Employees' Retirement Fund of the City of DALLAS

What is GASB 67/68?

- Governmental Accounting Standards Board (GASB) Statements No. 67 & No. 68 describe the disclosure information that must be included in the financial statements of public sector pension systems and their sponsors.

- These rules became effective for the City of Dallas with the 2015 fiscal year end reporting.

- The most significant difference between the new statements and the prior statements is that the plan sponsor now must recognize the Net Pension Liability (NPL) on its balance sheet.
  - NPL is similar to Unfunded Actuarial Accrued Liability (UAAL).

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GASB 67 NPL Calculation

- The NPL is the Total Pension Liability (TPL) less the market value of assets.
  - TPL is similar to the actuarial accrued liability (AAL).
  - If the GASB "Single Discount Rate (SDR) Test" is passed then for ERF, the TPL would equal the AAL.

- GASB Test – a proscribed cash flow model using
  - Current market value of assets,
  - Projected benefit payments for current members,
  - Projected contributions of current members, and
  - Projected City contributions not associated with future member's cost of benefits (excludes future members' normal costs).

- If projected assets go to zero before all benefit payments are made, then remaining payments are discounted at municipal bond rate.

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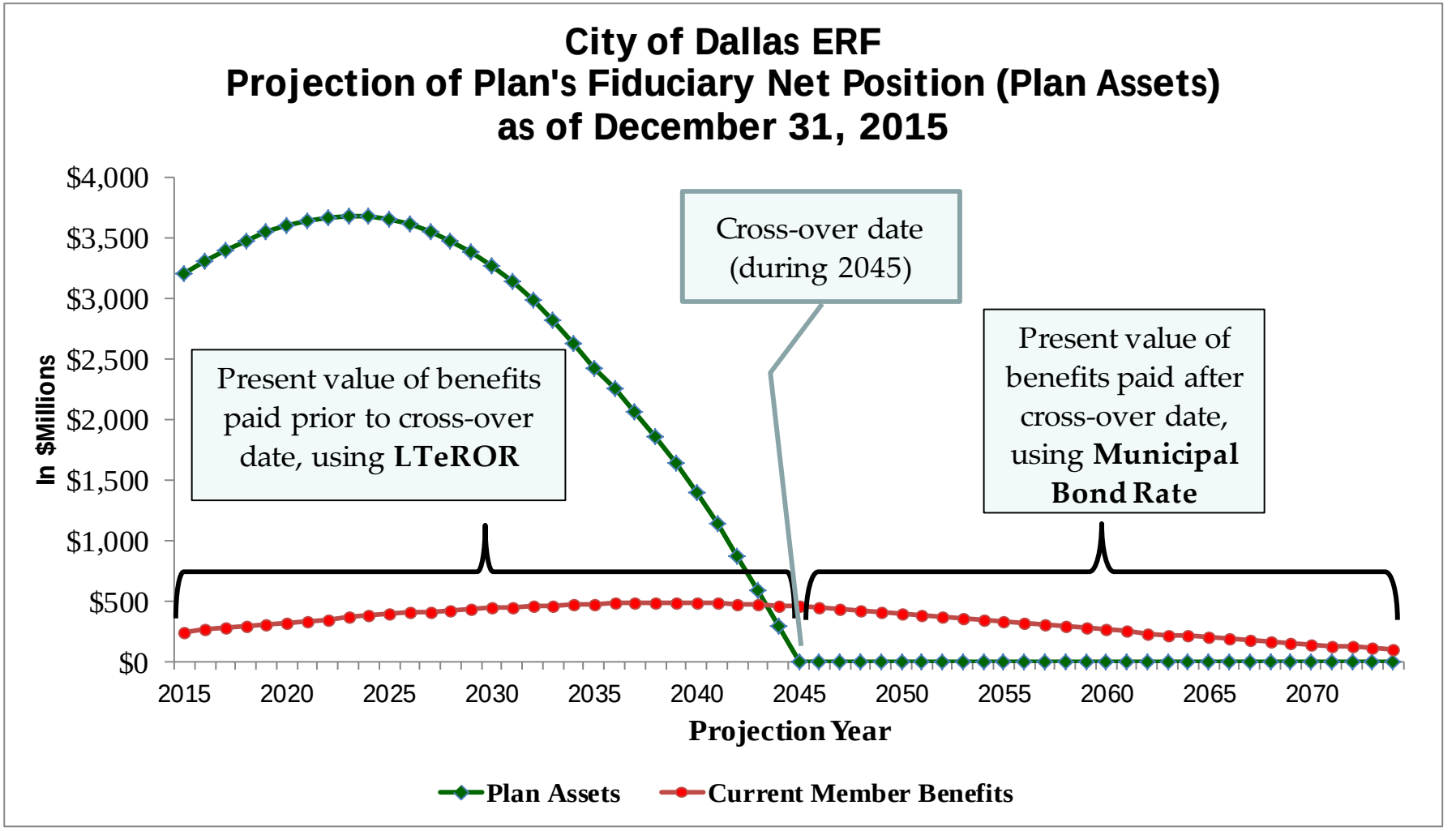
GASB 67 NPL Calculation

- The NPL can be very volatile due to:
  - The use of the market value of assets – year to year fluctuations in the market value of assets flow directly into the NPL;
  - Bouncing back and forth between passing and failing "SDR Test" and
  - Changes in the municipal bond rate from year to year if required to use a blended discount rate.
- Last year Dallas ERF passed the SDR test and used the long-term rate of return (8%) for the SDR.
- This year Dallas ERF did not pass the SDR test and was required to use a blended discount rate.
  - Projected benefit payments through 2045 were discounted at 8%.
  - Projected benefit payments after 2045 were discounted at 3.57%.
  - The single discount rate equivalent is 5.76%.
  - The TPL determined with a 5.76% discount rate is $1.2 billion greater than if an 8.0% rate had been used.

Single Discount Rate – Accounting Purposes



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Current Unfunded Liability Cost

- Based on the December 31, 2015 actuarial valuation, the unfunded liability of the ERF was $808 million.
  - $935 million if the market value of assets is used.
- Based on the December 31, 2015 GASB 67/68 report, the NPL was $2.165 billion.
- What is the unfunded liability?
  - If the ERF received $935 million, then the ERF would be fully funded ($0 unfunded liability) on a market value of asset basis.
  - The NPL would also be $0.
- If the proposed plan for new hires had been effective January 1, 2016, the ERF would have passed the SDR test and the NPL would have been $935 million.