Suggested GASB 68 Pension Footnotes for Employers Financial Statements for the Fiscal Year Ended December 31, 2018

 [*Using PERA Valuation/Measurement Date 6/30/2018*]

**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.
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 of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary 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. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Police and Fire Plan benefit recipients receive a future annual 1.0 percent increase. The annual adjustment will equal 2.5 percent any time the plan exceeds a 90 percent funded ratio for two consecutive years. If the adjustment is increased to 2.5 percent and the funded ratio falls below 80 percent for one year or 85 percent for two consecutive years, the post-retirement benefit increase will be lowered to one percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase. For retirements after May 31, 2014, the first increase will be delayed two years.

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. A full, unreduced pension is earned when members are age 55 and vested, or for members who were first hired prior to July 1, 1989, when age plus years of service equal at least 90.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Correctional Plan benefit recipients receive a future annual 2.5 percent increase. If the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata 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 2018 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, 2018, were $\_\_\_\_\_\_. The [entity’s] contributions were equal to the required contributions as set by state statute.
3. **Police and Fire Fund Contributions**
Plan members were required to contribute 10.8 percent of their annual covered salary and the [entity] was required to contribute 16.20 percent of pay for members in fiscal year 2018. The [entity’s] contributions to the Police and Fire Fund for the year ended December 31, 2018, were $\_\_\_\_\_\_. The [entity’s] contributions were equal to the required contributions as set by state statute.
4. **Correctional Fund Contributions**
Plan members were required to contribute 5.83 percent of their annual covered salary and the [entity] was required to contribute 8.75 percent of pay for plan members in fiscal year 2018. The [entity’s] contributions to the Correctional Fund for the year ended December 31, 2018, 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, 2018, 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 to the fund in 2018. 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, 2018, 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2018, the [entity’s] proportionate share was \_\_\_ percent which was an increase/decrease of \_\_\_ percent from its proportionate share measured as of June 30, 2017.

[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, 2018, 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, 2018, 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, 2019. 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** |
| 2019 | $x,xxx |
| 2020 | $x,xxx |
| 2021 | $x,xxx |
| 2022 | $x,xxx |

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

At December 31, 2018, 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, 2018, 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA’s participating employers.

At June 30, 2018, the [entity’s] proportionate share was \_\_\_ percent which was an increase/decrease of \_\_\_ percent from its proportionate share measured as of June 30, 2017. The [entity] also recognized $\_\_\_\_\_\_ for the year ended December 31, 2018, 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, until the plan is 90 percent funded or until the State Patrol Plan (administered by the Minnesota State Retirement System) is 90 percent funded, whichever occurs later.

[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, 2018, the [entity] recognized pension expense of $\_\_\_\_\_ for its proportionate share of the Police and Fire Plan’s pension expense.

At December 31, 2018, 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, 2019. 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** |
| 2019 | $x,xxx |
| 2020 | $x,xxx |
| 2021 | $x,xxx |
| 2022 | $x,xxx |
| 2023 | $x,xxx  |

**Correctional Plan Pension Costs**

At December 31, 2018, 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, 2018, 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, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA’s participating employers.

At June 30, 2018, the [entity’s] proportionate share was \_\_\_ percent which was an increase/decrease of \_\_\_ percent from its proportionate share measured as of June 30, 2017.

[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, 2018, the [entity] recognized pension expense of $\_\_\_\_\_\_ for its proportionate share of the Correctional Plan’s pension expense.

At December 31, 2018, 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, 2019. 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** |
| 2019 | $x,xxx |
| 2020 | $x,xxx |
| 2021 | $x,xxx |
| 2022 | $x,xxx |

 **Total Pension Expense**

 The total pension expense for all plans recognized by the [entity] for the year ended

 December 31, 2018, was $x,xxx,xxx.

1. **Actuarial Assumptions**

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation 2.50 percent per year
Active Member Payroll Growth 3.25 percent per year
Investment Rate of Return 7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA’s experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan, 1.0 percent per year for the Police and Fire Plan, and 2.0 percent per year for the Correctional Plan.

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. The most recent four-year experience study for Police and Fire Plan was completed in 2016. The five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study completed in 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2018:

**General Employees Fund**

Changes in Actuarial Assumptions:

* The morality projection scale was changed from MP-2015 to MP-2017.
* The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions:

* The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
* Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
* Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
* Contribution stabilizer provisions were repealed.
* Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
* For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
* Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**Police and Fire Fund**

Changes in Actuarial Assumptions:

* The mortality projection scale was changed from MP-2016 to MP-2017.

Changes in Plan Provisions:

* Post-retirement benefit increases were changed to 1.0 percent for all years, with no trigger.
* An end date of July 1, 2048 was added to the existing $9.0 million state contribution.
* New annual state aid will equal $4.5 million in fiscal years 2019 and 2020, and $9.0 million thereafter until the plan reaches 100 percent funding, or July 1, 2048, if earlier.
* Member contributions were changed from 10.8 percent to 11.3 percent of pay, effective January 1, 2019 and 11.8 percent of pay, effective January 1, 2020.
* Employer contributions were changed from 16.20 percent to 16.95 percent of pay, effective January 1, 2019 and 17.70 percent of pay, effective January 1, 2020.
* Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
* Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
* Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**Correctional Fund**

Changes in Actuarial Assumptions:

* The Single Discount Rate was changed from 5.96 percent per annum to 7.50 percent per annum.
* The mortality projection scale was changed from MP-2016 to MP-2017.
* The assumed post-retirement benefit increase was changed from 2.50 percent per year to 2.00 percent per year.

Changes in Plan Provisions:

* The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
* Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
* Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
* Post-retirement benefit increases were changed from 2.5 percent per year with a provision to reduce to 1.0 percent if the funding status declines to a certain level, to 100 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 2.5 percent, beginning January 1, 2019. If the funding status declines to 85 percent for two consecutive years or 80 percent for one year, the maximum increase will be lowered to 1.5 percent.
* Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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 | 36% | 5.10% |
| International Stocks | 17% | 5.30% |
| Bonds (Fixed Income) | 20% | 0.75% |
| Alternative Assets (Private Markets) | 25% | 5.90% |
| Cash |  2% | 0.00% |
|  Total | 100% |  |

1. **Discount Rate**

The discount rate used to measure the total pension liability in 2018 was 7.50 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 positions of the General Employees Fund, the Police and Fire Fund, and the Correctional Fund were 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.

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**  |
| *Net Pension Liability (Asset) at Different Discount Rates* |
|  | General Employees Fund | Police and Fire Fund | Correctional Fund |
| 1% Lower | 6.50% | $x,xxx,xxx | 6.50% | $x,xxx,xxx | 6.50% | $x,xxx,xxx |
| Current Discount Rate | 7.50% | $x,xxx,xxx | 7.50% |  $x,xxx,xxx | 7.50% | $x,xxx,xxx |
| 1% Higher | 8.50% | $x,xxx,xxx | 8.50% |  $x,xxx,xxx | 8.50% | $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 2018 were:

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