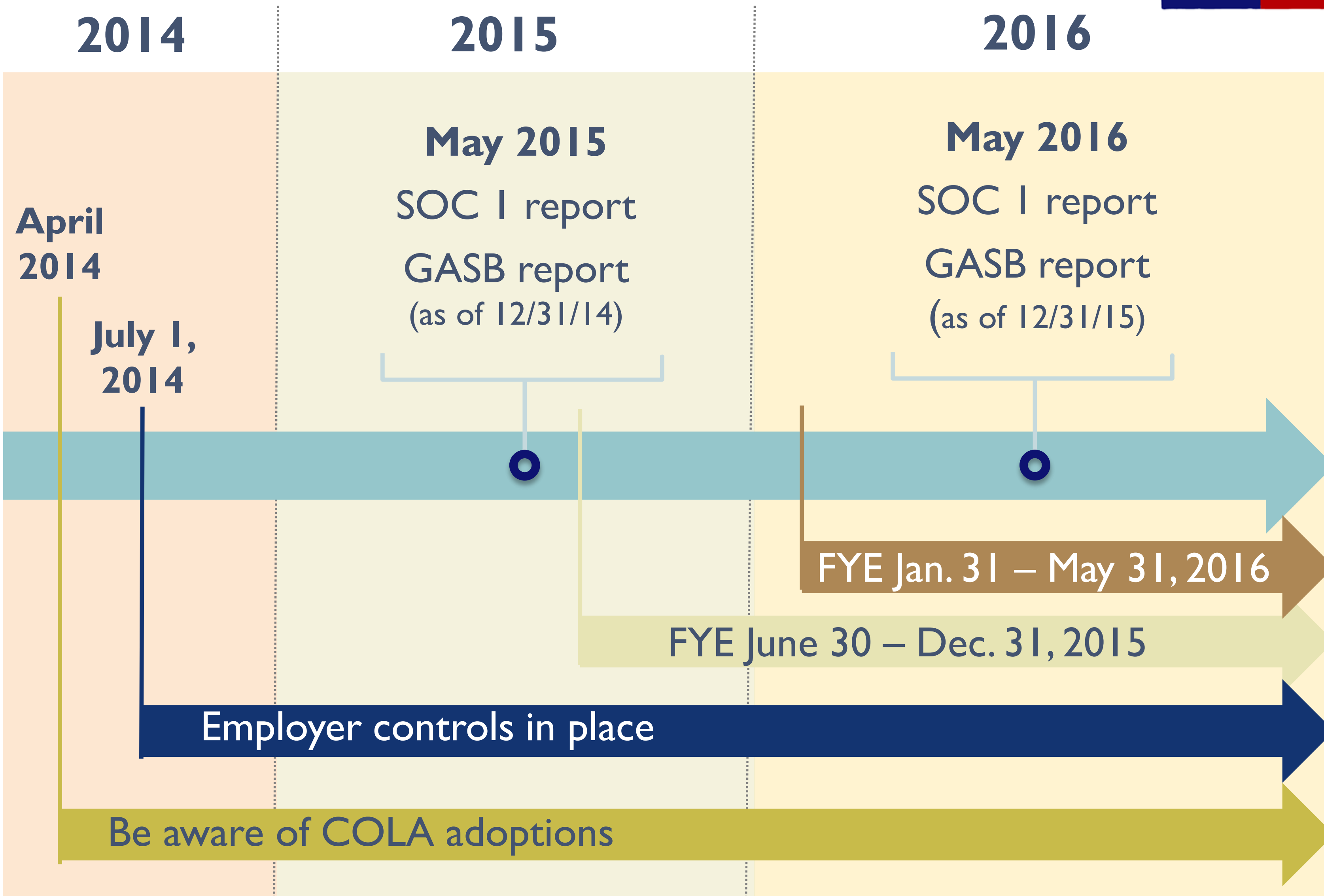
- Your retirees
- Your balance sheet

Conclusion

3 Things to Remember

- GASB 68 does not affect your plan funding.
- New standards divorce plan funding from plan financial reporting.
- It will create increased volatility on your financial statements.

Timeline



2014
2015
2016
April 2014
July 1, 2014
May 2015
SOC 1 report
GASB report
(as of 12/31/14)
May 2016
SOC 1 report
GASB report
(as of 12/31/15)
FYE Jan. 31 – May 31, 2016
FYE June 30 – Dec. 31, 2015
Employer controls in place
Be aware of COLA adoptions

Thank you!