

# Pension and OPEB Reporting

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# Agenda

- Background
- Pension Reporting
  - Financial statements, Notes, RSI
- OPEB Reporting
  - Financial statements, Notes, RSI
- PSPRS Tier 3
- Pension Debt reporting
- Common Pension reporting issues
- ASRS Contribution Prepayment



# What was the Point???

- GASB “The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.”
- Michael’s interpretation “There were a whole lot of entities that had no idea what this was costing them or what it was going to cost them in the future”

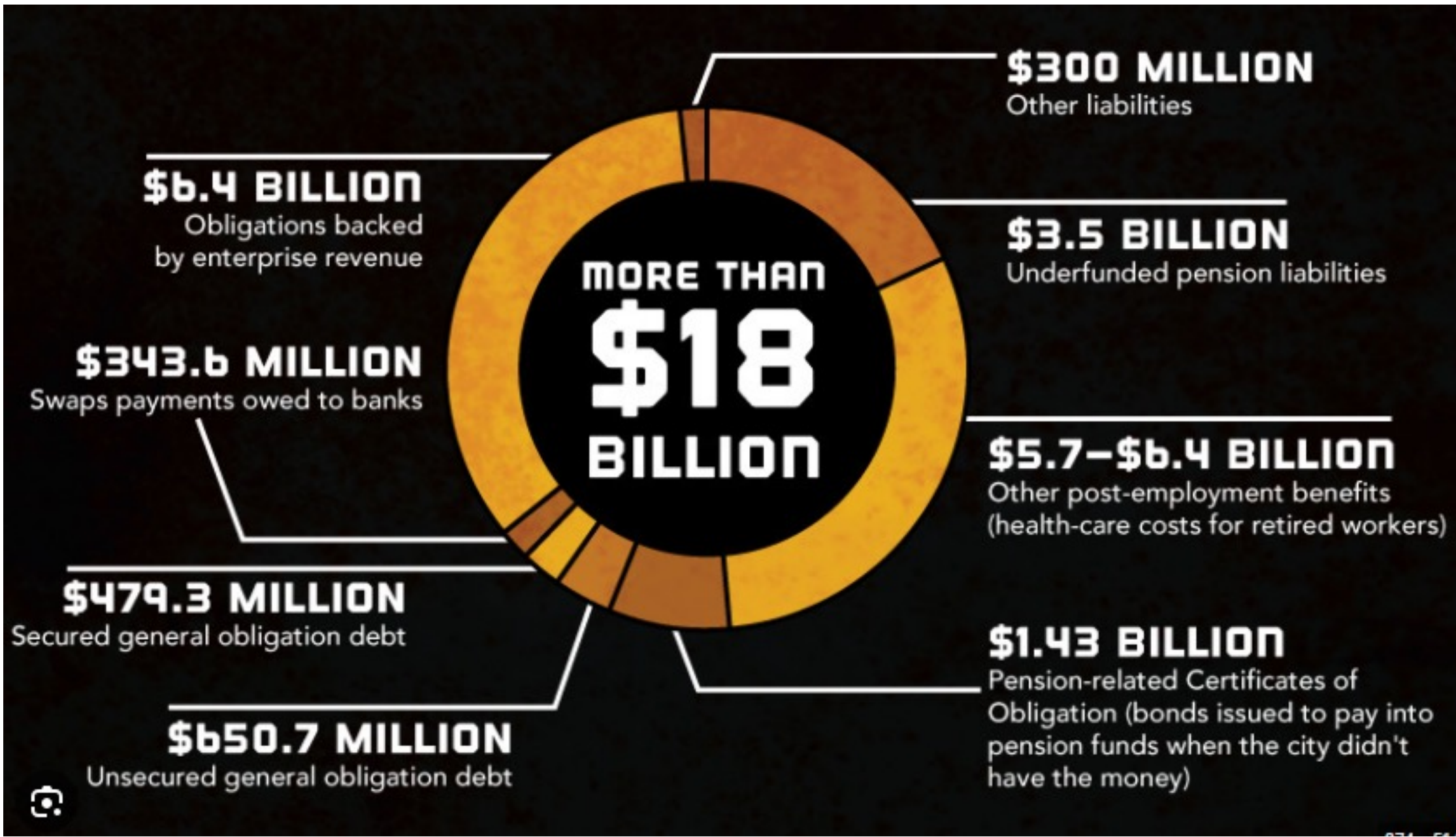
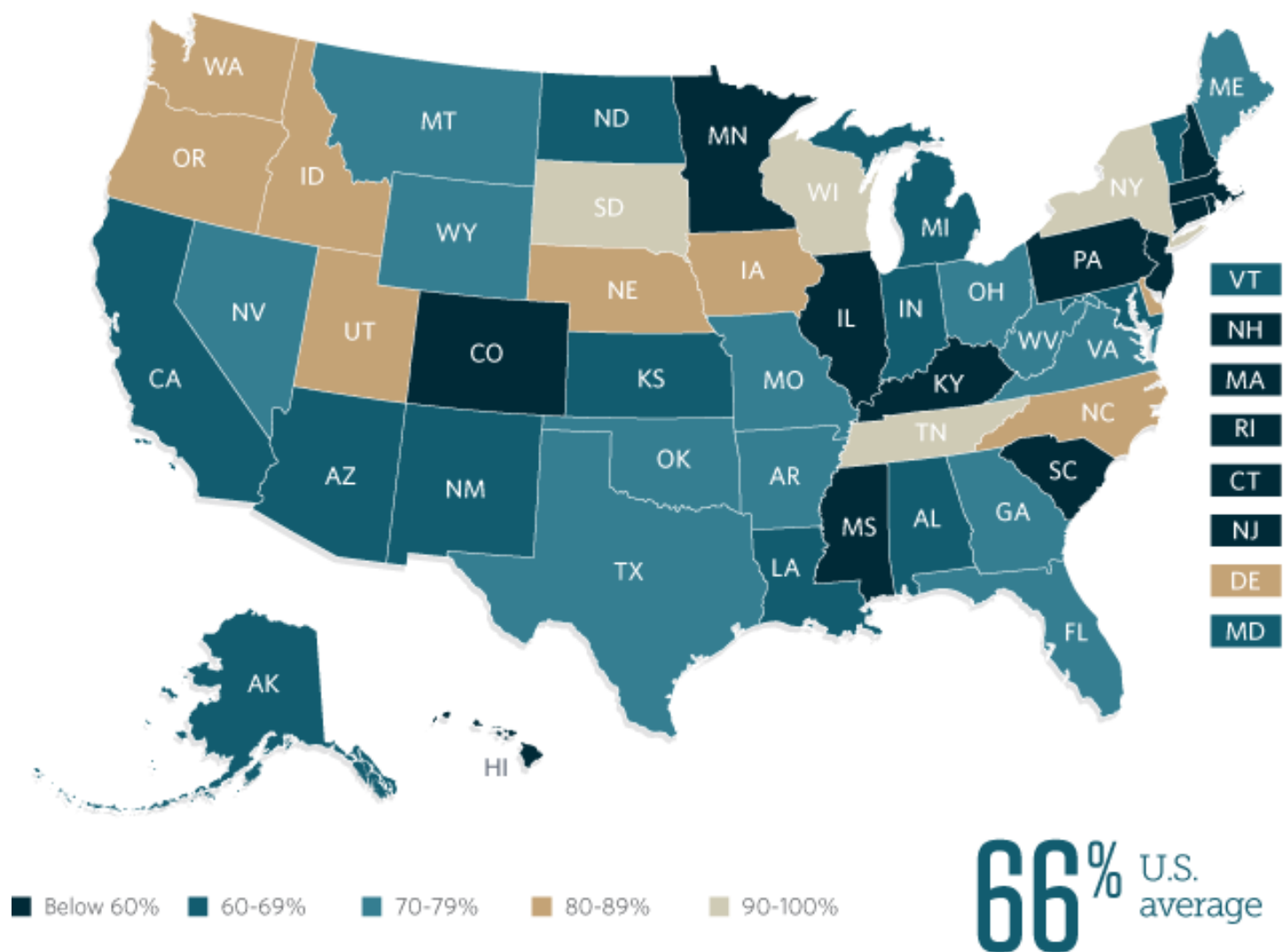


Figure 1

## Funded Ratios for State Pension Plans, 2016

Only 4 states had at least 90% of the assets needed to pay promised benefits

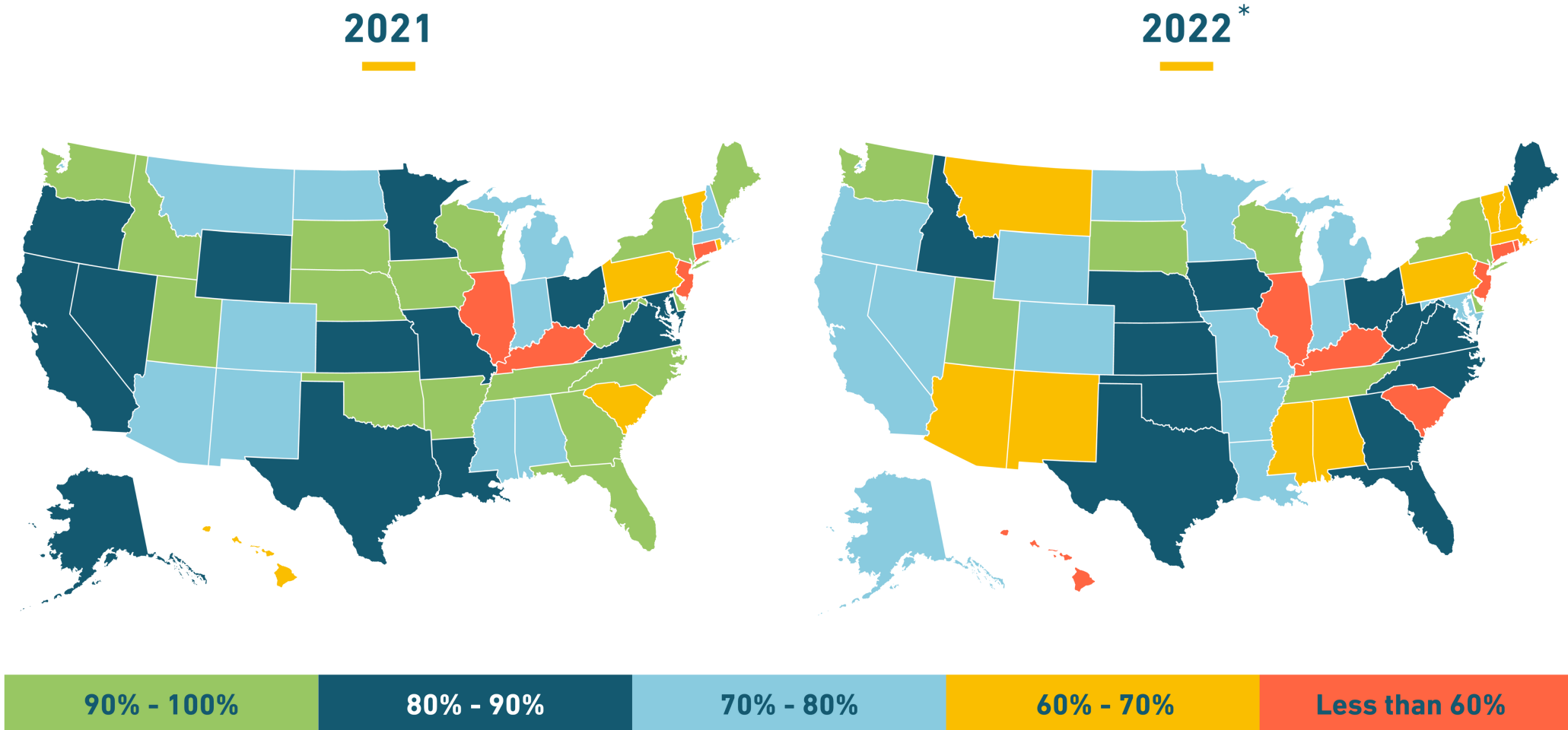


Note: Percentages reflect 2016 Governmental Accounting Standards Board reporting standards.

Sources: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided by plan officials

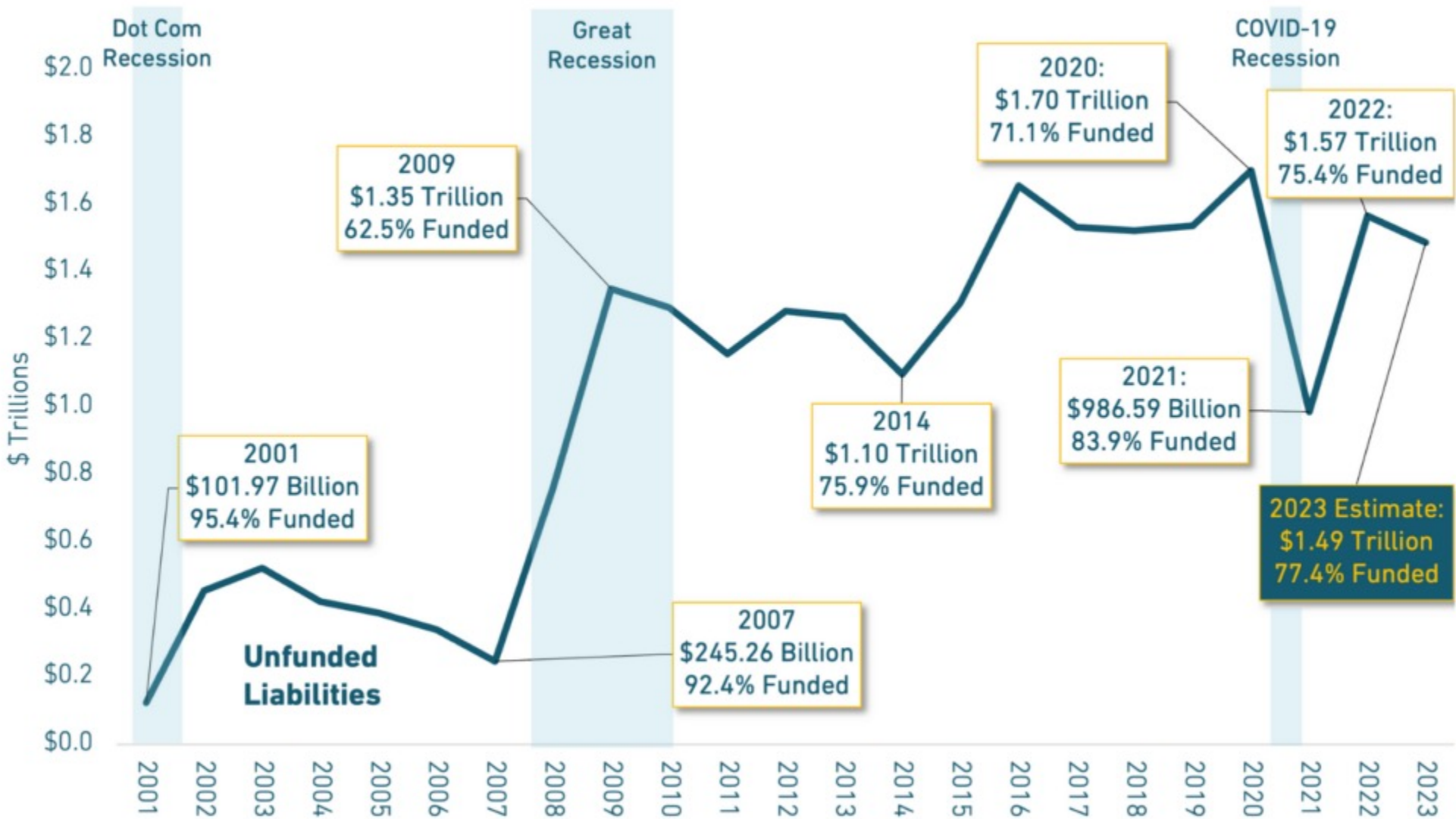
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# AGGREGATE STATE FUNDED RATIO FOR STATE & LOCAL PUBLIC PENSION PLANS | 2021 + 2022 ESTIMATE




\*Estimate, see Methology in the full State of Pensions 2022 report for details.

# TOTAL UNFUNDED LIABILITIES AND FUNDED RATIO FOR STATE & LOCAL PENSION PLANS | 2001-2022 + 2023 ESTIMATE



Source: Equable Institute analysis of public plan valuation reports and CAFRs. Trendline shown is based on market value of assets; using the "actuarial" value of assets shows a similar trend. See methodology section for details on 2023 estimate.

 Yahoo News

## Public Pensions Threaten To Bankrupt State Governments. Florida Has an Answer.

Thanks to recent reforms, most government workers in Florida now enroll in less risky defined contribution plans.

1 month ago




 New York Post

## Bankrupt ex-Mayor Rudy Giuliani regrets not having a NYC pension

Former Mayor Rudy Giuliani, who filed for bankruptcy and faces a mountain of unpaid legal bills, regrets that he doesn't have a government...

1 month ago



 Bloomberg.com

## As Pension Goes Broke, Bankruptcy Haunts City Near Philadelphia

Decade after decade, Chester, Pennsylvania, has fallen deeper and deeper into a downward financial spiral.

Oct 17, 2022



 Los Angeles Times

## Cutting jobs, street repairs, library books to keep up with pension costs

Generous retirement benefits for public safety employees could help push the Bay Area city of Richmond into bankruptcy.

Feb 6, 2017





# What has changed in Arizona?

- Focus on liability and expense by Boards, Councils, taxpayers, etc.
- Governments making additional payments with specific taxes or carryover and/or issuing debt to fund pensions
- Tier 3 for new public safety employees hired after 7/1/17
- ASRS starting a prepaid contribution program

# Pension Reporting

- Start with the actuary report – everything you need is there

Employer Number	Employer Name	Net Pension Liability		Discount Rate Sensitivity		Difference Between Expected and Actual Experience	Changes in Assumptions	Difference Between Projected and Actual Investment Earnings
		Beginning Net Pension Liability	Ending Net Pension Liability	Net Pension Liability 1% Decrease (6.0% Discount Rate)	Net Pension Liability 1% Increase (8.0% Discount Rate)			
1	307850 Academy Of Excellence	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	450540 Academy Of Tucson	4,209,501	3,734,677	5,593,998	2,184,333	84,389	-	-

# Pension Reporting

- Financial Statements
  - Government-wide and Proprietary Statement of Net Position
    - Net Pension Liability (or Asset)
    - Deferred Outflows of Resources
    - Deferred Inflows of Resources
  - Government-wide Statement of Activities and Proprietary Statement of Revenues, Expenses, and Changes in Fund Net Position
    - Pension Expense (allocated to the expense functions)

# Pension Reporting

- **Defined Contribution Plans:**

- Pension plan description (general information, benefit terms, and contribution requirements)
  - Employer pension expense
  - Forfeitures reflected in pension expense
  - Outstanding employer liability
- 
- Tier 3 – PSPRS



# Pension Reporting

- Notes to the Financial Statements
  - Pension plan description (general information, benefit terms, number of covered employees (single employer and agent multiple employe), and contribution requirements)
  - Information about the net pension liability (significant assumptions and other inputs)
  - Discount rates
  - Pension plan fiduciary net position
  - Changes in the net pension liability

# Pension Reporting

- Notes to the Financial Statements
  - **Single-Employer and Agent Multiple-Employer:**
    - Other: measurement date, date of actuarial valuation, and use of updated procedures; change of assumptions or other inputs; changes in benefit terms; information regarding allocated insurance contracts; changes expected to have a significant effect on the net pension liability; employer pension expense; employer balances of pension-related deferred outflows and inflows; schedule of future effect of deferred outflows and inflows of resources on pension expense and the net pension liability; and, deferred outflows that will reduce the net pension liability

# Pension Reporting

- Notes to Financial Statements

- **Cost-Sharing Multiple-Employer :**

- Other: employer's proportionate share (amount) of collective net pension liability; employer's proportion (percentage) of the collective net pension liability, basis, and change; measurement date, date of actuarial valuation, and use of updated procedures; change of assumptions or other inputs; changes in benefit terms; changes expected to have a significant effect on the employer's proportionate share of the collective net pension liability; employer pension expense; employer balances of pension-related deferred outflows and inflows; and, schedule of future effect of deferred outflows and inflows of resources on pension expense and the collective net pension liability

# Pension Reporting – RSI

- **Single-Employer and Agent Multiple-Employer:**
  - *Determined as of the measurement date*
- 10-year schedule of changes in the net pension liability
- 10-year schedule of funding progress:
  - Total pension liability
  - Pension plan's fiduciary net position
  - Net position liability
  - Pension plan's fiduciary net position as a percentage of total pension liability
  - Covered-employee payroll
  - Net pension liability as a percentage of covered-employee payroll



# Pension Reporting – RSI

- **Single-Employer and Agent Multiple-Employer:**

*Determined as of the employer's year end date*

- 10-year schedule of contributions presenting:
  - Employer's actuarially determined contribution
  - Employer's contributions recognized (actual)
  - Difference between the employer's actuarially determined contribution and the employer's contributions recognized (actual)
  - Covered-employee payroll
  - Employer's contributions recognized (actual) as a percentage of covered-employee payroll

# Pension Reporting - RSI

- **Cost-Sharing Multiple-Employer:**
- *Determined as of the measurement date*
- 10-year schedule funding progress presenting:
  - Employer's proportion (percentage) of the collective net pension liability
  - Employer's proportionate share (amount) of the collective net pension liability
  - Employer's covered-employee payroll
  - Employer's proportionate share (amount) of the collective net pension liability as a percentage of covered-employee payroll
  - Plan's fiduciary net position as a percentage of the total pension liability

# OPEB Reporting

- Start with the actuary report – everything you need is there
- Financial presentation the same as pensions
- Determine if there is a trust
- Note disclosures similar to pensions with OPEB also requiring a health care cost trend rate sensitivity disclosure

# OPEB Reporting – Notes & RSI

Notes to Financial Statements	Single/Agent Employer	Cost-Sharing Employer
OPEB Plan Description	✓	✓
Information About the Net OPEB Liability:	✓	✓
-Assumptions and Other Inputs	✓	✓
-OPEB Plan’s Fiduciary Net Position	✓	✓
-Changes in the Net OPEB Liability	✓	
-Proportionate Share of Collective Net OPEB Liability		✓
Required Supplementary Information		
Schedule of Changes in Net OPEB Liability and Related Ratios	✓	
Schedule of Contributions	✓	✓
Schedule of Proportionate Share of the Net OPEB Liability		✓

# PSPRS – Tier 3

- Largest 17 PSPRS participants (already in GASB 68/72 reports)
  - Department of Public Safety
  - Maricopa County Sheriff
  - Pima County Sheriff
  - Chandler Fire/Police departments
  - Glendale Fire/Police departments
  - Mesa Fire/Police departments
  - Phoenix Fire/Police departments
  - Scottsdale Fire/Police departments
  - Tempe Fire/Police departments
  - Tucson Fire/Police departments
- For those entities ensure the notes include Tier 3 information

# PSPRS – Tier 3

- For everyone else see the following report:
- [https://www.psprs.com/uploads/sites/1/2022\\_PSRISK\\_GASB\\_20230802.pdf](https://www.psprs.com/uploads/sites/1/2022_PSRISK_GASB_20230802.pdf)
- Total pension assets of \$5.4 million, contributions of \$13.2 million
- If not reporting then add disclosure

# Issuing Pension Related Debt

- For example, issuing \$300 million in certificates of participation (COP's)
  - Other financing source, \$300 million – Fund FS
  - Expenditure for payment to PSPRS, \$300 million – Fund FS
  - Increase in long term debt, \$300 million – GW

# Issuing Pension Related Debt

- For example, issuing \$300 million in certificates of participation (COP's)
  - No decrease in PSPRS debt for the first year (actuary is a year behind)
  - Additional payment reported as a deferred outflow in the Government Wide's
  - Reconciling item on the ELR



# Common Issues with Pension/OPEB

- Proper allocation between Governmental and Enterprise Funds
  - Basis for allocation (FTE, payroll expenses, etc)
  - Rolling that allocation forward for future years
  - Not just the liability but also pension expense, DIR and DOR
  - Recording year end entries in the Enterprise Funds
- Single Employer OPEB
  - Not contracting with an actuary and getting the report done timely

# Common Issues with Pension/OPEB

- Not able to breakout wages for employees who are a part of PSPRS, ASRS or not in either system
  - Coding within the financial system
- Properly accounting for additional payments into the PSPRS system
  - Contributions are expenditures in the fund financials and deferred outflows in the government wide financials

# Common Issues with Pension/OPEB

- Not updating the discount rate or the health cost trend rates for changes by the actuary
- Not including in the notes that discount rate was changed from the prior year
  - “At June 30, 2023 the discount rate used to measure the total OPEB liability was 3.6 percent which was a change from 3.5 percent used as of June 30, 2022.”

# Common Issues with Pension/OPEB

- Notes to Required Supplementary Information
  - Single Employer OPEB (No Trust)
  - “No assets are accumulated in a trust that meets the criteria in GASB 75, paragraph four, to pay the benefits for the single-employer defined benefit OPEB plan.”
- Required Supplementary Information
  - For ASRS and PSPRS pension plans you will have 10 years in 2024
  - Remove the disclosure “10 years of information not available”

# Common Issues with Pension/OPEB

- Lot of governments will pass on presentation of immaterial Pension/OPEB plans
  - Tier 3 PSPRS, PSPRS OPEB, ASRS OPEB, Elected Officials, Single Employer OPEB
- Keep a running calculation of the total of what is not being reported because it is “immaterial”
- There could be a large jump in the assets/liabilities/DIR/DOR and it could require reporting

# Common Issues with Pension/OPEB

- Lots of data
- Lots of dates
- Lots of Verbiage
  
- Helpful hint: Utilize the Auditor General pro-formas as a resource
  
- <https://www.azauditor.gov/reporting-guidelines-0>

# ASRS Contribution Prepayment

- Recognizing current financial conditions and supporting employer requests, the Arizona State Retirement System (ASRS) has implemented an innovative process for employers to voluntarily prepay their future pension contribution obligations, while also maintaining significant future budget flexibility.
- Under this new **Contribution Prepayment Program (CPP)** enabled by state statute, employers may submit a lump-sum payment to the ASRS that may be used to offset the employer portion of future ASRS pension contribution payments. Once employer CPP funds are received by the ASRS, they will be invested by the ASRS and earn the ASRS investment rate of return. Employers have the option of determining when to apply the CPP balance to offset future employer pension plan contributions.

# ASRS Contribution Prepayment

- Reporting:
  - For example if a payment of \$20 million is made utilizing current resources
  
  - Government Wide and Fund Financials
    - Reclassification of \$20 million as restricted cash
  
  - Budgetary Reporting (Basic Financials or RSI) if using current resources
    - Reconciling items
      - \$20 million of restricted cash should be reclassified as an expenditure
      - Amount of restricted cash at 6/30 would be a fund balance reconciling item
      - Counts against the budget/expenditure limitation



# ASRS Contribution Prepayment

- Budget Reconciliation

	Total	Fund
	Expenditures	Balances
	<u>                    </u>	<u>End of Year</u>
Statement of Revenues, Expenditures and Changes in		
Fund Balances - Governmental Funds	\$ 287,571,855	\$ 135,676,160
Activity budgeted as special revenue funds	(5,457,891)	(35,706,055)
Activity budgeted as capital projects funds	(18,950,967)	(49,988,108)
Pre-payment to ASRS (CPP)	20,000,000	(20,507,607)
Current-year prepaid items	3,427,543	(3,427,543)
Prior-year prepaid items	(3,473,168)	
Employee insurance account	<u>789,849</u>	<u>(4,679,526)</u>
Schedule of Revenue, Expenditures and Changes in		
Fund Balances – Budget and Actual - General Fund	<u>\$ 283,907,221</u>	<u>\$ 21,367,321</u>

# ASRS Contribution Prepayment

- Reporting
  - Budgetary Reporting (Basic Financials or RSI) if issuing debt
  - Payment to ASRS would not be a budgetary expenditure and would be removed from the ELR
  - Repayment of debt would be reported on the ELR

# ASRS Contribution Prepayment

- Notes to the Financial Statements
  - Part of the Cash and Investments Note
  - The Municipality/County has restricted cash and investments of \$\$\$\$\$\$\$\$\$\$ held by the ASRS pension plan, related to the CPP. The employer pension plan contributions prepaid by the Municipality/County and the related accrued earnings are managed at the discretion of the ASRS.

# Questions?

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