KPMG Government Institute Webcast Series:

GASB Pension Accounting and Financial Reporting Standards

Welcome and Introduction

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Partner and State & Local Government Audit Sector Leader
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Your Speakers Today

Jeff Markert
Partner, KPMG LLP
Department of Professional Practice

Greg Driscoll
Partner, KPMG LLP
Boston
Agenda

- GASB Statement No. 67, *Accounting and Financial Reporting For Pension Plans*
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*
- Materials are based on the ballot drafts of the final standards, which are subject to change until issuance of the final standards
- Certain significant changes from the Exposure Drafts are highlighted throughout the materials
- Standards include guidance on defined benefit plans and defined contribution plans—our focus will be on defined benefit plans
Accounting and Financial Reporting
For Pensions

(An amendment of GASB Statement No. 27)
Overview of Employer Standard

- Key conceptual shift in reporting pension liabilities and expense under the economic resources measurement focus— from a “funding” approach to an “earnings” approach:
  - Currently, no liability is reported if government 1) fully funds its annual required contribution (single-employer and agent plans) or 2) pays its contractually required contribution (cost-sharing plan)
  - Under new approach:
    - Pension liability is reported as employees earn their pension benefits by providing services
    - Changes in pension liability are recognized immediately as pension expense or reported as deferred outflows/inflows of resources depending on nature of change
  - No significant changes to accounting for pensions in governmental funds
  - Substantive changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes:
    - The actuarial methods and assumptions allowable under current standards may continue to be used to determine funding amounts
Overview of Employer Standard (continued)

- The following amounts for a defined benefit pension plan must be determined as of **a date no earlier than the end of the employer’s prior fiscal year**:
  - Net pension liability (asset)
  - Pension expense
  - Pension deferred outflows of resources and deferred inflows of resources

- Employers participating in single-employer or agent multiple-employer plans recognize 100 percent of the above amounts for each plan

- Employers participating in cost-sharing multiple-employer plans recognize their proportionate share of the collective amounts for the plan as a whole
Classification of Defined Benefit Pension Plans
Classification of Defined Benefit Pension Plans

- Classification of the type of defined benefit (DB) pension plan is based on the number of employers and whether pension obligations and pension plan assets are shared.
- **Single-employer DB pension plan:**
  - Provides pensions to employees of one employer.
- **Agent multiple-employer DB pension plan:**
  - Provides pensions to employees of more than one employer.
  - Assets are pooled for investment purposes, but separate accounts maintained for each employer.
  - Employer’s share of pooled assets is legally available only for its employees.
- **Cost-sharing multiple-employer DB pension plan:**
  - Provides pensions to employees of more than one employer.
  - Employers pool or share obligations.
  - Plan assets can be used to pay the benefits of retirees from any employer.
Classification of Defined Benefit Pension Plans

- Primary government and its component unit(s) are collectively considered to be one employer for purposes of classifying pension plans.
- Pension plans that only include employees of the primary government and its component units are considered single-employer plans:
  - In stand-alone primary government and component unit financial statements, account for and report participation as if cost-sharing employers.
  - In reporting entity’s financial statements, follow note disclosures and RSI for a single or agent employer plan:
    - Separately identify amounts related to the primary government and amounts related to discretely presented component units in the note disclosures.

Clarification that primary government and its component units are considered to be one employer could result in some pension plans that were previously considered cost-sharing pension plans now being considered as single-employer pension plans.
Question 1

If a defined benefit pension plan is used to provide pensions to employees of more than one employer and the assets are pooled for investment purposes, but separate accounts are maintained for each employer, the plan is considered to be a:

A. Single-employer defined benefit pension plan
B. Agent multiple-employer defined benefit pension plan
C. Cost-sharing multiple-employer defined benefit pension plan
D. Defined contribution plan
B. Agent multiple-employer defined benefit pension plan
Measurement of Pension Liabilities
Net Pension Liability

- Employers should report in their financial statements a net pension liability (asset), determined as of a date no earlier than the end of the employer’s prior fiscal year (measurement date) for each defined-benefit pension plan in which they participate.

- Net pension liability (asset) equals the total pension liability for the pension plan, net of the plan’s fiduciary net position:
  - Total pension liability is the actuarial present value of projected benefit payments attributed to past employee service.
  - Plan’s fiduciary net position is determined using same valuation methods as used for plan’s GAAP financial reporting.
Determining Total Pension Liability – Three Step Process

**Projecting**

- Projecting future benefit payments

**Discounting**

- Discounting projected future benefit payments to present value

**Attributing**

- Attributing present value of projected future benefits to past and future periods
Projected Future Benefit Payments

- Projected benefit payments include all benefits provided in accordance with the terms of the pension arrangement and any other legal agreements to provide benefits in force at the *measurement date*.

- All assumptions should be consistent with Actuarial Standards of Practice unless otherwise specified.

- Projected benefit payments should include the effects of automatic and *ad hoc* postemployment benefits changes to the extent they are considered substantively automatic.

Current standards do not require incorporation of *ad hoc* COLAs and *ad hoc* postemployment benefit changes into projection—this will increase projected future benefits for some plans, thereby increasing total pension liability.
A single blended rate should be used to discount projected future benefit payments, based on:

- The long-term expected rate of return on plan investments (net of investment expenses) that are expected to be used to finance the payment of pension benefits to the extent that the plan’s fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested, using a strategy to achieve that return; and

- A yield or index rate for 20-year, tax-exempt general obligation (municipal) bonds with average rating of AA or higher, to the extent that the conditions above are not met.

The new standards will likely result in a lower discount rate for plans that are underfunded, thus increasing total pension liability.
To determine extent that projected plan fiduciary net position is expected to be available for the payment of pension benefits, a comparison should be made between:

- The amount of benefit payments projected to occur in each future period, and
- The plan’s projected fiduciary net position at the beginning of the future period:
  - Consider all employer contributions intended to fund benefits of current and former employees and all contributions from current employees
  - Consider projected investment earnings on projected plan fiduciary net position
  - Consider projected benefit payments and administrative expenses
  - Do not consider employer contributions intended to fund service costs of future employees or contributions of future employees, unless those contributions are projected to exceed service costs for those employees

Discount rate is the single rate of return that, when applied to all projected future benefits, results in a present value equal to the aggregate present values calculated for each future period, based on projected fiduciary net position and projected benefits.
Discounting Future Benefit Payments to Present Value (continued)

- To project future employer contributions when they are (a) established by statute or contract, or (b) determined under a formal written policy:
  - Apply professional judgment, considering:
    - Employer’s most recent five-year contribution history as a key indicator of future contributions
    - All other known events and conditions potentially impacting contribution amounts
- To project future employer contributions in other circumstances:
  - Contribution amounts should be limited to an average of employer contributions over most recent five-year period, potentially modified based on consideration of subsequent events
  - Basis for average should be matter of professional judgment
    - Percentage of covered payroll contributed
    - Percentage of actuarially-determined contributions made

Comparison will generally require separate projections of cash flows into and out of the plan for each future period; however, alternative methods may be used, if calculation can be made with sufficient reliability.
When projecting the plan fiduciary net position for purposes of calculating the discount rate, all of the following inflows and outflows should be included except:

A. Employer contributions intended to fund benefits of current and former employers
B. Investment earnings on projected plan fiduciary net position
C. Benefit payments and administrative expenses
D. Employer contributions intended to fund benefits of future employees
D. Employer contributions intended to fund benefits of future employees
Discounting Future Benefit Payments to Present Value – Example Single Discount Rate Calculation

### Projected Plan Net Position

<table>
<thead>
<tr>
<th>Projections</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
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<tr>
<td>Beginning Plan Net Position</td>
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<td>$1,500,197</td>
<td>$1,565,686</td>
<td>$1,628,547</td>
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<td>Employer Contributions</td>
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<td>Employee Contributions</td>
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<td>Benefit Payments</td>
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<td>(116,500)</td>
<td>(123,749)</td>
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<td>Investment Earnings</td>
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<td>Ending Plan Net Position</td>
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<td>$1,565,686</td>
<td>$1,628,547</td>
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</table>

Compare beginning plan fiduciary net position (BPFNP) to benefit payments (BP) for the fiscal year—generally discount BP covered by BPFNP using investment rate of return; discount BP not covered by BPFNP using >/= AA-rated G.O. bond index.
## Discounting Future Benefit Payments to Present Value – Example Single Discount Rate Calculation (continued)

<table>
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<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>(f) = (d) / (1+7.5%)^{(a)}</td>
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<tr>
<td></td>
<td>Total</td>
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<td>2,109,333</td>
<td>1,724,534</td>
<td>3,833,867</td>
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Question 3

What rate should be used to discount projected future benefit?

A. Long-term expected rate of return on plan investments
B. Index for 20-year US treasury bonds
C. Index for 20-year, tax exempt general obligation bonds
D. Single blended rate based on source of future benefit payments
D. Single blended rate based on source of future benefit payments
Attributing the Present Value of Projected Future Benefit Payments to Past and Future Periods

- Attribution of the present value of projected future benefit payments to specific periods is based on the actuarial cost method applied.
- Under new standards, the Entry Age Normal method is the only allowable actuarial cost method:
  - Attribution made on individual employee-by-employee basis
  - Service costs based on level percentage of that employee’s projected pay
    - Service costs attributed through assumed exit ages through retirement

Entry Age Normal method is most common actuarial cost method currently used. However, many variations of this method are used in practice. The new pension standards will eliminate potential variations.
Timing and Frequency of Measurement of Total Pension Liability

- Measurement of the net pension liability determined as of a date no earlier than the end of the employer’s prior fiscal year (measurement date)
- The measurement date used should be consistently applied from period to period
- Measurement of the total pension liability is determined through:
  - An actuarial valuation performed as of the measurement date, or
  - The use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer’s year-end
- Use professional judgment in determining extent of update procedures when changes in plan occur between last valuation date and the measurement date
- Consider whether new actuarial valuation is needed
- Actuarial valuation of total pension liability should be performed at least biennially

Measurement date will most likely be year-end of plan. Employers with same year-end as plan must choose measurement date as of their prior or current year-end.
Question 4

Which of the following statements is true regarding net pension liability (asset)?

A. It represents the actuarial present value of projected benefit payments attributed to past employee service

B. Projected future salary increases have no impact on the measurement of the net pension liability amount

C. It will only be reported as part of schedules in required supplementary information

D. It equals the total pension liability for the plan, net of the plan’s fiduciary net position
D. It equals the total pension liability for the plan, net of the plan’s fiduciary net position
Recognition of Pension Expense including Deferrals
Determining Pension Expense and Deferred Inflows/Outflows of Resources

- Certain aspects of the change in net pension liability should be recognized immediately as pension expense, and others should be recognized as deferred outflows/inflows of resources and amortized into pension expense over time.
- Employers participating in single-employer or agent multiple-employer plans will recognize 100 percent of the pension expense and deferred amounts determined for each plan.
- Employers participating in cost-sharing plans will recognize their proportionate share of the collective pension expense and deferred amounts determined for the plan as a whole.

As a general rule, more aspects of the change in net pension liability will be reported immediately as expense than were immediately incorporated in the annual required contribution under current guidance.
Changes in Net Pension Liability Immediately Recognized as Pension Expense

Changes in the Total Pension Liability

- Current period service cost
- Interest on the beginning total pension liability
- Impact of changes in benefit terms

Changes in Plan’s Fiduciary Net Position

- Projected earnings on plan investments
- Changes in plan fiduciary net position other than employer contributions and benefit payments (e.g. employee contributions, admin costs)

Conceptually, the effect of employer contributions made directly by the employer should not be recognized as expense.
Changes in Net Pension Liability Resulting in Deferred Inflows/Outflows of Resources

**Changes in the Total Pension Liability**

- Effects of actuarial differences and changes in assumptions related to economic or demographic factors attributable to active and inactive employees, including retirees

  - Recognize as deferred inflow/outflow and amortize over a closed period equal to the average of the expected remaining service lives of all employees (active, inactive, and retirees)

**Changes in Plan’s Fiduciary Net Position**

- Differences between actual and projected earnings on plan investments

  - Recognize as deferred inflow/outflow and amortize over a closed five-year period—report amounts from multiple years, net

Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer’s fiscal year should be recognized as a deferred outflow of resources.
# Potential Components of Annual Pension Expense

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<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$285,172</td>
</tr>
<tr>
<td>Interest on pension liability</td>
<td>32,878</td>
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<tr>
<td>Effect of changes in benefit terms</td>
<td>43,098</td>
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<tr>
<td>Member contributions</td>
<td>(110,111)</td>
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<tr>
<td>Plan administrative costs</td>
<td>4,309</td>
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<tr>
<td>Projected earnings on plan investments</td>
<td>(178,268)</td>
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<tr>
<td>Expensed portion of current-period excess of actual earnings over projected earnings on plan investments</td>
<td>(4,201)</td>
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<tr>
<td>Amortization of beginning deferred inflows related to accumulated net excess of actual earnings over projected earnings on plan investments</td>
<td>(9,012)</td>
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<td>Expensed portion of current-period difference between expected and actual experience in the total pension liability</td>
<td>17,579</td>
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<td>Amortization of beginning deferred outflows related to differences between expected and actual experience in the total pension liability</td>
<td>29,991</td>
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<td>Expensed portion of current-period effect of changes in assumptions</td>
<td>9,022</td>
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<td>Amortization of beginning deferred outflows related to effect of changes in assumptions</td>
<td>7,468</td>
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<tr>
<td><strong>Pension expense</strong></td>
<td>$127,925</td>
</tr>
</tbody>
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Amortization of certain deferred inflows/outflows unique to employers participating in cost-sharing multiple-employer plans may be included as a component of pension expense for such employers.
Question 5

Based on the provisions in the GASB Employer Pension Standard, which of the following aspects of the change in net pension liability should be recognized as a deferred pension outflow/inflow of resources?

A. Service cost attributed to the current period
B. Interest on the beginning total pension liability
C. Effects of a change of benefit terms
D. The effects of differences between expected and actual experience related to economic or demographic factors as they relate to the total pension liabilities for active and inactive employees
D. The effects of differences between expected and actual experience related to economic or demographic factors as they relate to the total pension liabilities for active and inactive employees
Participation in Cost-Sharing Multiple-Employer Plans and Allocation of Pension Amounts
Participation in Cost-Sharing Multiple-Employer Plans

- An employer should recognize its proportionate share of the collective net pension liability, pension expense, and deferred inflows/outflows of a cost-sharing plan as of the employer’s measurement date (no earlier than employer’s prior year-end)

- **Basis for proportion should be consistent with manner in which required contributions are determined**
  - Use of projected long-term contribution effort of the employer(s) and nonemployer contributing entities is encouraged
  - If different contribution rates are assessed based on separate relationships (i.e., different tiers or classes of employees), calculation of proportion should reflect the separate relationships
  - Employer’s proportion established as of measurement date, unless actuarially determined, in which case actuarial valuation date should be used

As a practical matter, it is anticipated the calculation of proportion will be performed by the plan for all participating employers, based on either required contributions or covered payroll.
• Application of this proportionate share concept results in two types of potential changes in employer net pension liability unique to cost-sharing multiple-employer plans:

  – Net effect of a change in the employer’s proportion of the plan’s collective net pension liability and deferred outflows/inflows of resources

  – Difference between actual employer contributions and the employer’s proportionate share of collective employer contributions
Net Effect of a Change in the Employer’s Proportion of the Plan

- The net effect of a change in the proportion used to calculate employer’s share of collective plan net pension liability and deferred amounts should be:
  - Measured as the difference between the plan’s collective balances as of the beginning of the employer’s measurement period, multiplied by:
    a. The employer’s proportion assumed in the prior period, and
    b. The employer’s proportion assumed in the current period
  - Recognized as a deferred outflow/inflow of resources in the period of change
  - Recognized as part of pension expense, beginning in the period of the change over a closed period, using a systematic and rational method
- Closed period is equal to the average of the expected remaining service lives of all employees (active, inactive, and retirees)
The difference between actual plan contributions made by an employer related to the contractually required contribution up to the measurement date and the amount of the employer’s proportionate share of collective employer contributions recognized by the plan should be:

- Recognized by the employer as a deferred outflow/inflow of resources in the period of the difference
- Recognized as part of pension expense beginning in the period of the difference over a closed period, using a systematic and rational method

- Closed period is equal to the average of the expected remaining service lives of all employees (active, inactive, and retirees)

- This deferred outflow/inflow of resources may be reported on a net basis with that resulting from a change in the employer’s proportion of collective plan
Question 6

Which of the following statements are true regarding the provisions in the GASB Employer Pension Standard regarding an employer’s financial reporting of participation in a cost-sharing multiple-employer plan?

A. The employer should recognize pension expense in the amount of its contractually required contribution and a liability to the extent that its cumulative contractually required contributions exceed the cumulative contributions made.

B. The employer should recognize a net pension liability for its proportionate share of the collective net pension liability of the plan as a whole measured as of a measurement date not earlier than the employer’s prior fiscal year-end.

C. The employer should recognize a net pension liability for its proportionate share of the collective net pension liability of the plan as a whole, measured as of the actuarial valuation date.

D. The employer should recognize a net pension liability in the amount of the collective net pension liability of the plan as a whole.
B. The employer should recognize a net pension liability for its proportionate share of the collective net pension liability of the plan as a whole measured as of a measurement date not earlier than the employer’s prior fiscal year-end.
Note Disclosures & RSI
Note Disclosures—Applicable for All Plans

- Description of the pension benefits:
  - Name of the plan, PERS, or entity that administers the plan, and identification of the type of plan (e.g., single-employer, agent multiple-employer)
  - Description of benefit provisions and authority under which benefit provisions are established or may be amended
  - Description of contribution requirements, including:
    - Basis for determination of employer’s contribution to the plan
    - Identification of the authority under which employer and employee contribution requirements are established or may be amended
    - Contribution rates (in dollars or as percentage of payroll)
    - Amount of employer’s contributions to the plan during the period, if not otherwise disclosed
      - Whether plan issues stand-alone financial report and, if so, how to obtain it
- Significant assumptions used to measure total pension liability
  - Detailed disclosure requirements for the discount rate
Note Disclosures—Applicable for All Plans (continued)

- Disclosures for the discount rate:
  - Discount rate applied in measurement of total pension liability and changes in discount rate since prior period, if any
  - Assumptions made about contributions of the employer, employees, nonemployer contributing entities, and other projected cash flows into and out of the plan
  - Long-term expected rate of return on plan investments and a description of how that rate was determined
  - The municipal bond rate, if used, and the source of the rate
  - The periods of projected benefit payments to which the long-term rate of return on plan investments and the municipal bond rate were applied
  - Information regarding the plan’s investment portfolio, including:
    - The assumed asset allocation of the portfolio
    - The long-term expected real rate of return for each major asset class
    - Whether the expected rates of return are presented as arithmetic or geometric means
Note Disclosures—Applicable for All Plans (continued)

- Measures of employer’s net pension liability calculated using discount rates that are one percentage point higher and lower than current-period net pension liability

- **Measurement date of the net pension liability**, date of the actuarial valuation on which the recognized information is based, and whether recognized amounts are based on the use of update procedures to roll forward measurements to the employer’s **measurement date**

- Brief description of changes in benefit terms and assumptions that affected measurement of the net pension liability since prior measurement date

- **A description of the nature of any changes between the measurement date and the employer’s reporting date that are expected to have a significant effect on the net pension liability and the amount of the expected effect, if known**

- **Amount of pension expense in current period**
Note Disclosures—Applicable for All Plans (continued)

- **Balances of deferred pension outflows/inflows of resources as of employer’s fiscal year-end classified as follows:**
  - Net difference between projected and actual earnings on plan investments
  - Differences between expected and actual experience
  - Changes of assumptions
  - Changes in employer’s proportion and effect of certain employer contributions on net pension liability
  - Employer contributions made subsequent to measurement date

- **Schedule presenting for each of subsequent five years and in aggregate thereafter:**
  - Net amount of deferred pension outflows/inflows of resources that will be recognized in pension expense
  - Amount that will be recognized as a reduction of employer’s net pension liability
Note Disclosures—Applicable for All Plans (continued)

- Information regarding the components of plan fiduciary net position:
  - Extent of information depends on availability of separate plan financial statements

- When employer recognizes two or more net pension liabilities (assets), if not separately displayed in the financial statements, disclose aggregate:
  - Net pension liabilities and net pension assets
  - Deferred pension outflows/inflows of resources
  - Pension expense for the period
Deferred Pension Outflows/Inflows of Resources Disclosure Illustration:

At June 30, 20X9, the District reported the following deferred outflows of resources and deferred inflows of resources related to pensions:

<table>
<thead>
<tr>
<th>Description</th>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differences between expected and actual experience</td>
<td>$2,657</td>
<td>142</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td>1,714</td>
<td>130</td>
</tr>
<tr>
<td>Net differences between projected and actual earnings on plan investments</td>
<td>0</td>
<td>5,684</td>
</tr>
<tr>
<td>Change in proportion and the effect of certain employer contributions on the employer's net pension liability</td>
<td>596</td>
<td>105</td>
</tr>
<tr>
<td>Employer contributions made subsequent to the measurement date</td>
<td>1,007</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>$5,975</td>
<td>6,061</td>
</tr>
</tbody>
</table>
Deferred Pension Outflows/Inflows of Resources Disclosure
Illustration (continued):

$1,007 reported as deferred outflows of resources related to pensions resulting from employer contributions made subsequent to the measurement date will be recognized as reduction the net pension liability at June 30, 20Y0. At the District’s current proportion of .20 percent, amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>20Y0</td>
<td>$(1,727)</td>
</tr>
<tr>
<td>20Y1</td>
<td>(898)</td>
</tr>
<tr>
<td>20Y2</td>
<td>(467)</td>
</tr>
<tr>
<td>20Y3</td>
<td>211</td>
</tr>
<tr>
<td>20Y4</td>
<td>542</td>
</tr>
<tr>
<td>Thereafter</td>
<td>1,246</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$(1,093)</td>
</tr>
</tbody>
</table>
Sensitivity of Net Pension Liability Disclosure Illustration:

Sensitivity of the net pension liability to changes in the discount rate. The following presents the District’s net pension liability calculated using the discount rate of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

<table>
<thead>
<tr>
<th></th>
<th>Current Discount Rate</th>
<th>1% Decrease (6.75%)</th>
<th>1% Increase (8.75%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Pension Liability</td>
<td>$7,786</td>
<td>7,046</td>
<td>6,187</td>
</tr>
</tbody>
</table>
The following disclosures are required solely for each single-employer and agent multiple-employer plan:

- Number of employees covered by benefit terms, separately identifying amounts by the following groups:
  - Retired employees or their beneficiaries currently receiving benefits
  - Inactive employees entitled to, but not yet receiving benefits
  - Active employees

- Information on changes in net pension liability (asset), rolling forward total pension liability, plan fiduciary net position and net pension liability (asset)
Changes in the Net Pension Liability Disclosure Illustration:

<table>
<thead>
<tr>
<th></th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Pension Liability (a)</td>
</tr>
<tr>
<td>Balances—at 12/31/X8</td>
<td>$ 3,045,893</td>
</tr>
<tr>
<td>Changes for the year:</td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>101,695</td>
</tr>
<tr>
<td>Interest</td>
<td>231,141</td>
</tr>
<tr>
<td>Benefit changes</td>
<td>—</td>
</tr>
<tr>
<td>Difference between expected and actual experience</td>
<td>(69,638)</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td>(247,432)</td>
</tr>
<tr>
<td>Contributions—employer</td>
<td>—</td>
</tr>
<tr>
<td>Contributions—member</td>
<td>—</td>
</tr>
<tr>
<td>Net investment income</td>
<td>—</td>
</tr>
<tr>
<td>Benefit payments, including refunds of contributions</td>
<td>(126,791)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>—</td>
</tr>
<tr>
<td>Other changes</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net changes</strong></td>
<td>(111,025)</td>
</tr>
<tr>
<td>Balances—at 12/31/X9</td>
<td>$ 2,934,868</td>
</tr>
</tbody>
</table>
Note Disclosures—Applicable for Cost-Sharing Multiple-Employer Plans

- The following disclosures are required solely for each cost-sharing multiple-employer plan:
  - The amounts of the net pension liability
  - The employer’s proportion of the net pension liability including:
    - Basis on which its proportion was determined
    - Changes, if any, in proportion since prior measurement date
Question 7

Which of the following note disclosure requirements for employers participating in a single-employer pension plan would not be a new disclosure requirement when compared to current standards?

A. A description of how the long-term rate of return on plan investments was determined

B. Measure of employer’s net pension liability calculated using discount rates that are one percent higher and lower

C. Balances of deferred pension outflows/inflows of resources

D. A description of benefits and authority under which benefit provisions are established or may be amended
D. A description of benefits and authority under which benefit provisions are established or may be amended
Required Supplementary Information—Applicable for Each Single-Employer or Agent Multiple-Employer Plan

The following information is required supplementary information for each single-employer and agent multiple-employer plan:

- Ten-year schedule of changes in net pension liability (asset) as of the employer’s measurement date:
  - Same components as note disclosure
- Ten-year schedule of components of net pension liability and covered payroll as of the employer’s measurement date
- Ten-year schedule related to contributions, if actuarially determined, with information measured as of the employer’s fiscal year-end
- Ten-year schedule related to contributions, if statutorily established, with information measured as of the employer’s fiscal year-end

Include as notes to RSI:
- Factors that significantly affect the identification of trends in the amounts reported
- Significant methods and assumptions used in calculating the actuarially determined employer contributions, if applicable
### Required Supplementary Information—Applicable for Each Single-Employer or Agent Multiple-Employer Plan (continued)

#### Schedules of Changes in the Net Pension Liability and Related Ratios

Last 10 Fiscal Years

**(Dollar Amounts in Thousands)**

<table>
<thead>
<tr>
<th></th>
<th>20X9</th>
<th>20X8</th>
<th>20X7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total pension liability</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$100,103</td>
<td>100,530</td>
<td>106,411</td>
</tr>
<tr>
<td>Interest</td>
<td>226,709</td>
<td>212,957</td>
<td>193,904</td>
</tr>
<tr>
<td>Benefit changes</td>
<td></td>
<td></td>
<td>15,513</td>
</tr>
<tr>
<td>Difference between expected and actual experience</td>
<td>(67,539)</td>
<td>(15,211)</td>
<td>(19,075)</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td></td>
<td></td>
<td>61,010</td>
</tr>
<tr>
<td>Benefit payments, including refunds of contributions</td>
<td>(124,877)</td>
<td>(116,786)</td>
<td>(107,045)</td>
</tr>
<tr>
<td><strong>Net changes in total pension liability</strong></td>
<td>134,396</td>
<td>181,490</td>
<td>250,718</td>
</tr>
<tr>
<td><strong>Net pension liability—beginning</strong></td>
<td>2,987,712</td>
<td>2,806,222</td>
<td>2,555,504</td>
</tr>
<tr>
<td><strong>Net pension liability—ending</strong></td>
<td>$3,122,108</td>
<td>2,987,712</td>
<td>2,806,222</td>
</tr>
</tbody>
</table>

#### Plan fiduciary net position

<table>
<thead>
<tr>
<th></th>
<th>20X9</th>
<th>20X8</th>
<th>20X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions—employer</td>
<td>107,830</td>
<td>106,123</td>
<td>105,340</td>
</tr>
<tr>
<td>Contributions—member</td>
<td>50,319</td>
<td>50,372</td>
<td>60,111</td>
</tr>
<tr>
<td>Net investment income</td>
<td>196,154</td>
<td>(44,099)</td>
<td>(16,138)</td>
</tr>
<tr>
<td>Benefit payments, including refunds of contributions</td>
<td>(124,877)</td>
<td>(116,786)</td>
<td>(107,045)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(3,373)</td>
<td>(3,287)</td>
<td>(2,774)</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>(83)</td>
<td>173</td>
</tr>
<tr>
<td><strong>Net changes in plan fiduciary net position</strong></td>
<td>226,061</td>
<td>(7,760)</td>
<td>39,667</td>
</tr>
<tr>
<td><strong>Plan fiduciary net position—beginning</strong></td>
<td>2,163,521</td>
<td>2,171,281</td>
<td>2,131,614</td>
</tr>
<tr>
<td><strong>Plan fiduciary net position—ending</strong></td>
<td>$2,389,582</td>
<td>2,163,521</td>
<td>2,171,281</td>
</tr>
<tr>
<td><strong>Plan net pension liability—ending</strong></td>
<td>$732,566</td>
<td>824,191</td>
<td>634,941</td>
</tr>
<tr>
<td><strong>Plan fiduciary net position as % of total pension liability</strong></td>
<td>76.54%</td>
<td>72.41%</td>
<td>77.37%</td>
</tr>
<tr>
<td><strong>Covered employee payroll</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net pension liability as % of covered employee covered payroll</td>
<td>$428,559</td>
<td>436,424</td>
<td>418,243</td>
</tr>
</tbody>
</table>

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## Schedules of Employer Contributions

### Last 10 Fiscal Years

(Dollar Amounts in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>20X9</th>
<th>20X8</th>
<th>20X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarially determined employer contribution</td>
<td>$107,830</td>
<td>$106,123</td>
<td>$105,340</td>
</tr>
<tr>
<td>Employer contribution in relation to actuarially determined</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>determine contribution</td>
<td>(107,830)</td>
<td>(106,123)</td>
<td>(105,340)</td>
</tr>
<tr>
<td><strong>Contribution deficiency</strong></td>
<td>$</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Covered-employee payroll</strong></td>
<td>$482,589</td>
<td>$436,424</td>
<td>$416,243</td>
</tr>
<tr>
<td><strong>Contributions as a % of covered-employee payroll</strong></td>
<td>22.34%</td>
<td>24.32%</td>
<td>25.31%</td>
</tr>
</tbody>
</table>

### Notes to schedule

Methods and assumptions used to determine contribution rates:
- Actuarial cost method - Entry Age (all years)
- Amortization method - Level % of payroll (all years)
- Asset valuation method - 5 year smoothed market (all years)
- Valuation date - 6/30/X7 6/30/X6 6/30/X5
- Remaining amortization period - years - 15 15 15
- Investment rate of return, net of investment expenses - 7.75% 7.75% 8.00%
- Inflation - 3.25% 3.50% 3.50%
- Projected salary increases - 5.20% 4.50% 4.50%
- Mortality - RP-2000 Healthy Annuitant Mortality Table 1994 Group Annuity Mortality Table
For each cost-sharing plan, present as RSI a ten-year schedule with the following information for each year, measured as of the employer’s measurement date of the net pension liability:

- The employer’s proportion (percentage) of the collective net pension liability for benefits provided through the pension plan
- The employer’s net pension liability
- The pension plan’s fiduciary net position as a percentage of the total pension liability for benefits provided through the pension plan
- The covered-employee payroll
- The employer’s net pension liability as a percentage of the covered-employee payroll
Required Supplementary Information—Applicable for Cost-Sharing Multiple-Employer Plans

For each cost-sharing plan, if contributions are statutorily established, present as RSI a ten-year schedule with the following information for each year, measured as of the employer’s fiscal year-end:

- Statutorily required contribution, excluding amounts, if any, to separately finance amounts related to individual employer
- Amount of contributions to pension plan from employer in relation to statutorily required contribution. For purposes of this schedule, contributions include actual contributions and contributions recognized by pension plan as current receivables in relation to the statutorily required contribution.
- Difference between the statutorily required contribution and amount of contributions to pension plan from employer
- Covered-employee payroll
- Contributions to pension plan from employer as percentage of covered-employee payroll
• Notes to RSI should include information about factors that significantly affect the identification of trends in the amounts reported in the RSI schedule
Question 8

An employer participating in a cost-sharing multiple-employer pension plan should provide which of the following information as required supplementary information?

I. Employee contributions as a percentage of the covered-employee payroll

II. The employer’s proportion (percentage) of the collective net pension liability for benefits provided through the pension plan

III. The covered-employee payroll

IV. Total plan assets as a percentage of the total pension liability

A. I and II
B. I and III
C. II and III
D. III and IV
C. II and III

The employer’s proportion (percentage) of the collective net pension liability for benefits provided through the pension plan and covered-employee payroll
Accounting and Financial Reporting For Pension Plans

(An amendment of GASB Statement No. 25)
Overview of Pension Plan Standard

- Recognition, measurement, and presentation of financial statement amounts generally similar to current guidance.

- Note disclosures and required supplementary information:
  - Similar to nature of disclosures for employers, with the addition of information on investment policies and actual rates of return on plan assets.
  - Certain information only required for single-employer and cost-sharing plans.

- Requirements regarding the measurement of net pension liability (asset) are similar to the requirements for employers.
  - Net pension liability (asset) not recognized by pension plans.
Pension Plan Financial Statements

- Plans should present on the accrual basis of accounting:
  - Statement of Fiduciary Net Position
  - Statement of Changes in Fiduciary Net Position

- Statement of Fiduciary Net Position:
  - Plan assets subdivided by major category and principal components of receivables and investments
  - Receivables are largely short term and due pursuant to legal requirements
  - Investments are generally reported at fair value
  - Liabilities generally consist of benefits and refunds recognized when due
  - Equity is reported as net position restricted for pensions

- Statement of Changes in Fiduciary Net Position:
  - Separate display of contributions from employers, employees, and nonemployer contributing entities
  - Separate display of components of net investment income
  - Separate display of benefits and refunds paid to plan members and administrative expense
  - Report net increase/decrease in plan net position
Statement of Fiduciary Net Position

June 30, 20x9

(Dollar amounts in Thousands)

<table>
<thead>
<tr>
<th>Assets</th>
<th>20x9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and deposits</td>
<td>$ 74,234</td>
</tr>
<tr>
<td>Securities lending cash collateral</td>
<td>181,645</td>
</tr>
<tr>
<td>Total cash</td>
<td>255,879</td>
</tr>
</tbody>
</table>

| Receivables:                               |            |
| Contributions                              | 7,464      |
| Due from broker for investments sold       | 63,851     |
| Investment income                          | 4,655      |
| Other                                      | 169        |
| Total receivables                          | 76,139     |

| Investments:                               |            |
| Domestic fixed income securities           | 681,470    |
| Domestic equities                          | 1,075,201  |
| International equities                     | 459,827    |
| Real estate                                | 147,245    |
| Total investments                          | 2,363,743  |
| Total assets                               | 2,695,761  |

| Liabilities:                               |            |
| Investment management fees                 | 1,562      |
| Due to broker for investments purchased    | 115,212    |
| Collateral payable for securities lending   | 181,645    |
| Other                                      | 7,760      |
| Total liabilities                          | 306,179    |

Net position restricted for pensions         | $ 2,389,582|
Statement of Changes in Fiduciary Net Position

Year ended June 30, 20x9
(Dollar amounts in Thousands)

<table>
<thead>
<tr>
<th>Additions</th>
<th>20x9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions:</td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>$107,830</td>
</tr>
<tr>
<td>Member</td>
<td>50,319</td>
</tr>
<tr>
<td>Total contributions</td>
<td>158,149</td>
</tr>
<tr>
<td>Investment income:</td>
<td></td>
</tr>
<tr>
<td>Net appreciation in fair value of investments</td>
<td>162,137</td>
</tr>
<tr>
<td>Interest and Dividends</td>
<td>42,179</td>
</tr>
<tr>
<td>Less investment expense, other than from securities lending</td>
<td>(8,905)</td>
</tr>
<tr>
<td>Net income from investing, other than from securities lending</td>
<td>195,411</td>
</tr>
<tr>
<td>Securities lending income</td>
<td>989</td>
</tr>
<tr>
<td>Less securities lending expense</td>
<td>(246)</td>
</tr>
<tr>
<td>Net income from securities lending</td>
<td>743</td>
</tr>
<tr>
<td>Net investment income</td>
<td>196,154</td>
</tr>
<tr>
<td>Other</td>
<td>41</td>
</tr>
<tr>
<td>Total additions</td>
<td>354,344</td>
</tr>
</tbody>
</table>

| Deductions                               |      |
| Benefit payments, including refunds of member contributions | 124,877  |
| Administrative expense                    | 3,373  |
| Other                                    | 33  |
| Total deductions                         | 128,283  |

| Net position restricted for pensions     |      |
| Beginning of year                        | 2,163,521  |
| End of year                              | $2,389,582  |
Pension Plan Notes to Financial Statements

- The following are required note disclosures for all pension plans:
  - Plan description
    - Similar to employer disclosures with addition of information on the pension board
  - Investments
    - Investment policies of the plan
    - Description of how fair value is determined
    - Identification of investments in any one organization that represent five percent or more of plan net position
    - Annual *money-weighted rate of return* on plan investments, calculated as the internal rate of return on plan investments, net of investment expense, and an explanation of the concept of a money-weighted return
  - Long-term contractual receivables
  - Reserves
  - Allocated insurance contracts excluded from plan assets
  - *Deferred retirement option program (DROP) balances*
    - A description of the DROP terms
    - The balance of the amounts held by the plan pursuant to the DROP
Pension Plan Notes to Financial Statements (continued)

- The following are required note disclosures solely for all single-employer and cost-sharing plans:
  - Components of net pension liability (asset) of the employer(s) as of the plan’s fiscal year-end:
    - Total pension liability
    - Plan fiduciary net position
    - Net pension liability (asset)
    - Ratio of plan fiduciary net position to the total pension liability
  - Significant assumptions used to measure total pension liability:
    - Similar to employer disclosures, including disclosures for the discount rate
    - The date of the actuarial valuation on which the total pension liability of the employer(s) is based and whether the amount is the result of the use of update procedures to roll forward amounts to the plan’s year-end

For agent plans, disclosure of aggregated information about the net pension liabilities of the employers is not required because of the limited decision utility. This is a significant change from current practice.
The following is required supplementary information for all single-employer and cost-sharing plans:
- Ten-year schedule of changes in the net pension liability (asset)
- Ten-year schedule of components of net pension liability
- Ten-year schedule related to employer contributions, if an actuarially-calculated employer contribution is determined

Information included in above schedules and requirements to provide notes to the RSI are similar to requirements for employers.

Measurements should be made as of the plan’s fiscal year-end.

A ten-year schedule of the annual money-weighted rate of return on plan investments also should be presented as RSI for all types of plans.

For agent plans, reporting of aggregated multi-year information about the net pension liabilities of the employers (as RSI) is not required because of the limited decision utility.
Question 9

Based on the provisions of the GASB Pension Plan Standard, which of the following types of RSI would be required for all types of pension plans?

A. Ten-year schedule of changes in net pension liability
B. Ten-year schedule of components of net pension liability
C. Ten-year schedule related to employer contributions
D. Ten-year schedule of annual money-weighted rate of return
D. Ten-year schedule of annual money-weighted rate of return
Effective Date of the Pension Standards

- The Pension Standards are effective as follows:
  - Pension Plan Standard for fiscal years beginning after June 15, 2013
  - Employers Standard for fiscal years beginning after June 15, 2014

- Changes made to comply with the standards should be treated as an adjustment of prior periods, resulting in restatement of those periods
  - Employers should not report beginning balances of deferred outflows/inflows of resources if not practical to determine.

- Ten-year RSI schedule related to contributions should be presented in full upon implementation, if applicable.

- Plans and employers are encouraged, but not required, to present all years of other RSI information retrospectively:
  - Information should be measured in accordance with the new standards.
  - If a full schedule is not presented, present information for as many years as available until 10 years of information are available.
Question 10

The provisions of the Pension Plan Standard (GASB Statement No. 67) is effective for what fiscal year-end?

A. June 30, 2012  
B. June 30, 2013  
C. June 30, 2014  
D. June 30, 2015
C. June 30, 2014
Q & A
Closing Items

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