Additional Future Issues - GASB

- GASB issued two Exposure Drafts (EDs) this July
- If implemented, these EDs will amend GASB Statements 25 and 27
- Statement 25 deals with the financial statements of pension plans
- Statement 27 deals with financial statements of covered employers

GASB EDs

- Exposure drafts are generally the last public documents issued before the final statements
- Comment due on the EDs were originally due back to the GASB by Sept 30, but were extended until October 14th

Retirement Systems' Involvement

- Retirement Systems commented on the Preliminary Views Document issued by GASB in 2010
- We are one of 25 pension plans and employers that volunteered to participate in GASB's Pension Field Test for the EDs
- We have reported the results of our Field Test experience and have also submitted a comment letter on the EDs to GASB

Current Pension Accounting

- The Retirement Systems is a cost-sharing multiple employer plan
- Currently, employers show a pension expense of the annual required contribution amount on their financial statements
- Current pension liability of the employer is zero unless they fail to make the required contribution
- Actuarially Accrued Liability is reported in notes of the Retirement Systems' financial statements

What will the EDs change?

- Require employers to recognize a portion of the Unfunded Pension Liability on their balance sheet
- Require the pension fund to use market value of assets in calculating net pension liability
- Change the measure of pension expense
- Totally disconnect the accounting for pensions from the funding of pensions
- Add additional note disclosures and RSI

Reason for Change

- GASB decided that the employment exchange between an employee and the employer creates a future obligation for retirement benefits
- To the extent the pension plan has an unfunded liability GASB has determined this should be a liability of the employer

Unknowns about this Approach

- **Is it really a liability?**
  - GASB defines liability as a "present obligation to sacrifice resources that a government has little or no ability to avoid"
  - To be recognized in the financial statements it must also be measureable with sufficient reliability

Whose Liability is it???

- SECTION 9-1-1690. Credit of State is not pledged for payments; rights in case of termination of System or discontinuance of contributions.

  All agreements or contracts with members of the System pursuant to any of the provisions of this chapter shall be deemed solely obligations of the Retirement System and the full faith and credit of this State and of its departments, institutions and political subdivisions and of any other employer is not, and shall not be, pledged or obligated beyond the amounts which may be hereafter annually appropriated by such employers in the annual appropriations act, county appropriation acts and other periodic appropriations for the purposes of this chapter. In case of termination of the System, or in the event of discontinuance of contributions thereunder, the rights of all members of the System to benefits accrued to the date of such termination or discontinuance of contributions, to the extent then funded, are nonforfeitable.

How is the liability allocated?

- **GASB ED 27 paragraph 46**

  "The proportion used to calculate the employer's share of the collective totals should be a measure of the employer's projected long-term contribution effort to the pension plan as compared to the total of all projected contributions of the employer."

  What does this mean?

Employer's Proportionate Share

- We are using the current annual covered payroll of the employer divided by the total covered payroll of all employers to determine an allocation percentage
- We then multiply the allocation percentage by the total net pension liability to determine the amount of NPL to attribute to that employer

Proportionate Share Example

- Employer has covered payroll of $5 million
- Total covered payroll of all SCRS employers equals $7.8 billion
- ($5m/$7.8b) X $19.1b equals:

$12.2 million net pension liability to be recognized by employer

What does this mean for employers?

- Such a large liability may distort the employer's financial statements
- Most, if not all, will appear insolvent
- May be difficult to explain to governing boards and taxpayers
- Will most likely increase audit costs
- Extreme volatility will result in both their proportionate share of NPL and pension expense

What it Means to the SC Retirement Systems

- We will need to provide information on proportionate share of NPL, pension expense, notes and RSI to each employer
- This needs to be done as of each employer's FYE
- This requires us to obtain MV of assets and roll forward the pension liability for each FYE
- Will make the defined benefit plans appear much more expensive

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SOUTH CAROLINA RETIREMENT SYSTEMS
SC BUDGET AND CONTROL BOARD

Organizational Chart

South Carolina Budget and Control Board