Good morning. My name is Lora Mikula. I am the director of the Accounting and Financial Reporting Division within the Office of Financial Management in the State Budget Office. With me today is Paul McDonald, who is the manager responsible for pension accounting within the Comprehensive Annual Financial Report (CAFR). Paul is also the lead for implementing the new pension accounting standards for the Office of Financial Management.

I would like to thank you for inviting us to discuss the upcoming changes in GASB standards related to pensions and other post-employment benefits and their impact on the balance sheet.

As an overview, the new pension accounting standard for employers, or GASB Statement No. 68, becomes effective for fiscal year 2015. The primary objective of the standard is to improve accounting and financial reporting by state and local governments for pensions. It also improves the comparability of information provided by state and local governmental employers for pensions. The GASB's hope is that the new pronouncements will result in a clearer picture of the size and nature of the financial obligations to current and former employees for services rendered. The change brought by the new standard reflects the view that pension costs and obligations should be recorded as employees earn them, rather than when the government pays the retirees' benefit payments or makes contributions to the pension plan.

This new pension accounting standard does not impact other post-employment benefits (OPEB); however, the GASB does have a project on its agenda to discuss OPEB accounting and reporting. It is anticipated that GASB will release the exposure draft for the proposed changes for OPEB in late 2014 with new standards to be finalized in early 2015. Based on the timing of the pension standard we anticipate the new OPEB rules to become effective for fiscal year 2017. We are expecting the changes to OPEB accounting and reporting to be very similar to those adopted for pension accounting.

The State of Michigan currently administers two types of pension plans which are reported within the CAFR. This information is included in Table 1 of your handouts.

The Legislative Retirement System, State Police Retirement System, State Employees' Retirement System, and the Military Retirement Plan are all Single Employer Plans. The financial statements for these plans are included within the CAFR and are also included in the footnote disclosures.

The Public School Employees' Retirement System and the Judges' Retirement System are cost sharing multi-employer plans. The financial statements for these plans are included within the CAFR, but are not required to be included in the footnote disclosures.

There are also pension plans that are administered by unrelated third parties, which are not reported in the CAFR. Many local units of government utilize the Municipal Employees'

Retirement System (MERS), which is a public nonprofit organization. MERS is defined as an agent multiple-employer pension plan. The State university component units participate in the Teachers' Insurance and Annuity Association and College Retirement Equities Fund or TIAA-CREF. The TIAA-CREF is a defined contribution multiple-employer pension plan.

The new pension accounting standard affects both the single employer and cost sharing multi-employer pension plans that the State administers. A summary of the changes in accounting treatment for these types of plans is included in Table 2 of your handouts.

Under the new accounting standards, governments providing defined benefit pension plans will be required to recognize a net pension liability for its entire long-term obligation for pension benefits in the government-wide Statement of Net Assets. Currently, the net pension obligation is reported in the government-wide statement as the difference between the annual required contribution, as calculated by the actuary and the amount actually contributed to the plan. To the extent that the employer is fully funding their annual required contribution, no liability is recorded.

The future net pension liability will be calculated as the difference between the present value of projected benefit payments to employees, and the pension trust fund assets. This is conceptually very similar to what we know today as the unfunded actuarial accrued liability. However, currently, governments are allowed to choose the actuarial method used to calculate the present value of future benefit payments from a handful of alternatives. The new standard requires all governments to use the same actuarial method to calculate the present value of future benefit payments. This change will increase the comparability of the pension liability from state to state, but it is also expected to increase the net pension liability from the previous unfunded actuarial accrued liability.

In addition, the net pension liability will be recorded by all employers, whether they participate a single-employer plan, an agent multi-employer plan or a cost sharing multi-employer plan. This is a significant change for those participating in cost sharing multi-employer plans because they will have to report a liability in their financial statements that is equivalent to their proportionate share of the net pension liability.

Because the Public School Employees Retirement System and the Judges Retirement System are considered cost sharing multi-employer plans for the State of Michigan, each employer participating in the plan will be required to report their allocated share of the net pension liability in their financial statements. Under the current standards, they are only required to record an expense for their contractually required contribution; so as long as they made that payment, there was no liability for them to record.

We have started discussions with the Office of Retirement Services regarding the allocation methodology for the cost sharing multi-employer plans and the next step is to involve the actuaries. We will share the information with the employers as soon as it is available.

The new standard also expands the required footnote disclosures and required supplementary information for single employer plans; and requires footnote disclosures for cost sharing multi-employer plans where disclosures were not previously required in the CAFR.

In closing, the upcoming changes in GASB standards related to pensions are expected to have a considerable impact on the State's financial statements, and also on the financial statements of the employers participating in the cost sharing multi-employer pension plans.

That concludes our presentation. We will now take questions.

Submitted by
Lora Mikkila

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February 21, 2013

Table 1 – Pension Plans

Plan Name	Type of Plan	Administered by	Reported in CAFR
Legislative Retirement System (LRS)	Single employer	State of Michigan	Yes
State Police Retirement System (SPRS)	Single employer	State of Michigan	Yes
State Employees' Retirement System (SERS)	Single employer	State of Michigan	Yes
Public School Employees' Retirement System (PSERS or MPSERS)	Cost sharing multi-employer	State of Michigan	Yes
Judges' Retirement System (JRS)	Cost sharing multi-employer	State of Michigan	Yes
Military Retirement Plan (MRP)	Single employer	State of Michigan	Yes
Municipal Employees' Retirement System (MERS)	Agent multi-employer	Unrelated Third Party	No
Teachers' Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF)	Defined contribution multi-employer	Unrelated Third Party	No

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Table 2 – Current/Future Accounting Treatment

Type of Plan	Current Accounting Treatment	Future Accounting Treatment per GASB 68
Single employer	Net pension obligation is reported in the CAFR government-wide financial statements as the difference between the annual required contribution (ARC) as calculated by the actuary and the amount actually contributed to the plan.	Net pension liability for the entire long-term obligation for pension benefits will be reported in the government-wide financial statements as the difference between the present value of projected benefit payments and the pension trust fund assets.
Cost sharing multi-employer	No liability is recorded in the CAFR government-wide financial statements. Liability is reported in the individual Employer financial statements to the extent that the annual required contribution (ARC) payments were not made.	No liability is recorded in the CAFR government-wide financial statements. Each individual employer will be required to record their long-term proportionate share of the net pension liability.