



FPPA



2014



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Summit

October 3, 2014 ▪ Hilton Garden Inn DTC ▪ Denver, Colorado

Governmental Accounting Standards Board Statements 67 and 68 (GASB 67/68) Update

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FPFA

A green speech bubble pointing downwards and to the right, containing the text "2014" in white, bold, sans-serif capital letters.

2014

A yellow speech bubble pointing downwards and to the right, containing the text "Employer Summit" in black, sans-serif font, with "Employer" on the top line and "Summit" on the bottom line.

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Two Accounting Standards

- **GASB 67** – Accounting and Financial Reporting for Pension Plans is an amendment of GASB 25
 - Pension plan reporting requirements
- **GASB 68** – Accounting and Financial Reporting for Pensions is an amendment of GASB 27
 - Employer Pension plan reporting requirements

Accounting vs Auditing Standards

- **GASB** sets the accounting standards that define how governments need to report their financial results
- **AICPA** sets the generally accepted auditing standards for how CPA's can audit financial results

GASB 67 – Financial Reporting for Pension Plans

- FPPA will be implementing GASB 67 in its December 31, 2014 comprehensive annual financial report (CAFR)
- Employers do not need to comply with GASB 67 for their FPPA administered plans

GASB 68 – Accounting and Financial Reporting for Pensions

- Employers with a fiscal year ending of December 31 will implement this standard beginning in the fiscal year ending December 31, 2015 for their FPPA administered plans
- Significant changes in employer reporting of pension assets and liabilities
- No longer reporting the difference in the Actuarial Required Contribution and actual contributions made as the pension liability or pension asset
- Now reporting the long-term liability of future pension benefits in excess of accumulated plan assets on the Statement of Fiduciary Net Position

GASB 68 – *Accounting and Financial Reporting for Pensions*

Applies to the following FPPA administered plans:

| Agent Multiple-Employer Plans | Cost-sharing Multiple-Employer Plans |
|---|---|
| <ul style="list-style-type: none">• Affiliated Local Old Hire Plans• Affiliated Local Volunteer Fire Plans | <ul style="list-style-type: none">• Statewide Defined Benefit Plan• Statewide Hybrid Plan-DB Component |
| Single Employer Plans | |
| <ul style="list-style-type: none">• Colorado Springs New Hire Police/Fire | |



GASB 68 – *Accounting and Financial Reporting for Pensions*

Does not apply to the following FPPA administered plans:

| Defined Contribution Plans | Statewide D&D Plan |
|--|--|
| <ul style="list-style-type: none">• Statewide Money Purchase Plan• 457 Deferred Compensation Plan• Statewide Hybrid Plan-MP Component• Fidelity SRA Accounts• DROP | <ul style="list-style-type: none">• SWD&D Plan reports under GASB Statement 43, <i>Financial Reporting for Postemployment Benefit Plans Other than Pension Plans</i> |

Terminology

- **Total Pension Liability (TPL)**
 - The actuarial present value of projected benefit payments that is attributed to past periods of member service, similar to current Actuarial Accrued Liability (AAL), determined under the Entry Age Actuarial Cost Method.
- **Net Pension Liability (NPL)**
 - The difference between the Total Pension Liability of the Plan and the Pension Plan's Fiduciary Net Position.
- **Pension Expense**
 - Changes in FPPA's Net Pension Liability, recognized in the current reporting period. There are some exceptions that include changes due to differences between expected and actual experience, changes in economic and demographic assumptions, and the difference between projected and actual earnings on pension plan investments.

Terminology

- **Deferred Inflows of Resources**

- An acquisition of net assets by the government that is applicable to a future reporting period; has a negative effect on net position, similar to liabilities.

- **Deferred Outflows of Resources**

- A consumption of net assets by the government that is applicable to a future reporting period; has a positive effect on net position, similar to assets.

- **Examples:**

- Employer contributions to the plan subsequent to the measurement date of the NPL but before the end of the reporting period are a deferred outflows.
- Differences in experience or earnings and changes in assumptions can be either deferred inflows or outflows

Affiliated Local Plans:

How is this all going to work?

- As a sponsor of an Affiliated Local Plan (Agent multiple-employer pension plans)...
 - What will FPPA provide?
 - How can the employer determine and get comfortable with the information provided by FPPA?
 - What does the employer need to do?



Affiliated Local Plans:

What will FPPA provide?

- GASB 68 Accounting Report produced by GRS (see draft included in handouts)
 - Will determine deferred inflows and outflows and employer expense
 - Average remaining service life used to amortize liability experience and assumption changes will be unique to each plan
 - Report to include sample generic footnote
- Year end results will be for December 31, 2014
 - Okay for Employer reporting for December 31, 2015 audit
- Will be provided every year (not every two)
 - Still only do actuarial funding valuation every two years

Affiliated Local Plans:

How can the employer determine and get comfortable with the information provided by FPPA?

- **AICPA Solution to Fiduciary Net Position:** Include supplemental condensed schedule of “changes in fiduciary net position” by employer in plan financial statements for which plan auditor is engaged to provide opinion
- **FPPA to provide:**
 - FPPA CAFR will include this schedule in “Other Supplementary Schedules”
 - Opined upon by plan auditors as “in relation to” opinion
 - FPPA is issuing a SOC 1 (type 2) report

Affiliated Local Plans:

How can the employer determine and get comfortable with the information provided by FPPA?

- **AICPA Solution to Fiduciary Net Position:** Plan auditor engaged to issue SOC 1 (type 2) report on allocation of inflows (i.e., contributions, investment income, etc.) and outflows (i.e., benefit payments, administrative expenses, etc.) of plan to individual employer accounts
- **FPPA to Provide:**
 - The initial SOC 1 (type 2) report will be for 7/1-12/31/2014 and issued late in 1Q/2015
 - Thereafter, an annual report for the full calendar year will be issued late in 1Q/next year



Affiliated Local Plans:

How can the employer determine and get comfortable with the information provided by FPPA?

- **AICPA Solution to TPL, Deferred Outflows/Inflows, and Pension Expense:** Plan auditor engaged to issue SOC 1 (type 2) report on census data controlled by plan (i.e. retired employees)
- **FPPA to provide:**
 - Quarterly asset allocation reports require employer review/validation
 - Census reports on active/retired members to be sent in early January for confirmation by the employers and are due back to FPPA by 1/31



Affiliated Local Plans:

How can the employer determine and get comfortable with the information provided by FPPA?

- **AICPA Solution to TPL, Deferred Outflows/Inflows, and Pension Expense:** Plan actuary issues separate actuarial report for each participating employer which includes net pension liability, deferred outflows/inflows by type and year, pension expense, and discount rate calculation
 - Employer management and employer auditor rely on actuary as management specialist for total pension liability for individual employer

Affiliated Local Plans:

How can the employer determine and get comfortable with the information provided by FPPA?

- AICPA Solution to TPL, Deferred Outflows/Inflows, and Pension Expense:
 - Employer auditor tests census data of active employees and confirms actuarial information used by actuary
 - Employer and employer auditor responsible for validating deferred outflows/inflows and pension expense related to individual employer
 - Deferred outflows/inflows resulting from current year can be recalculated from condensed statement of changes in fiduciary net position (by employer) included as supplemental information in plan financial statements
 - Rely on GASB 68 actuarial report for deferred outflows/inflows related to actuarial experience

Affiliated Local Plans:

What does the Employer need to do?

- Provide FPPA with timely census data for valuation (due 1/31 annually)
- Work with your auditor or finance personnel to insert the accounting results into your audit
- Make contribution adjustment for one-year lag (auditor or finance personnel should do)
- Keep track of history for inclusion in 10-year history exhibits (Report from GRS will provide single year results)

Affiliated Local Plans:

Just a heads up...

- Any benefit changes need to be incorporated in the fiscal year in which they take place
 - Increase in plan liabilities will flow through directly to pension expense. No amortizing.
- Results will be updated in the off year for any substantial demographic changes
 - Example, volunteer plan goes from 2 covered members to 5 covered members

Affiliated Local Plans:

Just a heads up...

- Volunteer Plans Receiving State Matching Funds:
 - The Colorado State Controller opined on 3/2014 that the State contribution to volunteer firefighter plans will continue to be treated as a supplemental discretionary payment and will not result in GASB 68 reporting to the State

Affiliated Local Plans:

Allocation Reports from FPPA

 Contributions Remitted vs Actuarial Required Amount Due

 Direct Allocated Plan Expense/Income

- Actuarial Services, Audit Costs (SOC 1 Type 2 Report)
- See Handout
- **Employer Responsibilities:**
 - Review the Contributions, Benefit Distributions, and Plan Directed Expenses.
 - Report discrepancies to FPPA immediately. Your silence confirms that the information is correct.
 - Determine if Direct Allocated Plan Expenses are ‘settlor’ expenses
 - All Required Contributions are due before 12/31



GASB 68 Report Timing

Affiliated Volunteer Fire Pension Plans

12/31/2015
Audit

- GASB 68 reporting will use the 1/1/2015 actuarial valuation
- Census Data to Employers for validation the first week of 1/2015; Returned to FPPA by 1/31/2015
- Market Value as of 12/31/2014; Employer makes 2015 contribution adjustment
- Employer's GASB 68 report issued 9/2015
- FPPA SOC 1 Type 2 Report available 1Q 2015

12/31/2016
Audit

- GASB 68 reporting will use the 1/1/2015 actuarial valuation
- Census data to Employers for validation the first week 1/2016; Returned to FPPA by 1/31/2016
- Market Value as of 12/31/2015; Employer makes 2016 contribution adjustment
- FPPA provides actuaries with any benefit improvement information from prior year
- Employer's GASB 68 report issued 9/2016
- FPPA SOC 1 Type 2 Report available 1Q 2016

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GASB 68 Report Timing

Affiliated Old Hire Pension Plans

12/31/2015
Audit

- GASB 68 reporting will use the 1/1/2014 actuarial valuation
- Census Data to Employers for validation the first week of 1/2015; Returned to FPPA by 1/31/2015
- Market Value as of 12/31/2014; Employer makes 2015 contribution adjustment
- FPPA provides actuaries with any benefit improvement information from prior year
- Employer's GASB 68 report issued 9/2015
- FPPA SOC 1 Type 2 Report available 1Q 2015

12/31/2016
Audit

- GASB 68 reporting will use the 1/1/2016 actuarial valuation
- Census data to Employers for validation the first week 1/2016; Returned to FPPA by 1/31/2016
- Market Value as of 12/31/2015; Employer makes 2016 contribution adjustment
- FPPA provides actuaries with any benefit improvement information from prior year
- Employer's GASB 68 report issued 9/2016
- FPPA SOC 1 Type 2 Report available 1Q 2016

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SWDB/SWH-DB Component:

How is this all going to work?

- As a sponsor within the SWDB or SWH-DB Component (Cost-sharing multiple-employer pension plans)?
 - Who should calculate the allocation percentages and allocated pension amounts?
 - How can the employer determine and get comfortable with the information provided by FPPA?
 - What will FPPA provide?
 - What does the employer need to do?



SWDB/SWH-DB Component:

Who should calculate the allocation percentages and allocated pension amounts?

- Standard is silent on who (plan or employer) should calculate allocation percentages
- Audited financial statements of the plan may not include the necessary information to calculate allocation percentages (not required)
- Standard provides flexibility in approach to determining allocations

SWDB/SWH-DB Component:

Who should calculate the allocation percentages and allocated pension amounts?

- **AICPA Solution:** Include supplemental “schedule of employer allocations” in plan financial statements for which plan auditor is engaged to provide opinion.
 - Projected future contributions could be used if necessary
 - Standard does not preclude employers from calculating their own allocation percentage. Additionally, it could be difficult for employer auditor to get sufficient competent audit evidence on allocation. For example,
 - If employer allocates based on covered payroll, the denominator for the calculation (i.e. total covered payroll) is not audited by plan auditors

SWDB/SWH-DB Component:

What will FPPA provide?

- **FPPA to provide:** Schedule of Employer Contributions
 - This will allow each employer to work with their auditors to calculate their proportionate share of the plans
 - FPPA will not calculate the proportionate share percentage for participating plans as discussed in the prior slide

SWDB/SWH-DB Component:

What will FPPA provide?

FPPA Statewide Defined Benefit Plan Schedule of Employer Contributions December 31, 2014

| Department | 2014 Actual Employer Contributions |
|--------------------|--|
| AGUILAR POLICE | \$ 2,650 |
| ALMA POLICE | 1,252 |
| ANTONITO POLICE | 3,465 |
| ARVADA FPD | 800,423 |
| AULT FPD | 4,033 |
| AULT POLICE | 16,291 |
| AURORA FIRE | 1,606,641 |
| BASALT & RURAL FPD | 18,266 |
| | |
| FPPA SWDB Total | <u>\$ 34,329,303</u> |

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SWDB/SWH-DB Component:

Who should calculate the allocation percentages and allocated pension amounts?

- **AICPA Solution:** Include supplemental “schedule of plan pension amounts” in plan financial statements for which plan auditor engaged to provide opinion
 - Supplemental schedule of plan pension amounts include net pension liability, deferred outflows, deferred inflows, and pension expense for plan as a whole for which plan auditor is engaged to provide opinion

SWDB/SWH-DB Component:

What will FPPA provide?

- Audited Report “in Total” where Employer can calculate the proportionate share from

**FPPA Statewide Defined Benefit Plans
Schedule of Collective Pension Amounts
As of and for the year ended December 31, 2014**

| Deferred Outflows of Resources | | | | Deferred Inflows of Resources | | | | |
|--------------------------------|--|---|------------------------|---|--|------------------------|--|----------------------|
| Net Pension Liability | Differences Between Expected and Actual Experience | Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | Changes of Assumptions | Total Deferred Outflows Excluding Employer Specific Amounts | Differences Between Expected and Actual Experience | Changes of Assumptions | Total Deferred Inflows Excluding Employer Specific Amounts | Plan Pension Expense |
| \$ 124,325,432 | 1,206,453 | 4,315,618 | 3,860,253 | 9,382,324 | 978,435 | - | 978,435 | 5,243,245 |

**Under this alternative, each employer would need to calculate two additional types of deferred outflows of resources and deferred inflows of resources which are employer specific amounts. These amounts relate to (1) the net impact from changes in proportion (that is, the allocation percentage) between periods; and (2) differences between actual contributions made by an employer and their proportionate share of total contributions calculated based on the allocation percentage.

SWDB or SWH-DB Component:

What will FPPA provide?

- Average remaining lifetime of the membership
 - Used for amortizing actual vs. expected demographic experience (deferred inflows and outflows)
 - Used for amortizing change in proportionate share
- Year end results will be for December 31, 2014
 - Okay for Employer reporting for December 31, 2015
- FPPA will provide draft footnote language on its website



SWDB/SWH-DB Component:

How can the employer determine and get comfortable with the information provided by FPPA?

- **AICPA Solution:** Total pension liability, contribution revenue and contributions receivable are dependent upon the completeness and accuracy of the census data. This census data is provided by the employers so the plan auditor cannot test the completeness and accuracy using data available at the plan. Plan auditor should consider performing payroll audits of the employers to test data and underlying payroll records.
 - Annually test all employers over 20% of covered payroll
 - Test all employers over 5% of covered payroll once every 5 years
 - Test remaining employers once every ten years

SWDB/SWH-DB Component:

How can the employer determine and get comfortable with the information provided by FPPA?

- **AICPA Solution:** Plan auditor should consider performing payroll audits of the employers to test data and underlying payroll records.
 - FPPA does not have express statutory authority to audit employers
 - AICPA recommendation allows for employer's auditors to complete the payroll attestation
 - FPPA and the plan are not liable for the benefit if an employer fails to properly enroll a member in a plan. CRS §§31-31-406 and 802 (Employer may have liability though)
 - Cost of payroll attestation to be paid by employer
 - FPPA working with Plan Auditor to finalize the process

SWDB/SWH-DB Component:

How can the employer determine and get comfortable with the information provided by FPPA?

- Employers to provide an attestation report specific to their payroll processing, calculation of pensionable amounts and remitted pension payments to FPPA
 - Annually: Denver Police SWDB, West Metro FPD SWH-DB Component, Colorado Springs New Hire Fire/Police
 - Every 5 years: Denver Fire SWDB, Littleton Fire SWDB, Aurora Fire SWH-DB Component
 - All others will be selected at least once within 10 years

SWDB or SWH-DB Component:

What does the Employer need to do?

- Work with auditor to determine proportionate share results for inclusion in audit
 - Proportionate share of TPL, PNP, NPL, service cost, etc.
 - For example, TPL shown in GASB 67 report is \$3 billion
 - Proportionate share reported as 1%
 - Employer TPL for GASB 68 is \$30 million = \$3 billion x 1%
 - Deferred inflows and outflows, expense
 - FPPA will provide all the pieces you need, but some assembly required
- Keep historical reports to be able to track deferred inflows and outflows going forward

GASB 68 Report Timing

SWDB and SWH-DB Component Plans

12/31/2015
Audit

- GASB 68 reporting will use the 1/1/2014 actuarial valuation
- No Census Data Process: Census data confirmed by employer w/each payroll remitted
- Market Value as of 12/31/2014; Employer makes 2015 contribution adjustment
- FPPA provides actuaries with any benefit improvement information from prior year
- GASB 68 report issued 9/2015; report will not be employer specific; FPPA will also provide employer contribution reporting for 2014 to enable calculation of proportionate share

12/31/2016
Audit

- GASB 68 reporting will use the 1/1/2015 actuarial valuation
- No Census Data Process: Census data confirmed by employer w/each payroll remitted
- Market Value as of 12/31/2015; Employer makes 2016 contribution adjustment
- FPPA provides actuaries with any benefit improvement information from prior year
- GASB 68 report issued 9/2016; report will not be employer specific; FPPA will also provide employer contribution reporting for 2015 to enable calculation of proportionate share

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GASB 68 Report Timing

Colorado Springs New Hire Plans

12/31/2015
Audit

- GASB 68 reporting will use the 1/1/2014 actuarial valuation
- Census Data (Retirees) to Employer for validation the first week of 1/2015; Returned to FPPA by 1/31/2015
- Market Value as of 12/31/2014; Employer makes 2015 contribution adjustment
- FPPA provides actuaries with any benefit improvement information from prior year
- Employer's GASB 68 report issued 9/2015

12/31/2016
Audit

- GASB 68 reporting will use the 1/1/2015 actuarial valuation
- Census data (Retirees) to Employer for validation the first week 1/2016; Returned to FPPA by 1/31/2016
- Market Value as of 12/31/2015; Employer makes 2016 contribution adjustment
- FPPA provides actuaries with any benefit improvement information from prior year
- Employer's GASB 68 report issued 9/2016

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Resources

- FPPA website
 - See FPPA website for updates and links to other relevant resources– www.fppaco.org (Employer section)
 - GASB Section
 - Statements
 - Implementation Guides
 - AICPA Whitepapers
 - FAQ
 - Presentations
 - Volunteer state funds letter from State Controller
 - DOLA payment of state funds to FPPA



