Mendocino County Board of Retirement
Audit and Budget Committee Meeting Minutes
June 26, 2014

1:30 p.m.

Participants: Lloyd Weer, Committee Chair, Bob Mirata, Ted Stephens, Randy Goodman, Jim Andersen, Interim Retirement Administrator, Andy Yeung of Segal Consulting, and Crystal Ekanayake of Gallina LLP.

Public Comment: None

1) Approval of the April 21, 2014 Committee meeting minutes.

The minutes were approved unanimously after correction of a typographical error on page 3.

2) Government Accounting Standards Board (GASB) Statements 67 and 68 Workshop.

Andy Yeung of Segal Consulting and Crystal Ekanayake presented information on GASB Statements 67 and 68. Their Presentation dated June 26, 2014 is respectively submitted as minutes and is attached.

3) Schedule the next Audit & Budget Committee meeting.

The next Audit and Budget Committee meeting is scheduled on July 10, 2014 at 10:00 a.m. to discuss the June 30, 2014 GASB 67 Report.

Meeting Adjourned (3:30 p.m.)

Segal Consulting

Mendocino County Employees' Retirement Association

GASB Statements 67 & 68 – Audit & Budget Committee Discount Rate and Allocation of Assets/Liabilities

June 26, 2014

Andy Yeung, ASA, EA, MAAA
The Segal Company
San Francisco

Crystal Ekanayake, CPA
Gallina
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CERTIFIED PUBLIC ACCOUNTANTS

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GASB 67 AND 68

- Major game changers in the new rules
  1. Placing the Net Pension Liability on the Balance Sheet
  2. Decoupling expense from funding
  3. Accounting for cost-Sharing plans
  4. Expanding Disclosure Information (Notes & RSI)

Net Pension Liability Reported on Balance Sheet

- Total Pension Liability is an Actuarial Accrued Liability, calc. using:
  - Projected future benefits
    - Includes projected future service, salary increases and automatic Cost-of-Living Adjustments (COLAs)
    - Includes the cost of ad hoc COLAs if substantially automatic
      - » Not applicable to MCERA
      - » Special consideration: benefits generated and paid with "excess earnings" by other 1937 Act CERL systems
  - "Entry age" actuarial cost method
  - A new "blended" discount rate – but not for systems like MCERA
- NPL is then TPL minus market value of assets
  - Note asset smoothing still allowed (in determining pension expense), but reported separately
    - In Schedule of Deferred Inflows and Outflows of Resources

"Mythconceptions"

Scare

The new GASB rules will require Plan Sponsors to use a lower discount rate based on their current funded status.

This will greatly increase the unfunded liability that they will now have to include on the balance sheet.

TRUTH

The "blended" discount rate is not based on the plan's current funded status, but on projected benefits and assets.

This includes future contributions to fund benefits for current employees.

Most plans with contributions based on a written actuarial funding policy (including MCERA) will continue to use their long-term earnings assumption as the discount rate.

Treatment of Administrative Expenses

- MCERA's discount rate is currently assumed to be net of both investment and administrative expenses
- GAS 67 and 68 require that the discount rate be net of investment expenses but not of administrative expenses
- Complications associated with eliminating administrative expenses from the earnings assumption
  - Requires a new assumption for an explicit administrative expense loading
  - Allocation of administrative cost between employers and members
- We recommend including this issue in the review of actuarial assumptions during 2014
  - This would be in time for the June 30, 2014 valuation and the first GAS 67 reporting by MCERA

Cost-Sharing Plans

- Current standards have very simple reporting:
  - Pension expense is contractually required contribution
  - Balance sheet liability is the accumulated difference between the contractually required contribution and the actual contribution
  - No ARC or NPO (except as above)
  - Unfunded actuarial accrued liability is not reported at all
- New standards – treated like single employer plans:
  - Employers in "pooled" plans will now have that "pooled" liability and expense apportioned to each employer.
  - Recognize "proportionate share" of collective net pension liability, pension expense, and deferred inflows and outflows

Cost-Sharing Plans

- Determining an employer's "proportionate share"
  - Basis should be consistent with the way required contributions are determined
  - "The use of the projected long-term contribution effort of the employer(s) … is encouraged."
  - If "different contribution rates are assessed based on separate relationships that constitute the net pension liability … the determination of the employer's net pension liability should … reflect those separate relationships."
    - "For example, separate rates are calculated based on an internal allocation of liabilities and assets for different classes or tiers of employees"
- Employer's proportion should be established as of the measurement date, unless employer's proportion is actuarially determined (in which case use date of the actuarial valuation)

Cost-Sharing Plans

- For MCERA, there is only an allocation for any new UAAL that emerges in the on-going actuarial valuation by General, Safety and Probation
  - County is the only Safety and Probation employer so all Safety and Probation UAALs are allocated to County
  - We recommend that the proportionate share (percent) of the General tiers be determined based on payroll
    - Ratio of employer's payroll to the total payroll
    - This ratio is multiplied by the NPL for the General tiers to determine the employer's NPL (proportionate share) for the General tiers
    - Proportionate share of total plan would then be the ratio of the employer's allocated NPL to the total NPL of all employers

Cost-Sharing Plans

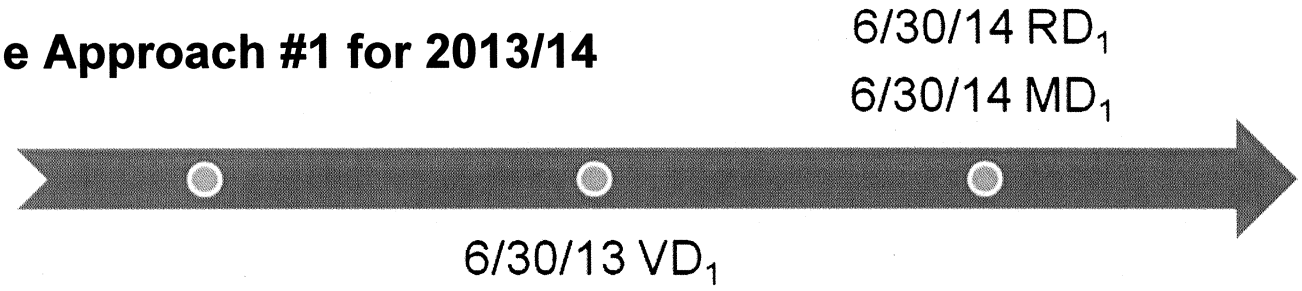
- Payroll was used as it is most representative of the employer's projected long-term contribution effort within the General tiers
- This is also consistent with the determination of each employer's Unfunded Actuarial Accrued Liability (UAAL) on an ongoing basis
  - Would be used to estimate employer's assets in the event of an employer withdrawal or termination

GAS 67 Timing and Frequency – for MCERA

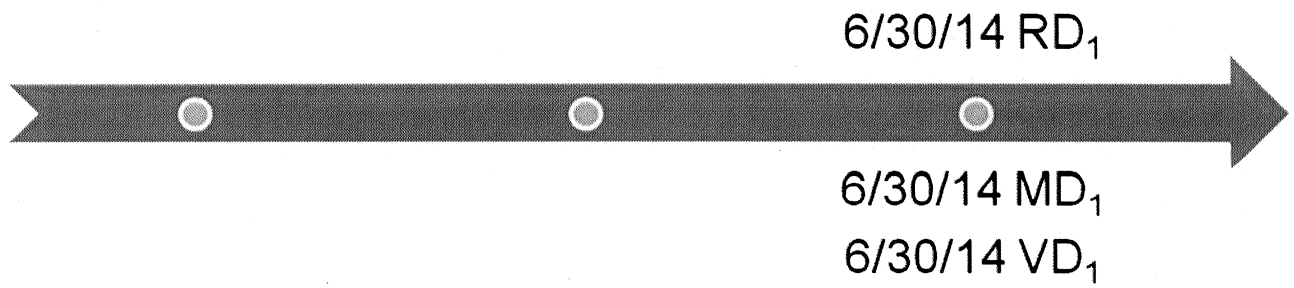
- Net pension liability measurement date (MD) must be as of the pension plan's most recent fiscal year-end
  - This is also the plan's reporting date (RD)
- Total pension liability component determined by:
  - Actuarial valuation date (VD) as of plan's reporting (and measurement) date, or
  - As of a date no more than 24 months before plan's reporting date, rolled forward to plan's reporting date
- Asset component of net pension liability:
  - Must be fair value of assets as of plan's most recent fiscal year-end (i.e., reporting date)
    - No roll forwards allowed

Timing and Frequency – GAS 67 Alternatives

Possible Approach #1 for 2013/14



Possible Approach #2 for 2013/14



Timing and Frequency

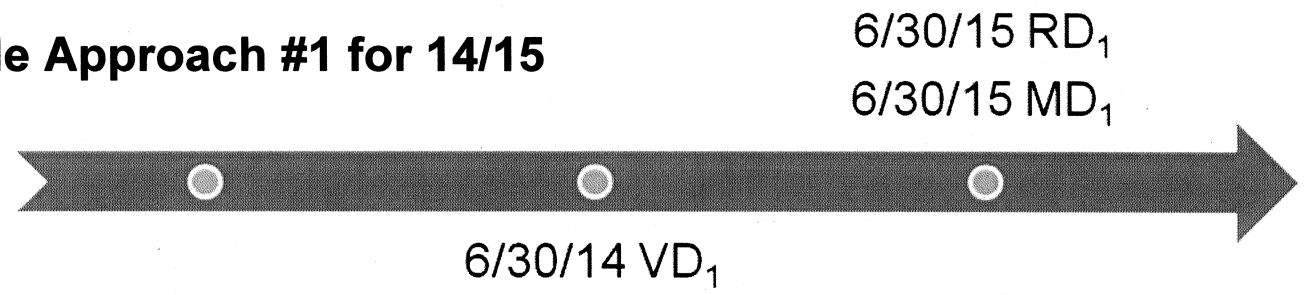
- Actuarial valuations must be at least biennial
- Recognition of significant changes between the actuarial valuation date and the measurement date:
  - Changes to benefit provisions
  - Size or composition of the membership
  - Change in municipal bond rate component of the discount rate
  - Other factors or assumptions that affect the valuation results
- Reason for the Plan to consider the roll forward (to measure liability) under GASB 67 under Approach #1
  - Allow preparation of liabilities by Segal and auditing of results by Gallina in a timely fashion
    - AICPA guidelines: review census data and test processes/controls used to compile the data

GAS 68 Timing and Frequency – For Employers

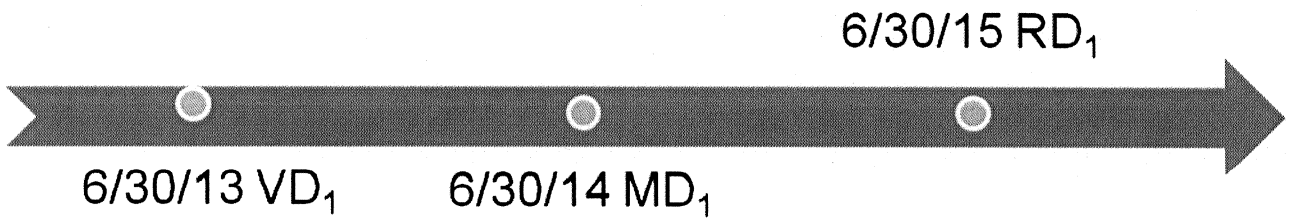
- Net pension liability measurement date (MD) can be earlier than the fiscal year end reporting date (RD)
  - No earlier than the end of prior fiscal year
- Total pension liability component determined by:
  - Actuarial valuation date (VD) as of NPL measurement date, or
  - As of a date no more than 30 months (plus one day) before reporting date, rolled forward to NPL measurement date
- Asset component of net pension liability:
  - Must be fair value of assets as of NPL measurement date
    - No roll forwards allowed

Timing and Frequency – GAS 68 Alternatives

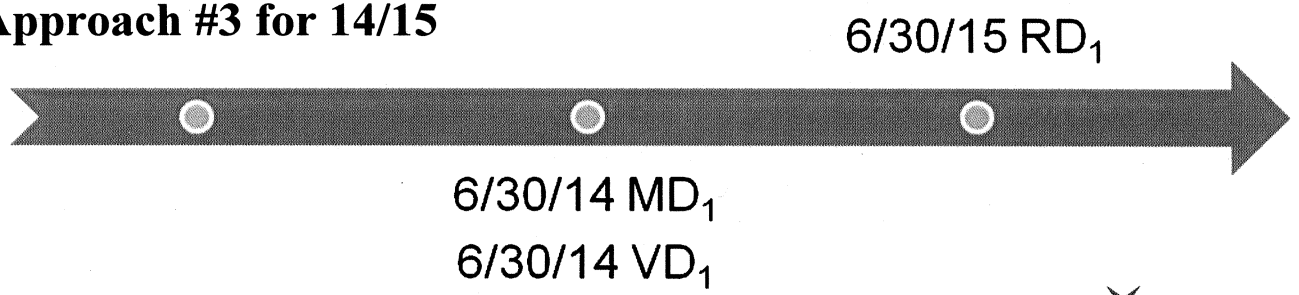
Possible Approach #1 for 14/15



Possible Approach #2 for 14/15



Possible Approach #3 for 14/15



Expanding Disclosure Information

- Includes both Notes and Required Supplementary Information (RSI)
- Greatly expanded plan and employer disclosures, including:
  - Description of the plan and assumptions
  - Policy for determining contributions
  - Sensitivity analysis of the impact on NPL of a one percentage point increase and decrease in the discount rate
  - Changes in the NPL for the past 10 years
  - Development of long-term earnings assumption
  - Annual rates of investment return for past 10 years (plan only)

Expanding Disclosure Information

- More new disclosure information
  - "Actuarially determined (employer) contribution"
  - ADC is the "New ARC"
  - Basic and amount - if determined!
  - Comparison to amount actually contributed
  - May encourage review (or creation) of actuarial funding policy
- Expanded disclosures greatly increase the pension information needed for plan and employer's financial statements
  - New and challenging questions for employer's financials:
    - Which actuary develops this information and which auditor opines on the proportionate share of the collective NPL?
    - AICPA guidelines: the Plan's actuary and auditor engaged to provide these amounts
    - Information to be provided by Plan's auditor to the Employer's auditor

QUESTIONS