

JOINT COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT  
SECOND QUARTER MEETING  
April 28, 2011

The Joint Committee on Public Employee Retirement held its 2nd Quarter Meeting on Thursday, April 28th at 9:00 am in House Hearing Room 1. With a quorum being established, Chairman Crowell called the meeting to order. Joint Committee members in attendance were Senators Chappelle-Nadal, Crowell, Keaveny, Lamping and Rupp and Representatives Anders, Atkins, Brown, Franz, Pierson and Wieland. Senator Green was not in attendance.

The Chairman turned the meeting over to the Executive Director, Ronda Stegmann, who provided an overview of plan modifications, reviewed benefit structures or moved to LAGERS since 2008. It was noted these actions come from a desire to manage plan costs and increase plan sustainability.

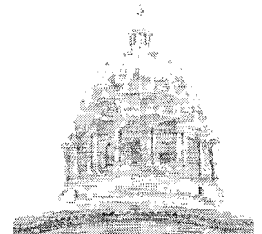
Legislation being tracked relative to pension issues was reviewed. Sixty retirement bills are currently being monitored, with 16 moving steadily through the legislative process.

Preliminary numbers, based on 1st quarter 2011 reporting provided by 17 of the 88 defined benefit plans, were also provided to the Committee. It was noted this report is early in reporting period and it is anticipated more plans will be responding.

The committee approved expenses for JCPER staff to attend the 2011 MAPERS conference. Expenses for Committee member attendance will not be covered this year from JCPER funds.

No further business being presented, the committee adjourned.

  
Ronda Stegmann  
Executive Director



# JOINT COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT

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2nd QUARTER MEETING  
April 28, 2011  
9:00 a.m.  
House Hearing Room 1

## AGENDA

Roll Call

Plan Considerations/Modifications

Legislation

Quarterly Reporting

MAPERS Conference

Other Business



## **PLAN CONSIDERATIONS / MODIFICATIONS**

### **Plans / Sponsors Studying Benefit Options**

**Columbia Police Retirement Plan & Fire Retirement Plan** *(Mayor's Task Force 2010)*  
**Kansas City Plans** *(Mayor's Task Force 2011)*  
**Public School Retirement System (PSRS) /**  
**Public Education Employees' Retirement System (PEERS)**  
**St. Louis Police Retirement Plan** *(HB 776)*  
**St. Louis Fire Retirement Plan** *(HCS for HB 664)*  
**University of Missouri Retirement Plan**

### **Plans Implementing Modifications or New Tier**

**Hannibal Police & Fire Retirement Plan** - *Increased Employee Contributions  
& an Employer Contribution floor*  
**Missouri State Employees' Retirement System (MOSERS) /**  
**MoDOT & Patrol Employees' Retirement System (MPERS) -**  
*Hired for the first time on or after January 1, 2011*  
**Judicial Retirement Plan** - *Serving for the first time on or after January 1, 2011*  
**Joplin Police & Fire Retirement Plan** - *Hired after 01/31/09*

### **Plans Moving to LAGERS**

**Jefferson City Fire Retirement Plan**  
**Maplewood Police & Fire Retirement Plan**  
**Mid-County Fire Protection District Retirement Plan**  
**Sedalia Police Retirement Plan**  
**Springfield Police & Fire Retirement Plan**

### **Closed DB Plan and Implement DC**

**Metro Sewer District Retirement Plan**  
**Antonia Fire Protection District Retirement Plan**  
**Bothwell Hospital Retirement Plan**

### **Implement DB from DC**

**Community Fire Protection District Retirement Plan**

## GENERAL STATE EMPLOYEES

### MSEP 2000

### MSEP 2011

#### **Normal Retirement Eligibility**

Age 62 / 5 yrs service  
Age 48 (Rule of 80)  
Hwy Patrol =  
Age 48 (Rule of 80)  
Age 60 / 5 yrs service

Age 67 / 10 yrs service  
Age 55 (Rule of 90)  
Hwy Patrol =  
Age 60 / active (Mandatory)  
Age 55 / 10 yrs service

#### **Early Retirement Eligibility** *Reduced Benefit*

Age 57 / 5 yrs service

Age 62 / 10 yrs service

#### **Vesting**

5 yrs service

10 yrs service

#### **Employee Contributions**

None

4% of pay

#### **Purchase of Service**

Subsidized military &  
other full-time, nonfederal,  
governmental service

No Subsidized Service  
Purchase

#### **BackDROP**

Employee may elect a lump  
sum payment at retirement  
with a reduced lifetime  
monthly benefit.

No BackDROP available

## **STATEWIDE ELECTED OFFICIALS**

### **MSEP 2000**

### **MSEP 2011**

#### **Normal Retirement Eligibility**

Age 55 / 4 yrs service  
Age 50 (Rule of 80)

Age 62 / 4 yrs service  
Age 55 (Rule of 90)

#### **Employee Contributions**

None

4% of pay

#### **Service Purchases**

Subsidized military &  
other fulltime, nonfederal,  
governmental service

No Subsidized Service  
Purchase

## **LEGISLATORS**

### **MSEP 2000**

### **MSEP 2011**

#### **Normal Retirement Eligibility**

Age 55 / 3 biennial assemblies  
Age 50 (Rule of 80)

Age 62 / 3 biennial assemblies  
Age 55 (Rule of 90)

#### **Employee Contributions**

None

4% of pay

#### **Service Purchases**

Subsidized military &  
other fulltime, nonfederal,  
governmental service

No Subsidized Service  
Purchase

## **JUDICIAL RETIREMENT PLAN**

### **Judicial Plan**

### **Judicial 2011**

#### **Normal Retirement Eligibility**

Age 62 / 12 yrs service  
Age 60 / 15 yrs service  
Age 55 / 20 yrs service

Age 67 / 12 yrs service  
Age 62 / 20 yrs service

#### **Early Retirement Eligibility**

Age 60 w/ < 15 yrs service  
Age 62 w/ < 12 yrs service

Age 67 w/ < 12 yrs service  
Age 62 w/ < 20 yrs service

#### **Normal Form of Payment**

Unreduced 50%  
survivor option

Single life w/ reduced  
survivor options

#### **Employee Contributions**

None

4% of pay

#### **In-Service COLA**

Members working beyond  
age 60 have increased  
benefits upon retirement

None

#### **Service Purchases**

Subsidized military &  
other fulltime, nonfederal,  
governmental service

No Subsidized Service  
Purchase

# **University of Missouri Retirement Plan Report from UM Retirement Plan Advisory Committee March 2011**

## **Background**

UM has spent more than fifty years conservatively managing and diligently funding its defined benefit (DB) retirement plan ("UM DB plan"). As a result, the UM DB plan has served the University, its employees and other beneficiaries of the plan very well, producing both higher rates of return and lower costs over time than typically afforded by defined contribution (DC) plans. In addition, the University has been able to provide a competitive plan design at significantly lower cost than our peer institutions.

While many DB plans are clearly in trouble, due primarily to chronic underfunding and expensive plan features such as generous early retirement features, guaranteed retiree cost of living adjustments (COLA's) and the ability to purchase additional service credits at a discount, the University has purposefully avoided those pitfalls, even during "good" times. In fact, the Board of Curators of the University of Missouri (the "Board") and University administration have taken several additional steps to ensure the ongoing stability of the UM DB plan, including the adoption of smoothing (spreading *both* losses and gains over multiple years), the creation and funding of a stabilization reserve fund, and the implementation of mandatory employee contributions. However, the University is not immune to factors beyond its direct control, including increasing volatility in the investment market, changing mortality rates, and potential changes in Governmental Accounting Standards Board (GASB) regulations, all of which have increased either or both the University's current liabilities and future risk. Employee demographics and expectations are changing as well, which may impact perceptions regarding value and competitiveness of benefits.

The University has been vigilant in its ongoing assessment and evaluation of benefits, including retirement, to ensure its limited resources are used as effectively as possible to deliver competitive programs and services that meet employer and employee needs throughout the entire employment lifecycle. As circumstances have changed and more frequently during the past ten years, the University has conducted and/or commissioned timely studies to determine whether it should continue or modify the UM DB plan. Reports of these efforts are available on the UM website at <http://www.umsystem.edu/ums/departments/hr/benefits/retirementplanproject/>.

In 2009, President Foresee reopened discussions regarding whether it would be in the University's and its employees' best interest to close the UM DB plan for new participants (continuing the UM DB plan for current participants), and create a new DC plan. His primary concern was focused on the significant risk borne by the University for the UM DB plan, especially as the investment returns have become even more volatile, further straining the University's ability to fund periods of high and sustained cost in the context of severe budget constraints. A number of other concerns are shared by the President, Board, University administration, and critical stakeholders (including faculty and staff). The lack of resources to improve competitiveness in direct compensation has exacerbated competitiveness in total compensation even further, particularly since the value of many of the University's benefits, including retirement, are tied to direct compensation. That said, it is difficult to predict what impact retirement plan design may have on future talent attraction and retention, given changing employee demographics and needs. We are clearly unique in offering a University-managed DB plan design (particularly for faculty) compared to our peer institutions, but it is unclear whether that

may be viewed as positive or negative with respect to attraction. In addition, the future sustainability of DB plans in general is a subject of much debate, both within the University and across the country.

After several months of presentations and discussions, the Board requested an additional special meeting of its Compensation and Human Resources Committee. The meeting took place November 1, 2010 and was dedicated to understanding the challenges for the UM retirement program. Outside experts and consultants provided information about the national context and debate on public pension plans, investment outlook and specific information about the UM investment portfolio's ability to meet assumed investment returns, actuarial information about the current plan now and projected over 30 years, comparative data from UM peer institutions, and feedback from UM faculty and staff. The final presentation of the meeting provided information on a generic DC plan design, including cost, for illustrative and comparative purposes. All of the presentations and materials from this special meeting are available on the UM website at <http://www.umsystem.edu/ums/departments/hr/benefits/retirementplanproject/>.

Given the importance of the subject and concerns voiced by faculty, staff, and some Board members, the President determined that next steps would include formation of a committee to provide advice to the Vice President for Human Resources. This committee, appointed on November 15, 2010, includes members of the Intercampus Faculty Council (IFC), the Intercampus Staff Advisory Council (ISAC), the UM Retirement and Staff Benefits Committee (the regular standing committee responsible for administering the retirement plan under Collected Rules and Regulations Section 530.010.M. and which has also served as a long-standing advisory committee on other faculty and staff benefits issues), and a representative from MU Healthcare. The UM Retirement Plan Advisory Committee's specific charge is "to assist the Vice President for Human Resources in the development and communication of recommendations regarding retirement plan offerings, including the possibility of a Defined Contribution plan for future employees, and to facilitate the dissemination of information to and from stakeholders."

The committee's full charge, additional information about the appointment process, and the list of committee members is in **Appendix Section 1**.

### **The Committee Process**

The UM Retirement Plan Advisory Committee ("Committee") has been very actively engaged, reviewing UM-specific historical materials and more recent national and UM-specific information compiled and provided by the Vice President for Human Resources and data and analyses from the University's consultants. In addition to studying the topic independently and soliciting and receiving input from stakeholders across all campuses, the Committee formally convened for two days in November 2010, one day in December 2010, twice in January 2011, and twice in February 2011. The Committee's work initially focused on understanding the design and funding of the current UM DB plan. Given the complexity of the actuarial analysis, the Committee developed a set of questions and answers. These Q and As are provided in **Appendix Section 2** as the work of the Committee. They are intended to be used as information for decision makers and an educational tool for various university committees. They are available on the web at <http://www.umsystem.edu/ums/departments/hr/benefits/retirementplanproject/> for all employees.

The Committee spent significant time developing a set of objectives to guide its discussion and facilitate the evaluation of potential plan designs in light of the many competing and valid interests of the



University and its diverse employee population. Primary objectives include facilitating competitiveness with peer institutions, rewarding long term service, meeting employee needs across the employment life cycle, providing equity among employee groups (both actual and perceived), mitigating and sharing risk, providing benefit adequacy (particularly at time of retirement), facilitating attraction and retention of talent, increasing budget predictability and minimizing complexity. While the objectives were not otherwise ranked or weighted, income adequacy at retirement was determined by the Committee to be the most critical objective for any retirement plan design.

After significant review, discussion and analyses, the Committee developed an initial set of findings and related recommendations for implementation regardless of what plan design changes might otherwise be made. These base findings and recommendations are provided below.

### **Base Findings/Recommendations of the Committee**

1. Further study confirms there is no inherent harm to the UM DB plan if closed to new employees. However, the group strongly recommends that the Board and UM administration document their continued and shared commitment to the UM DB plan so that, if the current plan is closed to new employees, there are no questions regarding the intent of the University to continue the current UM DB plan for existing employees until all obligations have been met and the plan can be terminated. At a minimum, the documentation should cover 3 areas:
  - a. Commitment that UM will fully fund the actuarially determined Annual Required Contribution (as defined in the Q and As);
  - b. Commitment that UM will continue to pay off all unfunded liability—slowly over time or recognizing that at ‘end of plan’ the final payment will be met; and
  - c. Commitment to continue the stabilization fund (as defined in the Q and As) with the primary purpose of minimizing mandatory employee contributions.
2. Statistics show that as long as an employer’s retirement offerings are perceived as competitive, retirement plan design is not typically a primary determinative factor in an employee’s decision to accept or leave employment, except perhaps for some longer service (beyond 15 years) and older employees older (over age 50) .
3. The University should strive to maintain low mandatory employee contributions overall. Any mandatory employee contributions to ‘new’ plans should not be less than those required by employees who would remain in the current UM DB plan.
4. The University needs a strategic communication plan on benefits to foster employee understanding and appreciation of the value of the array of benefits available to them.
5. The most important retirement plan objective is ‘income adequacy’ at retirement. That objective guided the Committee’s deliberation process.
6. Any plan design(s) must include options to reduce employee investment and other retirement risk. The University should provide adequate education for employees to make informed decisions.

### **Final Recommendation**

The Committee has conducted an extensive study of the issues within its charge. Following months of additional fact gathering and intense deliberation and debate, the Committee has reached consensus with respect to a final recommendation. In making its recommendation, the Committee is compelled to acknowledge and emphasize the complexity of the issues and the difficulties inherent in attempting to weigh and balance numerous legitimate and competing interests. This is not a burden that the Committee has undertaken lightly. Clearly, the health

and wellbeing of the University is built upon the contributions of its employees and the Committee is fully aware that any decisions made as a result of its deliberations will have significant and lasting impacts on both the University and its employees.

The Committee also acknowledges that no single solution exists that would respond perfectly to all of the diverse needs of the University and the members and beneficiaries of the University's retirement program. Retirement plan objectives are complex and, at times, conflicting. Moreover, individual needs vary significantly. It is simply not possible to design a plan that would meet all of the objectives for all employees and the University. Still, the Committee was determined to meet its charge in good faith and to the best of its ability. It has carefully considered all of the information presented (both formally and informally), identified and analyzed a number of options, and weighed and balanced objectives and needs, with the following result:

***The Committee has reached consensus that if, after thorough and careful study of the viability of the current UM DB plan (both short term and long term), the Board determines it is not in the University's interest to continue to bear the financial risks implicit in the current UM DB plan, the preferred alternative plan design is a new retirement plan, for new employees only, that provides a 'combination' of defined benefit and defined contribution elements, along with other mechanisms for reducing risk.***

#### **Additional Comments**

Given the importance of the subject and in the interest of transparency, the Committee offers the following additional comments with respect to its deliberations and final recommendation.

Without question, DB plans, when designed appropriately, provide the best guarantee for adequate income at retirement for those employees who stay for a full career. And the University of Missouri is both fortunate and unique in the stable financial position of the UM DB plan. The Board and University administration are to be applauded for their discipline and foresight in past decisions, which have made this possible. Nonetheless, given the many factors noted in the background section of this report, it behooves the University to study the future of the UM DB plan and to consider possible alternatives. The University's retirement trust fund and its corresponding liabilities continue to grow, both in terms of real dollars and with respect to its size in comparison to the entire enterprise. It is necessary to investigate whether continuing to provide guaranteed income at retirement may place the University, and ultimately its employees, at more significant financial risk in the future.

The Board must consider carefully and with a long term view what constitutes manageable risk and what proportion of the University's finances it considers reasonable to allocate to retirement in comparison to other institutional priorities, especially direct compensation for the University's most valuable asset, its employees. Over the years, direct compensation paid to our employees has been less than that provided by our peers. Many have been willing to accept such lower salaries in exchange for the guaranteed retirement income the UM DB plan provides. If the University is not able to resolve the shortfall in direct compensation, adopting a different retirement program may only serve to further exacerbate competitiveness in total compensation.

President Forsee advised the Committee at its first meeting that considering changes to the UM DB plan for current employees was not within its charge. The Committee acknowledges that President

Forsee and the University made a commitment to continue the DB Plan for current employees prior to the Committee's formation and that it must be honored. Eliminating this option from the Committee's charge, however, constrained the Committee from considering a feasible DB plan design for new employees that also met the objectives given to the Committee as part of its charge.

Income adequacy at retirement was identified by the Committee as the most important objective for any retirement program, and this objective guided much of its discussion. That being said, the Committee was also very mindful of both the University's and its employees' need to mitigate risk. DC plans, if properly managed, can certainly achieve income adequacy. The Committee is not prepared, however, to recommend a plan design that completely shifts investment risk from the University to the individual employee. Doing so would represent a significant departure from the assignment of risk predominantly to the University for current employees. Moreover, it would completely eliminate the advantage of the longer-term investment horizon enjoyed by the University, which is not available to individuals. The Committee was also reluctant to recommend a pure DC plan design since, given the University's limited resources, such a plan would, at best, be undistinguished from those offered by our peers.

Each and every employee contributes directly to the success of the University. Much of the University's reputation is driven by the strength and stability of its faculty and staff. Attraction and retention of talent were, therefore, critical objectives identified by the Committee quite early in its work. In an effort to better understand the potential impact of plan design on attraction and retention, the Committee reviewed available research literature on the subject and UM turnover data. The data show that more than 60% of employees do not vest and that only 16% reach 20 or more years of service.

The Committee acknowledges that long term service is highly valued by the University but also notes that shorter-term employees deliver valuable service. It is important that all employees perceive any plan design as attractive. The Committee also emphasizes that turnover data alone do not accurately convey the impact of retirement plan design on those who come to the University, those who leave and, perhaps most importantly, those who do stay for a full career. The Committee did find that turnover is highest in the first five years of employment, particularly for our lowest paid staff. Perhaps not surprisingly, turnover is lowest for faculty members who have achieved tenure.

Academic leadership and many of our faculty members are rightfully concerned about the impact of any decisions made by this project on the University's ability to retain tenured faculty. It was not possible to accurately assess whether the current plan design plays a significant role in keeping tenured faculty members but it would be unwise to assume that plan design plays no role in this. It would be a great disservice to the University to implement a plan design that does not encourage tenured faculty members to remain.

The Committee's charge was to recommend a retirement plan to meet the needs of all of the University's diverse employee population. In its deliberations, the Committee was committed to ensuring that recommendations support the University's longstanding interest in rewarding long term service. Long-term service employees include career employees, of course, but also include those who spend a significant portion of their career but do not reach twenty or more years of service.

The Committee was also very mindful of the impact of its recommendations on the University's lowest paid employees. As previously stated, the University's lowest paid staff members are least likely to vest. Employees who do not vest receive no benefit from the UM DB plan (with the exception of the return of their mandatory contributions). These same employees are also least likely to be able to afford voluntary retirement offerings that are more portable (such as the University's tax deferred investment plans).

## Plan Design Elements

The Committee was not charged with recommending specific plan design features, but several key elements were identified and are deemed critically important to its recommendation.

The Committee feels strongly that, in order to encourage retention, the plan should have a vesting period. This does reduce competitiveness with respect to our peers that offer DC plans with little or no vesting. In addition, a vesting requirement does not address the elimination of value for the significant number of employees who leave prior to vesting. It is the Committee's position, nonetheless, that a vesting period is important for meeting the Committee's objectives related to both retention and equity (since the current UM DB plan requires vesting).

In addition, plan design should encourage and reward employees for making contributions toward their retirement (e.g., provide a matching component). In order to fully maximize the potential for adequate income at retirement, voluntary contributions are critical. The Committee emphasizes the importance of developing and providing accurate and adequate information for employees to make informed decisions. The University should exercise its best efforts to encourage employees to make appropriate voluntary contributions and prudent investment decisions to meet their individual needs.

The plan must provide some acceptable minimum level of 'guarantee' (e.g., the DB component) for both individual investment risk protection and for those who may not have the financial means to make additional or significant voluntary contributions. The table below compares the current UM DB plan to a possible combination plan.

Plan Design Elements	Combination Plan Design	Current DB Plan
	<b>DB Portion</b>	
<b>Multiplier Formula</b>	1.1% of Pay, average of 5 highest consecutive years of salary	2.2% of Pay, average of 5 highest consecutive years of salary
<b>UM Contribution</b>	3.4% of salary	7.25% of salary
<b>Vesting</b>	5 years	5 years
<b>Employee Mandatory DB Contribution</b>	None	1% up to \$50,000, 2% of amount above \$50,000
<b>Minimum Value Accumulation*</b>	None	5% of pay at time of termination
	<b>DC Portion</b>	
<b>UM Automatic Contribution</b>	2% of Pay	
<b>UM Match</b>	100% up to an additional 3% of pay	
<b>Employee Mandatory Contribution</b>	1% of Pay	
<b>Vesting</b>	3 years	
<b>Estimated UM Contribution</b>	7.5 to 7.9% of Pay	7.25%

\* Provides a cash out or rollover equivalent to 5% of salary plus interest for vested employees who terminate prior to retirement eligibility.

There was discussion throughout the Committee's deliberations about whether to offer a voluntary 'opt out' of the UM DB plan and opportunity to move to the new plan for new employees, including the potential implications of such an offering to both the current and new plan. However, considering such an option to be outside the scope of the Committee's charge, we recommend that this option should be part of the future work on any new plan design.

If a different plan is offered, the Committee emphasizes that the University's costs for each plan are likely to be different. Plan design decisions should be made to ensure that, to the extent practicable, equity exists between plan designs with respect to this issue. The Committee recognizes, however, that some adjustment may be appropriate in order to recognize the shifting of additional risk to employees participating in the new plan.

Most importantly, if a new retirement plan is introduced and the existing UM DB is closed to new employees, the University must determine and clearly communicate in advance to employees how it intends to administer funding of the plans. As the UM DB plan winds down, the cost for that plan (while shrinking in total dollars) will rise as a percentage of payroll associated with those employees who remain in the plan. Both current and future employees will be justifiably concerned regarding differences in cost between plans and who will be asked to bear those costs. The Committee strongly recommends that funding of both plans be managed by the University to mitigate these concerns.

### **CLOSING REMARKS**

It is important to acknowledge that the Committee, despite its best effort, was not able to reach a unanimous decision. Some members of the Committee believe it is in the best interests of the University and its employees to maintain the current UM DB plan if at all possible. Others believe that closing the UM DB plan and offering a combination plan for new employees best meets the needs of the University and its employees at this time. And at least one Committee member's first preference would be to offer a pure DC plan. Such differences of opinion are very much respected and are, at least in part, a reflection of our differing needs and perspectives as faculty and staff members. Nonetheless, every member of the Committee supports the consensus reached by the Committee.

The Committee wishes to thank the UM advisors and consultants for their support of its work. Finally, the Committee expresses its deep appreciation to the many faculty, staff, retiree groups, and individuals, for their thoughtful input and their deep and abiding concern and interest in this project and in the health and wellbeing of our University.

# 2011 RETIREMENT LEGISLATION - SENATE

SENATE BILLS			SENATE ACTION						HOUSE ACTION				OTHER ACTION	
Bill Number	System Affected	Description	Sponsor	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Perfected	Passed 3rd Read	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Passed 3rd Read	Notes	Governor Action
<a href="#">SB 13</a>	PSRS	Establishes a joint interim task force on teacher compensation » <a href="#">Fiscal Note</a>	Pearce	Education	Hearing Conducted 2/9/11	DP w/ SCS 2/9/11	SS for SCS, as amended 2/22/11	2/24/11	Elementary & Secondary Education	Hearing Conducted 4/13/11				
<a href="#">SB 23 (HB 71)</a>	St. Louis City Police	Allows the City of St. Louis to establish local control of the City's police force. Requires the associated retirement plan to continue to be governed under Chapter 86. » <a href="#">Fiscal Note</a>	Keavney	Progress & Development	Hearing Conducted 1/26/11	DP w/ SCS 2/23/11	On Informal Perfection Calendar							
<a href="#">SB 60</a>	PACARS	HCS: Includes provisions from <a href="#">HB 396</a> - Allows a \$4 surcharge to be assessed and collected against persons who pled guilty and paid a fine through a fine collection center » <a href="#">Fiscal Note</a>	Keavney	Judiciary	Hearing Conducted 1/31/11	DP w/ SCS 3/9/11	4/5/11	4/7/11	Judiciary	Hearing Conducted 4/20/11	DP w/ HCS 4/20/11	Referred to Rules		
<a href="#">SB 79 (HB 467)</a>	MOSERS	Establishes the MO Science & Innovation Reinvestment Act - allows associated employees to be considered state employees for the purposes of membership in MOSERS & MCHCP » <a href="#">Fiscal Note</a>	Justus	Jobs, Economic Develop., & Local Govt.	Hearing Conducted 3/2/11								Bill combined with SCS for SB's 189, 217, 246, 252 & 79	
<a href="#">SB 90 (HB 270)</a>	MCHCP	Modifies benefit offerings for medicare eligible state retirees SA 1: Requires MCHCP to offer a HDHP under specified criteria » <a href="#">Fiscal Note</a>	Dempsey	Health & Mental Health	Hearing Conducted 2/22/11	DP 3/15/11	4/5/11	4/7/11	Health Insurance	Hearing Conducted 4/19/11	DP w/ HCS 4/27/11	Referred to Rules		
<a href="#">SB 115 (HB 229)</a>	KCPERS	Requires a 50% compensation limit for retirees returning to system covered work and includes IRC conformance provisions	Justus	Veterans' Affairs, Pensions & Emerging Issues										
<a href="#">SB 121 (HB 448)</a>	LAGERS	Modifies the funding mechanism related to duty-related death benefits	Stouffer	Veterans' Affairs, Pensions & Emerging Issues									Provisions included in SCS for HB 282	

# 2011 RETIREMENT LEGISLATION - SENATE

SENATE BILLS			SENATE ACTION						HOUSE ACTION				OTHER ACTION	
Bill Number	System Affected	Description	Sponsor	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Perfected	Passed 3rd Read	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Passed 3rd Read	Notes	Governor Action
<a href="#">SB 145</a>	PACARS	HCS: Includes provisions from <a href="#">HB 396</a> - Allows a \$4 surcharge to be assessed and collected against persons who pled guilty and paid a fine through a fine collection center » <a href="#">Fiscal Note</a>	Dempsey	Jobs, Economic Develop., & Local Govt.	Hearing Conducted 2/9/11	DP 2/24/11	3/16/11	3/17/11	Local Govt	Hearing Conducted 4/6/11	DP Consent w/ HCS 4/13/11 DP Rules 4/27/11	On 3rd Read Calendar		
<a href="#">SB 152</a> ( <a href="#">HB 358</a> )	St. Louis City Police	Provides for conformance with the Internal Revenue Code (IRC)	Crowell	Veterans' Affairs, Pensions & Emerging Issues										
<a href="#">SB 154</a> ( <a href="#">HB 263</a> )	LAGERS	Modifies the adjustment factor associated with an election of a Partial Lump Sum distribution to include a maximum of 90% of the monthly retirement benefit	Schaaf	Veterans' Affairs, Pensions & Emerging Issues										
<a href="#">SB 170</a>	All DB Public Plans	Requires public pension plans to provide quarterly reporting to the JCPER	Crowell	Veterans' Affairs, Pensions & Emerging Issues										
<a href="#">SB 189</a>	MOSERS	Includes provisions from <a href="#">SB 79</a> SB 189, 217, 246, 252 & 79 » <a href="#">Fiscal Note</a>	Schmitt	Jobs, Economic Develop., & Local Govt.	Hearing Conducted 2/16/11	DP w/ SCS 3/9/11	On Informal Perfection Calendar							
<a href="#">SB 201</a> ( <a href="#">HB 282</a> )	MOSERS & MPERS	Employees hired on or after 7/1/12, shall be automatically enrolled in the deferred compensation plan upon employment, unless they elect to not participate within 30 days.	Crowell	Veterans' Affairs, Pensions & Emerging Issues										
<a href="#">SB 238</a>	All Fire Plans	Includes impairment of health caused by an infectious disease to duty related presumptions for disability or death benefit purposes » <a href="#">Fiscal Note</a>	Schmitt	Judiciary	Hearing Conducted 2/21/11	DP 3/9/11	4/12/11	4/14/11	Crime Prevention & Public Safety	4/28/11 12:00 pm HHR 3				

# 2011 RETIREMENT LEGISLATION - SENATE

SENATE BILLS			SENATE ACTION						HOUSE ACTION				OTHER ACTION	
Bill Number	System Affected	Description	Sponsor	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Perfected	Passed 3rd Read	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Passed 3rd Read	Notes	Governor Action
<a href="#">SB 271 (HB 183)</a>	KC Police & Civilian Police	Provisions to modify starting date of retirement benefit in event of death of member &/or surviving spouse & modifies criteria associated with prior service purchase	Kraus	Veterans' Affairs, Pensions & Emerging Issues										
<a href="#">SB 273 (HB 664)</a>	St. Louis Fire	Modifies cost method to entry age normal, IRC conformance & plan contribution provisions	Lembke	Veterans' Affairs, Pensions & Emerging Issues										
<a href="#">SB 275 (HB 360)</a>	LAGERS	Allows an option for deduction of health care or long term care premiums from retiree's benefit as permitted under Federal law	Lembke	Veterans' Affairs, Pensions & Emerging Issues										
<a href="#">SB 404</a>	MOSERS & MPERS	Allows a one time election of a lump sum distribution of the present value of a deferred annuity upon termination of certain vested members on or after August 28, 2011.	Ridgeway	Veterans' Affairs, Pensions & Emerging Issues										
<a href="#">SB 410</a>	MOSERS & MPERS	Requires the transfer of funds to cover a transferred service election between the two systems on or after 9/1/11	Crowell	Veterans' Affairs, Pensions & Emerging Issues									Provisions included in SCS for HB 282	
<a href="#">SB 411</a>	MOSERS	Allows employees of the Missouri Development Finance Board to become members of MOSERS on or after September 1, 2011 » <a href="#">Fiscal Note</a>	Crowell	Ways & Means	Hearing Scheduled 3/17/11 Bill Not Heard									
<a href="#">SB 412</a>	MOSERS & MPERS	Allows state auditor to audit MOSERS & MPERS	Crowell	Veterans' Affairs, Pensions & Emerging Issues										



## 2011 RETIREMENT LEGISLATION - SENATE

SENATE BILLS			SENATE ACTION						HOUSE ACTION				OTHER ACTION	
Bill Number	System Affected	Description	Sponsor	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Perfected	Passed 3rd Read	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Passed 3rd Read	Notes	Governor Action
SB 413	PSRS	Allows state auditor to audit PSRS	Crowell	Veterans' Affairs, Pensions & Emerging Issues										
SB 414	All Public Plans	Allows state auditor to audit public pension plans	Crowell	Veterans' Affairs, Pensions & Emerging Issues										

# 2011 RETIREMENT LEGISLATION - HOUSE

HOUSE BILLS			HOUSE ACTION						SENATE ACTION				OTHER ACTION	
Bill Number	System Affected	Description	Sponsor	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Perfected	Passed 3rd Read	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Passed 3rd Read	Notes	Governor Action
<a href="#">HB 50</a>	All Plans	Eliminates the tax on certain lump sum distributions from certain annuities and retirement plans <a href="#">► Fiscal Note</a>	Taylor	Financial Institutions	Hearing Conducted 2/16/11	DP w/HCS 2/24/11							Provisions included in <a href="#">HB 787</a>	
<a href="#">HB 71 (SB 23)</a>	St. Louis Police	Provides for local control of a St. Louis City police force if passed through ordinance. Requires the associated retirement system to continue to be governed under Chapter 86 <a href="#">► Fiscal Note</a>	Nasheed	Urban Issues	Hearing Conducted 1/19/11	DP 1/19/11 DP Rules 1/25/11	2/17/11 with Amendments	2/22/11	Financial & Govt. Organ.	Hearing Conducted 3/28/11	DP 4/4/11	On 3rd Read Calendar		
<a href="#">HB 127</a>	Sheriff's	Allows a partial term served under a special election to be considered as a full term for vesting purposes <a href="#">► Fiscal Note</a>	Barnes	Retirement	Hearing Conducted 2/17/11	DP Consent 2/17/11 DP Rules 2/28/11	3/9/11	3/17/11	Veterans' Affairs, Pensions & Emerging Issues					
<a href="#">HB 183 (SB 271)</a>	KC Police & Civilian Employees	Provisions to modify starting date of retirement benefit in event of death of member &/or surviving spouse & modifies criteria associated with prior service purchase <a href="#">► Fiscal Note</a>	Silvey	Retirement	Hearing Conducted 2/17/11	DP Consent 2/17/11 DP Rules 3/9/11	3/17/11	3/31/11	Jobs, Economic Develop., & Local Govt.	Hearing Conducted 4/20/11	DP 4/20/11			
<a href="#">HB 229 (SB 115)</a>	KCPERS	Requires a 50% compensation limit for retirees returning to system covered work and includes IRC conformance provisions <a href="#">► Fiscal Note</a>	Curlis	Retirement	Hearing Conducted 2/17/11	DP Consent 2/17/11 DP Rules 3/3/11	3/14/11	3/16/11	Education	Hearing Conducted 4/6/11	DP Consent 4/13/11 DP 4/18/11	4/26/11	<a href="#">TAFP 4/26/11</a>	
<a href="#">HB 241</a>	PSRS & PEERS	Beginning 8/28/11, allows a person employed 17 or less hours per week in a school to be employed in another public school <a href="#">► Fiscal Note</a>	Fallert	Retirement	Hearing Conducted 3/10/11									
<a href="#">HB 253 &amp; 398</a>	PACARS	<a href="#">HCS</a> : Includes provisions from <a href="#">HB 396</a> - Allows a \$4 surcharge to be assessed and collected against persons who pled guilty and paid a fine through a fine collection center <a href="#">► Fiscal Note</a>	Cox	Judiciary	Hearing Conducted 2/9/11	DP 2/16/11 DP w/ HCS 3/30/11 DP Rules 4/11/11								

# 2011 RETIREMENT LEGISLATION - HOUSE

HOUSE BILLS			HOUSE ACTION						SENATE ACTION				OTHER ACTION	
Bill Number	System Affected	Description	Sponsor	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Perfected	Passed 3rd Read	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Passed 3rd Read	Notes	Governor Action
<a href="#">HB 263</a> (SB 154)	LAGERS	Modifies the adjustment factor associated with an election of a Partial Lump Sum distribution to include a maximum of 90% of the monthly retirement benefit ► <a href="#">Fiscal Note</a>	Weter	Retirement	Hearing Conducted 2/17/11	DP Consent 2/17/11 DP Rules 3/9/11	3/17/11	3/31/11	Veterans' Affairs, Pensions & Emerging Issues				Provisions included in HCS HB 889	
<a href="#">HB 270</a> (SB 90)	MCHCP	Modifies benefit offerings for medicare eligible state retirees ► <a href="#">Fiscal Note</a>	Burlison	Health Insurance	Hearing Conducted 2/15/11	DP Consent 3/15/11 DP Rules 3/28/11	4/4/11	4/5/11	Health & Mental Health	Hearing Conducted 4/12/11	DP w/ SCS 4/12/11 DP Fiscal Oversight 4/21/11	4/26/11 with amends.	Reported to the House with SCS as amended	
<a href="#">HB 282</a> (SB 201)	MOSERS, MPERS & LAGERS	Employees hired on or after 7/1/12, shall be automatically enrolled in the deferred compensation plan upon employment, unless they elect to not participate within 30 days. SCS: Includes provisions from <a href="#">SB 410</a> - Requires the transfer of funds to cover reciprocal service transfer elections between MOSERS & MPERS on or after 9/1/11; Also includes provisions from <a href="#">SB 121/HB 448</a> : Allows LAGERS to charge the existing "Casualty Reserve Fund" for payments made relative to duty related death thereby allowing for a pooled fund for risk. ► <a href="#">Fiscal Note</a>	Franz	Retirement	Hearing Conducted 2/17/11	DP Consent 2/17/11 DP Rules 3/3/11	3/14/11	3/16/11	Veterans' Affairs, Pensions & Emerging Issues	Hearing Conducted 4/21/11	DP w/ SCS 4/21/11	On 3rd Read Calendar		
<a href="#">HB 295</a>	All Fire Plans	Includes an impairment of health caused by an infectious disease to duty related presumptions for disability or death benefit purposes ► <a href="#">Fiscal Note</a>	Hinson	Crime Prevention & Public Safety	Hearing Conducted 2/23/11								Provisions included in HB 600, 337, & 413; HCS HB 889; HCS HB 664	
<a href="#">HB 305</a>	MOSERS	Establishes the 2011 State Employee Retirement Incentive Program HA 2: Extends the window by 3 months ► <a href="#">Fiscal Note</a>	Gatschenberger	Retirement	Hearing Conducted 3/3/11	DP 3/3/11 DP Rules 4/6/11	4/12/11 w/ HA 2	On 3rd Read with Emergency Clause Pending						

# 2011 RETIREMENT LEGISLATION - HOUSE

HOUSE BILLS			HOUSE ACTION						SENATE ACTION				OTHER ACTION	
Bill Number	System Affected	Description	Sponsor	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Perfect	Passed 3rd Read	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Passed 3rd Read	Notes	Governor Action
HB 309	Law Enforcement	Creates Law Enforcement Safety Fund & authorizes a \$7 surcharge in certain criminal cases to fund a contribution system	Black	Crime Prevention & Public Safety										
HB 358 (SB 152)	St. Louis City Police	Provides for conformance with the Internal Revenue Code (IRC) ► <i>Fiscal Note</i>	Leara	Retirement	Hearing Conducted 2/17/11	DP Consent 2/17/11 DP Rules 3/3/11	3/14/11	3/16/11	Jobs, Economic Develop., & Local Govt.	Hearing Conducted 4/6/11	DP 4/6/11	4/12/11	TAFP 4/12/11	
HB 360 (SB 275)	LAGERS	Allows an option for deduction of health care or long term care premiums from retiree's benefit as permitted under Federal law ► <i>Fiscal Note</i>	Leara	Retirement	Hearing Conducted 2/17/11	DP Consent 2/17/11 DP Rules 3/3/11	3/14/11	3/16/11	Veterans' Affairs, Pensions & Emerging Issues				Provisions included in HB 600, 337, & 413	
HB 371	MOSERS	Establishes a minimum salary for certain employees with the Department of Corrections ► <i>Fiscal Note</i>	Fitzwater	Corrections	Hearing Conducted 3/30/11									
HB 396	PACARS	Allows a \$4 surcharge to be assessed and collected against persons who pled guilty and paid a fine through a fine collection center ► <i>Fiscal Note</i>	Diehl	Judiciary	Hearing Conducted 3/16/11								Provisions included in HCS HB 253 & 398; HCS HB 889; HCS SB 145; HCS SB 60	
HB 409	PSRS	Creates the defined contribution plan for teachers hired on or after 7/1/13 ► <i>Fiscal Note</i>	Koenig	Retirement	Hearing Conducted 2/24/11									
HB 448 (SB 121)	LAGERS	Modifies the funding mechanism related to duty-related death benefits ► <i>Fiscal Note</i>	Lair	Retirement	Hearing Conducted 3/3/11	DP Consent 3/3/11 DP Rules 3/28/11	4/4/11	4/5/11	Veterans' Affairs, Pensions & Emerging Issues				Provisions included in SCS for HB 282	
HB 467	MOSERS	Establishes the MO Science & Innovation Reinvestment Act - allows associated employees to be considered state employees for the purposes of membership in MOSERS & MCHCP ► <i>Fiscal Note</i>	Diehl	Economic Development	Work Session Conducted 3/1/11									

# 2011 RETIREMENT LEGISLATION - HOUSE

HOUSE BILLS			HOUSE ACTION						SENATE ACTION				OTHER ACTION	
Bill Number	System Affected	Description	Sponsor	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Perfected	Passed 3rd Read	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Passed 3rd Read	Notes	Governor Action
<a href="#">HB 468</a>	MOSERS	Establishes the MO Science & Innovation Reinvestment Act - allows associated employees to be considered state employees for the purposes of membership in MOSERS & MCHCP ► <a href="#">Fiscal Note</a>	Diehl	Economic Development	Work Session Conducted 3/1/11	DP Rules 3/28/11	4/5/11 w/ HA 1	4/7/11	Jobs, Economic Develop., & Local Govt.					
<a href="#">HB 600, 337, &amp; 413</a>	All Fire Plans & LAGERS	HCS: Includes provisions from <a href="#">HB 295</a> - Includes impairment of health caused by an infectious disease to duty related presumptions for disability or death benefit purposes HA 7: Includes provisions from <a href="#">HB 360</a> - Allows an option for deduction of health care or long term care premiums from retiree's benefit as permitted under Federal law. ► <a href="#">Fiscal Note</a>	Schad	Crime Prevention & Public Safety	Hearing Conducted 3/7/11	DP w/ HCS 3/17/11 DP Rules 4/14/11 DP Fiscal Review 4/26/11	4/20/11 w/ amends	4/26/11						
<a href="#">HB 664 (SB 273)</a>	St. Louis Fire	HCS: Modifies cost method to entry age normal, IRC conformance & plan contribution provisions. Modifies accidental disability retirement allowance including educational allowance. HA 1: Includes impairment of health caused by an infectious disease to duty related presumption for disability or death benefit purposes ► <a href="#">Fiscal Note</a>	Leara & Colona	Retirement	Hearing Conducted 3/17/11	DP w/ HCS 3/17/11 DP Rules 4/6/11	4/19/11 w/ HA 1	4/26/11						
<a href="#">HB 665</a>	St. Louis Fire	Modifies accidental disability retirement allowance and includes educational allowance for members of the St. Louis Firemen's Retirement System ► <a href="#">Fiscal Note</a>	Leara & Colona	Retirement	Hearing Conducted 3/10/11								Provisions included in HCS for HB 664	

# 2011 RETIREMENT LEGISLATION - HOUSE

HOUSE BILLS			HOUSE ACTION						SENATE ACTION				OTHER ACTION	
Bill Number	System Affected	Description	Sponsor	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Perfected	Passed 3rd Read	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Passed 3rd Read	Notes	Governor Action
<a href="#">HB 776</a>	St. Louis Police	Modifies age/service requirements, DROP provisions, disability, employee contributions and final average salary period ► <a href="#">Fiscal Note</a>	Leara & Colona	Retirement	Hearings Conducted 3/17/11 & 3/31/11									
<a href="#">HB 787</a>	All Plans	HCS: Includes provisions from <a href="#">HB 50</a> - Eliminates the tax on certain lump sum distributions from certain annuities and retirement plans ► <a href="#">Fiscal Note</a>	Wells	Financial Institutions	Hearing Conducted 3/16/11	DP w/ HCS 3/31/11 DP Rules 4/14/11	4/27/11 w/ HA 1	On 3rd Read Calendar						
<a href="#">HB 834</a>	MOSERS	Prohibits new General Assembly members from eligibility from receiving a retirement benefit beginning 1/1/13	Lampe	Retirement										
<a href="#">HB 843</a>	City of St. Joseph	Allows City of St. Joseph to submit to voters a retail sales tax up to .5% for Public Safety purposes ► <a href="#">Fiscal Note</a>	Conway	Ways & Means	Hearing Conducted 4/14/11									
<a href="#">HB 879</a>	CERF	Modifies direct rollover provisions for the County Employees' Retirement System	Franz	Retirement										
<a href="#">HB 889</a>	PACARS & LAGERS	HCS: Includes provisions from <a href="#">HB 396</a> & <a href="#">HB 263</a> - Allows a \$4 surcharge to be assessed to fees paid through fine collection centers & Modifies the adjustment factor associated with an electio of a partial lump sum distribution to include a max of 90% of the monthly benefit. ► <a href="#">Fiscal Note</a>	Gatschenberger	Local Government	Hearing Conducted 4/13/11	DP w/ HCS 4/13/11 Rules 4/22/11 Returned to Committee DP w/ HCS 4/27/11								
<a href="#">HB 896</a>	MOSERS & MPERS	Allows members, who retired under a joint/survivor option, to elect & receive a normal annuity upon marriage dissolution under certain circumstances	McCaherty	Retirement										

## 2011 RETIREMENT LEGISLATION - HOUSE

HOUSE BILLS			HOUSE ACTION						SENATE ACTION				OTHER ACTION	
Bill Number	System Affected	Description	Sponsor	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Perfected	Passed 3rd Read	Committee Assigned	Date/ Time Hearing Rm	Committee Action	Passed 3rd Read	Notes	Governor Action
<a href="#">HB 917</a>	St. Louis Co. Fire Protection District Plans	Requires the consolidation of fire protection districts in St. Louis Co, upon voter approval » <a href="#">Fiscal Note</a>	Hinson	Local Government	Hearing Conducted 4/13/11									
<a href="#">HB 954 (SB 411)</a>	MOSERS	Allows employees of the Missouri Development Finance Board to become members of MOSERS on or after September 1, 2011	Franz	Retirement										
<a href="#">HB 979</a>	All Plans	Terminates state tax exemptions associated with pension/retirement income for tax years after 12/31/11 » <a href="#">Fiscal Note</a>	Brattin	Ways & Means	Hearing Conducted 4/7/11	DP w/ HCS 4/21/11	Referred to Rules							
<a href="#">HCR 10</a>	PSRS	Immediately repeals the Government Pension Offset & Windfall Elimination Provisions of the Social Security Act	Nolte	Downsizing State Government										
<a href="#">HCR 32</a>	MOSERS & MPERS	Establishes Joint Interim Committee on State Employee Wages	Bernskoetter	Workforce Develop.	Hearing Conducted 3/14/11	DP 4/11/11 DP Rules 4/20/11		Adopted 4/27/11						

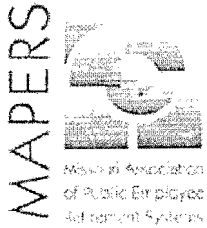
# Joint Committee on Public Employee Retirement

## Quarterly Reports

### 2011 First Quarter

<u>Plan Name</u>	<u>Beg. Market Value</u>	<u>End. Market Value</u>	<u>ROR 12 mos.</u>	<u>ROR 36 mos.</u>	<u>ROR 60 mos.</u>
Aftton FPD Retirement Plan	\$4,735,565	\$4,868,123	11.43% (Net)	NA% (Net)	NA% (Net)
Bothwell Regional Health Center Retirement Plan	\$37,239,799	\$38,273,312	12.4% (Net)	4.9% (Net)	5.1% (Net)
Carthage Policemen's & Firemen's Pension Plan	\$5,505,909	\$5,695,931	9.25% (Net)	1.35% (Net)	3.87% (Net)
Clayton Non-uniformed Employee Pension Plan	\$9,679,066	\$10,285,550	15.85% (Gross)	4.21% (Gross)	4.48% (Gross)
Clayton Uniformed Employees Pension Plan	\$27,426,013	\$29,174,511	13.91% (Gross)	4.60% (Gross)	5.10% (Gross)
Florissant Employees Pension Plan	\$10,926,706	\$10,894,598	10.86% (Net)	4.27% (Net)	4.70% (Net)
Florissant Valley FPD Retirement Plan	\$16,055,364	\$16,835,741	n/a% (Net)	n/a% (Net)	n/a% (Net)
Glendale Pension Plan	\$4,596,002	\$4,723,962	12.90% (Gross)	4.6% (Gross)	n/a% (Gross)
Hannibal Police & Fire Retirement Plan	\$10,112,395	\$10,706,061	0% (Net)	0% (Net)	0% (Net)
High Ridge Fire Protection District Pension Plan	\$4,943,745	\$5,273,631	12.81% (Net)	NA% (Net)	NA% (Net)
Jackson County Employees Pension Plan	\$172,827,760	\$179,828,996	14.44% (Gross)	4.53% (Gross)	4.05% (Gross)
Raytown Policemen's Retirement Fund	\$8,963,620	\$9,204,619	2.99% (Gross)	5.73% (Gross)	0.00% (Gross)
Rock Community FPD Retirement Plan	\$8,457,470	\$8,746,353	14.16% (Net)	5.41% (Net)	4.72% (Net)
Saline Valley Fire Protection District Retirement Plan	\$873,780	\$1,089,048	9.83% (Net)	NA% (Net)	NA% (Net)
Sheriff's Retirement System	\$29,424,413	\$30,660,953	13.305% (Gross)	7.940% (Gross)	7.716% (Gross)
St. Joseph Policemen's Pension Fund	\$26,336,496	\$27,581,476	11.9% (Gross)	15.2% (Gross)	30.1% (Gross)
Valley Park FPD Retirement Plan	\$3,336,547	\$3,456,053	12% (Net)	N/A % (Net)	N/A % (Net)
	<u>\$381,440,650</u>	<u>\$397,298,918</u>			





# Missouri Association of Public Employee Retirement Systems

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## Conference Preliminary Conference Agenda

[Registration](#)

[Sponsorship](#)

[Attendees](#)

[Preliminary Agenda](#)

[Lodging](#)

[Conference Dates](#)

### MAPERS 2011 Conference "Silver Anniversary Conference" July 13 - 15, 2011 Tan-Tar-A Resort

#### Wednesday, July 13, 2011

1:00 - 1:45 pm	Trustees Workshop - Ethics/Fiduciary Responsibility
1:45 - 2:30 pm	Trustees Workshop - Breakout Sessions - Actuary 101 & Investments 201
2:30 - 2:45 pm	Break
2:45 - 3:30 pm	Trustees Workshop - Breakout Sessions - Investments 101 & Actuary 201
3:30 - 4:15 pm	Trustees Workshop - Media Survival - How to Remain Calm under Pressure
4:15 - 5:00 pm	Trustees Workshop - Ask the Experts Panel (15 minutes per topic, rapid fire "Suggestions and Questions")
5:30 - 7:00 pm	Early Bird Reception

#### Thursday, July 14, 2011

7:00 - 8:15 am	Breakfast Buffet
8:15 - 8:30 am	Opening Remarks <b>Jim Pyle</b> , MAPERS Board President
8:30 - 9:45 am	"Investments - Markets"
9:45 - 10:00 am	Break
10:00 - 11:00 am	"Economics" <b>TBA</b>
11:00 - 12:00 N	"Social Security Issues"
12:00 - 1:15 pm	Lunch
1:15 - 2:15 pm	"To Catch a Thief" <b>Frank Abagnale</b>
2:15 - 2:30 pm	Break
2:30 - 3:30 pm	"Dealing with Pension Envy" <b>Kelly Kenneally</b> , NIRS
3:30 - 4:45 pm	"GASB" <b>Ken Alberts</b> , Gabriel, Roeder, Smith & Company
5:30 - 7:00 pm	Silver Anniversary Reception

#### Friday, July 15, 2011

7:00 - 8:15 am	Breakfast Buffet
8:15 - 9:15 am	"TBA"
9:15 - 10:15 am	"Ethics" <b>Patrick Kuhse</b>
10:15 - 10:30 am	Break
10:30 - 11:30 am	"Legislative Update (State and Federal)" <b>Ronda Stegmann</b> , Executive Director, Joint Committee on Public Employee Retirement (JCPER) <b>Ron Snell</b>
11:30 - 1:00 pm	General Business Meeting/Working Lunch <b>Jim Pyle</b> , MAPERS Board President

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# GRS INSIGHT

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## The GASB's Preliminary Views on Pension Accounting and Financial Reporting by Employers

By Paul Zorn, Director of Governmental Research<sup>1</sup>

### In This Issue

The GASB's Preliminary Views document presents proposed changes in pension accounting and financial reporting standards for state and local governmental employers.

The proposed changes may play a significant role in shaping state and local government pensions and other postemployment benefits for decades.

The GASB is requesting comments on the Preliminary Views by September 17, 2010, and will hold public hearings in October. It is important for stakeholders to review the proposed changes, consider their impact, and provide comments.

*GRS Insight is published by Gabriel Roeder, Smith & Company. The information provided is not intended as legal, income tax, or investment advice or opinion of a similar nature. Articles attributed to individuals do not necessarily reflect the views of GRS as an organization.*

On June 16, 2010, the Governmental Accounting Standards Board (GASB) issued its Preliminary Views (PV)<sup>2</sup> on proposed changes to accounting and financial reporting standards for state and local government employers that sponsor defined benefit (DB) pension plans.<sup>3</sup> The PV is an intermediate step in the GASB's Postemployment Benefits (PEB) project to review the standards and reflects the GASB's expectation of significant discussion related to the proposed changes. The GASB's changes would apply only within the context of accounting and financial reporting and would not necessarily affect the actuarial calculations used to determine funding requirements.<sup>4</sup> It is also important to note that the GASB considers its proposed changes tentative until the final statement is issued.

Last year, the GASB issued an Invitation to Comment (ITC) on possible changes to the pension accounting standards adopted in 1994. In the ITC, the GASB discussed two alternative approaches that the standards might follow. The first reflected the current approach, applying measures based on the actuarial methods and assumptions used to fund the promised benefits. The second reflected an approach favored by some financial economists, using measures based on a hypothetical value at which the pension liability might trade in financial markets. In the PV, the GASB proposes a middle approach which combines some elements of both.

Most of the PV relates to accounting and reporting standards for employers participating in sole-employer or agent multiple-employer pension plans. Essentially, these employers are solely responsible for the pensions promised to their plan members. However, the PV also proposes changes related to employers in cost-sharing multiple employer plans, which are plans that spread benefit costs among multiple employers. The GASB's proposed changes for cost-sharing employers are discussed on page 6 of this article.

<sup>1</sup> For their helpful comments, the author wishes to thank Norm Jones, Brian Murphy, Jim Rizzo, Brad Armstrong, Mita Drazilov, David Kausch, and Mary Ann Vitale at GRS, as well as Keith Brainard at the National Association of State Retirement Administrators, Gary Findlay at the Missouri State Employees' Retirement System, Stephen Gauthier at the Government Finance Officers Association, and Leigh Snell at the National Council on Teacher Retirement. However, the author retains full responsibility for the accuracy of the information provided.

<sup>2</sup> The PV is officially titled: "Preliminary Views, Pension Accounting and Financial Reporting by Employers," and is available on the GASB's web site ([www.gasb.org](http://www.gasb.org)).

<sup>3</sup> Accounting and reporting standards for defined contribution (DC) benefits are not included in the PV and are not expected to change as a result of the GASB's PEB project.

<sup>4</sup> Standards for actuarial valuations are established by the Actuarial Standards Board.

## The GASB's Objectives

The underlying goal of the GASB's PEB project is to review and consider changes to current accounting and reporting standards related to postemployment benefits. Initially, the GASB chose to review the pension standards that apply to governmental employers. Later, they expect to extend their discussion to accounting and reporting standards for pension plans and, after that, to accounting and reporting for other postemployment benefits (OPEBs), including retiree health care benefits.

Essentially, the GASB uses three criteria to evaluate accounting and reporting approaches: (1) accountability; (2) decision-usefulness; and (3) interperiod equity. Accountability is considered the primary objective of governmental accounting and financial reporting, and stems from the duty of public officials to provide constituents with an accurate accounting of financial transactions.

Decision-usefulness reflects the extent to which financial reports provide users with the information they need to make informed decisions. Governmental report users represent a broad range of stakeholders, including: citizens/taxpayers, legislative and oversight bodies, creditors, employees, retirement plan members, plan trustees, and others. Decisions related to pensions include: (1) determining the size of pension benefits offered to employees; (2) evaluating the cost of benefit changes; (3) determining the contributions necessary to fund the benefits; (4) determining the plan's funded status and progress; (5) assessing the employer's overall economic condition and creditworthiness; and (6) allocating plan assets for investment purposes.

Interperiod equity relates to the goal of allocating the costs of current services to current taxpayers and avoiding the shifting of costs to future taxpayers. In the PV, the GASB recognizes that governments are long-term entities and that measuring pension costs as a level percentage of payroll is a reasonable approach for achieving interperiod equity over the long-term.

## Current Pension Accounting and Reporting Standards for Governmental Employers

Before discussing the PV in detail, it may be useful to briefly review the current pension accounting and reporting standards for governmental employers, as presented in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

Generally speaking, accounting and reporting standards establish how financial items are defined and measured (e.g., what constitutes an "expense" or a "liability") and where

the items are presented in the government's annual financial report (e.g., in the basic financial statements, notes to the financial statements, or other sections of the financial report).

Under current standards, pension accounting measures are closely related to pension funding measures. Generally, the employer's "pension expense" for accounting purposes is the "annual pension cost" (APC) necessary to fund the plan, and both are determined using the same actuarial methods and assumptions.

The APC consists of the employer's "annual required contribution" (ARC), plus certain adjustments if the employer has contributed more or less than the ARC over time. The ARC, in turn, is the actuarially determined cost of the benefits allocated to the current year (the "normal cost" or "service cost") plus the amortization of any overfunded or underfunded actuarial accrued liabilities.

The current standards also place certain constraints on the actuarial methods and assumptions that are used for accounting and reporting purposes, which include:

- Using one of six acceptable actuarial cost methods to determine pension costs and liabilities. For the most part, these methods include projection of salary and certain other factors in determining the normal cost of benefits.<sup>5</sup>
- Using the long-term expected rate of investment return to project future investment earnings as well as to discount the present value of benefits.
- Limiting the period for amortizing the unfunded actuarial liability and actuarial gains and losses to a maximum of 30 years.
- Allowing the actuarial value of assets to reflect investment gains and losses that are averaged over time to smooth the impact of investment volatility on funded levels and contribution rates.

Under current standards, a sole or agent employer's balance sheet liability for pensions is the "net pension obligation" (NPO). It is calculated as the accumulated difference between the employer's annual pension cost and the employer's actual contributions to the plan over time. For cost-sharing employers, the balance sheet pension liability is the accumulated difference between the employer's contractually required contributions to the plan and the employer's actual contributions.

<sup>5</sup>The six actuarial cost methods are entry age, frozen entry age, attained age, frozen attained age, projected unit credit, and aggregate. A seventh method, the unit credit cost method, is only acceptable for plans in which accumulated benefits are not affected by future salary levels, since this method does not include projections of either salary or service.

The current standards also require employers to disclose information about pension benefits in the notes to the financial statements and other sections of the employer's financial report. Generally, these disclosures include, but are not limited to: a description of the plan; annual required contributions; and actual contributions. In addition, employers in sole and agent multiple-employer plans must also disclose: the actuarial value of plan assets; actuarial accrued liability; unfunded actuarial accrued liability; funded status; and related actuarial methods and assumptions.

### Issue 1 – An Employer's Obligation to Its Employees for Defined Benefit Pensions

In the PV, the GASB presents its views through the discussion of six issues that underlie pension accounting and reporting. The first issue relates to the nature of the employer's responsibility for defined benefit (DB) pensions and addresses how an employer's obligation for pension benefits arises.

As presented in the PV, the GASB believes: (1) the employer's obligation for DB pension benefits is created as a result of the employment exchange (i.e., the exchange of employee services for employer compensation); and (2) the employer remains primarily responsible for the unfunded portion of the pension obligation.

The GASB's belief that the employer's obligation for DB pension benefits is created by the employment exchange dates back at least 20 years. In 1990, the GASB's Exposure Draft for Statement No. 27 stated:

"The provision of services by an entity's employees in exchange for the right to receive compensation is a transaction that affects the entity's resources and should be recognized in each accounting period when the exchange occurs, regardless of when the compensation is paid. ... Pension benefits are part of the total compensation earned by employees for their services ..."<sup>6</sup>

Moreover, the GASB believes this obligation meets the criteria of an accounting obligation under GASB Concepts Statement No. 4, in that it is "a social, legal, or moral requirement, such as a duty, contract, or promise that compels one to follow or avoid a particular course of action."<sup>7</sup> The GASB also considered whether an employer is relieved of this obligation when it creates a legally separate pension plan (and trust) to accumulate assets and pay benefits. The GASB agreed that the pension plan is primarily responsible for paying benefits to the extent the plan has assets. However, they also agreed that the employer remains responsible for any unfunded benefit payments.

### Issue 2 – Liability Recognition by a Sole or Agent Employer

The second issue addressed in the PV is whether the pension obligation should be considered a liability for financial statement purposes. To do so, it must meet the GASB's conceptual definition of a "liability" and be "sufficiently reliable" for inclusion in the financial statements. The GASB draws a distinction between items that are "recognized" in financial statements and items that are "disclosed" in the notes to the financial statements or in supplementary information. The distinction places a higher standard on items recognized in the financial statements since they are more prominently displayed.

The GASB's deliberations take place within the context of its financial reporting concepts, presented in its Concepts Statements. Liabilities are defined in Concepts Statement No. 4 as "present obligations to sacrifice resources that the government has little or no discretion to avoid."<sup>8</sup> The GASB has come to believe that the unfunded portion of the pension obligation meets the definition of liability for the employer.

However under current pension accounting standards, the unfunded pension obligation is not included in the financial statements. This is because, during the GASB's deliberations related to Statement No. 27, the unfunded obligation was considered inherently uncertain since it is based on assumptions about the future.<sup>9</sup> Over the intervening years, however, the GASB has issued new Concepts Statements, under which the GASB has come to believe the unfunded pension obligation is sufficiently reliable for recognition in the financial statements.

As discussed in the PV, an item may be considered reliable if it is "free from bias, faithfully represents what it purports to represent, is comprehensive, and is not misleading" but that this "does not imply precision or certainty." While agreeing that the unfunded pension obligation is subject to inherent uncertainty, the GASB noted that similar uncertainties are already incorporated in the financial statements, such as uncertainties related to the fair value of investments, depreciation, solid waste closure costs, and pollution remediation. Consequently, the GASB proposes that a measure of the sole or agent employer's unfunded pension obligation should be included in the employer's financial statements. The GASB refers to this measure as the "net pension liability" (NPL), which is discussed in the next section.

The GASB also rejected using the net pension obligation (NPO) on the grounds that it implies the employer's pension obligation has been transferred to the pension plan. The

<sup>6</sup> GASB Statement No. 27 Exposure Draft, paragraphs 18 and 19.

<sup>7</sup> GASB Concepts Statement No. 4, paragraph 18.

<sup>8</sup> GASB Concepts Statement No. 4, paragraph 17.

<sup>9</sup> GASB Statement No. 27, paragraph 69.

GASB saw this as inconsistent with its view that the employer remains primarily responsible for the pension obligation to the extent the plan does not have sufficient assets.

**Comment:** The GASB's rejection of the NPO and acceptance of the net pension liability for recognition in the basic financial statements is a major change to the pension accounting and reporting standards for sole and agent employers.

### Issue 3 – Measurement of the Net Pension Liability (NPL) by a Sole or Agent Employer

The third issue relates to how the employer's net pension liability should be determined for accounting and reporting purposes. Generally, total pension liabilities are determined using the following steps: (1) projecting benefits as a series of cash flows to be paid in the future; (2) discounting the cash flows to their present value using an appropriate discount rate; and (3) allocating the present value to past and future periods of service. The unfunded liability is calculated by subtracting available assets from the total pension liability to determine the unfunded portion.

Under current GASB standards, projected benefits typically include the value of future salary, service, and automatic COLAs, but not ad hoc COLAs. The present value of the cash flows is determined using a discount rate that reflects long-term expected investment returns. The actuarial accrued liability is determined by allocating the present values to past and future periods of service using one of six actuarial methods (with the entry age cost method used most frequently). And the unfunded liability is determined by subtracting the actuarial value of plan assets (typically using a smoothed value of assets) from the actuarial accrued liability.

However, to determine the new net pension liability for accounting and reporting purposes, the GASB proposes using somewhat different factors:

**Projected Benefits.** In measuring the net pension liability, the GASB proposes that projected future benefits include:

- Automatic COLAs;
- Ad hoc COLAs, to the extent they are not substantively different from automatic COLAs;
- Projected future salary increases; and
- Projected future service credits.

With the exception of ad hoc COLAs, the actuarial valuations of most public plans currently include the above benefits. Therefore, these projections alone would likely have a minimal effect on calculated liabilities for most plans. However, for plans that consistently offer ad hoc COLAs, this change could cause the value of the ad hoc COLA to be included in the liability.

**Blended Discount Rate.** The GASB believes the discount rate should be based on a blended rate of expected investment returns and high-quality municipal bond yields. As explained in the PV, the GASB sees the total pension liability as derived from two different benefit payment streams.

The first stream consists of benefit payments that are projected to be paid from current plan assets and expected future assets (e.g., future investment earnings, employer and employee contributions).<sup>10</sup> For this stream, the GASB believes that the long-term expected investment return is the appropriate discount rate, since the investment earnings will likely reduce future employer contributions needed to fund the benefits.

The second stream consists of benefit payments for which no current or projected future plan assets are expected to be available. For this stream, the GASB believes that the projected benefit payments should be discounted using a rate that reflects the yield on an index of high-quality municipal bonds.

As proposed, the two rates would be blended into a single equivalent rate; however, it would not be a weighted average of the two rates. Instead, it would be the rate that produces the same present value of future benefits as derived by applying the two different discount rates to the two expected benefit streams. Note that this approach does not necessarily mean that a plan with an unfunded liability would have to use the blended rate.

**Comment:** To the extent current and projected future assets are not available to fund projected benefits, using a municipal bond rate could result in net pension liabilities that are greater than the unfunded accrued liabilities calculated for funding purposes. This could create confusion among financial report users about which is the "true" liability and what actions should be taken to fund the benefits.

**Attribution to Past and Future Periods.** While recognizing that state and local government employers have the right to select the actuarial cost method used to fund pension benefits, the GASB believes using a single actuarial cost method is preferable for accounting purposes. It argues this would eliminate an unnecessary source of variation in financial reporting and would consequently improve comparability and reduce the complexity of financial reporting.

In the PV, the GASB proposes using the entry age normal actuarial cost method as the single method. This actuarial cost method is typically applied in a way that attributes service costs to periods as a level percentage of projected payroll. The GASB believes using the entry age actuarial cost method

<sup>10</sup> Future employer contributions would be projected based on the plan's stated contribution policy and recent pattern of contributions.

is more representative of the way it views the employment relationship – that is, as an ongoing series of exchanges over an employee's career.

**Plan Net Assets.** As noted earlier in this article, the net pension liability is obtained by subtracting available assets from the total pension liability. The GASB proposes that the fair (market) value of plan net assets be used, which consists largely of plan investments.

**Comment:** Since investment returns fluctuate widely over time, changes in plan net assets will likely add volatility to the measure of net pension liabilities.

#### **Issue 4 – Attribution of Changes in the Net Pension Liability to Financial Reporting Periods by a Sole or Agent Employer**

Given that the GASB proposes using the net pension liability as the pension liability for financial statement purposes, any increase in the net pension liability would be considered a "consumption" of net assets and any decrease would be considered an "acquisition" of net assets under GASB Concepts Statement No. 4.

In determining what constitutes the pension expense in this context, the GASB must determine what portions of the pension-related consumption (or acquisition) are applicable to the current reporting period and what portions are applicable to future reporting periods. If the consumption (acquisition) is related to the current period, it is considered a current outflow (inflow) of resources and is recognized in the pension expense for the current period. If it is related to a future period, it is considered a deferred outflow (inflow) and is recognized in a future period (or periods).

In considering this issue, the GASB grouped the various types of pension-related consumptions (acquisitions) into categories related to: service costs, interest, actuarial gains/losses, changes in actuarial assumptions, changes in benefits, and investment gains/losses.

**Service Costs.** The service cost (also referred to as the "normal cost") reflects the pension cost of employee services during the current period. As discussed in the PV, the GASB is proposing that the service cost be measured using the entry age normal actuarial cost method and that the service cost be included in the pension expense for the current period.

**Comment:** The entry age actuarial cost method is currently used to measure the pension service cost for about three-quarters of state and local government employers.<sup>11</sup> However, for the approximately one-

quarter that apply other actuarial methods, use of the entry age method would result in a different measure of service cost than that used to fund benefits.

**Interest on the Total Pension Liability.** Interest on the beginning total pension liability would be recognized as an expense. Presumably, the interest would be calculated using the blended discount rate discussed above.

**Actuarial Gains and Losses, Changes in Actuarial Assumptions and Benefits.** Determining the total pension liability depends on a variety of economic and demographic assumptions. These assumptions may be different from the plan's actual experience and, therefore, lead to differences between the expected total pension liability and the actual total pension liability from year to year. To the extent these differences change the total pension liability related to past service, they would need to be recognized. The same is true for changes in assumptions and benefits.

The GASB considered whether changes in the total pension liability due to changes in plan experience (i.e., actuarial gains and losses), assumptions, or benefits should be recognized in the pension expense immediately, or gradually amortized with a portion recognized immediately and the balance deferred for recognition in future periods. As discussed in the PV, the GASB believes that immediately recognizing all of the changes would not be consistent with its view that pensions are part of the career-long employment exchange between employer and employee.

Instead, the GASB proposes amortizing these changes over the average expected remaining service lives of active employees, weighted to approximate individual amortizations. However, to the extent the changes apply to vested inactive members (including retirees and beneficiaries), all such changes would be recognized immediately.

**Comment:** For accounting and reporting purposes, this change would effectively reduce the amortization period for these actuarial gains/losses from a maximum of 30 years to about 10 to 20 years (or less), depending on the demographic characteristics of the covered employees. The reduction in the amortization period, in turn, would likely lead to a higher and more volatile measure of the pension expense.

**Differences Between Actual Earnings on Plan Net Assets and Expected Earnings.** As with changes in assumptions and benefits, the GASB considered recognizing changes in plan assets immediately, but rejected it on the grounds that the differences between actual and projected investment earnings tend to offset each other over time. The GASB concluded that immediately recognizing such differences would reduce the usefulness of the pension liability and expense measures.

<sup>11</sup> Project update on the Pension Accounting and Research project, Issue 5, Paper 5, Johnson et al, dated November 30, 2007.

Instead, the GASB proposes to defer recognition of these differences to the extent they are small relative to the value of assets. Specifically, the GASB proposes to defer recognition of the differences between actual investment earnings and long-term expected investment earnings to the extent they remain within a 15% corridor around the fair value of plan net assets. However, when the cumulative difference between actual and expected investment earnings falls outside of the corridor, the excess portion would be recognized immediately.

**Comment:** This means that unusual events, such as sharp market declines or increases, could be recognized immediately, possibly increasing the volatility of the pension expense.

**Other Changes in Plan Net Assets.** The GASB believes other changes in plan net assets (e.g., due to employer and employee contributions, plan administrative expenses, etc.) should be recognized in the pension expense when they occur.

### Issue 5 – Recognition by a Cost-Sharing Employer

So far, this article has focused on pension accounting and reporting for employers in sole and agent plans (i.e., employers that are solely responsible for funding the benefits of their members). However, the GASB has also proposed changes for employers in cost-sharing multiple-employer plans. Cost-sharing plans share the pension funding costs and risks across participating employers. Key differences between cost-sharing plans and sole or agent plans include:

- Cost-sharing plans pool liabilities, assets, and risks across all participating employers. As a result, the liabilities and assets are not directly attributable to any single employer.
- Employer contributions to cost-sharing plans are generally allocated on an equal basis across all participating employers (reflecting the pooling concept) and are often determined by statute with payments contractually required.

Under current GASB pension standards, cost-sharing employers recognize their contractually required contribution as their pension expense, regardless of whether it reflects their actuarially required contribution. In addition, a cost-sharing employer's pension liability is measured as the difference between its contractually required contribution and actual contribution.

However, as discussed in the PV, the GASB believes that the employment exchange creates an obligation for the employer to provide the benefits, regardless of whether the plan is a sole, agent, or cost-sharing plan. While the GASB recognizes this obligation is shared among employers in a cost-sharing plan, it still believes that for cost-sharing employers the economic

exchange is essentially the same, and they still have the primary responsibility for the unfunded obligation.

Consequently, the GASB proposes that for accounting and financial reporting purposes, the cost-sharing plan's collective net pension liability and pension expense should be determined using the same methods and assumptions as used to determine the net pension liability and pension expense for sole and agent employers.

In addition, the GASB believes each cost-sharing employer should recognize a proportionate share of the plan's collective net pension liability, expense, and deferred outflows (inflows) in the cost-sharing employer's financial statements. While the GASB has yet to decide how to measure the employer's proportionate share, the PV suggests using the employer's proportionate share of the total contractually required contributions to the plan.

However, the GASB also recognizes that an employer's proportionate share may vary from year to year due to changes in employment, salary levels, retirement patterns, and other factors. This leads to the need for employers to recognize changes in their proportionate share and make related adjustments.

**Comment:** Cost-sharing employers would show a new net pension liability and pension expense on their financial statements. Both would be significantly larger and more volatile than the current measures.<sup>12</sup>

### Issue 6 – Frequency and Timing of Measurements

The final issue relates to when and how often employers should measure their net pension liability and pension expense. In general, the GASB believes these measurements should be as of the employer's fiscal year-end date, consistent with the other financial statement measurements. However, the GASB also recognizes that annual valuations may not necessarily be cost beneficial. To balance these competing goals, the GASB proposes:

- The total pension liability for accounting and financial reporting purposes should be measured at least every other year by means of an actuarial valuation. The "as of" date for the actuarial valuation should not be more than 24 months before the employer's fiscal year-end date.

(continued on page 8)

<sup>12</sup> Under current standards, cost-sharing employers are not required to report a liability on their balance sheet if they are current with their contractually required contributions.



### Summary of Current GASB Pension Standards for Governmental Employers Compared with Proposed Changes Presented in the GASB's Preliminary Views

#### For Employers in Sole-Employer and Agent Multiple-Employer Plans

	Current Standards	Preliminary Views	Implications
<b>Pension Liability</b>  Recognized in the Employer's Financial Statements (Balance Sheet)	<b>Net Pension Obligation (NPO)</b> - measured as the cumulative difference between the employer's annual required contributions and actual contributions.	<b>Net Pension Liability (NPL)</b> - measured as the difference between the total pension liability (using the actuarial accrued liability under the entry age normal cost method and blended discount rate) and the fair (market) value of assets, with both determined as of the employer's fiscal year-end date.	Including the NPL on the employer's balance sheet is a major change. The balance sheet would no longer present the cumulative underfunding in relation to the actuarially determined contributions.  The NPL would likely be more volatile than the unfunded accrued liability currently reported in the notes to the employer's financial statements.
<b>Pension Expense</b>  Recognized in the Employer's Financial Statements (Income Statement)	<b>Annual Pension Cost (APC)</b> - measured as the employer's "annual required contribution" (ARC) adjusted for interest on the NPO.  In addition, the ARC is measured as the normal cost (i.e., "service cost") plus amortization of the unfunded actuarial accrued liability over a maximum of 30 years.	<b>Pension Expense (PE)</b> - measured as (i) the current period service cost (using the entry age cost method and blended discount rate), plus:  (ii) interest on the NPL, plus  (iii) amortization of liability gains/losses, changes in assumptions, and benefit changes over the remaining service lives of active members (and immediate recognition of changes in the liability for inactive and retired members), plus  (iv) immediate recognition of any cumulative difference between actual and expected investment earnings outside a 15% corridor around the fair value of plan net assets.	The new measure of pension expense would be completely disconnected from the actuarial measure of contributions needed to fund the benefits.  Amortizing liability gain/losses over remaining service lives would effectively reduce their amortization period from a maximum of 30 years to about 10 to 20 years (or less), depending on the demographic characteristics of the covered employees.  The methods for recognizing asset and liability gains/losses in the pension expense would likely increase the measure of the pension expense and add volatility.
<b>Allowed Actuarial Cost Methods</b>	Entry age, Attained age, Projected unit credit, Aggregate, Frozen entry age, Frozen attained age.	Entry age - with allocation of service costs as a level percentage of payroll over the employees' expected service.	Approximately one-quarter of state and local governments do not use the entry age cost method for funding purposes.
<b>Discount Rate</b>	Long-term expected rate of investment return.	Blended rate: long-term expected rate of return to the extent current and expected future assets are sufficient to pay projected benefits; otherwise the yield on an index of high-quality municipal bonds.	A blended discount rate using municipal bond yields is new. While employers in well-funded plans could continue using the long-term expected return, others may need to use the blended rate.
<b>Liability Gains/Losses - Amortization Period</b>	Maximum of 30 years.	Weighted-average remaining service life of individual active members. Immediate recognition of changes for vested inactive members (including retirees).	The amortization of non-investment gains/losses would be over a much shorter period than is currently used.
<b>Investment Gains/Losses - Amortization Period</b>	Maximum of 30 years.	Deferred recognition of cumulative difference between actual and expected investment earnings within a 15% corridor of the fair value of assets. Immediate recognition of any portion outside the corridor.	The method for recognizing investment gains/losses in the pension expense is new and would likely add volatility to the measure.
<b>Asset Valuation Method</b>	Market value or smoothed market value.	Fair (market) value of plan net assets.	Use of the fair (market) value would likely add volatility to the net pension liability and pension expense.

#### For Employers in Cost-Sharing Multiple-Employer Plans

<b>Pension Liability</b>	<b>Pension Liability</b> - measured as the difference between the employer's contractually required contribution and the actual contribution.	<b>Pension Liability</b> - measured as the employer's proportionate share of the cost-sharing plan's collective net pension liability.	Cost-sharing employers would show a new and significantly larger and more volatile measure of the pension liability on their balance sheet.
<b>Pension Expense</b>	<b>Contractually Required Contribution</b> - measured as the employer's contractual contribution to the cost-sharing plan.	<b>Pension Expense</b> - measured as the employer's proportionate share of the cost-sharing plan's pension expense.	Cost-sharing employers' new pension expense would likely be larger and more volatile than their contractually required contributions.



- If the actuarial valuation of the total pension liability is not made as of the employer's fiscal year-end date, it should be updated to that date. The update should include all significant changes made since the valuation as determined by professional judgment.

As under current standards, the GASB would continue to allow biennial valuations in order to relieve employers from the cost of annual valuations. If the underlying economic and demographic conditions are stable enough for the biennial valuation to be reliable, the GASB would allow the valuation to be updated to reflect changes as of the employer's fiscal year-end date. However, if significant changes have occurred since the last valuation date, a new valuation would be necessary.

## Conclusion

The changes proposed in the GASB's PV constitute a significant departure from current pension accounting and financial reporting standards for state and local governmental employers. These changes could play a significant role in changing future accounting and reporting standards for other postemployment benefits. The GASB produced the PV specifically to inform stakeholders of the proposed changes and to request comments. Consequently, it is important for stakeholders to review the proposed changes, consider their impact, and provide comments. Written comments are due to the GASB by September 17, 2010, and public hearings are scheduled for October in Dallas, San Francisco, and New York.

The GASB's PV and a plain-language supplement can be found on the GASB's web site ([www.gasb.org](http://www.gasb.org)).

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## Offices

### CHICAGO

20 North Clark Street, Ste. 2400  
Chicago, IL 60602-5111  
(312) 456-9800  
(312) 456-9801 Fax

Contact: Lance Weiss

### DALLAS

5605 N. MacArthur Boulevard, Ste. 870  
Irving, TX 75038-2631  
(469) 524-0000  
(469) 524-0003 Fax

Contact: Mark Randall

### DENVER

7900 East Union Avenue, Ste. 1100  
Denver, CO 80237-2746  
(303) 217-7600  
(303) 217-7609 Fax

Contact: Leslie Thompson

### DETROIT

One Towne Square, Ste. 800  
Southfield, MI 48076-3723  
(800) 521-0498  
(248) 799-9000  
(248) 799-9020 Fax

Contact: Judy Kermans

### FT. LAUDERDALE

One East Broward Boulevard, Ste. 505  
Ft. Lauderdale, FL 33301-1804  
(954) 527-1616  
(954) 525-0083 Fax

Contact: Theora Braccialarghe

This newsletter and additional information about the firm may be found on the GRS website at:

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