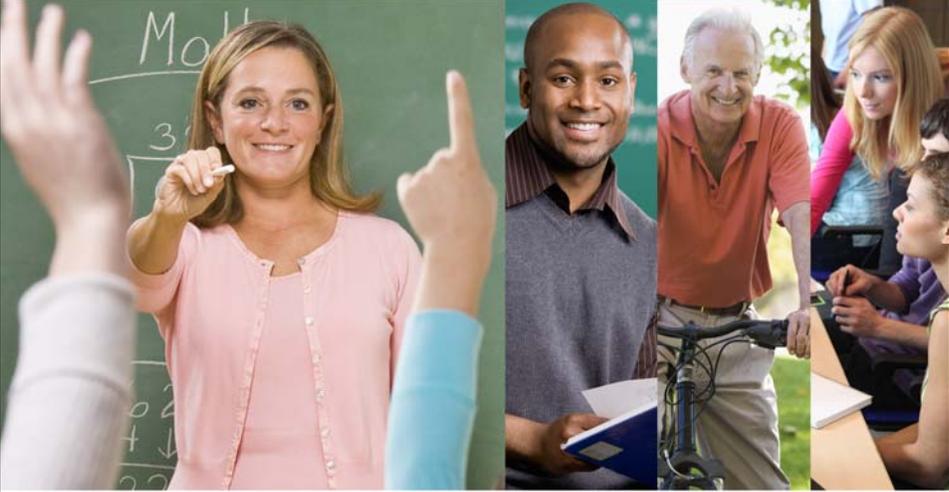


Teacher Retirement System of Texas



GASB 68 Implementation Update

Gloria Nichols, CPA
February 9, 2015



GASB 68 Update

GASB Fast Facts

- GASB 67/68 requires the unfunded net pension liability be reported for the first time for many governmental entities.
- Prior to GASB 67/68, the total unfunded net pension liability was not recorded as a liability on any school district, junior college or higher education entity financial statements. A small portion was previously reported as the Net Pension Obligation in the statewide Comprehensive Annual Financial Report.



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GASB 68 Update

- As a multi-employer, cost-sharing plan, GASB 67/68 requires TRS to allocate the unfunded net pension liability among all participating employers proportionately. The proportion is based on who makes contributions to the pension plan.
- TRS in cooperation with state oversight agencies determined that the liability will be allocated using one year of historical contributions in accordance with GASB guidance.

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GASB 68 Update

- Starting in fiscal year 2015 participating employers should report their proportionate share of the unfunded Net Pension Liability on their balance sheets. *This is a book entry only. Nothing else changes* (funding, budgeting, etc.) as a direct result of GASB 67/68.
- The State of Texas pays the employer match contribution in many cases and is allocated the vast majority (75 to 80 %) of the net pension liability.

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GASB 68 Update

- Participating employers only pay contributions in certain situations (*for example: New Member, Statutory Minimum, Federal Grants, etc.*). Collectively, these categories account for approximately 20 to 25% of the total contributions to the plan. Each participating employer's proportionate share is based only on these contributions.
- GASB 67/68 has nothing to do with funding the liability. It is merely an accounting and reporting change, however; there could be indirect effects as a result of the new information.

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GASB 68 Update

- Moody's Investor Services (a bond rating agency) has stated that [GASB 67/68 will not change the methodology](#) that they use to adjust US, state and local governmental pension data in its rating process.

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GASB 68 Update

Where Are We Now?

- TRS just completed the successful implementation of GASB 67 for our 2014 CAFR.
- Lessons learned:
 - Preparation, preparation, preparation
 - Research and understand GASB 68
 - Pay attention to every detailed requirement.
 - Do a mock-up of your Notes and RSI.
 - Check off every requirement to your CAFR for compliance.

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GASB 68 Update

- TRS' executive management decided to engage our actuary, GRS, to prepare the Schedule of the Proportionate Share of the Net Pension Liability and the Schedule of Employer Amounts.
- The Schedule of Employer Amounts will be presented on the pension plan as a whole as well as by individual participating employers. This means that the deferred inflows, deferred outflows and pension expense that you have to report your proportionate share of, will be calculated for you and presented in this schedule.

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GASB 68 Update

- If the participating employer selects August 31, 2014 as its measurement date, the deferred outflows for contributions subsequent to the measurement date of 08/31/14 and before the end of the participating employer's reporting period will have to be calculated by the participating employer. This means that the following contributions paid by the participating employer to TRS will need to be reported as a deferred outflow of resources:

Fiscal Year-End

August 31, 2015

June 30, 2015

Contributions Paid

9/1/2014 thru 8/31/15

9/1/2014 thru 6/30/15

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GASB 68 Update

- The **State of Texas** (having to report 70 to 80% of the net pension liability) is currently auditing both of the Schedules and will be rendering separate opinions on them. We expect to have an audit opinion by the end of March, 2015 or early April. We will be posting the audited schedules along with the audit opinions to the website soon thereafter.

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GASB 68 Update

Basis of Allocation

- GASB 68, paragraph 48(a) states that the basis for the employer's proportion *should be consistent with the manner in which contributions to the pension plan are determined.*
- In cooperation with the State Comptroller and the State Auditor's office, TRS determined that using one year of historical contributions is an appropriate allocation method.

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GASB 68 Update

- Contributions and adjustments reported to TRS thru the TRAQS reporting system were used.
- Incomplete reports in a pending status were included.
- Proportionality amounts were included.
- New schools that reported a partial year were annualized.
- Adjustments related to prior years were disallowed.

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GASB 68 Update

- Contributions as determined for the Allocation Schedule are not the same as Contributions reported for GAAP and the CAFR.
- This difference in methods gives rise to a deferral that must be amortized over the AERSL. (Average Expected Remaining Service Life) This will be reported on the Schedule of Employer Amounts that the actuary is preparing.

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GASB 68 Update

Proportionate Share and Change in Proportion

- To prepare participating employers for the impact of reporting a proportionate share of the Net Pension Liability, TRS prepared a schedule using 2013 contributions so that each participating employer could see their estimated proportionate share.
- The Net Pension Liability was not calculated for 2013 when we prepared this schedule so we used the closest number we had which was the UAAL (Unfunded Actuarial Accrued Liability).

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GASB 68 Update

- This number (\$28.9 billion) and the 2013 contribution amounts were used as an estimate only. **It cannot be used as the basis of the change in proportion.**
- For the first year of implementation, there will be no change in proportion. The ending proportion will be used for the beginning proportion.
- The actuary has now calculated the beginning Net Pension Liability for TRS for the first year of implementation. This is the Beginning Net Pension Liability as of 08/31/13 which will be used as the starting point.

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GASB 68 Update

- The proportionate share measured as of 08/31/14 was applied to the Beginning NPL number to determine each participating employer's proportionate share of the Beginning NPL.
- The proportionate share measured as of 08/31/14 was applied to the Ending NPL number to determine each participating employer's proportionate share of the Ending NPL.
- So, again, there will be No change in proportion for this first year of implementation.

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GASB 68 Update

- For all future years, there will be a calculation to measure the change in proportion from year to year.
- TRS used 9 decimal places to report each participating employer's share of the net pension liability on the 2014 allocation schedule.
- If a participating employer decides to round to a smaller decimal place, it could result in no change in proportion from year to year.
- The issue of materiality should also be considered.

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GASB 68 Update

Note Disclosure and Required Supplementary Information

- TRS will be providing Note Disclosures and Required Supplementary Information for the plan as a whole.
- Note Disclosures relating to employer specific items will be the responsibility of the participating employer.
- TRS will be posting this information to the TRS website in the next few months.

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GASB 68 Update

- For more detailed information about the employer note disclosure, resources for financial reporting, employer audits and other related subjects, please refer to the TRS website at:
http://www.trs.state.tx.us/employers.jsp?submenu=reporting&page_id=/reporting/gasb67_68
- TRS has a link on the top center of the home page for a GASB 68 link @ www.trs.state.tx.us.

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GASB 68 Update

- Questions
- Thank you!
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