

## Public Employees Retirement Association

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To: PERA Employers  
 From: Doug Anderson, PERA Executive Director  
 Subject: GASB 68 Net Pension Liabilities for Plan Fiscal Year 2016  
 Date: January 3, 2017

The purpose of this communication is to notify PERA employers of the significant increase in net pension liabilities (NPL) experienced in PERA's GASB 68 actuarial valuations for the plan year ended June 30, 2016. The primary factors contributing to the increases in NPL as of June 30, 2016, included the -0.1% return on investments for the year ended June 30, 2016, and more significantly, the lowering of the assumed discount rate from 7.9% to 7.5%. Lowering the discount rate resulted in a single discount rate of 7.5% for the General Employees Retirement Fund and an equivalent single discount rate of 5.60% for the Public Employees Police and Fire Retirement Fund and 5.31% for the Local Government Correctional Service Retirement Fund. The equivalent single discount rate was based on the municipal bond rate of 2.85% based an index of 20-year general obligation bonds with an average AA credit rating at the measurement date for the time period when the Police and Fire Fund's and Correctional Fund's projected benefit payments exceeded the funds' projected fiduciary net position.

PERA's experience with significantly larger NPL balances in fiscal year 2016 is similar to Minnesota's other statewide pension plans and more generally to plans across the nation. The following table highlights the GASB 68 NPL components and funding ratios for each of PERA's three cost-sharing multiple-employer defined benefit pension plans (dollars in thousands) and funding ratios for the year ended June 30, 2016.

	General Employees Fund	Police and Fire Fund	Correctional Fund
Total Pension Liability (TPL) July 1, 2015 (A)	\$23,764,314	\$8,484,938	\$506,191
Less Fund Fiduciary Net Position July 1, 2015 (B)	(18,581,795)	(7,348,704)	(490,731)
NPL July 1, 2015 (A-B)	\$5,182,519	\$1,136,234	\$15,460
Net Changes to NPL	<u>2,936,985</u>	<u>2,876,940</u>	<u>349,854</u>
NPL Ending Balance June 30, 2016	<u>\$8,119,504</u>	<u>\$4,013,174</u>	<u>\$365,314</u>
TPL June 30, 2016	\$26,114,413	\$11,111,264	\$873,097
Fund Fiduciary Net Position June 30, 2016	\$17,994,909	\$7,098,090	\$507,783
Fund Fiduciary Net Position as a Percentage of the TPL	68.9%	63.9%	58.2%

There are two important facts to keep in mind when assessing the significant increase in NPL experienced as of the June 30, 2016 measurement date.

- First, PERA has two distinct actuarial valuations performed each year, one performed in compliance with GASB 68 accounting and financial reporting requirements, and one for funding purposes. Contribution rates are set by the Minnesota Legislature based on the funding actuarial valuations, which have also been affected by the investment rate of return but to a lesser extent because the funding discount rate of 8% remained unchanged this year and because investment gains and losses are smoothed over a five-year period.
- Second, prior to GASB 68 implementation there was significant discussion and debate within the accounting and auditing communities about presenting the NPL in the Statement of Net Assets, especially considering how unpredictable the NPL could be from year to year in response to market volatility. In the Statement of Activities this concern is addressed to a degree because GASB 68 provides for the change in NPL to be amortized to pension expense over the estimated remaining service lives of all plan members (four or six year period for PERA depending on plan), except for investment gains and losses which are amortized over a five-year period.

To access PERA's detailed GASB 68 actuarial valuation reports in PERA's 2016 financial reporting toolkit, click here: <http://bit.ly/1wTO3zG>

If you have any other questions or concerns, please contact PERA at [gasb@mnpera.org](mailto:gasb@mnpera.org)