Suggested GASB 68 Pension Footnotes for Employers Financial Statements for the Fiscal Year Ended December 31, 2022

 [Using PERA Valuation/Measurement Date 6/30/2022]

**Summary of Significant Accounting Policies**

*Pensions.* For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA’s fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note X. Defined Benefit Pension Plans**

*[Include information for the specific plans that apply to your entity]*

1. **Plan Description**The [entity] participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA’s defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.
2. **General Employees Retirement Plan**

All full-time and certain part-time employees of the [entity’s name] are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

1. **Public Employees Police and Fire Plan**

The Police and Fire Plan, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the Police and Fire Plan also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA.

1. **Local Government Correctional Plan**

The Correctional Plan was established for correctional officers serving in county and regional corrections facilities. Eligible participants must be responsible for the security, custody, and control of the facilities and their inmates.

1. **Benefits Provided**
PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.
2. **General Employees Plan Benefits**

General Employees Plan benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

1. **Police and Fire Plan Benefits**
Benefits for Police and Fire Plan members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. Benefits for Police and Fire Plan members first hired after June 30, 2014, vest on a prorated basis from 50 percent after ten years up to 100 percent after twenty years of credited service. The annuity accrual rate is 3 percent of average salary for each year of service. For Police and Fire Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The postretirement increase is fixed at 1 percent. Recipients that have been receiving the annuity or benefit for at least 36 months as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least 25 months but less than 36 months as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

1. **Correctional Plan Benefits**
Benefits for Correctional Plan members first hired after June 30, 2010, vest on a prorated basis from 50 percent after five years up to 100 percent after ten years of credited service. The annuity accrual rate is 1.9 percent of average salary for each year of service in that plan. For Correctional Plan members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. The postretirement increase will be equal to 100 percent of the COLA announced by SSA, with a minimum increase of at least 1 percent and a maximum of 2.5 percent. If the plan’s funding status declines to 85 percent or below for two consecutive years or 80 percent for one year, the maximum will be lowered from 2.5 percent to 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

1. **Contributions***Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.
2. **General Employees Fund Contributions**
Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the [entity] was required to contribute 7.50 percent for Coordinated Plan members. The [entity’s] contributions to the General Employees Fund for the year ended December 31, 2022, were $\_\_\_\_\_\_. The [entity’s] contributions were equal to the required contributions as set by state statute.
3. **Police and Fire Fund Contributions**
Police and Fire Plan members were required to contribute 11.80 percent of their annual covered salary in fiscal year 2022 and the [entity] was required to contribute 17.70 percent for Police and Fire Plan members. The [entity’s] contributions to the Police and Fire Fund for the year ended December 31, 2022, were $\_\_\_\_\_\_. The [entity’s] contributions were equal to the required contributions as set by state statute.
4. **Correctional Fund Contributions**
Correctional Plan members were required to contribute 5.83 percent of their annual covered salary in fiscal year 2022 and the [entity] was required to contribute 8.75 percent for Correctional Plan members. The [entity’s] contributions to the Correctional Fund for the year ended December 31, 2022, were $\_\_\_\_\_\_. The [entity’s] contributions were equal to the required contributions as set by state statute.
5. **Pension Costs**
6. **General Employees Fund Pension Costs**

At December 31, 2022, the [entity] reported a liability of $\_\_\_\_\_\_ for its proportionate share of the General Employees Fund’s net pension liability. The [entity’s] net pension liability reflected a reduction due to the State of Minnesota’s contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the state’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the [entity] totaled $\_\_\_\_\_\_.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The [entity’s] proportionate share of the net pension liability was based on the [entity’s] contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA’s participating employers. The [entity’s] proportionate share was \_\_\_ percent at the end of the measurement period and \_\_\_ percent for the beginning of the period.

[Entity’s] proportionate share of the net pension liability $x,xxx,xxx

State of Minnesota’s proportionate share of the net pension

 liability associated with the [Entity] xx,xxx

 Total $x,xxx,xxx

[Benefit provision changes disclosed here. There were no provision changes during the measurement period.]

[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 entity would include a brief description of the nature of those changes.]

For the year ended December 31, 2022, the [entity] recognized pension expense of $\_\_\_\_\_\_ for its proportionate share of the General Employees Plan’s pension expense. In addition, the [entity] recognized an additional $\_\_\_\_\_\_ as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of $16 million to the General Employees Fund.

At December 31, 2022, the [entity] reported its proportionate share of the General Employees Plan’s 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 economic experience** | $x,xxx | $x,xxx |
| **Changes in actuarial assumptions** | $x,xxx | $x,xxx |
| **Net collective difference between projected and actual investment earnings** | [Here] $x,xxx | [Or here]$x,xxx |
| **Changes in proportion** | $x,xxx | $x,xxx |
| **Contributions paid to PERA subsequent to the measurement date [to be calculated by employer]** | $x,xxx |  |
|  **Total** | $xxx,xxx | $xxx,xxx |

The $x,xxx reported as deferred outflows of resources related to pensions resulting from [entity] contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

|  |  |
| --- | --- |
| **Year ended December 31:** | **Pension Expense Amount** |
| 2023 | $x,xxx |
| 2024 | $x,xxx |
| 2025 | $x,xxx |
| 2026 | $x,xxx |

1. **Police and Fire Fund Pension Costs**

At December 31, 2022, the [entity] reported a liability of $\_\_\_\_\_\_ for its proportionate share of the Police and Fire Fund’s net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The [entity’s] proportionate share of the net pension liability was based on the [entity’s] contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA’s participating employers. The [entity’s] proportionate share was \_\_\_ percent at the end of the measurement period and \_\_\_ percent for the beginning of the period.

The State of Minnesota contributed $18 million to the Police and Fire Fund in the plan fiscal year ended June 30, 2022. The contribution consisted of $9 million in direct state aid that does meet the definition of a special funding situation and $9 million in supplemental state aid that does not meet the definition of a special funding situation. The $9 million direct state was paid on October 1, 2021. Thereafter, by October 1 of each year, the state will pay $9 million to the Police and Fire Fund until full funding is reached or July 1, 2048, whichever is earlier. The $9 million in supplemental state aid will continue until the fund is 90 percent funded, or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later.

The State of Minnesota is included as a non-employer contributing entity in the Police and Fire Retirement Plan Schedule of Employer Allocations and Schedule of Pension Amounts by Employer, Current Reporting Period Only (pension allocation schedules) for the $9 million in direct state aid. Police and Fire Plan employers need to recognize their proportionate share of the State of Minnesota’s pension expense (and grant revenue) under GASB 68 special funding situation accounting and financial reporting requirements. For the year ended June 30, 2022, the [entity] recognized pension expense of $\_\_\_\_\_\_ for its proportionate share of the Police and Fire Plan’s pension expense. The [entity] recognized $\_\_\_\_\_\_ as grant revenue for its proportionate share of the State of Minnesota’s pension expense for the contribution of $9 million to the Police and Fire Fund.

The State of Minnesota is not included as a non-employer contributing entity in the Police and Fire Pension Plan pension allocation schedules for the $9 million in supplemental state aid. The [entity] recognized $\_\_\_\_\_\_ for the year ended December 31, 2022 as revenue and an offsetting reduction of net pension liability for its proportionate share of the State of Minnesota’s on-behalf contributions to the Police and Fire Fund.

[Benefit provision changes would be disclosed here. There were no provision changes during the measurement period.]

[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 entity would include a brief description of the nature of those changes.]

At December 31, 2022, the [entity] reported its proportionate share of the Police and Fire Plan’s 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 economic experience** | $x,xxx | $x,xxx |
| **Changes in actuarial assumptions** | $x,xxx | $x,xxx |
| **Net collective difference between projected and actual investment earnings** |  [Here] $x,xxx  | [Or here]$x,xxx |
| **Changes in proportion** | $x,xxx | $x,xxx |
| **Contributions paid to PERA subsequent to the measurement date [to be calculated by employer]** | $x,xxx |  |
|  **Total** | $xxx,xxx | $xxx,xxx |

The $x,xxx reported as deferred outflows of resources related to pensions resulting from [entity] contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

|  |  |
| --- | --- |
| **Year ended December 31:** | **Pension Expense Amount** |
| 2023 | $x,xxx |
| 2024 | $x,xxx |
| 2025 | $x,xxx |
| 2026 | $x,xxx |
| 2027 | $x,xxx  |

**3. Correctional Plan Pension Costs**

At December 31, 2022, the [entity] reported a liability of $\_\_\_\_\_\_ for its proportionate share of the Correctional Plan’s net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The [entity’s] proportionate share of the net pension liability was based on the [entity’s] contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA’s participating employers. The [entity’s] proportionate share was \_\_\_ percent at the end of the measurement period and \_\_\_ percent for the beginning of the period.

[Benefit provision changes would be disclosed here. There were no provision changes during the measurement period.]

[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 entity would include a brief description of the nature of those changes.]

For the year ended December 31, 2022 the [entity] recognized pension expense of $\_\_\_\_\_\_ for its proportionate share of the Correctional Plan’s pension expense.

At December 31, 2022, the [entity] reported its proportionate share of the Correctional Plan’s 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 economic experience** | $x,xxx | $x,xxx |
| **Changes in actuarial assumptions** | $x,xxx | $x,xxx |
| **Net collective difference between projected and actual investment earnings** |  [Here] $x,xxx  | [Or here]$x,xxx |
| **Changes in proportion** | $x,xxx | $x,xxx |
| **Contributions paid to PERA subsequent to the measurement date [to be calculated by employer]** | $x,xxx |  $x,xxx |
|  **Total** | $xxx,xxx | $xxx,xxx |

The $x,xxx reported as deferred outflows of resources related to pensions resulting from [entity] contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

|  |  |
| --- | --- |
| **Year ended December 31:** | **Pension Expense Amount** |
| 2023 | $x,xxx |
| 2024 | $x,xxx |
| 2025 | $x,xxx |

 4. Total Pension Expense

The total pension expense for all plans recognized by the [entity type] for the year ended December 31, 2022 was $\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

1. **Long-Term Expected Return on Investment**

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric 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** |
| Domestic Equity | 33.5% | 5.10% |
| International Equity | 16.5% | 5.30% |
| Fixed Income | 25.0% | 0.75% |
| Private Markets | 25.0% | 5.90% |
|  Total | 100% |  |

1. **Actuarial Methods and Assumptions**

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan, 2.25 percent for the Police and Fire Plan, and 2.25 percent for the Correctional Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan and 2 percent for the Correction Plan through December 31, 2054 and 1.5 percent thereafter. The Police and Fire Plan benefit increase is fixed at 1 percent per year and that increase was used in the valuation.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service. In the Police and Fire Plan, salary growth assumptions range from 11.75 percent after one year of service to 3.0 percent after 24 years of service. In the Correctional Plan, salary growth assumptions range from 11.0 percent at age 20 to 3.0 percent at age 60.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. Mortality rates for the Police and Fire Plan and the Correctional Plans are based on the Pub-2010 Public Safety Employee Mortality tables. The tables are adjusted slightly to fit PERA’s experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent four-year experience studies for the Police and Fire and the Correctional Plan were completed in 2020 were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

**General Employees Fund**

Changes in Actuarial Assumptions:

* The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions:

* There were no changes in plan provisions since the previous valuation.

**Police and Fire Fund**

Changes in Actuarial Assumptions:

* The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
* The single discount rate changed from 6.50% to 5.40%.

Changes in Plan Provisions:

* There were no changes in plan provisions since the previous valuation.

**Correctional Fund**

Changes in Actuarial Assumptions:

* The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.
* The single discount rate changed from 6.50% to 5.42%.
* The benefit increase assumption was changed from 2.00% per annum to 2.00% per annum though December 31, 2054 and 1.5% per annum thereafter.

Changes in Plan Provisions:

* There were no changes in plan provisions since the previous valuation.
1. **Discount Rate**

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. 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.

In the Police and Fire Fund and Correctional Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2060 and June 30, 2061 respectively. Beginning in fiscal year ended June 30, 2061 for the Police and Fire Fund and June 30, 2062 for the Correctional Fund, projected benefit payments exceed the funds' projected fiduciary net position. Benefit payments projected after were discounted at the municipal bond rate of 3.69 percent (based on the weekly rate closest to but

not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The resulting equivalent single discount rate of 5.40 percent for the Police and Fire Fund and 5.42 percent for the Correctional Fund was determined to give approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 6.5 percent applied to all years of projected benefits through the point of asset depletion and 3.69 percent thereafter.

1. **Pension Liability Sensitivity**The following presents the [entity’s] proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the [entity’s] proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

|  |
| --- |
| **Sensitivity Analysis (In Thousands)** |
| *Net Pension Liability (Asset) at Different Discount Rates* |
|  | General Employees Fund | Police and Fire Fund | Correctional Fund |
| 1% Lower | 5.50% | $x,xxx,xxx | 4.40% | $x,xxx,xxx | 4.42% | $x,xxx,xxx |
| Current Discount Rate | 6.50% | $x,xxx,xxx | 5.40% |  $x,xxx,xxx | 5.42% | $x,xxx,xxx |
| 1% Higher | 7.50% | $x,xxx,xxx | 6.40% |  $x,xxx,xxx | 6.42% | $x,xxx,xxx |

1. **Pension Plan Fiduciary Net Position**

Detailed information about each pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org) .

**Note XI. Public Employees Defined Contribution Plan** **(Defined Contribution Plan)**

[Number of entity employees] [types of entity employees, e.g. council members, school district board members, of the City or Any Town] are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees contributions must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (0.25 percent) of the assets in each member's account annually.

Total contributions made by the [entity] during fiscal year 2022 were:

|  |  |  |
| --- | --- | --- |
| Contribution Amount | Percentage of Covered Payroll | Required |
| Employee | Employer | Employee | Employer | Rate |
| $XXX | $XXX | 5% | 5% | 5% |