



NHRS

New Hampshire Retirement System

GASB 68

Implementation Update

New Hampshire Retirement System
September 2015



- **NHRS Overview**
- **GASB Overview**
- **So, What Really Changes?**
- **New Concepts: TPL, FNP & NPL**
- **Employer Proportionate Share**
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NHRS Overview

- **NHRS is a contributory, defined benefit plan established in 1967**
- **Once members attain eligibility, they receive a guaranteed lifetime pension funded through employee and employer contributions and the growth of the trust fund assets**
- **Investment returns have historically provided the bulk of funding for pension benefits**
- **Member contributions are set by statute; employer contributions are actuarially determined on a biennial basis**



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NHRS Overview

- **NH Legislature: Plan Sponsor**
 - **RSA 100-A serves as plan document**
- **NHRS staff implements RSA 100-A**
- **NH Constitution Art. 36-a protects fund ‘for the exclusive purpose’ of providing benefits**
- **Subject to Internal Revenue Code provisions**
- **NHRS Board of Trustees and Independent Investment Committee members are fiduciaries**



- **Participating Employers: 475+**
- **Membership at 6/30/14:**

	Employees	Teachers	Police	Fire	Total
Active Members	24,545	17,986	4,166	1,610	48,307
Retirees/Beneficiaries	15,314	10,965	3,282	1,493	31,054

- **NHRS paid out more than \$650 million in benefits in FY 2014 to 31,000 retirees and beneficiaries**
- **Average annual benefit: \$19,407**



- **Trust fund was approximately \$7.41 billion as of 6/30/14**
- **Unfunded Actuarial Accrued Liability (UAAL) was \$4.3 billion at the close of FY 2014, a funded ratio of 60.7%**
 - **UAAL is the result of artificially low employer contributions coupled with transfer of 'excess' investment earnings to Special Account over an extended period that was exacerbated by market downturn of past decade**



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NHRS Overview

- **Method is in place to amortize UAAL over a closed, 25-year period through employer contribution rates**
- **UAAL does not impact the short-term fiscal stability of NHRS**
- **A Constitutional obligation (Article 36-a)**



■ GASB 67/68 Timeline

- 10-year GASB Pronouncement update cycle
- GASB Board approved final statements amending pension accounting and financial reporting requirements in June 2012
- GASB Statement 67 replaced GASB Statement 25 (*Financial Reporting for Pension Plans*) effective for fiscal years commencing after June 15, 2013
- GASB Statement 68 replaced GASB Statement 27 (*Accounting for Pensions by Employers*) effective for fiscal years commencing after June 15, 2014



- **GASB 67/68 Highlights**
 - **GASB Rationale: Consistent, transparent, comparable financial reporting**
 - **Funding accounting is divorced from financial reporting accounting**
 - **For cost-sharing plans such as NHRS, the GASB pension liability is allocated to participating employers**
 - **Financial statements of employers will reflect a portion of liability and pension expense**
 - **Putting liability on the balance sheet will add a large and volatile element to an employer's net financial position on its basic financial statements**



- **GASB 67/68 Highlights**
 - **Changes do not alter the statutory funding methodology**
 - **Timing and scope of new reporting will require greater coordination between plan and employers, as well as between auditor and actuary**
 - **Does not include OPEB (Medical Subsidy)**



So, What Really Changes?

■ Common Questions

- **Will it impact property tax rates? No**
- **Will it change NHRS employer contribution rates? No**
- **Will it impact credit rating/bonding? Uncertain**
- **Will it impact audits? Yes; AICPA task force has developed industry-wide best practices**
- **Will it cause confusion? Yes; Like anything new and different, policymakers and the public may be confused by the new disconnect between pension accounting and pension funding**
- **Can employers pay off their share of liability early? No**



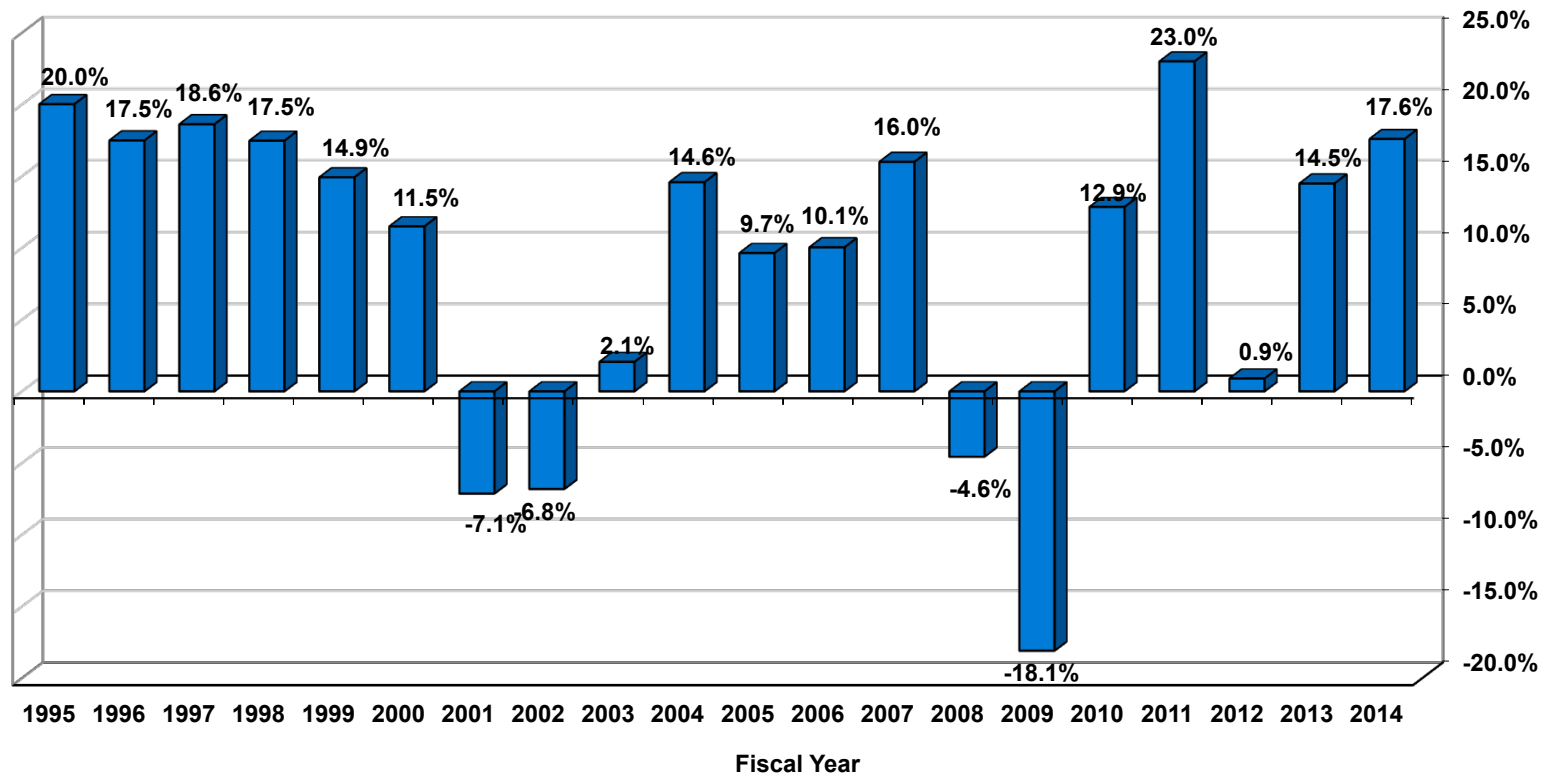
- **Total Pension Liability (TPL) – What’s Owed**
 - **Reports the total employer’s financial responsibility for future lifetime pension benefits as of a given measurement date**
 - **Must use Entry Age Normal cost method (same as NHRS’ statutory actuarial method)**
 - **Discount rate: Either the Plan assumed rate of return or a blended rate using the assumed rate of return and the 20-year municipal bond rate**



- **Fiduciary Net Position (FNP) – What’s Owned**
 - **Replaces the current ‘Net Assets Held in Trust’ for pensions**
 - **Includes a new concept: Deferred inflow and outflow components**
 - **FNP is based on market value of assets, which may lead to greater year-to-year volatility**



Twenty-Year History of NHRS Total Fund Returns



Source Data: Time-weighted annual returns (net of fees) provided by NEPC, LLC



- **Net Pension Liability (NPL) – Unfunded**
 - **TPL less FNP**
 - **(i.e. total reported future obligation minus current market value of assets net of liabilities)**
 - **Similar to, but not the same as, unfunded actuarial accrued liability (UAAL)**
 - **Unlike most liabilities, NPL is not immediately payable**



NPL/UAAAL Comparison

Liability/Funded Status Comparison

Computation Basis

	GASB	Actuarial Funding
Total Pension Liability	\$ 11,144,213,773	\$ 11,045,173,866
Fiduciary Net Position	\$ 7,390,628,021	\$ 6,700,553,435
Net Pension Liability	\$ 3,753,585,752	\$ 4,344,620,431
Percent Funded	66.3%	60.7%

GASB/Actuarial Comparison at June 30, 2014



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Employer Proportionate Share

- **Every employer must report its proportionate share of the NPL on its balance sheet**
- **NHRS will annually determine proportionate shares based on employer contributions to the pension plan**
 - **Does not include Medical Subsidy contribution rate**



Which Contributions?

- **2016-17 Political Subdivision employer rates**

	Employer Pension Cost		Medical Subsidy	Total Employer Rate
	Normal Cost	UAAL		
GROUP I				
Employees	2.14%	8.72%	0.31%	11.17%
Teachers	1.69%	11.03%	2.95%	15.67%
GROUP II				
Police	5.06%	17.48%	3.84%	26.38%
Fire	6.56%	18.76%	3.84%	29.16%



Employer Pension Expense

- **Reported on employer income statement**
- **Old: The amount of the contribution check you wrote to NHRS**
- **New: The change in NPL from year to year, as well as deferred inflows and outflows for:**
 - **Actuarial gains and losses (i.e. the difference between actual and expected economic and member demographic factors)**
 - **Changes in actuarial assumptions**
 - **Difference between projected and actual investment earnings**
 - **The effect of the change in employer proportion from one measurement date to the next**
 - **Difference between actual employer contributions and the proportionate share value for the measurement period**
- **Different amortization schedules for different components**



Required Disclosures

- **Note Disclosure**
 - **Plan description**
 - **Information about employer's Proportionate Share of the collective Net Pension Liability**
 - **Assumptions and other inputs**
 - **Fiduciary net position**
- **Required Supplementary Information**
 - **10-year schedules**
 - **Funding progress**
 - **Employer contributions**



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What NHRS Is Providing

- Calculation of aggregate NPL
- Calculation of aggregate pension expense
- Determination of proportionate shares
- Aggregate amortization schedules for deferred inflows and outflows
- Pro-forma suggested language for required disclosures

***Reports with audited proportionate shares of
NPL and pension expense are available at:
www.nhrs.org/employers/gasb/gasb-67-68-reports***



- **AICPA Recommendations: Census audits**
 - **Done by NHRS in conjunction with internal and external auditors**
 - **30 audits conducted this year**
 - **Risk-based approach by plan auditor to select employers to test**
 - **Individually important employers (e.g. > 20% of plan) tested annually**
 - **Plan auditor performs risk assessment on remaining employers using tiered approach**



Communicating the Changes

- **Be ready for this question**
 - **‘How can we afford a new teacher contract/school bond if we are in the red under these new accounting standards?’**
 - **The answers**
 - **The pension liability is not new; it has always existed, but it had been reported in NHRS footnotes**
 - **Bond rating agencies have always been aware of pension liabilities**
 - **The pension liability is not immediately due in any single year**
 - **Reporting the Net Pension Liability under GASB 68 doesn’t directly impact property tax rates or NHRS contribution rates**



■ Bottom Line

- **New reporting deals with financial accounting, not funding**
- **GASB has made NHRS your financial reporting partner**
- **No direct impact on contributions or property taxes**
- **Having two different numbers out there – one for funding and one for accounting – will present a communications challenge**



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GASB Resources

Online: [www.nhrs.org/Employers/
GASBReportingChanges.aspx](http://www.nhrs.org/Employers/GASBReportingChanges.aspx)

Contact: Jack Dianis, NHRS

603-410-3656

GASB@nhrs.org



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