MEMORANDUM

April 9, 2014
Agenda Item 11

Date: March 12, 2014

To: Plan Sponsors/Employers

From: Vickie Kaplan, Retirement Accounting Manager

Subject: **GASB 67 & 68 Update**

BACKGROUND

In June 2012, the Governmental Accounting Standards Board (GASB) issued two new standards that fundamentally change the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most pension plans, including CCCERA. Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, which includes CCCERA's plan sponsors. On November 25, 2013, GASB issued a new Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment to GASB Statement No. 68. This statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68. The GASB's intentions with these new standards are to improve the transparency, consistency and comparability of the pension information reported by state and local governments and pension plans through standardization of actuarial valuation practices used in the calculation of pension related liabilities.

The new standards represent the most significant change to pension reporting requirements in nearly 20 years. Prior to the new standards being issued, the accounting and reporting requirements of pension related liabilities followed a long-term funding policy perspective. The new standards separate the accounting and reporting requirements from the funding policy perspective. The new standards govern how pension related liabilities are to be calculated and reported and therefore, they represent a break from the funding perspective and past reporting practices. In essence, pension systems will now have separate actuarial valuations for funding decisions and for accounting/financial reporting requirements. In addition, employers, who previously had no or limited reporting responsibility related to pensions, will now include a share of the unfunded liability on their financial statements.

EFFECTS OF NEW STANDARD ON CCCERA

GASB Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans such as CCCERA. As a multiple-employer cost-sharing plan, CCCERA will be required to enhance its note disclosures in the annual financial statements, provide additional schedules in the Required Supplemental Information (RSI) section of the Comprehensive Annual Financial Report (CAFR) and also present new information about annual money-weighted rates of return in the notes to the financial statements and in 10 year RSI schedules.

The timing of a pension system's actuarial valuation is an important matter to consider when implementing GASB Statement No. 67. The **valuation date** applies to pension systems and refers to the date of the most recent actuarial valuation that has GASB compliant values. CCCERA can achieve this by either having a GASB compliant actuarial valuation as of the end of the current year end completed in conjunction with the CAFR preparation, or by using the prior year's valuation and having the actuary roll the liability values forward to the end of the current fiscal year end. Currently, CCCERA uses a beginning of year actuarial valuation (dated the last day of the prior year) in the current year's CAFR. When implementing GASB No. 67, CCCERA will elect to use the prior year's valuation and have the actuary roll the liability values forward to the end of the current fiscal year end. Therefore, CCCERA's valuation date will be 12/31/13.

Below is a list of anticipated new or expanded footnotes required by GASB No. 67:

- Plan membership – Expanded Table
- Investments:
  - Allocation by Asset Class
  - Expected Long-term Rate of Return by Asset Class
  - Annual Money-weighted Rate of Return
  - Identification of investment representing 5% or more of plan fiduciary net position
- Components of Net Pension Liability – Summary level information
  - Total Pension Liability
  - Plan Fiduciary Net Position
  - Net Pension Liability
  - Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Significant Actuarial Assumptions used to Measure Total Pension Liability

In addition, the RSI section of the financial statements will include the following new schedules:

- 10 Year Schedule of change in Net Pension Liability
- 10 Year Schedule of Contractually Required Contributions
- 10 Year Schedule of Annual Money-weighted Returns

NOTE: The above schedules will be built into 10 years of the required information; however, upon implementation only the most recent year's information is required.

EFFECTS OF NEW STANDARDS ON EMPLOYERS/PLAN SPONSORS

The pension accounting and reporting rules for employers who participate in defined benefit plans, such as CCCERA, change significantly with the issuance of GASB Statement No. 68. The new standard requires employers to report on their government-wide statement of net position (also known as their balance sheet) a "Net Pension Liability" if the present value of their obligation for pension benefits attributable to past service exceeds the resources held in the pension trust fund to pay benefits. Related to recognizing a Net Pension Liability on the financial statement, employers will also be required to record a pension expense on their government-wide statement of changes in net position (also known as an income statement). The new standard provides specific guidance and requirements on how to calculate both the liability and the expense related to defined benefit plans. The required calculations will require the assistance and coordination of CCCERA and CCCERA's actuary (Segal Consulting). Below is a summary of some of the requirements employers will have to implement based on the new standard:

- The actuarial valuation must use the entry age level percentage of payroll method for calculating total pension liabilities (this is consistent with CCCERA's current practice). The **valuation date** must take place within 18 months of the start of the employer's financial reporting period (v. 24 months previously permitted) and the resulting data must then be "updated" to make it current as of a **measurement date** no earlier than the day immediately preceding the start of the financial reporting period. Employers will need to report all pension related data based on a **measurement date**. Employer options for the choice of a **measurement date** are as follows:
  a. Measurement Date: December 31, 2014 – For employers with a 6/30/15 year end
  b. Measurement Date: December 31, 2015 **OR** December 31, 2014 – For employers with a 12/31/15 year end (employers will need to stick with the measurement date they choose going forward)

- Each employer in CCCERA must report its own net pension liability, pension expense, and pension related deferred outflows/inflows of resources based on their **proportionate share** of the total of each item for all employers in CCCERA. The proportionate share can be calculated by determining each employer's relative share of total employer contributions or actual payroll and then applying that percentage to the amount in total for all employers in the plan.

- Changes in economic and demographic assumptions used to project benefits and differences between actuarial assumptions and actual experiences will be recognized on the employers' statement of activities as part of the annual pension expense but will be amortized over a closed period of time that will be determined by the **average remaining service period of the plan members**. The average remaining service period will be calculated using active, deferred and retired members in the plan. Retired members have zero years of remaining service which will cause the amortization period used for reporting purposes to be materially shorter than CCCERA's current policy of 18 years.

- The effects of differences between expected and actual investment returns will be recognized in pension expense over a closed five-year period which is consistent with how this type of gain/loss is currently treated in CCCERA's annual actuarial valuation.

- The discount rate used to discount projected benefits payments to their present value will be based on a single rate that reflects:

  a. The long-term expected rate of return on plan investments (net of investment expenses but **not** of administrative expenses) as long as the plan net position is projected under specific conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return. Currently, CCCERA's investment return assumption used for the annual funding valuation is developed net of both investment and administrative expenses. At the February 26, 2014 Board meeting, Segal Consulting discussed the implications of this requirement.
  b. A yield or index rate on tax-exempt 20-year, AA or higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not net.

  Based on CCCERA's new funding policy that was adopted on February 26, 2014, it is anticipated that CCCERA's discount rate will equal the long-term expected rate of return as the plan assets are expected to be sufficient to pay pensions of current members. CCCERA's actuary, Segal Consulting, will be preparing a cash flow schedule that includes current trust assets, estimated future contributions based on CCCERA's funding policy, estimated future benefit payments (for past service only), and estimated interest earnings to justify using the single long-term expected rate of return on investments as the discount rate.

- More detailed information about the benefits provided by the employer's pension plan, contributions, assumptions and methods will also be required in the financial statement note disclosures and RSI. CCCERA will coordinate providing plan level and proportionate share data to you (i.e. the plan sponsor) for you to incorporate into your required schedules and footnotes. However, the responsibility of actually preparing the financial statements including the new pension accounting requirements will remain the responsibility of each employer.

EFFECTIVE DATES AND AVAILABILITY
CCCERA is required to implement the provisions of Statement No. 67 in the fiscal period beginning after June 15, 2013. This will be CCCERA's financial statements for the period ending December 31, 2014 (which are scheduled to be completed and audited by June 2015). Government entities, including CCCERA's plan sponsors will be required to implement the provisions of Statement No. 68 in fiscal years beginning after June 15, 2014. This will be the fiscal year ending June 30, 2015 or December 31, 2015 for all of CCCERA's plan sponsors. The process to implement the new pension standards will require collaboration from several entities. CCCERA has scheduled a "GASB 67/68 Implementation Task Force" kick-off meeting

on Thursday, March 27 with our auditors, Brown Armstrong CPAs, actuary, Segal Consulting, and plan sponsors/employers. In an effort to start the necessary collaboration with our stakeholders, CCCERA will schedule "GASB 67 & 68 Working Group" meetings once a timeline has been established. The group will include CCCERA staff, accounting and reporting staff from plan sponsors, CCCERA's auditors (Brown Armstrong CPAs), and CCCERA's actuary (Segal Consulting). The Working Group will plan to meet periodically throughout the implementation process to discuss challenges and issues related to the new reporting requirements and to facilitate a collaborative effort while providing the necessary financial information.

As noted earlier, the new standards represent the most significant changes in pension accounting and reporting in over 20 years. The effective dates of the new standards represent a relatively quick implementation period given the magnitude of the reporting changes and the impact these liabilities will have on employer financial statements. CCCERA is committed to implementing the standards as required and to assisting our plan sponsors to do the same. Many questions have been raised regarding specific requirements and acceptable methods for implementing the standards. The GASB issued the implementation guide for GASB Statement No. 68 on January, 30, 2014. This publication will answer key questions raised by various plans and employers throughout the nation about putting the new standards into practice.

AGENDA

RETIREMENT BOARD MEETING

SPECIAL MEETING
9:00 a.m.

March 20, 2014

Retirement Board Conference Room
The Willows Office Park
1355 Willow Way, Suite 221
Concord, California

THE RETIREMENT BOARD MAY DISCUSS AND TAKE ACTION ON THE FOLLOWING:

1. Pledge of Allegiance.

2. Accept comments from the public.

3. Discussion with consultant and staff regarding managers scheduled to present.

4. Manager panel discussions:

   9:15 a.m. – 10: 15 a.m.
   Topic: Balance of risk and opportunities – What lies ahead?
   Managers Presenting: Torchlight, First Eagle, and William Blair

   10:15 a.m. – 11:00 a.m.
   Topic: Opportunities in Real Assets
   Managers Presenting: Research Affiliates, Wellington, Aether, and Commonfund

   11:15 a.m. – 12:15 p.m.
   Topic: Defense in times of rising interest rates
   Managers Presenting: PIMCO, Lord Abbett, and Goldman Sachs

5. Consider and take possible action on SACRS Voting Proxy Form.

6. Consider authorizing the attendance of Board and/or staff:
   a. Spring Conference, SACRS, May 13 – 16, 2014, Sacramento, CA.

7. Miscellaneous
   a. Staff Report
   b. Outside Professionals' Report
   c. Trustees' comments

The Retirement Board will provide reasonable accommodations for persons with disabilities planning to attend Board meetings who contact the Retirement Office at least 24 hours before a meeting.

CONTRA COSTA COUNTY CCCERA Employees' Retirement Association

AGENDA

RETIREMENT BOARD MEETING

SECOND MONTHLY MEETING
March 26, 2014
9:00 a.m.

Retirement Board Conference Room
The Willows Office Park
1355 Willow Way, Suite 221
Concord, California

THE RETIREMENT BOARD MAY DISCUSS AND TAKE ACTION ON THE FOLLOWING:

1. Pledge of Allegiance.

2. Accept comments from the public.

CLOSED SESSION

3. The Board will go into closed session pursuant to Govt. Code Section 54957 – public employee appointment. Title: Retirement Chief Executive Officer.

OPEN SESSION

4. Miscellaneous
    a. Staff Report
    b. Outside Professionals' Report
    c. Trustees' comments

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AGENDA

RETIREMENT BOARD MEETING

FIRST MONTHLY MEETING April 2, 2014 9:00 a.m.	Retirement Board Conference Room The Willows Office Park 1355 Willow Way, Suite 221 Concord, California

****AMENDED****

THE RETIREMENT BOARD MAY DISCUSS AND TAKE ACTION ON THE FOLLOWING:

1. Pledge of Allegiance.

2. Accept comments from the public.

3. Approve minutes from the February 12 and 26, 2014 meetings.

4. Routine items for April 2, 2014.
   a. Approve certifications of membership.
   b. Approve service and disability allowances.
   c. Accept disability applications and authorize subpoenas as required.
   d. Approve death benefits.
   e. Accept Asset Allocation Report

5. Presentation from Delaware Investments on creation of Jackson Square Partners.

6. Consider and take possible action to reassign contract from Delaware Investments to Jackson Square Partners.

7. Educational presentation from Parametric Clifton on cash overlay strategies.

8. Presentation from Ocean Avenue Capital Partners.

9. Consider and take possible action on consultant recommendation to make commitment to Ocean Avenue Capital Fund II.

CLOSED SESSION

10. The Board will go into closed session under Gov. Code Section 54957 to consider recommendations from the Medical Advisor and/or staff regarding the following disability retirement applications:

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	Member	Type Sought	Recommendation
a.	Tracy Kroll	Non-service Connected	Non-service Connected
b.	Steven April	Service Connected	Service Connected

11. The Board will continue in closed session pursuant to Govt. Code Section 54956.9(a) to confer with legal counsel regarding existing litigation:

    a. *Contra Costa County Deputy Sheriffs Association, et al., v. CCCERA, et al.*, Contra Costa County Superior Court, Case No. N12-1870.

12. The Board will continue in closed session to confer with legal counsel regarding anticipated litigation pursuant to Govt. Code Section 54956.9(b): one potential case.

13. The Board will continue in closed session pursuant to Govt. Code Section 54956.81 to consider the purchase of particular pension fund investment.

OPEN SESSION

14. Presentation of cash flow report for the period ending December 31, 2013.

15. Consider and take possible action to contract with Laughlin, Falbo, Levy and Moresi, LLP to provide disability retirement legal services.

16. Consider authorizing the attendance of Board and/or staff:
    a. Client Conference, Energy Investors Fund, May 6 – 8, 2014, Dana Point, CA.
    b. Client Conference, Siguler Guff, April 30 – May 1, 2014, New York, NY.
    c. 2014 Global Conference, Milken Institute, April 27 – 30, 2014, Los Angeles, CA.

17. Miscellaneous
    a. Staff Report
    b. Outside Professionals' Report
    c. Trustees' comments

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