M E M O R A N D U M

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Mital, Simpson, Helgeson, Manning and Brown

FROM: Sue Fahey, Finance Manager; Susan Eicher, Accounting and Treasury Supervisor

DATE: July 24, 2015

SUBJECT: Change in accounting standards for pensions

OBJECTIVE: Information Only

Issue

The Governmental Accounting Standard Board (GASB) has issued Statement No. 68 Accounting and Financial Reporting for Pensions (GASB 68). EWEB will be implementing this standard in the 2015 annual report and since the standard significantly changes how pension liabilities and expenses are reported, management is providing an overview of the changes in advance.

Background

The intent of the new accounting standard is to improve financial reporting, transparency and comparability of obligations to pay pension benefits. GASB 68 changes the landscape of pension reporting in the financial statements, the note disclosures, and required supplementary information.

Discussion

While GASB 68 does change how we record our pension liability, it does not change the amount we pay as contributions to PERS. That will continue to be determined by the actuarial valuations performed by PERS. Recording the pension liability will have no effect on rates since the liability represents future obligations and not a current outflow of cash. The focus of the accounting change will be from a funding approach (income statement) to a funded approach (balance sheet).

Pension expense and liabilities in the 2014 annual report were reported as follows: Most of the information was only disclosed in the notes.

The Annual Pension Cost (APC) was recognized as expense on the income statement based on the rate determined by PERS. The APC was spread through the benefit load to labor as it was incurred.

Net Pension Obligation (NPO) was generally $0. An NPO would result only if all of the required contributions had not been made. The NPO was disclosed in the notes to the financial statements.

Actuarial Accrued Liability (AAL) was the amount owed over time for payments to all employees currently employed or retired and receiving benefits. The AAL was disclosed in the notes to the financial statements.

Unfunded Accrued Actual Liability (UAAL) was the amount of the AAL not yet funded. The UAAL was disclosed in the notes to the financial statements.

In the 2015 annual report, pension expense and liability information will be calculated differently and moved to the balance sheet from the notes.

Pension Expense, the difference between the net pension liability of the prior year and the current year will be reported on the income statement. Changes in actuarial assumptions or between expected and actual that result in no immediate cash transaction will be classified as deferred inflows and outflows on the balance sheet and will be amortized over time.

Net Pension Liability, or Asset is EWEB's proportionate share of PERS system-wide pension liability and will be reported on the balance sheet.

Other significant changes include:

Changes to methodologies and assumptions for actuarial valuation. For example, under the previous reporting standards, there were several acceptable methodologies that could be used for actuarial valuation of costs. Under the new standards, a single methodology is proscribed.

Note disclosures to the financial statements are expanded to include more descriptive information about the plan, significant inputs and assumptions, current year changes in the net pension liability, and information on any deferred inflows or outflows.

Required supplementary information (RSI) will become a part of the annual report, which will, over time build into a ten year history of significant plan information.

Under the new accounting standards, PERS is considered a multiple-employer cost sharing plan. Each employer in the PERS plan will report its proportionate share of pension expense, deferred inflows and outflows, and net pension liability. The EWEB share of the net pension liability will include the effects of previous payments made into side accounts segregated for EWEB only. PERS will prepare, and have audited, the documentation needed to record our share and develop the required disclosures. EWEB will receive an updated report that will include some of the effects of the Oregon Supreme Court Moro decision. The timing of the release of the report is unknown, consequently we cannot predict what EWEB's Pension expense and net pension liability or asset will be.

While the new standards change the focus of reporting from funding (the amounts paid into the plan), to the overall funded status of the plan, funding will still be important. If the fair value of assets held by the plan is insufficient to make the projected benefit payments, the discount rate used in the plan valuation changes from the expected rate of return to that of a high quality municipal bond which would likely result in a higher pension expense and a larger net pension liability. The fair value of assets of the PERS system is largely out of the control of individual employers. Employers can influence their net pension liability by paying down their liability. The decision to pay down the liability or use cash for other purposes will require a careful assessment of the potential benefits of each available option.

Requested Board Action
No action requested. Information only