Suggested GASB 68 Pension Footnotes for Employers Financial Statements for the Fiscal Year

Ended December 31, 2017

**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 except that PERA’s fiscal year end is June 30. 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. **1. General Employees Retirement Plan** (General Employees Plan (accounted for in the General Employees Fund))

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 either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**2. Public Employees Police and Fire Plan** (Police and Fire Plan (accounted for in the Police and Fire Fund))  
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.

**3. Local Government Correctional Plan** (Correctional Plan (accounted for in the Correctional Fund))

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.  
  
**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.   
  
Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given one percent increases.   
  
 The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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.  
  
**1. 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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year 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.   
  
**2. 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.

**3. 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.

1. **Contributions***Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.   
     
   **1. General Employees Fund Contributions**Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017.   The [entity] was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017.  The [entity’s] contributions to the General Employees Fund for the year ended December 31, 2017 were $\_\_\_\_\_\_\_\_. The [entity’s] contributions were equal to the required contributions as set by state statute.

**2. Police and Fire Fund Contributions**Plan members were required to contribute 10.8 percent of their annual covered salary in calendar year 2017. The [entity] was required to contribute 16.20 percent of pay for members in calendar year 2017. The [entity’s] contributions to the Police and Fire Fund for the year ended December 31, 2017 were $\_\_\_\_\_\_\_\_. The [entity’s] contributions were equal to the required contributions as set by state statute.

**3. Correctional Fund Contributions**In calendar year 2017 plan members were required to contribute 5.83 percent of their annual covered salary. The [entity] was required to contribute 8.75 percent of pay for plan members in calendar year 2017. The [entity’s] contributions to the Correctional Fund for the year ended December 31, 2017 were $\_\_\_\_\_\_\_\_. The [entity’s] contributions were equal to the required contributions as set by state statute.

1. **Pension Costs**
2. **General Employees Fund Pension Costs**At December 31, 2017, 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 $6 million to the fund in 2017. 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, 2017 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] proportion 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, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2017 the [entity’s] proportionate share was \_\_\_\_ percent which was an increase/decrease of \_\_\_\_ percent from its proportion measured as of June 30, 2016.  
     
   [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, 2017 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 $6 million to the General Employees Fund.

At December 31, 2017, 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 |
| Difference between projected and actual investment earnings | $x,xxx | $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 |

$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, 2018. 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 |
| 2018 | $x,xxx |
| 2019 | $x,xxx |
| 2020 | $x,xxx |
| Thereafter | 0 |

**2. Police and Fire Fund Pension Costs**At December 31, 2017 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, 2017 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] proportion 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, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2017 the [entity’s] proportionate share was \_\_\_\_percent which was an increase/decrease of \_\_\_\_ percent from its proportion measured as of June 30, 2016. The [entity] also recognized $\_\_\_\_\_\_\_ for the year ended December 31, 2017 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. Legislation passed in 2013 required the State of Minnesota to begin contributing $9 million to the Police and Fire Fund each year, starting in fiscal year 2014.  
  
[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, 2017 the [entity] recognized pension expense of $\_\_\_\_\_ for its proportionate share of the Police and Fire Plan’s pension expense.   
  
At December 31, 2017 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 |
| Difference between projected and actual investment earnings | $x,xxx | $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 |

$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, 2018. 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 |
| 2018 | $x,xxx |
| 2019 | $x,xxx |
| 2020 | $x,xxx |
| 2021 | $x,xxx |
| 2022 | $x,xxx |
| Thereafter | 0 |

1. **Correctional Plan Pension Costs**At December 31, 2017 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, 2017 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] proportion 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, 2016 through June 30, 2017 relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2017 the [entity’s] proportionate share was \_\_\_\_ percent which was an increase/decrease of \_\_\_\_ percent from its proportion measured as of June 30, 2016.  
     
   [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, 2017 the [entity] recognized pension expense of $\_\_\_\_\_ for its proportionate share of the Correctional Plan’s pension expense.

At December 31, 2017 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 |
| Difference between projected and actual investment earnings | $x,xxx | $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 |

$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, 2018. 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 |
| 2018 | $x,xxx |
| 2019 | $x,xxx |
| 2020 | $x,xxx |
| Thereafter | 0 |

1. **Actuarial Assumptions**

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:  
Inflation 2.50% per year  
Active Member Payroll Growth 3.25% per year  
Investment Rate of Return 7.50%   
  
Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA’s experience. Cost of living benefit increases for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and Police and Fire Plan through 2064 and then 2.5 percent thereafter for both plans, and 2.5 percent for all years for the Correctional Plan.  
  
Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The most recent five-year experience study for Police and Fire Plan was completed in 2016. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2017:

**General Employees Fund**

* The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
* The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2 044 and 2.5 percent per year thereafter.

**Police and Fire Fund**

* Assumed salary increases were changed as recommended in the June 30, 2016 experience study. The net effect is proposed rates that average 0.34 percent lower than the previous rates.
* Assumed rates of retirement were changed, resulting in fewer retirements.
* The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested deferred members. The CSA has been changed to 33 percent for vested members and 2 percent for non-vested members.
* The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality tables assumed for healthy retirees.
* Assumed termination rates were decreased to 3.0 percent for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
* Assumed percentage of married female members was decreased from 65 percent to 60 percent.
* Assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
* The assumed percentage of female members electing Joint and Survivor annuities was increased.
* The assumed post-retirement benefit increase rate was changed from 1.00 percent for all years to 1.00 percent per year through 2064 and 2.50 percent thereafter.

**Correctional Fund**

* The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016 and is applied to healthy and disabled members. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the RP-2014 disabled annuitant mortality table (with future mortality improvement according to MP-2016).
* The Combined Service Annuity (CSA) load was 30 percent for vested and non-vested, deferred members. The CSA has been changed to 35 percent for vested members and 1 percent for non-vested members.
* The Single Discount Rate was changed from 5.31 percent per annum to 5.96 percent per annum.

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 Stocks | 39% | 5.10% |
| International Stocks | 19% | 5.30% |
| Bonds | 20% | .75% |
| Alternative Assets | 20% | 5.90% |
| Cash | 2% | 0.0% |
| Total | 100% |  |

1. **Discount Rate**The discount rate used to measure the total pension liability in 2017 was 7.50%. 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 positions of the General Employees Fund and the Police and Fire 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 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, 2061. Beginning in fiscal year ended June 30, 2062, when projected benefit payments exceed the fund’s projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 3.56% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date, An equivalent single discount rate of 5.96% for the Correctional Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 3.56% after.

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 of Net Pension Liability at Current Single Discount Rate (in thousands)** | | | | | | |
|  | | | | | | |
|  | **General Employees Fund** | | **Police and Fire Fund** | | **Correctional Fund** | |
| 1% Lower | 6.50% | $9,901,956 | 6.50% | $2,542,668 | 4.96% | $469,646 |
| Current Discount Rate | 7.50% | 6,383,934 | 7.50% | 1,350,119 | 5.96% | 285,001 |
| 1% Higher | 8.50% | 3,503,794 | 8.50% | 365,604 | 6.96% | 140,883 |

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 of 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 (0.0025) of the assets in each member's account annually.

Total contributions made by the [entity] during fiscal year 2017 were:

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