OPERS

GASB Call to Action Q&A

OPERS recently presented several Webinars to its employers to raise awareness of the proposed financial reporting changes facing employers who participate in public pension plans such as OPERS, a cost-sharing multi-employer plan. This document summarizes the questions raised during the Webinars. Our responses are based on our understanding of the proposed rules, which are subject to change after the GASB receives written feedback from financial statement users. Individual questions have been paraphrased and summarized into common themes to simplify the Q&A document.

	Question	Answer
1.	Do you have a spreadsheet summarizing each employer's proportionate share of net pension liability and pension expense?	Yes. Our external and internal actuaries worked together using several assumptions (including an assumed fiscal year end of December 31, 2010), to estimate the proportionate share for all 3700 employers. The comment period has expired, however you can still obtain an estimate of your employer's liability at 12/31/10 by sending an email to employeroutreach@opers.org. The schedule is organized by employer code, so please complete the OPERS GASB Questionnaire located on the OPERS employer website and attach it with your request. If your reporting entity contains multiple employer codes, you will need to request the information for each employer code. Please submit your request by November 30, 2011.
2.	If these changes are approved, when and how will our employer specific information be distributed?	We have not yet determined the most effective delivery method for distributing the employer specific information. The timing of the distribution of employer specific information will depend on the final language of the exposure draft. The current exposure draft requires OPERS to develop a roll-forward methodology to bring the net pension liabilities calculated as of our actuarial valuation date forward to the employer's fiscal year end. Performing this roll-forward process for a variety of fiscal year ends, including the valuation of alternative investments such as private equities and real estate, is expected to require considerable staff and consulting time. We have serious concerns about providing the employer specific information in time to meet most employers' reporting deadlines. If the GASB eliminates the requirement to recalculate the net pension liabilities as of each employer's fiscal year end, we are more optimistic about meeting employer reporting timelines. Depending on the final outcome of GASB's evaluation of the Exposure Drafts, OPERS will provide each employer their proportionate share of pension expense, net pension liability and deferred inflows/outflows. In addition, OPERS will

		provide the pension data necessary for each employer to complete their footnotes and RSI schedules. Please note that the ultimate content of these disclosures will also be dependent on significant financial events that may occur at the employer level.
3.	How many other pension systems in other states will be impacted by this change? Have you been in contact with them to see how they feel about this change?	All state and local public pension systems are required to adopt the new standards when the final version is approved and issued. OPERS is a member of the Public Pension Financial Forum (P2F2), a non-profit group that provides industry specific education and support to finance professionals working in the public pension arena. OPERS is working with our peer pension systems in P2F2 to fully understand the implications of the proposed standards. A draft of the P2F2 response to the GASB proposals can be found on the P2F2 website at www.P2F2.org. Comment letters and responses provided by other employers, NASRA, and OPERS can be found on the GASB website under the Projects tab / Comment Letters. The OPERS and NASRA responses are also posted on the OPERS employer website.
4.	Does GASB explain why it recommends this type of reporting?	GASB has indicated that the objective of the proposed standards is to improve information provided by state and local governments about the financial support for pensions provided on their behalf by other entities. The intent is to provide decision-useful information and creating additional transparency.
5.	Does the impact of these proposed changes depend on my basis of accounting? i.e. full accrual, modified accrual or cash basis? Do these changes apply to all forms of governments?	These changes impact all public employers participating in a public pension plan. We suggest that you talk about the impact of the proposed changes with your external auditors. It is our understanding that the proposed standards will affect all employers regardless of the basis of accounting used. Per the exposure draft "For modified accrual accounting, a net pension liability would be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures would be recognized equal to the total of amounts contributed to the pension plan and amounts normally expected to be liquidated with expendable available financial resources." Cash basis employers will not recognize a liability on their balance sheets, but will be required to prepare expanded footnotes and disclosures.

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6.	Has OPERS contacted the State Attorney General in order to obtain a legal opinion regarding the lack of legal liability for the net pension liability? Where in the ORC does it state that the local community is liable for the unfunded OPERS liability?	We have not yet contacted the Ohio Attorney General, but we continue to review state statutes in formulating our response to the GASB. OPERS believes that the liability should be reported on OPERS financial statements as the plan administrator, rather than being reported by the participating employers.
7.	How can I obtain a copy of the presentation?	An electronic copy of the presentation (in PDF format) is available on the OPERS website (www.opers.org) -- look for a "GASB standards" button on the left hand side of the OPERS home page.
8.	How does this affect employers who use the Regulatory Financial Reports?	OPERS is not familiar with this type of reporting. We suggest that you talk to your external auditors to answer this question.
9.	I don't understand. We currently pay only the 14% - so are you saying that we are going to have pay above and beyond the 14%? We are cash basis accounting.	Under the proposed standards employers will continue to pay the statutorily required contributions, which may be different than the actuarial calculated pension expense. The proposed standards do not address funding of the pension expense. Therefore, in this example, you will continue to pay only the 14%.
10.	Will government software providers (SSI, CMA, etc) be required to update their software to accommodate the changes in the calculations in the pension reporting?	You will need to speak with your software providers directly. As noted above you will have a new pension expense to report, however your contributions will remain the same as set in state statute.
11.	Are we going to have a sample form to help us with our footnote disclosures?	OPERS will continue to produce an employer notice containing facts necessary for employers to complete their financial statements. In addition, employer specific information will be provided if the proposed standards are adopted as currently written. However, we encourage you to work with your auditors regarding the disclosures appropriate to your operations and basis of accounting.
12.	I have a problem with including a number on my balance sheet that I have no way of confirming	We understand your concern. We have been in contact with our external auditors as well as the Ohio Auditor of State's office to determine how the allocation of the net pension liability to our 3,700 employers will be audited. Though we don't have anything formal to share at this time, we expect that the allocation process will be independently audited, including a published audit report that can be relied on by your auditors.
13.	When will the employers be expected to pay the net pension liability after they record the	The net pension liability is a long term liability that will vary over time. Just as you are not expected to pay your entire home mortgage in one year, employers will not be required

	liability?	to pay the net pension liability. Employers will continue to pay their statutorily required contributions, which are designed to pay down the long term liability over time.
14.	Are private employers going to start recording a liability for social security shortages?	The GASB proposed standards differ from the FASB standards adopted for private sector employers. Just as private employers do not record their share of social security shortages, OPERS believes participating employers should not be required to record a liability beyond their statutorily required contributions.
15.	What is the consequence if we don't report our proportion share of the net pension liability?	This is a question for your auditors.
16.	Where can we find example footnotes and RSI schedules for the proposed changes to GASB 27?	Example footnotes for cost-sharing multi-employer plans can be found on pages 126-129 of the exposure draft for changes to GASB 27. RSI example schedules start on page 130 of the same document. You can down load the exposure draft for free from the GASB website at www.GASB.org.
17.	How is the net pension liability allocated to all 3,700 employers	Each employer's proportionate share will be based on the employer's projected long-term contributions relative to the projected long-term contributions of all employers in the plan. Therefore, the allocation is based on projected future contributions from current active members.
18.	Could OPERS raise employer contributions to reduce the pension liability?	The employer contribution rates are set in Ohio statute and OPERS has no plans to seek legislative approval to raise the current employer rates. However in 2009, OPERS submitted recommended changes to the pension benefit formulas and eligibility requirements that are intended to improve the funding position of our pension system. Legislative action is still pending on these proposals, with little movement to date.
19.	What is the timing of these changes?	The GASB will conclude its public comment period in October 2011 with three scheduled public hearings. They expect to issue final standards in June 2012 with implementation effective for years beginning after June 15, 2013.
20.	Where can I get more information about these changes?	The exposure drafts can be downloaded for free from the GASB website at www.GASB.org. In addition, OPERS has created a special section on our website to keep users informed. Our website is www.opers.org. Click on the button "GASB Standards" located on the lower left side of the home page.
21.	Why aren't there sufficient assets to cover our pension liabilities	The financial position of public pension plans changes from year to year based on market fluctuations, changing demographics, local economies, etc. As administrator of the pension plan, OPERS develops a long term strategy to ensure

		that future retirement benefits are adequately funded. We have also been working with state legislators to amend benefit formulas and eligibility requirements to address the fact that members are living longer. OPERS has submitted plan design changes for legislative approval to provide stable pension benefits for all current and future retirees.
22.	We are a small employer with one full time employee. How are we expected to understand these new rules and account for it properly?	We understand pension accounting is a challenging topic. We suggest you communicate with your auditors for one on one advice to implement the proposed standards for your specific situation.
23.	What if an employee has worked for multiple employers over their lifetime? How are you going to figure out how much liability per employer?	Under the proposed standards, an aggregate liability is calculated for all members and apportioned to each employer based on the projected payroll contributions of their active member population. As a result, the employer's proportionate share reflects the total service credit of all members.
24.	Do you feel UAN will be addressing the reports and schedules that cash basis reporting will need? (Marni – What is "UAN"? Can we spell this out?)	OPERS has been in communication with the Ohio Auditor of State, so we know they are aware of the pending changes. However, you will need to communicate directly with the Ohio Auditor of State to learn of any changes to their UAN system.
25.	Will retired members be included in the employer's liability?	Yes - The net pension liability is equal to the total pension liability of all active, inactive, and retired members, net of the fair value of plan assets (plan position). Since retired members are included in the total pension liability, they will be a component of the value of each employer's net pension liability.
26.	If this standard is implemented, would there also be projections provided so that we would be able to accrue an expense throughout the next fiscal year for those of us who prepare interim reporting to boards and other interested parties?	We don't have an answer to this question at this time. We expect the pension expense to be volatile from year to year based on changing demographics and market fluctuations. We know this is a concern for some employers, so we are researching options as part of our implementation efforts.