GASB 68

A Q&A for Employers

IPERS®
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

This Q&A will help guide you through the process of implementing the requirements of GASB Statement No. 68.

One of the most important things you can do to prepare to implement this new standard is to become familiar with the GASB Statement No. 68 Implementation Guide. Work with your external auditor and the Auditor of State if you have questions. IPERS is also here to help. Note: We will update this document as additional information becomes available.

Am I subject to the requirements of GASB 68?

If you report your financials under GAAP (Generally Accepted Accounting Principles), you must comply with GASB 68. GAAP basis of accounting is accrual accounting. You may report under GAAP if you record journal entries in your financial statements for purchases initiated before your fiscal year-end but for which you haven't remitted payment, or for receipts due to you at year-end but for which you haven't received payment.

If you report using cash basis accounting, additional note disclosures may be required with your financial statements as a result of GASB 68.

If you are uncertain, your external auditor can let you know whether these requirements apply to you.

Is IPERS subject to the requirements of GASB 68?

Not directly. IPERS is subject to the requirements of GASB Statement No. 67. The information provided as a result of GASB 67 will be used and expanded upon by employers in order to implement GASB 68. You can read the GASB 67 report prepared by IPERS' actuary, Cavanaugh Macdonald, for IPERS' FY2015.

What are the main requirements of GASB 67?

GASB 67 requires IPERS to report a measure of pension liability that is new to pension systems. The GASB is an accounting board, and as such, is concerned only with how systems account for and report pension costs. They are not concerned with funding the System.

What do the new GASB statements mean for IPERS?

It's important to remember that these new reporting rules do not affect the methods IPERS uses to determine funding requirements or progress. The new rules:

- Do not indicate IPERS' funded ratio.
- Do not affect IPERS contribution rates.
- Do not affect how IPERS pays down its liabilities. (IPERS' liabilities are paid down through the usual contribution remitting process. Contribution rates are set within the rules laid out in Iowa Code and IPERS' Contribution Rate Funding Policy.)

The projections used for GASB 67 and 68 calculations go decades into the future and, as of 6/30/15, indicate IPERS will not run out of money if all assumptions are met.

What kind of retirement plan is IPERS?

IPERS is a cost-sharing, multiple-employer, defined benefit pension plan funded by contributions from members and employers, as well as investment earnings. IPERS has no nonemployer contributing entities.

What are the main requirements of GASB 68?

GASB 68 requires IPERS-covered employers to report

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new amounts related to IPERS' liabilities on their balance sheets. Previously, employers reported only their contributions paid to IPERS. There are four new financial concepts to understand:

- Total pension liability (TPL)
- Net pension liability (NPL)
- Pension expense
- Deferred inflows of resources and deferred outflows of resources

See the Glossary for definitions of these terms.

You will also disclose information about the IPERS pension plan in your Notes to Financial Statements.

What do the new GASB statements mean for IPERS' participating employers?

GASB 68 is strictly an accounting and reporting requirement. While the liability associated with IPERS retirement benefits has not been reported on your financials until now, it is not a new liability. The pension liability that you will report on your financial statements is not due today and no additional outlay of cash is required. The net pension liability will be paid down much like a mortgage. IPERS will continue to fund the System with employer contributions, employee contributions, and investment earnings, as we have in the past.

When do I need to comply?

The standards are applicable for your fiscal year that began after June 15, 2014.

The information provided by IPERS' actuary as a result of GASB 67 was calculated as of 6/30/14 (the end of IPERS' FY2014). Therefore, 6/30/14 is known as the initial measurement date for employers whose fiscal year ends June 30. The beginning balance for IPERS' actuarial valuation is one year earlier, on 6/30/13. Employers with 6/30 fiscal year ends will comply with GASB 68 by the publishing date of your 6/30/15 financial statements.

If your fiscal year ends on a date other than 6/30, you will use the data reported in IPERS' FY2015 CAFR and GASB 67 Report, which were published in December 2015. The related GASB 68 actuarial report was published in late January. The audited GASB 68 schedules were posted in late April 2016. If the availability of this information does not meet your reporting requirements, please work with your auditor to develop alternative solutions.

Your Fiscal Year End	GASB 68 Effective Date	Initial Measurement Date
June 30	June 30, 2015	June 30, 2014
September 30	September 30, 2015	June 30, 2015
October 31	October 31, 2015	June 30, 2015
December 31	December 31, 2015	June 30, 2015
January 31	January 31, 2016	June 30, 2015

What are the specific responsibilities for complying with GASB 68?

Responsibilities are outlined in the following table:

IPERS' Responsibilities	Employers' Responsibilities	Auditor of State's Responsibilities
Provide three Schedules of Pension Amounts by Employer* as of June 30 of each year, which will contain each employer's proportionate share of: • The ending NPL (percentage and amount) • The sensitivity of the NPL to a 1 percentage point increase and decrease in IPERS' discount rate • Pension expense	Identify all component units included in your financial statements. Component units will be classified by the 5-digit employer ID number assigned by IPERS.	Audit and provide an opinion on IPERS' Financial Statements.
Provide the employers' proportionate shares of the following inputs for deferred inflows/deferred outflows on the Schedules of Pension Amounts by Employer* as of June 30 for each year. • Differences between expected and actual experience • Changes of assumptions • Net difference between projected and actual investment earnings on IPERS' investments	For each entry on your balance sheet, combine amounts listed on the Schedule of Pension Amounts by Employer for all component units *and* for all membership groups. You will report a single sum for each entry.	Audit IPERS' census data.
Provide the average remaining service life of all members (for amortization purposes), which is **5.28 years** for the 6/30/14 initial measurement date and **5.26 years** for the 6/30/15 measurement date.	Use the Employer Calculation of Total Net Pension Liability/(Asset) and Proportion workbook to calculate the proportion and the change in the proportion (GASB 68, paragraph 54) to report in your financial statements.	Test a sample of IPERS' participating employers.
Provide information for note disclosures in the Financial section of IPERS' CAFR and the Notes to the Schedules included in the audit report.	Calculate the difference between your contributions (employer amount only) and your proportionate share of total employer contributions (GASB 68, paragraph 55). • Information regarding employer contributions can be found in IPERS' employer reporting application, I-Que.	Provide sample note disclosures for employers.
	Factor the above calculations into your total deferred inflows, deferred outflows, and pension expense.	Audit and provide an opinion on the proportionate shares spreadsheets.
	Calculate your employer contributions subsequent to the measurement date (GASB 68, paragraph 57) and report as deferred outflows.	
	Use the average remaining service life of all IPERS members as the closed period over which to recognize: • Changes in IPERS' economic and demographic assumptions • The differences between IPERS' expected and actual experience Use a 5-year closed amortization period over which to amortize the net difference between projected and actual investment earnings on IPERS' investments.	
	Determine and book journal entries (see GASB 68 Implementation Guide, especially illustrations 2a, 2b, 3a, and 3b, and/or the Sample GASB 68 Calculator spreadsheets provided on the Auditor of State's website).	
	Add additional Notes to Financial Statements.	
	Add two new tables and related Notes to your Required Supplementary Information: • Schedule of Employer's Proportionate Share of the Net Pension Liability • Schedule of Employer Contributions	

**One for each membership group—Regular, sheriff/deputy, and protection occupation. Not all employers will have more than one membership group. Data in schedules will be presented by the IPERS-assigned 5-digit employer ID number.*

When will the information be available? How will I access it?

Documents become available at different times of the year. The most recent documents were released as follows:

- IPERS' GASB 67 report prepared by IPERS' actuarial firm, Cavanaugh Macdonald, was published in November 2015.
- IPERS' CAFR is published in December each year.
- The GASB 68 report, prepared by Cavanaugh Macdonald, was published in January 2016.
- The Schedules of Pension Amounts by Employer for the 6/30/15 measurement date, and the GASB 68 audit report, were posted in April 2016 on IPERS' GASB Resources webpage.

Documents may be released at different times in future years.

How will prior years' information be recognized?

Prior years do not have to be restated. GASB 68 information will be recognized in current-year transactions. You will need to debit net position and credit net pension liability in the year of implementation. Refer to the GASB 68 Implementation Guide for details.

What changes are required in my Required Supplementary Information (RSI) and Notes to RSI?

Your RSI must include two new 10-year schedules as follows:

Schedule of Employer's Proportionate Share of the Net Pension Liability

- Employer's proportion of the NPL (percentage)
- Employer's proportionate share of the NPL (amount)
- Employer's covered payroll
- Employer's proportionate share of the NPL as a percentage of its covered payroll
- IPERS' fiduciary net position as a percentage of the TPL

Schedule of Employer Contributions

- Contractually required contributions
- Contributions in relation to the contractually required contributions
- Contribution deficiency (excess)
- Employer's covered payroll
- Contributions as a percentage of covered payroll

Note: These schedules can be built prospectively.

Information about factors that significantly affect trends in the amounts reported in these schedules should be presented in the Notes to RSI.

What are deferred inflows and deferred outflows?

GASB 67 requires some items, such as service cost, interest on the TPL, and benefit changes, to be recognized in pension expense immediately.

Other items, such as differences between expected and actual experience related to economic and demographic factors, changes of assumptions, changes in your proportion, and the difference during the measurement period of your employer contributions and the amount of your proportionate share of the total of all employer contributions, should be recognized over a closed period equal to the average of the expected remaining service lives of all IPERS members determined as of the beginning of the measurement period. (This is 5.28 years for the 6/30/14 initial measurement date and 5.26 years for the 6/30/15 measurement date.)

The portion not recognized in pension expense should be reported as a deferred outflow of resources or a deferred inflow of resources.

The difference between projected and actual earnings on pension plan investments should be included in pension expense over a closed five-year period, beginning in the current measurement period.

Again, the amount not included in pension expense should be reported as a deferred outflow of resources or a deferred inflow of resources.

Per GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, financial statements should present deferred inflows and deferred outflows as follows.

Statement of Net Position
(Balance Sheet)

Assets
\+ Deferred outflows
\- Liabilities
\- Deferred inflows

Net position

=

Statement of Changes in Net Position
(Income Statement)

Additions

\- Deductions

Net position

Usual balances:

Debits	**Credits**
Assets Deferred outflows	Liabilities Deferred inflows

Debits	**Credits**
Deductions *Examples:* *Expenses* *Lossses*	Additions *Examples:* *Income* *Gains*

Therefore:

- Assets and deferred outflows increase net position.
- Liabilities and deferred inflows decrease net position.
- Additions (income, gains) increase net position.
- Deductions (expenses, losses) decrease net position.

Example: Actual earnings are $100 less than projected, resulting in a $100 loss. Per GASB 67, these losses are amortized over 5 years; therefore, $20 will be amortized per year as follows.

<table>
<tr><th></th><th>Statement of Net Position</th><th></th><th>Statement of Changes in Net Position</th><th>Overall Result</th></tr>
<tr><td>Year 1
TPL
Deferred outflow</td><td>Debit | Credit
 | $100
$80 |</td><td>Year 1
Pension expense</td><td>Debit | Credit
$20 |</td><td>$20 decrease in net position.</td></tr>
<tr><td>Year 2
Deferred outflow</td><td>Debit | Credit
 | $20</td><td>Year 2
Pension expense</td><td>Debit | Credit
$20 |</td><td>$20 decrease in net position. $60 balance remains as a deferred outflow.</td></tr>
<tr><td>Year 3
Deferred outflow</td><td>Debit | Credit
 | $20</td><td>Year 3
Pension expense</td><td>Debit | Credit
$20 |</td><td>$20 decrease in net position. $40 balance remains as a deferred outflow.</td></tr>
<tr><td>Year 4
Deferred outflow</td><td>Debit | Credit
 | $20</td><td>Year 4
Pension expense</td><td>Debit | Credit
$20 |</td><td>$20 decrease in net position. $20 balance remains as a deferred outflow.</td></tr>
<tr><td>Year 5
Deferred outflow</td><td>Debit | Credit
 | $20</td><td>Year 5
Pension expense</td><td>Debit | Credit
$20 |</td><td>$20 decrease in net position. Fully amortized.</td></tr>
</table>

As shown above, the $20 decrease in net position each year can be seen in the balance sheet and in the income statement.

What are the rules related to netting deferred inflows and outflows?

GASB 63, paragraph 7, states deferred outflows of resources should be reported in a statement of financial position as a separate section following assets. Similarly, deferred inflows of resources should be reported in a separate section following liabilities.

The total for deferred outflows of resources may be added to the total for assets, and the total for deferred inflows of resources may be added to the total for liabilities to provide subtotals.

GASB 68, paragraph 71b, states that deferred outflows of resources and deferred inflows of resources due to differences between projected and actual pension investment earnings in different measurement periods should be combined and reported as a net deferred outflow or a net deferred inflow.

Per GASB 68, paragraph 52, deferred outflows and deferred inflows that are due to a change in your proportionate share and/or due to a difference between your contributions during the measurement period and your proportionate share of total contributions may be recognized on a net basis.

Beyond this, however, deferred inflows and deferred outflows cannot be netted together. If an item such as a difference between expected and actual experience results in a deferred inflow one year and a deferred outflow the next year, the two amounts must be reported separately.

What are the rules related to GASB Statement No. 71?

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, amends GASB 68. It states that, at the beginning of the implementation period, if you cannot determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions, then you should recognize a beginning deferred outflow of resources only for the pension contributions, if any, made subsequent to the measurement date of the beginning NPL but before the start of your fiscal year.

For example:

Measurement date of beginning NPL	6/30/13
Measurement period	7/1/13–6/30/14
Measurement date for employers' FY2015 reporting	6/30/14
Reporting date for most IPERS-participating employers	6/30/15
Employer's fiscal year	7/1/14–6/30/15

Therefore, "measurement date of the beginning NPL (6/30/13) but before the start of your fiscal year (7/1/14–6/30/15)" would mean 6/30/14 if you have a 6/30/15 reporting date. This means you would report your fiscal year 2014 contributions as a beginning deferred outflow. Your FY2015 contributions would be a deferred outflow at 6/30/15.

Will GASB 68 affect my bond rating?

Probably not. Although pension debt has gained more media attention in recent years, it is only one of many criteria used to rate credit-worthiness. Bond rating agencies have always considered pensions in their ratings decisions. Learn more by watching IPERS' webinar, Understanding Pensions' Role in Bond Rating.

Where should I direct my questions?

We recommend working with your external auditor and the Auditor of State at info@auditor.state.ia.us. You may also send questions to IPERS at ipersaccounting@ipers.org.