

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

Item Number: **7**

SUBJECT: Assumptions Related to GASB Statement No. 67 and No. 74

CONSENT:

ATTACHMENT(S): 2

ACTION: X

DATE OF MEETING: April 6, 2017 / 10 mins.

INFORMATION:

PRESENTER(S): Rick Reed and David Lamoureux

PURPOSE

The purpose of this item is to adopt actuarial assumptions needed for financial reporting under Statements 67 and 74 of the Government Accounting Standards Board (GASB).

DISCUSSION/SUMMARY

GASB Statement 67 first became effective for CalSTRS for the fiscal year ending June 30, 2014. It impacted information presented in CalSTRS financial statements for pension programs but not the Medicare Premium Payment (MPP) Program (an other post-employment benefit program).

Since GASB 67 has been implemented, GASB released Statement 74 regarding financial reporting for postemployment benefit plans. The MPP Program is subject to disclosure requirements set by GASB 74. GASB 74 will be implemented for the first time in CalSTRS financial statements for the fiscal year ending June 30, 2017, replacing disclosures previously required under GASB 43.

Prior to the implementation of GASB 67 in April 2014, the board adopted actuarial assumptions for use in required financial reporting calculations and disclosures. Assumptions must also be adopted for GASB 74 reporting purposes

In February 2017, the CalSTRS board adopted new demographic and economic actuarial assumptions effective with the June 30, 2016 actuarial valuations of the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, the Cash Balance Benefit (CBB) Program and the Medicare Premium Payment (MPP) Program. These valuations are used each year to assess the funding levels of the various programs and determine if existing contribution levels are adequate to ensure long term full funding.

In order to mitigate the potential one-time impact on member contribution rates, the board adopted a stepped approach to lower the investment return assumption. For the DB program, the investment return assumption will be 7.25% for the June 30, 2016 actuarial valuation and 7.00% for the June 30, 2017 valuation.

For purposes of financial reporting under GASB Statement 67 and 74 requirements, staff recommends the adoption of the 7.00% investment return assumption effective for the period beginning July 1, 2016. Using the lower investment return assumption will ensure our financial statements reflect the long term expected investment return adopted by the board in February. Note that the investment return assumption adopted by the board is net of administrative expenses. GASB requires the investment return assumption to be gross of administrative expenses. The assumption for administrative expenses is 0.1% or 10 basis points. As a result, should the board adopt this recommendation, a long term expected investment return assumption of 7.1%, gross of administrative expenses, will be used for actuarial calculations and associated disclosures required for financial reporting purposes.

Similar to GASB 67, GASB 74 requires a calculation be performed to determine the discount rate to be used for performing the various accounting measurements. To calculate the discount rate, each plan must perform a cash flow projection to determine whether or not assets are projected to be depleted in the future.

In years where assets are not depleted, cash flows can be discounted using the long term expected rate of return, gross of administrative expenses. In years where the assets are projected to be depleted, cash flows are discounted using a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating equivalent to AA/Aa or higher. When GASB 67 was implemented, the board adopted the use of the 20-year Bond Municipal General Obligation Index from Bondbuyer.com to satisfy this requirement. Staff recommends the same index be used for GASB 74.

Note that for GASB 67, assets are not expected to be depleted and therefore the discount rate used for financial reporting purposes is the long term expected rate of return. Because there are virtually no assets set aside to pre-fund the MPP Program, we expect the discount rate for GASB 74 to be nearly identical to the bond index. At the beginning of March, the value of the index was 3.95%. The bond index on June 30, 2017 will be used for the June 30, 2017 financial statements. Note that the discount rate used last year for the MPP Program to satisfy GASB 43 requirements was 3.5%.

RECOMMENDATION

Staff recommends that the board adopt the actuarial assumptions used for the June 30, 2016 actuarial valuations of the Defined Benefit and Defined Benefit Supplement Programs as the assumptions used for GASB 67 financial reporting, except for the immediate adoption of a 7.0%, net of administrative expenses, investment return assumption.

For GASB 74 purposes, staff recommends the board adopt the actuarial assumptions used in the June 30, 2016 MPP Program actuarial valuation as the assumptions used for GASB 74 financial reporting, except for the immediate adoption of a 7.0%, net of administrative expenses, investment return assumption.

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Staff also recommends that the board adopt the 20-year Bond Municipal General Obligation Index from Bondbuyer.com as the bond index rate to use for financial reporting under GASB 74.

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of Assumptions for GASB
Statement No. 67 Financial Reporting

RESOLUTION NO. _____

WHEREAS, the Government Accounting Standards Board has issued Statement No. 67 for governmental pension plans effective for CalSTRS for the fiscal year ending June 30, 2014; and

WHEREAS, certain information needed to comply with Statement No. 67 issued by the Government Accounting Standards Board requires the use of actuarial assumptions; and

WHEREAS, staff recommends that the actuarial assumptions for GASB Statement No. 67 financial reporting be the actuarial assumptions used for the Defined Benefit and Defined Benefit Supplement Programs whenever allowed under GASB Statement No. 67 and that staff further recommends that the long term expected return for financial reporting under GASB Statement No. 67 be immediately lowered to 7.00%; and

WHEREAS, staff recommends the continued use of the 20-year Bond Municipal General Obligation Index from Bondbuyer.com to determine a blended discount rate for benefit payments if assets were ever projected to be depleted for the State Teachers' Retirement Plan; and therefore, be it

RESOLVED that the Teachers' Retirement Board adopt the use of a 7.00% long term expected rate of return along with all other Defined Benefit, Defined Benefit Supplemental and Cash Balance program actuarial assumptions and the 20-year Bond Municipal General Obligation Index from Bondbuyer.com for financial reporting under Government Accounting Standards Board Statement No. 67.

Adopted by:
Teachers' Retirement Board
on April 6, 2017

Reviewed by:

JACK EHNES
Chief Executive Officer

Brian J. Bartow
General Counsel

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD

SUBJECT: Adoption of Assumptions for GASB
Statement No. 74 Financial Reporting

RESOLUTION NO. _____

WHEREAS, the Government Accounting Standards Board has issued Statement No. 74 for governmental other post-employment benefit plans effective for CalSTRS for the fiscal year ending June 30, 2017; and

WHEREAS, certain information needed to comply with Statement No. 74 issued by the Government Accounting Standards Board requires the use of actuarial assumptions; and

WHEREAS, staff recommends that the actuarial assumptions for GASB Statement No. 74 financial reporting be the actuarial assumptions used for the Medicare Premium Payment Program whenever allowed under GASB Statement No. 74 and that staff further recommends that the long term expected return for financial reporting under GASB Statement No. 74 be immediately lowered to 7.00%; and

WHEREAS, consistent with the index used for calculations pursuant to GASB Statement No. 67, staff recommends the 20-year Bond Municipal General Obligation Index from Bondbuyer.com be used to determine a blended discount rate for benefit payments after assets are projected to be depleted for the Medicare Premium Payment Program; and therefore, be it

RESOLVED that the Teachers' Retirement Board adopt the use of a 7.00% long term expected rate of return along with all other Medicare Premium Payment Program actuarial assumptions and the 20-year Bond Municipal General Obligation Index from Bondbuyer.com for financial reporting under Government Accounting Standards Board Statement No. 74.

Adopted by:
Teachers' Retirement Board
on April 6, 2017

Reviewed by:

JACK EHNES
Chief Executive Officer

Brian J. Bartow
General Counsel