GASB 68: PENSION FOR EMPLOYERS

EFFECTIVE DATE: Periods Beginning after 6/15/2014

- State and Schools FY 2015
- Cities and Counties CY 2015

SDRS is a Cost-sharing multiple employer defined benefit pension plan (cost sharing pension plan)—A multiple employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

- Employers are required to report its share of the total amount of reported for all the employers participating in the plan, based on its proportionate share of the employer contributions.
  - Pension Liability
  - Pension Expense
  - Pension related outflows/inflows of resources

Employer Reporting for Pensions -

Government-Wide Financial Statements

Item	Statement of Net Position	Statement of Activities
Employer obligation in excess of resources held in pension trust fund	Net Pension Liability	
Cost of the current period		Pension Expense
Effect of changes in actuarial assumptions not yet recognized in pension expense	Deferred outflows/inflows of resources	
Effect of differences between actuarial assumptions and actual results not yet recognized in pension expense	Deferred outflows/inflows of resources	

Example Cost-Sharing Pension Plan
Schedule of Employer Allocations
June 30, 2015

Employer	2015 Actual Employer Contributions	Employer Allocation Percentage
State	2,143,842	37.937%
Employer 1	795,365	14.075%
Employer 2	633,125	11.204%
Employer 3	483,255	8.552%
Employer 4	403,527	7.141%
Employer 5	322,142	5.701%
Employer 6	268,425	4.750%
Employer 7	267,468	4.733%
Employer 8	144,288	2.553%
Employer 9	95,365	1.688%
Employer 10	94,238	1.668%
	5,651,040	100.000%

Illustration is based on Measurement Period of 7/1/13 through 6/30/14 and Employer reporting period ending 12/31/14.

STEP 1: **SDRS provides the employers the collective values of**

- Deferred outflows/inflows
- Net pension liability
- Pension Expense

Employers will need to apply their proportionate share (step 2)

		6/30/2013		6/30/2014
Collective deferred outflows of resources		$1,373,702		$2,185,968
Collective deferred inflows of resources		$1,536,637		$1,229,826
Collective net pension liability		$6,178,023		$7,455,024
Collective pension expense				$1,162,654
Employer's proportion		0.19%		0.20%

In addition SDRS provides the expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined at July 1, 2013 is 9.3 years. This information will be used in future amortizations.

STEP 2: **Employer calculates proportionate shares of collective balances**

Collective Measure	Proportionate Share at 6/30/13 (0.19%)	Proportionate Share at 6/30/14 (0.20%)	Change in Proportionate Share
Deferred outflows of resources	$2,610	$4,372	$1,762
Deferred inflows of resources	(2,919)	(2,460)	459
Net pension liability	(11,738)	(14,910)	(3,172)

In addition, the Employers proportionate share of collective pension expense for the measurement period ending June 30, 2014 is $2,325 ($1,162,654 x 0.20%)

STEP 3: Annual changes in Net Pension Liability will generally be reported as pension expense as they occur EXCEPT as follows. *Amounts are amortized over the average remaining service lives=9.3yrs*

- **Plan Level (Provided by SDRS)**
  - Annual amortization of experience gain/loss
  - Annual amortization of Assumption changes
  - Annual amortization of difference between assumed and actual investment return to market value

- Employer Level (maintained by employer)
  - STEP 4: **Changes in Proportion**—annual amortization of changes in NPL and deferred inflows/outflows due to change in allocation (proportion)

	Collective Amount at 6/30/2013	Proportionate Share at 0.19% (a)	Proportionate Share at 0.20% (b)	Effect of Change in Proportion (a) – (b)
Deferred outflows of resources	$1,373,702	$2,610	$2,747	$ (137)
Deferred inflows of resources	(1,536,637)	(2,919)	(3,073)	154
Net pension liability	(6,178,023)	(11,738)	(12,356)	618
Net effect of the change in the Employer's proportion				$ 635

Therefore, the Employer reports an increase in pension expense equal to $68 ($635 ÷ 9.3yrs) and a deferred outflow of resources of $567 ($635 - $68).

  - STEP 5: **Difference in Contributions**—annual amortization of difference between actual contributions and the proportionate share of contributions calculated using allocation method.
    - Employer records indicate the following Employer contributions during the fiscal year ending December 31, 2014:
      - July 1, 2013 to December 31, 2013 = $1,030 (reported as a deferred outflow of resources as **12/31/2013**)
      - January 1, 2014 to June 30, 2014 = $1,030
      - July 1, 2014 to December 31, 2014 = $1,065 (contributions subsequent to the measurement date of the collective net pension liability and before the end of the Employer's reporting period should be reported as deferred outflow of resources)

	Collective Amount	Proportionate Share at 0.20% (a)	Employer Contributions (b)	Difference (b) – (a)
Employer contributions	$1,004,730	$2,009	$2,060	$ 51

Therefore, the Employer reports an increase in pension expense equal to $6 ($51 ÷ 9.3yrs) and a deferred outflow of resources of $45 ($51-$6).

STEP 6: **Calculate the net effect of Steps 4 and 5**

	Deferred Outflows of Resources	Pension Expense
Change in proportion ($635)	$567	$68
Contributions during the measurement period ($51)	45	6
Net amount recognized	$612	$74

STEP 7: **Prepare journal entries for Employers Fiscal Year Ending 12/31/14**

Debit Deferred Outflows of Resources—proportionate share of collective	$1,762 (a)	
Debit Deferred Inflows of Resources—proportionate share of collective	$ 459 (a)	
Debit Pension Expense—proportionate share of collective pension expense	$2,325 (a)	
Debit Pension Expense—net recognized pension expense	$ 74 (b)	
Debit Deferred Outflows of Resources—net deferral balances	$ 612(b)	
Credit Pension Liability—proportionate share of collective		$3,172 (a)
Credit Deferred Outflows of Resources—Employer contributions 7/1/13 to 12/30/13		$1,030 (c)
Credit Employer Contributions Expense—Employer contributions 1/1/14 to 6/30/14		$1,030 (c)

(a)=Step 2 above: To record changes in Employers proportionate shares of the collective net pension liability, collective deferred outflows of resources and collective expense.
(b)=Step 6 above: To record pension expense and deferral balance arising in the current measurement period.
(c)=Step 5 above: To record contributions during the measurement period.

Debit Deferred Outflow of Resources—Employer contributions 7/1/14 to 12/31/14 $1,065
Credit Employer Contributions Expense—Employer contributions 7/1/14 to 12/31/14 $1,065

From Step 5 above: To record Employer contributions subsequent to the measurement date and before the end of the Employer's reporting period

Step 8: **Prior Period Adjustment –Evaluate the Components of Prior-Period Adjustments to Beginning Net Position**

In the first period that Statement 68 is applied, changes made to comply with Statement 68 should be reported as adjustments to prior periods, and the financial statements for the periods affected should be restated. This raises the question as to what are the components of prior-period adjustments. According to the Guide, the prior-period adjustments should:

a) Remove the net pension obligation (asset) balance determined in accordance with Statement 27, as amended, if any, and any payables to the pension plan, associated with formal commitments; **None in example above**

b) Add the balance of the net pension liability (or proportionate share of the collective net pension liability), if any, as of the beginning of the initial period of implementation (determined as of the measurement date that would have been applied in the prior fiscal year if Statement 68 had been in effect); **$11,738 See Step 2**

c) Add a deferred outflows of resources balance for the government's contributions to the pension plan made between the measurement date of the beginning net pension liability and the beginning of the government's fiscal year, if any; and **$1,030 See Step 5**

d) Add balances associated with all other deferred outflows of resources and deferred inflows of resources, if applicable, determined as of the same date as the beginning net pension liability. **None in example above**

Therefore the prior period adjustment of ($10,708) needs to be properly reported in the Statement of Activities for the example shown above.

STEP 9: Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer (No Nonemployer Contributing Entities)

[Note: This illustration includes only note disclosures and required supplementary information required by Statement 68. If the employer includes the pension plan in its financial reporting entity, the employer should apply the requirements of footnotes 18, 20, and 25 of Statement 68, as applicable. The circumstances of this employer do not include all circumstances for which note disclosures and required supplementary information should be presented.]

Sample Employer
Notes to the Financial Statements
for the Year Ended December 30, 2014

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X

[If the Employer's employees were provided with benefits through more than one defined benefit pension plan, the Employer should disclose information required by paragraph 74 of Statement 68 and should apply the requirements of paragraph 75 of Statement 68.]

General Information about the Pension Plan

Plan description. Employees of the Employer are provided with pensions through the South Dakota Retirement System (SDRS)—a cost-sharing multiple-employer defined benefit pension plan administered by the South Dakota Retirement System (SDRS). South Dakota Codified Law (SDCL) 3-12 grants the authority to establish and amend the benefit terms to the SDRS Board of Trustees (SDRS Board). SDRS issues a publicly available financial report that can be obtained at www.sdrs.sd.gov/publications/documents.

Benefits provided. SDRS provides retirement, disability, and death benefits. SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B Judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary. [If the benefit terms included postemployment benefit changes, the Employer should disclose information about those terms, as required by paragraph 76b of Statement 68.]

[If the pension plan was closed to new entrants, the Employer should disclose that fact, as required by paragraph 76b of Statement 68.]

Contributions. Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Class A employees are required to contribute 6.0 percent of their annual pay and Class B employees are required to contribute 8.0 percent. The Class A employers' contractually required contribution rate for the year ended December 31, 2014, was 6.0 percent of annual payroll and Class B was 8.0 percent, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Employer were $2,095 *(STEP 5 in example)* for the year ended December 31, 2014.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2014, the Employer reported a liability of $14,910 *(STEP 2 in example)* for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Employer's proportion of the net pension liability was based on a projection of the Employer's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the Employer's proportion was 0.20 percent, which was an increase of 0.01 from its proportion measured as of June 30, 2013 *(STEP 1 in example).*

[If there had been a change of benefit terms that affected the measurement of the total pension liability since the prior measurement date, the Employer should disclose information required by paragraph 80e of Statement 68.]

[If changes expected to have a significant effect on the measurement of the net pension liability had occurred between the measurement date and the reporting date, the Employer should disclose information required by paragraph 80f of Statement 68.]

For the year ended December 31, 2014, the Employer recognized pension expense of $2,399 (*STEP 7 in example).* At December 31, 2014, the Employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,657	$ 142
Changes of assumptions	1,714	130
Net difference between projected and actual earnings on pension plan investments	-	2,188
Changes in proportion and differences between District contributions and proportionate share of contributions	2,374	(459)
District contributions subsequent to the measurement date	1,065	-
Total	$ 7,810	$ 2,001

(Items above line are provided at plan level and items below line are employer level information)

$1,065 (STEP 5 in example) reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended Dec 31:	
2015	$518
2016	518
2017	518
2018	518
2019	518
Thereafter	2,154
	$4,744

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.70 percent
Salary increases	3.75 percent, average, including inflation
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2013–June 30, 2014.

[If the benefit terms included ad hoc postemployment benefit changes, the Employer should disclose information about assumptions related to those changes, as required by paragraph 77 of Statement 68.]

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	19.7%	1.3%
Arbitrage	2.3	5.4
Global equity	50.7	5.6
Real estate	14.1	5.0
Private equity	9.5	7.4
Commodities	0	0.0
Cash	3.7	0.0
Total	100%	

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from Employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. [If there had been a change in the discount rate since the prior measurement date, the Employer should disclose information about that change, as required by paragraph 78a of Statement 68.]

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate. The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Employer's proportionate share of the net pension liability	$ 16,476	$ 14,910	$ 13,091

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued SDRS financial report. [If significant changes had occurred that indicate that the disclosures included in the pension plan's financial report generally did not reflect the facts and circumstances at the measurement date, the Employer should disclose additional information, as required by paragraph 79 of Statement 68.]

Payables to the pension plan

[If the Employer reported payables to the defined benefit pension plan, it should disclose information required by paragraph 122 of Statement 68.]

Schedules of Required Supplementary Information

SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

South Dakota Retirement System

Last 10 Fiscal Years*
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
District's proportion of the net pension liability (asset)	0.20%	0.19%	0.19%	0.19%	0.20%	0.20%	0.20%	0.21%	0.21%	0.21%
District's proportionate share of the net pension liability (asset)	$ 14,910	$ 11,738	$ 12,972	$ 13,495	$ 14,892	$ 11,605	$ 4,372	$ (2,355)	$ (1,264)	$ (926)
District's covered-employee payroll	$ 11,512	$ 10,412	$ 9,715	$ 9,553	$ 9,522	$ 9,299	$ 8,709	$ 8,175	$ 7,909	$ 7,659
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	129.52%	112.74%	133.53%	141.26%	156.40%	124.80%	50.20%	(28.81%)	(15.98%)	(12.09%)
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%	75.79%	79.74%	91.78%	104.52%	102.63%	102.10%

* The amounts presented for each fiscal year were determined as of 12/31.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

South Dakota Retirement System

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Contractually required contribution	$ 2,095	$ 2,057	$ 1,969	$ 1,649	$ 1,176	$ 898	$ 820	$ 769	$ 880	$ 1,082
Contributions in relation to the contractually required contribution	(2,095)	(2,057)	(1,969)	(1,649)	(1,176)	(898)	(820)	(769)	(880)	(1,082)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 12,097	$ 10,962	$ 10,063	$ 9,634	$ 9,538	$ 9,410	$ 9,004	$ 8,442	$ 8,042	$ 7,784
Contributions as a percentage of covered-employee payroll	17.32%	18.76%	19.57%	17.11%	12.33%	9.54%	9.10%	9.11%	10.94%	13.90%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Notes to Required Supplementary Information
for the Year Ended December 31, 2014

***Changes of benefit terms*.** Amounts reported in 2013 reflect an increase in disability benefits to be equivalent to retirement benefits. Amounts reported in 2014 reflect a modification to the benefit terms to incorporate a new definition of base compensation.

Changes of assumptions. Amounts reported in 2014 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 2006 and later, the expectation of retired life mortality was based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table, which was used to determine amounts reported prior to 2006. Amounts reported in 2013 reflect an adjustment of expected retirement ages to more closely reflect actual experience. Amounts reported in 2014 reflect an adjustment of assumed life expectancies to more closely reflect actual experience.