Pension Reporting for LEAs: *Update on Progress and Next Steps*

VASBO Meeting

April 2015

Agenda:

- Brief Overview of Summary of Provisions of New Pension Standards
  - GASB 67 Results
  - GASB68 Implementation
- Accounting Issues Related to Multiple- Employer Plans under New Pension Standards
  - VMERS
  - VSTRS
- Resolve Timing Issues Discussed at February Meeting
- Next steps for LEAs, TRE/VRS on GASB
- Brief discussion of federal funds, teacher eligibility issues

Bottom Line…..
What will I include in my financial statements in FY2015 and when will I get the information?

Brief Overview

Vermont Retirement Systems Administered in Treasurer's Office

- VSERS- Vermont State Employees Retirement System
  - 8,325 active members
  - 867 inactive members
  - 732 terminated vested members
  - 5,980 retirees

- VSTRS- Vermont State Teachers' Retirement System
  - 9,952 active members
  - 2,416 inactive members
  - 740 terminated vested members
  - 8,086 retirees

- VMERS- Vermont Municipal Retirement System
  - 6,664 active members
  - 1,817 inactive members
  - 692 terminated vested members
  - 2,359 retirees

Collectively referred to as VRS: $258.1 million paid in retirement benefits in FY2014

Types of Defined Benefit Plans

- **Single employer** plans provide benefits for a single employer
  - VSERS
  - Some Vermont municipalities have their own plans and do not participate in VMERS or have a plan in addition to VMERS

- **Cost-sharing multiple employer** plans provide benefits for multiple employers. Assets are pooled for investment purposes and can be used to pay the benefits of any employer
  - VMERS- participating municipalities bear the obligation
  - A single actuarial valuation is conducted for all of the employees of the participating governments combined
  - VSTRS- is a cost sharing multiple employer plan with a special funding situation
    - State is classified as a "nonemployer contributing entity"

- **Agent multiple employer** plans provide benefits to multiple employers. Assets are pooled for investment purposes, but held in separate employer accounts for the payment of benefits

GASB 67 and 68 Pension Changes

- **GASB Statement No. 25 and 50:**
  - Financial Reporting for Pension Plans
  - Amended by GASB Statement No. 67

- **GASB Statement No. 27 and 50**:
  - Accounting for Pensions by Employers
  - Amended by GASB Statement No. 68
  - GASB Statement No. 68 amended by No. 71

- **GASB 71 Amends Paragraph 137 of GASB 68**
  - Contributions after the measurement date prior to fiscal year end
  - Booked to deferred outflows rather than pension expense
  - At the beginning of the period in which the provisions of Statement 68 are adopted the government should recognize a beginning deferred outflow of resources only for its pension contributions

What are the Impacts of GASB 67?

- Few changes from GASB 25 for financial statements:
  - Continue to present two financial statements
    - Statement of Fiduciary Net Position
    - Statement of Changes in Fiduciary Net Position
    - Generally similar to current guidance

- Notes to Basic Financial Statement Section:
  - Additional Information on money-weighted internal rate of return on plan investments, net of investment expenses
  - New note disclosure on **Net Pension Liability or NPL**
  - Disclosure of discount rates determined by cash flow testing
  - Measurement of the NPL is as of fiscal year end

- Required Supplemental Information (RSI)
  - RSI changes primarily to reflect changes in measurement of liabilities of employers
  - RSI schedules prospective (except for contribution schedule) if information not initially available

What are the Impacts of GASB 68?

- Net Pension Obligation (NPO) on the government wide financial statements will be replaced by a Net Pension Liability (NPL)
  - On Market Value basis
  - Entry Age Normal Cost Method must be used (used in VSTRS and VSERS currently, different method for VMERS)

- Implementation in your financial statements that are presented using the "economic resources measurement focus":
  - Government-wide financial statements, i.e., GAAP-basis financials
- Does not apply to your governmental funds statement

- Significant impact in first year due to NPL impact vs. NPO

- In prior standard, the Annual Required Contribution (ARC) was the basis of a funding strategy

- No ARC equivalent in the new standards

What are the Impacts of GASB 68?

- In current standard, the focus is on whether the government is making its ARC contributions to adequately fund the plan.
- Under the new standard, the focus is on the size and growth of the NPL.
- These standards **do not change the funding methodology** established in state statute.
- Will lead to **more volatility** in the NPL and funded ratio reported for accounting purposes.

Effective Dates

- GASB 67 Plan Reporting:
  - Went in effect for fiscal years beginning after June 15, 2013
  - For plans with a June 30 fiscal year end, June 30, 2014 financial statements
    - Results included in Notes to the Financial Statements, State's FY 2014 CAFR
  - For plans with a December 31 fiscal year end, December 31, 2014 financial statements

- GASB 68 Employer Reporting:
  - Effective for fiscal years beginning after June 15, 2014
  - For employers with a June 30 fiscal year end, June 30 , 2015 financial statements
  - For employers with a December 31 fiscal year end, December 31, 2015 financial statements

The Big Picture View .....

- Total pension Liability (TPL)= Actuarial Accrued Liability using Entry Age Normal Cost Method (method currently used by VSERS and VSTRS)
- Net pension Liability (NPL) = TPL minus the Plan's Fiduciary Net Position (PFNP)
- PFNP = Fair Value of Plan Assets
- Pension Expense (PE)= Change in NPL from one year to the next

GASB 67/68 Will Not Be the Basis of VRS or Trustee Board Funding Recommendations

Q: Will Local governments and school districts have to pay more for pensions because of the new GASB requirements?

A: No.

- GASB statements will not affect what governments and school districts pay to fund the plans
- Funding is a public policy decision that is beyond the scope of the GASB
- These liabilities have always existed and are not new though the new standards will require school districts and local governments to report liabilities that had previously not been reported in financial statements
- While this will have an impact on the financial statements, the basic financial reality of pension has not changed.

"$1,000 owed to a retired employee in ten years under the current standards will remain $1,000 owed in ten years under the new standards"

- Utah Retirement System

Plan Status Based on Funding Policy

Teacher Plan	2013	2014
Actuarial Accrued Liability	$2,566,834,655	$2,687,049,333
Actuarial Value of Assets	$1,552,924,370	$1,610,285,523
Unfunded Liability	$1,013,910,285	$1,076,763,810
Funding percentage	60.5%	59.9%
State Plan		
Actuarial Accrued Liability	$1,914,299,984	$2,010,089,866
Actuarial Value of Assets	$1,469,169,902	$1,566,075,540
Unfunded Liability	$445,130,082	$444,014,326
Funding percentage	76.7%	77.9%
Municipal Plan		
Actuarial Accrued Liability	$528,426,358	$580,972,276
Actuarial Value of Assets	$446,235,922	$500,557,919
Unfunded Liability	$82,190,436	$80,414,357
Funding percentage	84.4%	86.2%

FY 2014 GASB 67 Results

(Dollar Amounts in Thousands)

	Vermont State Retirement System	Vermont State Teachers' Retirement System	Vermont Municipal Employees Retirement System
Total pension liability	$ 2,008,888	$ 2,663,802	$ 543,652
Plan fiduciary net position	(1,657,246)	(1,705,365)	(534,525)
Net pension liability	$ 351,642	$ 958,437	$ 9,127
Plan fiduciary net position as a percentage of total pension liability	82.50%	64.02%	98.32%

Sensitivity of NPL to Changes in Discount Rate

	VSRS	STRS	MERS
One-percent decrease			
Discount rate	7.22%	7.15%	7.23%
Net pension liability	$ 587,188	$ 1,258,726	$ 76,886
Net pension liability, as reported			
Discount rate	8.22%	8.15%	8.23%
Net pension liability	$ 351,642	$ 958,437	$ 9,127
One-percent increase			
Discount rate	9.22%	9.15%	9.23%
Net pension liability (asset)	$ 153,107	$ 706,364	$ (47,722)

What Did this mean to you in 2014?

- If a plan issues a stand-alone GAAP-basis financial statement, GASB 67 will be implemented in the plan's 2014 statements. If an employer's GAAP-basis 2014 financial statements presents the plan as a fiduciary fund, then include any GASB 67 disclosures "essential to a fair presentation", along with its GASB 27 compliance
- VRS systems do not issue these but are part of the state's CAFR
- More likely in Vermont where plans generally do not issue stand-alone GAAP basis financial statements:
  - The employer's GAAP-basis 2014 financial statement presents the plan as a fiduciary fund, then include all GASB 67 disclosures along with its GASB 27 compliance

Source: Paragraph 5, Footnote 9 and 11 of GASB 67, Q&A 2 of GASB 67 IG, and GASB 14 cited in GRS, "the Devil's in the Details", Florida GFOA, April 2014

What Did this Mean in 2014?

- VMERS and VSTRS Participants:
  - GASB 67 had no impact on financial statements of VMERS employers
    - Pension expense= pension contribution
  - This will provide the starting value on which your FY 2015 pension expense will be developed

- Non-VMERS Pension Plans:
  - Need to implement GASB 67 if you issue GAAP-basis financial statements

- Some communities have their own plan and also participate in VMERS for selected classes of employees—both will apply

If you have your own plan in place of, or in addition, to VMERS*...

- Reported note disclosures for GASB 67 (FY2014)
- Will report your full Net Pension Liability (NPL) on your statements (FY2015)
- Will report any additional NPL from VMERS participation as well and related disclosures (FY 2015)

*See previous slide concerning stand-alone statements and inclusion of pension fiduciary fund in financial statements, and Paragraph 5, Footnote 9 and 11 of GASB 67, Q&A 2 of GASB 67 IG, and GASB 14

GASB 68 for Municipalities and LEAs

The following will be required in 2015 on the Entity –Wide financial statements of Vermont municipalities either in VMERS or for their own retirement plans:

- Net Pension Liability
- Pension Expense
- Pension-related deferred outflows of resources and deferred inflows of resources

- For cost-sharing multiple-employer plans such as VMERS, participating employers will recognize their proportionate share of the collective amounts for the plan as a whole

- For VSTRS, the participating entity will have a NPL of zero in FY2015 as the state is the nonemployer contributing entity

- With no employer contributions—will have a pension expense and an offsetting revenue

From our last meeting….

- Problem:
  - Employers with a June 30 year end will not be able to use the June 30, 2015, measurement date because the employer's proportionate share of the aggregate pension amounts will not be available soon enough for timely incorporation in CAFRs/ financial statements/

- Solution:
  - When employers implement GASB 68 this June, they will use a measurement date of June 30, 2014
  - The measurement period for determining pension expense will be July 1, 2013, through June 30, 2014

- Why:
  - GASB allows employers to choose the measurement date to use for financial reporting
  - Per GASB, the measurement date must be no earlier than the end of the employer's prior fiscal year
  - Note: this measurement date must be consistently applied from year to year

Definitions , Timing and Frequency

Definitions

- **Valuation Date**: date as of which the actuarial valuation is performed
- **Measurement date**: date as of which the net pension liability is determined
- **Reporting date**: system's and/or employer's fiscal year-ending date

Timing/Frequency

- **Valuation Date**
  - Cannot be greater than 30 months + 1 day
  - Valuation can be rolled forward with appropriate methods
  - Valuations must be done biennially, more frequent encouraged
- **Measurement Date**
  - Must be within Employer's 12 month fiscal year end
- **Reporting Date**
  - Employer's fiscal year end

Options We Considered…

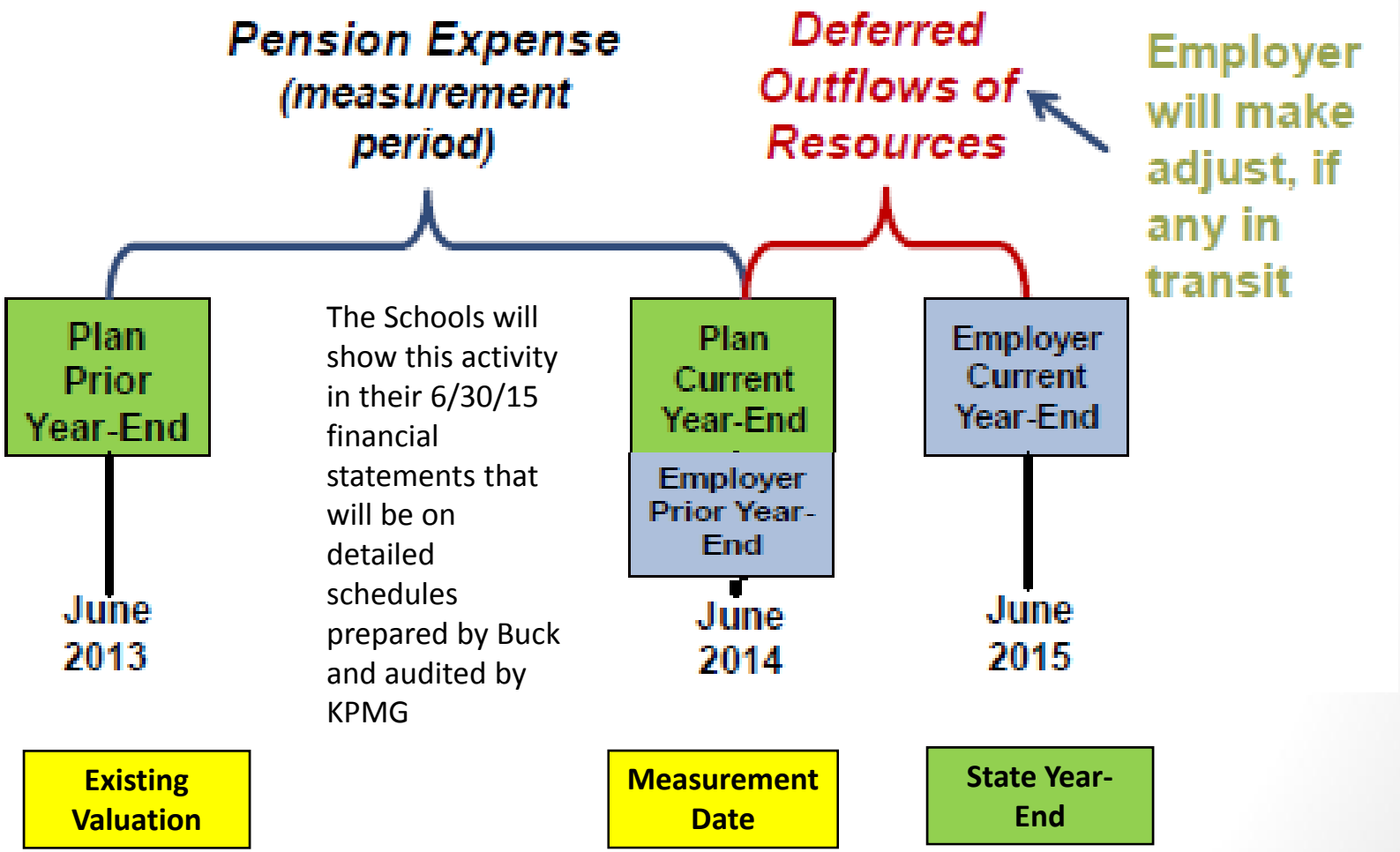
- Option #1
  - Valuation date = June 30, 2014
  - Measurement Date = June 30, 2015
  - Reporting Date = June 30, 2015

- Option#2
  - Valuation date = June 30, 2013
  - Measurement Date = June 30, 2014
  - Reporting Date = June 30, 2015

- The actuaries for the plan valued the liability as of 6/30/2013, then applied roll forward procedures to come up with a liability as of 6/30/2014

- Will recommend Option #2. Using a Measurement Date twelve months prior to the Reporting Date for July 1 fiscal employers will allow those employers to have the VRS-supplied portion of their GASB 68 reporting information, including supporting certifications, in as timely a manner as is possible under the new standards

Timing of Measurement of Total Pension Liability 6/30 Example



The Schools will show this activity in their 6/30/15 financial statements that will be on detailed schedules prepared by Buck and audited by KPMG

Rolled forward

NPL that schools will include in 6/30/15 statements

VRS Used Roll Forward of 6/30/13 Census Data for 6/30/14 Reporting

- Actuary will roll forward incorporating the following:
  - Actual benefit payments made during the year
  - Annual expense payments made during the year
  - Outline of any plan changes (benefits, contribution rates)
  - Any significant events (during the year)
  - Need to report market value f assets as of the measurement date

From the GASB 68 Implementation Guide*

***Q*:** If a single employer's fiscal year-end is the same as the fiscal year-end of the pension plan through which it provides benefits, can the employer report a net pension liability as of a measurement date that is one year earlier than the "as of" date of the net pension liability reported by the plan at the same fiscal year-end?

***A*:** Yes. To avoid a circumstance in which employer financial reports potentially would be delayed awaiting information that also is included in the pension plan's financial report, Statement 68 permits the measurement date of the net pension liability reported by a single or agent employer to be as of a date no earlier than the end of its prior fiscal year provided that the actuarial valuation used to determine the net pension liability meets the timing requirements of paragraph 22 of Statement 68 and that the measure meets the requirement of paragraph 23 of Statement 68 that the plan and the employer use the same assumptions when measuring similar or related information. (See Questions 45–47.) Single-employer pension plans are required by Statement No. 67, *Financial Reporting for Pension Plans,* to report information about the net pension liability of the employer as of the plan's fiscal year-end. Therefore, for example, in financial statements as of June 30, 2015, a single-employer pension plan is required to report a net pension liability measured as of June 30, 2015, whereas the single employer that provides benefits through the plan can report a net pension liability with a measurement date of June 30, 2014, if the requirements of paragraphs 22 and 23 of Statement 68 are met.

*Source: GASB 68 Implementation Guide, Q37.

What is NPL?

- Net Pension Liability (NPL) = Difference between Total Pension Liability (TPL) and the plan's fiduciary net pension position
- Uses fair (market) value of assets
- Incorporates past service liability
- Includes effects of projected future salary increases and COLAs
- Must use Entry Age Normal (EAN) method (pure form, no variations)
- Discount rate requirement

Recognition of Changes to the NPL

- Most recognized as pension expense in the period of the change:
  - Current period service cost (this is essentially the same as normal cost or pension benefits earned during the reporting period)
  - Interest on total pension liability
  - Effects of benefit changes
  - Long term expected rate of return on pension plan investments

- Others recognized as deferred outflows/inflows of resources with expense recognized over defined future periods:
  - Changes of economic and demographic assumptions
  - Differences between expected and actual experience from sources other than investments
  - Difference between projected earnings on investments and actual investment earnings
  - For-Cost Sharing Employers (VMERS)- Differences in employer contributions
    - Changes in employer's proportionate share of all employer contributions
    - Differences between contributions recognized by the employer in the measurement period
    - Employer contributions subsequent to the measurement date

Recording the NPL at the Participating Employer Level

- The NPL is being calculated as of June 30, 2014
- The calculated NPL will be divided up proportionately for placement on employers' balance sheets beginning with June 30, 2015 CAFRs/Financial Reports
- GASB 68 allows employers to use a NPL that is calculated up to 12 months prior to the employer's fiscal year end
- This provides a solution to providing timely data to municipalities and LEAs

Recording Pension Expense at the Participating Employer Level

- Income statement expense under the new standards is calculated once a year, with the calculation being done at a system-wide level
- The expense is the change in NPL from one Measurement Date to the next
  - Minus any portions of the change marked as "deferred inflows or outflows" that are recognized in later years' expense via amortization
- The first income statement expense will reflect NPL changes between July 1, 2013 and June 30, 2014
- The calculated expense will be divided up proportionately for inclusion in employers' income statements beginning with June 30, 2015 CAFRs/Financial Statements
- First income statement entry will be for the FY2015 employer fiscal year for employers with July 1 fiscal years
- GASB 68 allows employers to use an expense that is calculated up to 12 months prior to the employer's fiscal year end

What VRS Will Provide to Employers

- VRS/Plan provides supplemental "**Schedule of Plan Pension Amounts By Employer"**
  - Plan auditor has been engaged to provide opinion for VMRS
  - VSTRS has no NPL at employer level as state is a nonemployer Contributing Entity
  - VRS will provide schedule but KPMG will opine on total NPL

- Supplemental schedule will include the following amounts by employer
  - Net pension liability
  - Deferred outflows (by category)
  - Deferred inflows (by category)
  - Pension expense

What VRS Will Provide to Employers

EXAMPLE COST SHARING PENSION PLAN

Schedule of Employer Allocations

6/30/20XX

Employer	20XX Actual Employer Contributions	Employer Allocation Percentage
Employer 1	$ 2,143,842	36.376%
Employer 2	268,425	4.554
Employer 3	322,142	5.466
Employer 4	483,255	8.199
Employer 5	633,125	10.742
Employer 6	144,288	2.448
Employer 7	95,365	1.618
Employer 8	94,238	1.599
Employer 9	795,365	13.495
Employer 10	267,468	4.538
Employer 11	403,527	6.847
Employer 12	165,886	2.815
Employer 13	68,454	1.161
Employer 14	6,240	0.106
Employer 15	2,144	0.036
Total	$ 5,893,764	100.000%

Basis for Calculating Proportionate Share

- VRS will use employer contributions during the measurement period as the basis for allocating to employers the collective net pension liability, the various categories of deferred inflows and outflows of resources, and pension expense

- Employer contributions received by VRS will be used to calculate the percentage of each employer's contributions compared to the total contributions received from all employers

- Some miscellaneous employer contributions do not represent the employer's future contribution effort to the plan as required by GASB 68, VRS will exclude them from the employer's proportionate share calculation
  - Example: member buybacks, payments for retroactive adjustments in prior fiscal years

For VMERS…

- VRS will provide a reconciliation of contributions to help employers and employer auditors verify the employer's contributions used as the basis for calculating the employer's proportionate share (April, by email and/or message on ER screen)
- Once verified, actuary will prepare schedules
- VRS/State of Vermont's auditors will provide an audit opinion on the schedule
- This opinion may be used to facilitate discussions with your external auditor

Allocation Issues for VSTRS

- VSTRS allocation is adjusted for the fact that the state, as a nonemployer contributing entity, provides the "employer's required" contribution to the plan
  - Impacts of contributions from federal Grants, effective FY2016
- Assumption of the responsibility by the state to contribute does not relieve the employer (LEA) of the need to measure and report its proportionate shares of the net pension liability, pension expense, and deferred inflows and outflows
- Offset by a revenue entry for net NPL of zero by participating employers
- Disclosure in the notes to the financial statements (employer) will disclose the full amount of the net pension liability prior to assumption by the nonemployer contributing entity (state)

VSTRS Special Funding Situation

Q: Why does an employer benefiting from a special funding situation report the full amount of its pension expense rather than an amount net of the nonemployer contributing entity's portion?

A: Even though another entity is paying for a portion of the pension benefits of its employees, the cost of those benefits is nonetheless the employer's cost of providing services. This is similar to how an employer would account for state aid for a particular program: The employer does not report an expense amount net of the state aid for that program; rather, it reports the full expense and revenue in the amount of the state aid. Likewise, an employer benefiting from a special funding situation reports its full pension expense and revenue equal to the amount of expense reported by the nonemployer contributing entity.

Source: GASB "Fact Sheet on the GASB's New Pension Standards: Special Funding Situations, Question 5.

What VRS Will Provide to Employers

EXAMPLE COST SHARING PENSION PLAN
Schedule of Pension Amounts by Employer
As of and for the year ended 6/30/20X5

		Deferred Outflows of Resources					Deferred Inflows of Resources				Pension Expense		
Entity	Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense
Employer 1	$ 45,224,620	438,859	1,569,847	1,404,206	695,426	4,108,338	355,917	–	726,425	1,082,342	1,907,283	12,375	1,919,658
Employer 2	5,661,780	54,942	196,533	175,796	84,231	511,502	44,558	–	74,326	118,884	238,777	(1,793)	236,984
Employer 3	6,795,628	65,945	235,892	211,001	117,354	630,192	53,481	–	98,465	151,946	286,596	(8,088)	278,508
Employer 4	10,193,442	98,917	353,838	316,502	161,215	930,472	80,222	–	165,453	245,675	429,894	3,021	432,915
Employer 5	13,355,038	129,597	463,584	414,668	199,845	1,207,694	105,103	–	197,645	302,748	563,229	(9,900)	553,329
Employer 6	3,043,487	29,534	105,646	94,499	53,453	283,132	23,952	–	48,453	72,405	128,355	599	128,954
Employer 7	2,011,585	19,520	69,827	62,459	33,458	185,264	15,831	–	35,345	51,176	84,836	625	85,461
Employer 8	1,987,964	19,291	69,007	61,725	35,425	185,448	15,645	–	16,453	32,098	83,839	(5,712)	78,127
Employer 9	16,777,717	162,811	582,393	520,941	248,356	1,514,501	132,040	–	284,543	416,583	707,576	8,405	715,981
Employer 10	5,641,888	54,749	195,843	175,178	95,465	521,235	44,401	–	44,356	88,757	237,938	(1,188)	236,750
Employer 11	8,512,562	82,606	295,490	264,312	136,453	778,861	66,993	–	148,543	215,536	359,005	1,254	360,259
Employer 12	3,499,761	33,962	121,485	108,666	52,145	316,258	27,543	–	64,354	91,897	147,597	453	148,050
Employer 13	1,443,418	14,007	50,104	44,818	23,156	132,085	11,360	–	33,453	44,813	60,874	(205)	60,669
Employer 14	131,785	1,279	4,575	4,092	1,968	11,914	1,037	–	894	1,931	5,558	147	5,705
Employer 15	44,757	434	1,554	1,390	1,456	4,834	352	–	698	1,050	1,888	7	1,895
Total for All Entities	$ 124,325,432	1,206,453	4,315,618	3,860,253	1,939,406	11,321,730	978,435	–	1,939,406	2,917,841	5,243,245	–	5,243,245

What VRS Will Provide to Employers

- **Discount Rate**—rate, assumptions re: cash flows, how Long-term rate of return is determined, municipal bond rate (if applicable), assumed asset allocation/expected real rates of return, NPL at discount rate +/- 1% *
  - Information is in current GASB67 valuation available at
    - http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireTeacher/reports/VSTRS%206-30-2014%20GASB%2067.pdf (VSTRS)
    - http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/retireMuni/reports/VMERS%206-30-2014%20GASB%2067.pdf (VMERS)
  - Since no cross-over issue with any of the VRS systems, municipal bond rate disclosure not applicable
- **Descriptive Information** – General description of plan
  - Benefit terms—types of benefits, key elements of benefit formula, classes of employees covered, legal authority
  - Contributions—basis, authority, rates ($ or % of pay), contributions in reporting period
  - Availability of plan report
  - Significant assumptions/other inputs in TPL Inflation, salary changes, postemployment benefit changes, mortality assumptions, dates of experience studies
  - Availability of plan report (note neither VMERS or VSTRS issues a stand-alone financial report but are included as part of the State of Vermont's CAFR)

* GASB 67 provides at aggregate level; VRS will provide employer specific NPL at discount rate +/- 1%

- Will provide data sheet on above for all participating employers as a template footnote with suggested language for required disclosures

Auditing of GASB 67-68 results

- Two AICPA white papers (February 2014)
  - Governmental employer participation in cost-sharing multiple-employer plans: Issues related to information for employer reporting
  - Single-employer and cost-sharing multiple-employer plans: Issues associated with testing census data in an audit of financial statements
- Three auditing standards AICPA (April 2014)
  - AU-C Section 9500: Audit evidence
  - AU-C Section 9600: Audit of group financial statements
  - AU-C Section 9805: Audits of single financial statements and specific elements, accounts or items

Audit Issues

- VRS engaged auditors to audit detailed FY2013 census data in 2014
- VRS/State of Vermont external auditor (KPMG)have audited VRS plans (VMERS, VSTRS, and VSERS) and GASB 67 CAFR data for FY14
- VRS/State of Vermont external auditor (KPMG) will audit employer-specific GASB 68 data provided by the VRS actuary (Buck) in Spring 2015 and subsequently in each year prior to distribution to employers.
- After audit certification, VRS will distribute GASB 68 information to employers for use in employer CAFR preparation
- Plan designed to provide substantiation so that centralized VRS audit work will be sufficient audit evidence for the school district's external auditors

Cost-Sharing Multiple-Employer Plans – AICPA Recommendations

- **Include supplemental "schedule of employer allocations" in plan financial statements for which plan auditor is engaged to provide opinion**
  - Use allocation method based on covered payroll or required (actual) contributions depending on whether there are different classes of benefits and whether allocations expected to be representative of future contributions
- Projected future contributions could be used if necessary
  - Standard does not preclude employers from calculating their own allocation percentage; however, this could potentially result in different employers who participate in same plan allocating collective pension amounts on a different basis. Additionally, it could be difficult for employer auditor to get sufficient competent audit evidence on allocation. For example, If employer allocates based on covered payroll, the denominator for the calculation (i.e. total covered payroll) is not audited by plan auditors
  - If employer allocates based on rates, you don't know if that same relative percentage goes to the liability

Cost-Sharing Multiple-Employer Plans – AICPA Recommendations

- Plan prepare "schedule of plan pension amounts by employer" for which plan auditor engaged to provide opinion Supplemental schedule of plan pension amounts by employer includes net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense for each employer An alternative could be to include a "schedule of collective pension amounts" for the plan as a whole

- Plan auditor needs to consider the appropriateness of the materiality used in the audit of PERS financial statements

- Employer auditor issues opinion on total of each of the four "elements" in accordance with AU-C 805 Net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense

Cost-Sharing Multiple-Employer Plans – Testing of Underlying Census Data of Active Employees

- Risk-based approach by plan auditor to select employers to test
- Employer auditor may perform procedures under examination engagement in accordance with AT (Attest) section 101
- Absence of effective management procedures and controls by plan to verify census data is considered a control deficiency and will impact level of auditor testing

Cost-Sharing Multiple-Employer Plans – Employer Auditor Responsibilities

- Determine sufficiency and appropriateness of audit evidence
- Evaluate whether plan auditor's report on schedules are adequate and appropriate for auditor purposes (i.e. evidence)
- Review plan auditor's report and any related modifications
- Verify and recalculate amounts in schedules specific to employer amount used in allocation percentage (numerator)
- Recalculate allocation percentage of employer
- Recalculate allocation of pension amounts based on allocation percentage of employer

Getting ready for the Examination

- The Treasurer's Office will engage auditors to perform an examination engagement in accordance with AT section 101, Attest Engagements (AICPA, Professional Standards)
- These procedures will be applied to the census data reported to VSTRS and VMERS

- To prepare:
  - The auditor's will be asking you how you accumulate the data to enter your quarterly reports into the state system
  - Auditors will be asking you to provide them with a payroll register or other source data so that they can make a sample selection for testing at your site
  - Auditors will request a write-up describing your payroll system, pay cycles, enrollment forms, status changes and any other information about accumulating the data to enter into the state system
  - You will need to provide a list of new hires, employees leaving the system or any other status changes over the period July 1, 2013 through June 30, 2014

- We will be sending some guidance based on the 40 examinations completed last year

- The cost for the Audit firms will be paid by the systems through the Treasurer's Office

FY2013 Census Data Audits Conducted Last Year

Census Samples - 25 Municipal / 15 Teacher

Rank in Total Comp	Municipal	% of A	% of B	% of C	% of D	% of Total
1	Montpelier City	0.00%	0.80%	13.18%	0.00%	2.62%
2	Colchester School District	7.03%	0.00%	0.28%	0.00%	2.19%
3	Springfield, Town Of	0.07%	2.38%	2.46%	15.97%	2.18%
4	Bennington, Town Of	0.00%	2.77%	4.24%	0.00%	2.07%
5	Barre City	0.00%	1.29%	7.08%	0.00%	1.83%
6	Springfield School District	0.21%	3.38%	0.00%	0.00%	1.72%
7	Hartford, Town Of	0.00%	0.21%	9.01%	0.00%	1.63%
8	Southwest Vt SU School Dist	4.93%	0.00%	0.00%	0.00%	1.50%
9	Essex, Town Of	0.00%	0.00%	8.57%	0.00%	1.45%
10	Chittenden South School Dist	0.22%	1.28%	4.00%	0.00%	1.37%
11	St Albans-City	0.00%	1.15%	3.90%	0.00%	1.22%
12	Colchester, Town Of	0.00%	0.82%	4.86%	0.00%	1.22%
13	Chittenden East SD #12	0.04%	2.38%	0.06%	0.00%	1.18%
14	Barre, Town Of	0.00%	2.35%	0.00%	0.00%	1.15%
15	Milton School District	3.63%	0.00%	0.23%	0.00%	1.15%
16	Brattleboro, Town Of	0.00%	0.00%	0.00%	31.15%	1.12%
17	Williston, Town Of	0.00%	1.97%	0.80%	0.00%	1.10%
18	Stowe, Town Of	0.00%	1.35%	0.26%	9.93%	1.06%
19	Rockingham, Town Of	0.00%	1.68%	1.25%	0.00%	1.03%
20	Vermont League Of Cities & To.	0.00%	2.05%	0.00%	0.00%	1.00%
21	Champlain Valley Uh #15 SD	0.00%	1.78%	0.75%	0.00%	1.00%
22	Milton, Town Of	0.00%	1.02%	0.66%	9.31%	0.95%
23	North Country Uh #22 Sch Dist	0.00%	1.88%	0.10%	0.00%	0.94%
30	Mt Anthony Union #14 Sch Dist	2.53%	0.00%	0.00%	0.00%	0.77%
34	Brattleboro Uh #6 Sch District	2.39%	0.00%	0.00%	0.00%	0.73%
	Percentage of Total Covered	**21.04%**	**30.55%**	**61.69%**	**66.35%**	**34.22%**

Rank in Total Comp	Teachers	% of Total
1	Burlington School	4.87%
2	South Burlington School	3.12%
3	Rutland City School	2.80%
4	Colchester School	2.36%
5	Hartford School	2.30%
6	Essex Comm. Ed # 46	2.17%
7	Milton School	1.59%
8	Springfield School	1.58%
9	Essex Town School	1.57%
11	Champlain Valley Union #15	1.37%
13	Brattleboro Union #6	1.35%
14	Mt Anthony Union #14	1.31%
15	North Country Union #22	1.30%
25	Southwest Vt SU	0.84%
38	Chittenden East SU	0.70%
		29.24%

Proposed Next Round of Audits

Municipal

	Rank in Total Comp.	Employer Name	% of A	% of B	% of C	% of D	Tot FTE	Tot Comp	Tot %
1	25	Williston School District	2.80%	0.00%	0.36%	0.00%	82.00	2,018,256.09	0.92%
2	29	Winooski School District	0.00%	1.59%	0.00%	0.00%	70.00	1,715,757.64	0.78%
3	36	Shelburne School District	1.90%	0.00%	0.53%	0.00%	60.00	1,479,753.75	0.67%
4	40	Montpelier School District	0.00%	1.06%	0.58%	0.00%	37.21	1,355,534.68	0.61%
5	45	Woodstock Uh #4 School Dist	0.00%	1.10%	0.00%	0.00%	44.00	1,184,187.26	0.54%
6	46	Morristown School District	1.75%	0.00%	0.00%	0.00%	52.77	1,179,866.27	0.54%
7	52	Rockingham School District	0.00%	0.99%	0.00%	0.00%	43.57	1,065,321.97	0.48%
8	54	Mt Mansfield Uh #17 SD	0.06%	0.85%	0.10%	0.00%	31.14	999,840.93	0.45%
9	60	Harwood Uh #19 School District	0.03%	0.83%	0.00%	0.00%	33.00	915,865.00	0.42%
10	63	Stowe School District	1.33%	0.00%	0.00%	0.00%	39.00	893,267.22	0.41%
11	69	Fair Haven Uh #16 School Dist	1.17%	0.00%	0.00%	0.00%	35.00	785,323.51	0.36%
12	72	Derby School District	0.04%	0.69%	0.00%	0.00%	36.00	768,814.16	0.35%
13	97	Newport City School District	0.00%	0.54%	0.00%	0.00%	29.00	583,218.49	0.26%
14	109	Bennington School District	0.79%	0.00%	0.00%	0.00%	23.00	530,118.50	0.24%
15	149	Norwich School District	0.55%	0.00%	0.00%	0.00%	20.00	371,955.63	0.17%
16	160	Windham SE SU School District	0.52%	0.00%	0.00%	0.00%	16.24	348,949.75	0.16%
17	178	Guilford School District	0.45%	0.00%	0.00%	0.00%	13.00	301,624.09	0.14%
18	215	Pownal School District	0.36%	0.00%	0.00%	0.00%	9.32	243,034.31	0.11%
19	217	Strafford School District	0.36%	0.00%	0.00%	0.00%	9.00	239,478.31	0.11%
20	226	Dummerston School District	0.33%	0.00%	0.00%	0.00%	10.00	225,332.21	0.10%
21	301	Pomfret School District	0.22%	0.00%	0.00%	0.00%	7.00	147,908.54	0.07%
22	326	Putney School District	0.19%	0.00%	0.00%	0.00%	7.00	125,698.25	0.06%
23	329	Sherburne School District	0.00%	0.12%	0.00%	0.00%	7.00	124,347.07	0.06%
24	331	Grafton School District	0.00%	0.11%	0.00%	0.00%	5.00	122,958.28	0.06%
25	337	Waitsfield School District	0.00%	0.11%	0.00%	0.00%	4.00	114,878.53	0.05%
26	26	Newport City	0.06%	0.20%	4.31%	0.00%	38.55	1,862,495.15	0.84%
27	32	Morristown, Town Of	0.00%	0.84%	2.00%	8.15%	34.00	1,626,400.26	0.74%
28	35	Winooski Police Dept	0.00%	0.24%	0.66%	13.54%	24.00	1,585,639.42	0.72%
29	42	Shelburne, Town Of	0.00%	0.76%	1.34%	0.00%	27.00	1,324,536.35	0.60%
30	64	Norwich, Town Of	0.00%	0.58%	0.64%	0.00%	19.00	868,399.60	0.39%
31	65	Fair Haven, Town Of	0.20%	0.46%	0.54%	0.00%	20.23	834,314.89	0.38%
32	175	Derby, Town Of	0.00%	0.29%	0.00%	0.00%	9.00	312,903.98	0.14%
33	231	Putney, Town Of	0.33%	0.00%	0.00%	0.00%	7.00	223,220.17	0.10%
34	232	Grafton, Town Of	0.00%	0.21%	0.00%	0.00%	6.00	222,991.09	0.10%
35	318	Derby Line Village Corporation	0.00%	0.12%	0.00%	0.00%	5.00	131,265.32	0.06%
		2015 TOTAL	13.44%	11.69%	11.06%	21.69%	**913.03**	**26,833,456.67**	**12.17%**
		2014 Audit	21.04%	30.55%	61.69%	66.35%	1900.33	75,422,999.35	34.22%
		2 Year Total	34.48%	42.24%	72.75%	88.04%	913.03	102,256,456.02	46.39%

= Municipal & Teacher - common to both systems
= Municipal only

Teacher

Rank in Total Comp.	EmployerName	FTE	TotalCompensation	%	
17	Williston School	110.61	7,110,977.00	1.26%	
28	Winooski School	89.00	4,688,066.00	0.83%	
34	Shelburne School	65.88	4,311,124.00	0.76%	
20	Montpelier School	107.84	5,502,105.00	0.98%	
39	Woodstock Union #4	61.00	3,883,138.00	0.69%	
33	Morristown School	80.66	4,343,241.00	0.77%	
48	Rockingham School	60.30	3,338,016.00	0.59%	
12	Mt Mansfield Uhs #17	134.16	7,694,627.00	1.37%	Je
27	Harwood Union #19	76.74	4,717,680.00	0.84%	M
36	Stowe School	66.52	4,087,344.00	0.73%	
60	Fair Haven Union #16	49.44	2,643,610.00	0.47%	
72	Derby School	39.94	2,075,508.00	0.37%	
90	Newport City School	33.85	1,659,330.00	0.29%	
47	Bennington School	62.95	3,338,320.00	0.59%	
70	Norwich School	32.00	2,109,652.00	0.37%	
66	Windham SE SU	34.00	2,191,092.00	0.39%	B
165	Guilford School	14.40	809,370.00	0.14%	
127	Pownal School	23.00	1,210,170.00	0.21%	
224	Strafford School	12.46	503,273.00	0.09%	
134	Dummerston School	20.53	1,174,402.00	0.21%	
243	Pomfret School	7.27	421,006.00	0.07%	
118	Putney School	21.00	1,271,235.00	0.23%	
188	Sherburne School	12.21	618,023.00	0.11%	K
235	Grafton School	9.59	453,100.00	0.08%	
156	Waitsfield School	18.28	949,655.00	0.17%	
		1,243.63	**71,104,064.00**	**12.62%**	
		2,681.67	164,810,805.96	29.24%	
		3,925.30	235,914,869.96	41.86%	

Appendix-
Background Information

Vermont Municipal Retirement System

Vermont State Teachers' Retirement System

An Overview of VMERS

- Vermont Municipal Employees' Retirement System (VMERS) is the public pension plan provided by the State of Vermont for participating municipalities' employees. It was created in 1975 and is governed by Vermont Statute Title 24, Chapter 125.

- Board of Trustees:
  - Steven Jeffrey Chair, Employer Representative
  - Thomas Golonka, Employer Representative
  - Peter Amons, Employee Representative
  - David Rowlee, Employee Representative
  - Elizabeth Pearce , State Treasurer Ex-Officio

- Plan has approximately 450 participating entities

- As of June 30, 2014, the plan has assets of $534,525,477.

VMERS Membership

(as of July 1, 2014)

Member Type	Group A	Group B	Group C	Group D	Total
Active, Vested	1,632	1,954	451	92	4,129
Active, Not Vested	994	1,222	273	46	2,535
Terminated Vested	385	285	17	5	692
Inactive	912	818	77	10	1,817
Retired	954	1,127	256	22	2,146
Total	4,877	5,406	1,074	175	11,532

VMERS Facts

- VMERS benefits are funded by member contributions, employer contributions, and net investment returns.
- Investment returns historically provide the majority of funding for pension benefits.
- VMERS is currently 86.2% funded. Much of the unfunded liability is related to investment performance in the Great Recession while recent smaller amounts are attributable to retirement experience, demographic or economic assumptions.
- Employer rates are set by the VMERS Board of Trustees every year after an annual actuarial valuation is conducted by an independent actuary.
- Member rates are set by the Legislature although the Board does make recommendations.

VMERS Contribution chart

VMERS EMPLOYER CONTRIBUTION RATES*				
	GROUP A	GROUP B	GROUP C	GROUP D
7/1/1999	4.200%	5.600%	6.500%	
7/1/2000	4.000%	5.000%	6.000%	
7/1/2010	4.000%	5.000%	6.500%	9.500%
7/1/2013	4.000%	5.125%	6.625%	9.625%
1/1/2014	4.000%	5.125%	6.750%	9.625%
7/1/2014	4.000%	5.375%	6.875%	9.750%
1/1/2015	4.000%	5.375%	7.000%	9.750%
7/1/2015	4.000%	5.500%	7.125%	9.850%
1/1/2016	4.000%	5.500%	7.250%	9.850%

Approved by the VMERS Board

VMERS EMPLOYEE CONTRIBUTION RATES				
	GROUP A	GROUP B	GROUP C	GROUP D
7/1/1999	3.000%	5.000%	11.000%	
7/1/2000	2.500%	4.500%	9.000%	
7/1/2010	2.500%	4.500%	9.250%	11.000%
7/1/2013	2.500%	4.625%	9.375%	11.125%
1/1/2014	2.500%	4.625%	9.500%	11.125%
7/1/2014	2.500%	4.750%	9.625%	11.250%
1/1/2015	2.500%	4.750%	9.750%	11.250%
7/1/2015	2.500%	4.875%	9.875%	11.350%
1/1/2016	2.500%	4.875%	10.000%	11.350%

Proposed Changes

* Employer rates are set by the VMERS Board of Trustees

** Employee rates are set by the Legislature by statute

An Overview of VSTRS

- The Vermont State Teachers' Retirement System (VSTRS) is the public pension plan provided by the State of Vermont for State teachers. It was created in 1947 and is governed by Vermont Statute Title 16, Chapter 55.

- Board Of Trustees
  - Jon Harris Chair, Active Member Representative
  - Justin Norris Active Member Representative
  - Joe Mackey VRTA Representative
  - Linda Deliduka VRTA Alternate Representative July
  - Elizabeth Pearce State Treasurer Ex-Officio
  - VACANT Representative of Dept. of Financial Regulation Ex-Officio
  - Vaughn Altemus Representative of Dept. of Education Ex-Officio

- As of June 30, 2014, the plan has assets of $1,705,364,605.

An Overview of VSTRS

- The definition of "Teacher" shall mean any licensed teacher, principal, supervisor, superintendent or any professional licensed by the state board of education regularly employed for the full normal working time for his or her position in a public day school within the state, or in any school or teacher-training institution located within the state, controlled by the state board of education, and supported wholly by the state; or any teacher, principal, supervisor, superintendent or any professional regularly employed for the full normal working time for his or her position in any nonsectarian independent school which serves as a high school for the town or city in which the same is located, provided such school is not conducted for personal profit. It shall also mean any person employed in a teaching capacity in certain public independent schools designated for such purposes by the board of trustees in accordance with section 1935 of Title 16. In all cases of doubt the board of trustees, shall determine whether any person is a teacher as defined in 16 V.S.A. Chapter 55.

- Groups:
  - Group A for public school teachers employed within the State of Vermont prior to July 1, 1981 and elected to remain in Group A.
  - Group C for public school teachers employed within the State of Vermont on or after July 1, 1990. If you were hired before July 1, 1990 and were in Group B on July 1, 1990, you are now in Group C. Vast majority of participants are in Group C.

VSTRS Facts

- Membership as of June 30, 2014:
  - 9,952 active
  - 2,416 inactive
  - 740 terminated vested
  - 8,086 retired

- VSTRS benefits are currently funded by member contributions, contributions by the state (general fund), and net investment returns.

- Investment returns historically provide the majority of funding for pension benefits.

- VSTRS is currently 59.9% funded (on a funding policy basis) and 64% funded per GASB 67 standard.

- VSTRS was not as well funded as the state or municipal plan going into the Great Recession, because of significant periods of underfunding the actuary's recommended contribution and the impact of paying health care in the pension fund without explicit funding sources. Smaller amounts are attributable to retirement experience, demographic or economic assumptions.

VSTRS- Funding History

Year	Total VSTRS Payroll	Total VSTRS Payroll/ Using 1979 Dollars	Recommended Contribution For Budget based on Actuarial projection	Actual Contribution	$ Difference: Act vs. Rec. (Uses Budget Beginning 1996)	Percentage of Request Budget Basis	Actual Contribution as a Percentage of Payroll
1979	96,725,620	96,725,620	7,806,825	4,825,155	2,981,670	61.8%	5.0%
1980	104,521,888	92,090,887	8,944,090	8,471,960	472,130	94.7%	8.1%
1981	112,811,389	90,100,185	9,862,861	8,830,900	1,031,961	89.5%	7.8%
1982	126,748,398	95,356,826	10,200,209	7,822,760	2,377,449	76.7%	6.2%
1983	139,085,342	101,381,484	10,721,814	10,929,355	(207,541)	101.9%	7.9%
1984	153,329,729	107,138,964	12,341,069	11,592,100	748,969	93.9%	7.6%
1985	169,219,652	114,176,085	13,475,181	12,567,866	907,315	93.3%	7.4%
1986	187,834,677	124,423,335	14,668,095	14,461,148	206,947	98.6%	7.7%
1987	206,728,650	132,117,077	15,925,452	16,239,416	(313,964)	102.0%	7.9%
1988	230,430,153	141,413,602	16,294,346	17,186,259	(891,913)	105.5%	7.5%
1989	261,596,990	153,160,818	18,072,172	19,000,000	(927,828)	105.1%	7.3%
1990	273,951,188	152,171,815	21,320,155	19,561,000	1,759,155	91.7%	7.1%
1991	298,104,184	158,901,349	25,013,437	15,000,000	10,013,437	**60.0%**	5.0%
1992	312,346,750	161,627,755	28,595,220	14,618,992	13,976,228	**51.1%**	4.7%
1993	324,536,824	163,054,487	28,819,875	19,890,048	8,929,827	**69.0%**	6.1%
1994	335,155,405	164,185,441	25,805,408	20,580,000	5,225,408	**79.8%**	6.1%
1995	346,975,007	165,291,243	27,451,926	18,080,000	9,371,926	**65.9%**	5.2%
1996	355,894,809	164,677,904	29,884,559	11,480,000	18,404,559	**38.4%**	3.2%
1997	364,695,370	164,965,008	30,954,237	18,080,000	12,874,237	**58.4%**	5.0%
1998	357,899,112	159,407,825	33,519,949	18,106,581	15,413,368	**54.0%**	5.1%
1999	372,298,852	162,238,275	27,232,542	18,080,000	9,152,542	**66.4%**	4.9%
2000	387,998,959	163,581,443	23,573,184	18,586,240	4,986,944	**78.8%**	4.8%
2001	403,258,305	165,310,858	20,882,521	19,143,827	1,738,694	91.7%	4.7%
2002	418,904,021	169,051,873	21,965,322	20,446,282	1,519,040	93.1%	4.9%
2003	437,238,543	172,519,121	23,197,088	20,446,282	2,750,806	**88.1%**	4.7%
2004	453,517,153	174,300,399	29,608,892	24,446,282	5,162,610	**82.6%**	5.4%
2005	486,857,658	180,982,417	43,592,332	24,446,282	19,146,050	**56.1%**	5.0%
2006	499,044,327	179,715,368	49,923,599	24,985,506	24,938,093	**50.0%**	5.0%
2007	515,572,694	180,525,786	38,200,000	38,496,410	(296,410)	100.8%	7.5%
2008	535,807,012	180,673,697	40,749,097	40,955,566	(206,469)	100.5%	7.6%
2009	561,588,013	190,043,162	37,077,050	37,349,818	(272,768)	100.7%	6.7%
2010	562,149,916	187,163,315	41,503,002	41,920,603	(417,601)	101.0%	7.5%
2011	547,748,405	176,788,081	48,233,006	50,268,131	(2,035,125)	104.2%	9.2%
2012	561,179,272	177,450,696	51,241,932	56,152,011	(4,910,079)	109.6%	10.0%
2013	563,623,421	175,650,701	60,182,755	65,086,320	(4,903,565)	108.1%	11.5%
2014	567,073,601	172,732,337	68,352,825	72,668,412	(4,315,587)	106.3%	12.8%

VMERS and VSTRS Operations

Teachers' Retirement System -- Summary of Operations

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SOURCE OF FUNDS										
Employee Contributions	$ 21,158,452	$ 21,884,140	$ 22,533,479	$ 22,918,798	$ 20,937,686	$ 25,315,397	$ 32,062,253	$ 31,827,995	$ 32,343,368	$ 32,558,584
Employer Contributions	24,446,282	24,446,282	37,341,609	39,549,097	35,960,934	40,545,321	47,134,361	51,731,875	63,646,240	71,869,736
Other Income	373,705	1,180,606	2,093,219	1,628,242	3,754,020	1,817,540	3,341,877	4,505,246	1,733,033	1,209,177
Investment Income (Reduction)	115,058,694	130,835,585	244,437,213	(110,019,634)	(307,382,559)	208,723,610	261,886,311	24,726,665	120,403,030	212,338,194
APPLICATION OF FUNDS										
Retirement Benefits	60,147,731	66,272,471	74,368,306	82,157,642	89,825,986	96,448,102	106,930,467	117,801,002	129,416,052	138,484,665
Refunds	1,104,278	1,290,197	1,625,140	1,280,715	1,420,776	1,183,659	1,218,955	1,521,099	1,604,283	1,870,988
Health/Life Insurance Expenses	10,167,601	11,233,854	13,040,783	15,081,847	16,421,176	17,203,669	18,749,675	20,620,144	22,459,219	24,640,986
Administrative Expenses	1,052,772	1,679,883	817,052	866,473	1,249,774	1,078,762	1,399,732	1,604,735	1,680,722	1,474,827
Other Expenses	682,438	580,403	203,444	542,665	606,434	303,741	609,091	391,832	233,735	491,184
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 87,882,313	$ 97,289,805	$ 216,350,795	$ (145,852,839)	$ (356,254,065)	$ 160,183,935	$ 215,516,882	$ (29,147,031)	$ 62,731,660	$ 151,013,041

Municipal Retirement System -- Summary of Operations

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SOURCE OF FUNDS										
Employee Contributions	$ 7,404,119	$ 8,744,718	$ 9,769,882	$ 9,906,709	$ 9,557,973	$ 10,711,600	$ 11,702,728	$ 11,337,926	$ 15,060,665	$ 13,233,728
Employer Contributions	8,058,810	7,926,436	8,535,396	-	8,008,862	10,592,919	11,117,363	11,532,230	12,014,186	12,805,737
Other Income	298,475	228,746	206,101	124,132	1,321,919	203,549	266,425	118,191	170,381	2,142,868
Investment Income (Reduction)	18,165,861	27,697,371	46,637,360	(19,472,654)	(56,937,342)	47,598,096	66,957,781	7,671,464	34,838,507	64,346,116
APPLICATION OF FUNDS										
Retirement Benefits	6,418,097	7,120,325	7,969,703	9,064,725	10,228,263	11,073,098	12,298,902	14,214,160	16,101,187	18,153,649
Refunds	1,140,245	1,102,940	1,389,583	1,143,397	1,223,465	1,127,574	1,275,979	1,664,687	1,587,311	1,673,188
Health/Life Insurance Expenses	-	-	-	-	-	-	-	-	-	-
Administrative Expenses	367,810	439,983	687,382	623,619	798,458	393,947	569,603	672,851	749,447	588,022
Other Expenses	423,937	1,101,883	560,473	506,817	588,899	795,522	886,709	469,599	999,434	774,543
Addition (Reduction) to Net Assets Held In Trust for Pension Benefits	$ 25,577,176	$ 34,832,140	$ 54,541,598	$ (20,780,371)	$ (50,887,673)	$ 55,716,023	$ 75,013,104	$ 13,638,514	$ 42,646,360	$ 71,339,047

A little background on GASB Statements No. 67 and 68

Popular Misconceptions

Misconception	The Reality
GASB is requiring increased funding	NO change in the Plan's current Funding Policy Contribution, methods or assumptions, but perhaps a need to state a Funding Policy to the extent the policy is linked to GASB 25/27 or a need to revise based on cross-over testing. (Source: Buck Consultants) "The new pension Statements relate only to accounting and financial reporting, or how pension costs and obligations are measured and reported in external financial reports… **The new Statements mark a definitive separation of accounting and financial reporting from funding."** (Source: GASB Fact Sheet)
GASB will create new pension obligations	Financial statement recognition and disclosures don't create pension obligations; instead, they simply make existing obligations more transparent. (Source: GASB) The standards do set forth a different basis of recognition of pension obligations, while not creating any new obligation.

Popular Misconceptions

Misconception	The Reality
Government pensions now required to use lower discount rates	Per GASB: "The selection of an appropriate interest rate for discounting projected future benefit payments to their present value is based on what resources are projected to be used to make those payments: (1) assets of the plan that have been invested using an investment strategy to achieve the assumed long-term expected rate of return and their earnings; or (2) the general resources of the government employer."
Discount rate is based on funding ratio (low ratio = lower discount rate)	The discount rate is not based on the plan's funded status but the projected benefits, current benefits, and projected benefits for current members, including future contributions. Per GASB: "If a government reaches a *crossover point*—when projected benefit payments for current employees and inactive employees exceed projected plan net position related to those employees—then benefit payments projected to be made from that point forward will be discounted using a high-quality municipal bond interest rate. … However, it is true—all other factors being equal— that the less well-funded a pension plan is, the more likely it will reach a crossover point and therefore have to discount some projected benefit payments using the municipal bond index rate."

Required Disclosures

- Plan description, including benefits and terms, covered employees and contribution requirements
- Information on NPL, including assumptions for its development
- NPL using a discount rate plus or minus 1%
- Plan's net financial position

Required Disclosures

Single and Agent Employers

- Changes in components of NPL by source
- Description of changes in assumptions and benefit terms
- Basis for employer's actual contributions
- Components of pension expense
- Components in changes in deferred outflows/inflows

Cost-Sharing Multiple Employers

- Basis for employers actual contributions
- NPL
- Deferred inflows/outflows
- Pension expenses
- Date of valuation
- Description of changes in assumptions and benefit terms

RSI Changes

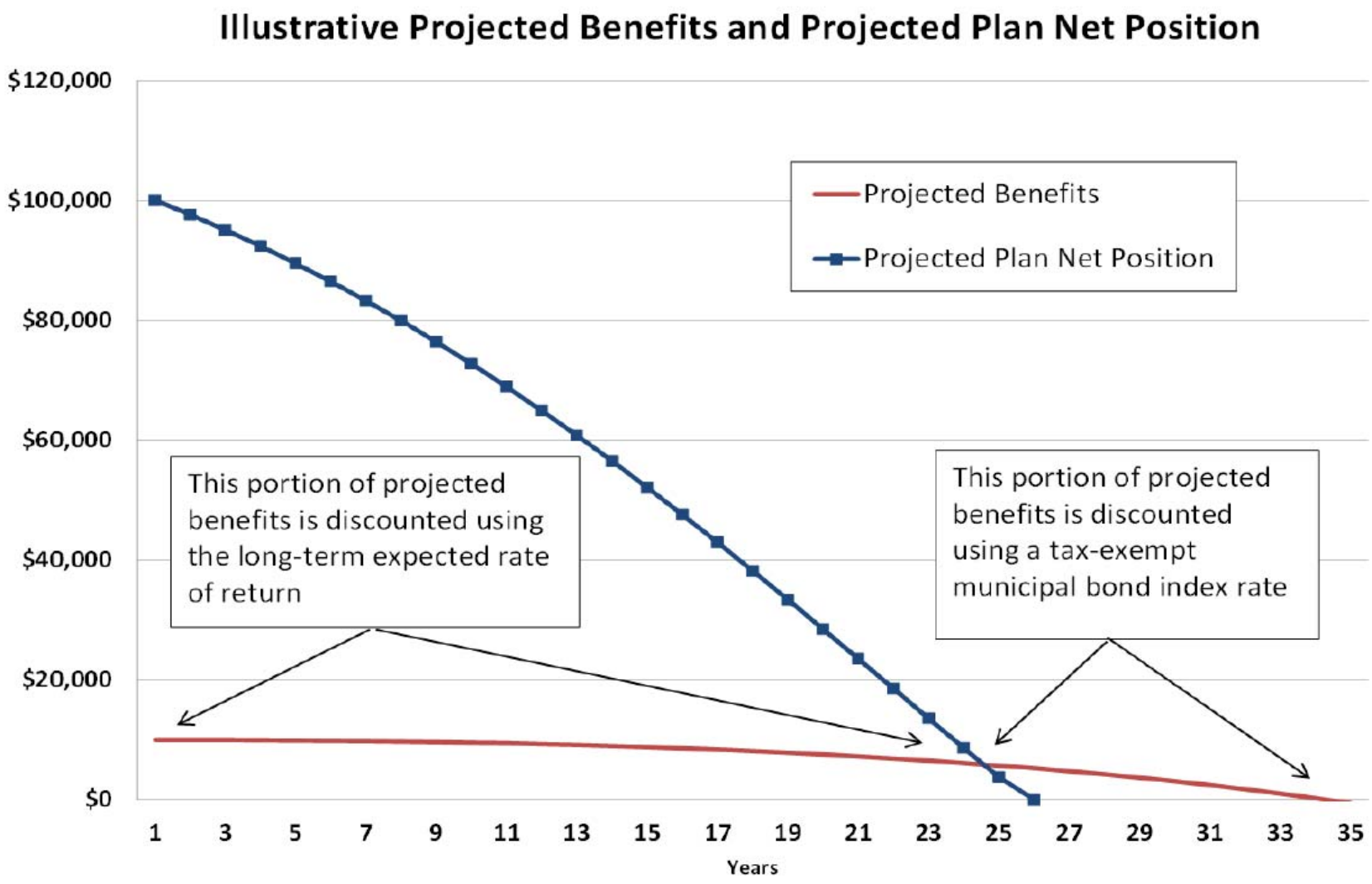
Includes series of ten-year schedules (prospective)

- Annual money-weighted return on plan investments
- NPL and related ratios
- Changes in NPL components by source (single and agent employers)
- Schedule of proportionate share of NPL (cost-sharing multiple employer plans)
- Contribution schedules

Discount Rate:

- If the pension plan's current assets, in combination with the appropriate projection of contributions and expected returns, are not sufficient to cover all projected future benefit payments, then a blended discount rate must be used.

- Blended rate has two comp nets:
  - Plan's long-term expected rate of return for the period that current and expected future assets are available to pay expected plan benefits
  - Yield or index rate for 20 year tax-exempt general obligation bond with an average rating of AA/Aa or higher



Source: Gabriel Roeder & Smith

Discount Rate Determination

- Project **benefits** for current actives, inactives and retirees
- Project **administrative expenses**
- Project **employee contributions** from current actives
- Project **contributions** from the employer and nonemployer contributing entities and other sources:
  - *Professional judgment applied to (a) those contribution amounts are established by statute or contract or (b) a formal, written policy related to those contributions exists. Consider 5-year contribution history*
  - *In other circumstances, the amount of projected cash flows for contributions from the employer and nonemployer contributing entities should be limited to an average of contributions from those sources over the most recent five-year period and may be modified based on consideration of subsequent events (GASB Statement No. 68, paragraph 28)*
- Project **investment return** under expected investment policy
- If there is a cross-over date, will depend on the funding policy

VRS Completed a Cross-Over Determination for all three systems in FY 2014 as Part of FY 2014 Reporting

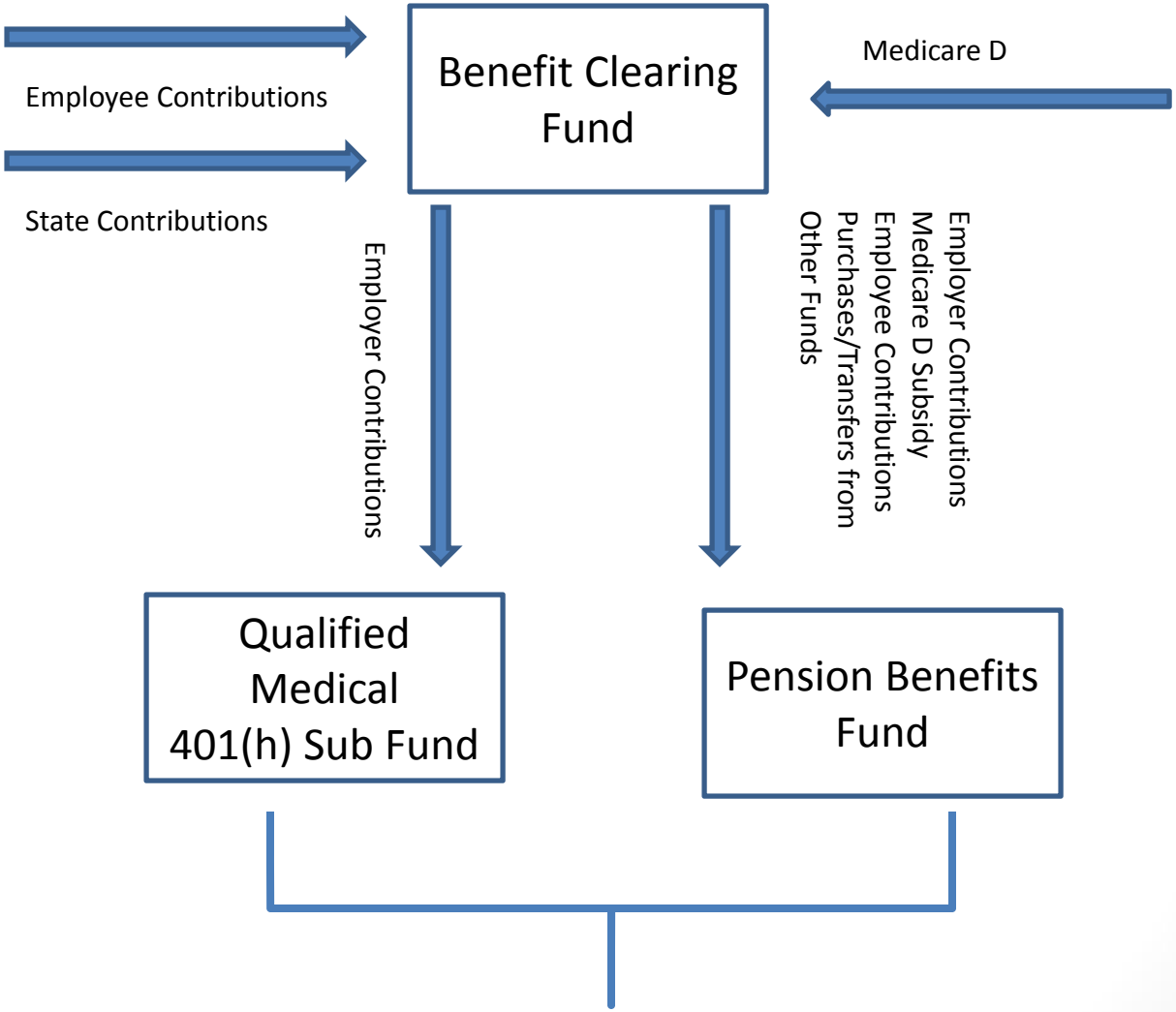
- None of the three retirement systems had a cross-over date based on FY 2014 analysis.
- These are subject to continual review, including review of reasonableness of actuarial assumptions and plan changes over the past year.

Reporting and Funding

- The State's actuary (Buck Consultants) completes two reports under new arrangement:
  - Funding:
    - Utilize existing funding method
    - Calculate contribution rates for participating entity
  - Reporting/Accounting
    - Additional valuation using Entry Age Normal
    - Will determine TPL, NPL and required disclosures
    - Set beginning measurement in FY2014, which will be used to calculate pension expense in 2015, in conjunction with TPL and NPL by employers.

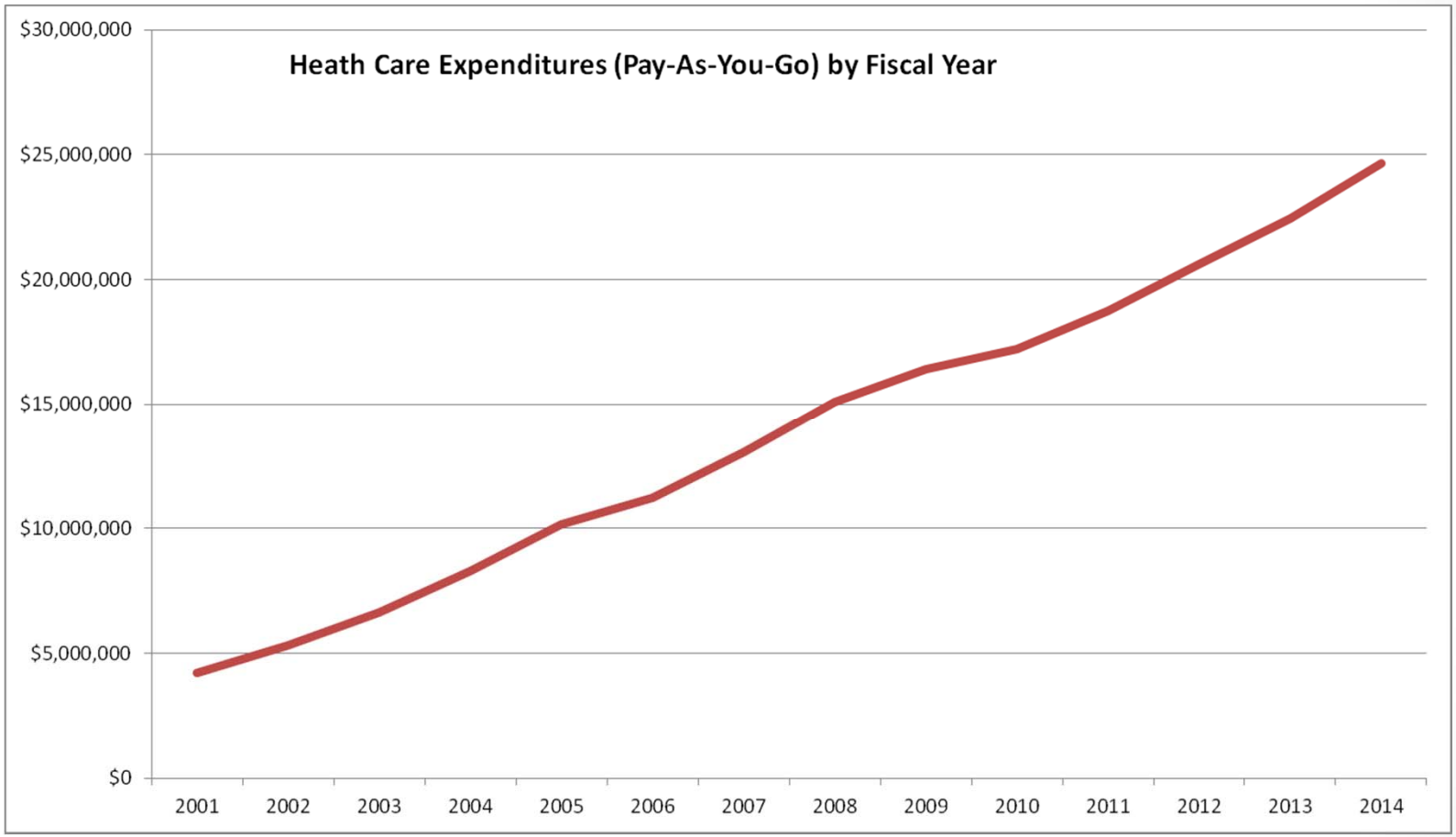
Teacher Health Care and Pensions, Act 179

Pension Fund Structure Up to FY 2015



Both Comprise the Pension Fund

Health Care Expenses Are Rising



Health Care Expenses

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
4,194,215	5,299,600	6,634,738	8,279,332	10,167,601	11,233,854	13,040,783	15,081,847	16,421,176	17,203,669	18,749,675	20,620,144	22,459,219	24,640,986

As retiree health care takes a bigger bite out of available funds, VSTRS's pension funded position is threatened and the annual actuarial required contributions (ARC) is rising at an accelerated rate.

Impact of Enacted Benefit Changes to 2010 OPEB Valuation

- Actual impact on unfunded liability exceeded original estimates, in part in combination with other lower health care inflation rates:
- Per the consulting actuary, The decrease in liability is attributable to the following factors:
  - an increase in plan premiums smaller than expected;
  - removal of assumed age-morbidity factors;
  - changes to eligibility and cost-sharing plan provisions effective July 1, 2010, including associated changes in assumptions and attribution method.
- Unfunded liability reduced in **2010 from $872 million to $704 million.**

Teacher Unfunded OPEB Liability

Unfunded Teacher OPEB Liability

6/30/2014	$777 Million	
6/30/2013	$713 Million	Implementation of Employer Group Waiver Plan (EGWP)
6/30/2012	$827 Million	
6/30/2011	$780 million	
6/30/2010	$704 million	Implemented Savings Initiatives including Tiered Eligibility Structure
6/30/2009	$872 million	

- Liability Side has been addressed with significant initiatives but lack of a funding policy for health care continued to create upward pressures through 2014.

Factors Impacting Unfunded Liability:

- Expected increases due to the passage of time (and lack of funding) although offset in 2013 by EGWP initiative negotiated with NEA
- Updates to demographic assumptions as recommended by the Experience Study of the State Teacher's Retirement System of Vermont, presented to the Board on March 23, 2011
- 2009-2010- Negotiated benefit changes with NEA

Example Amortization of $20 million of Retiree Healthcare Costs

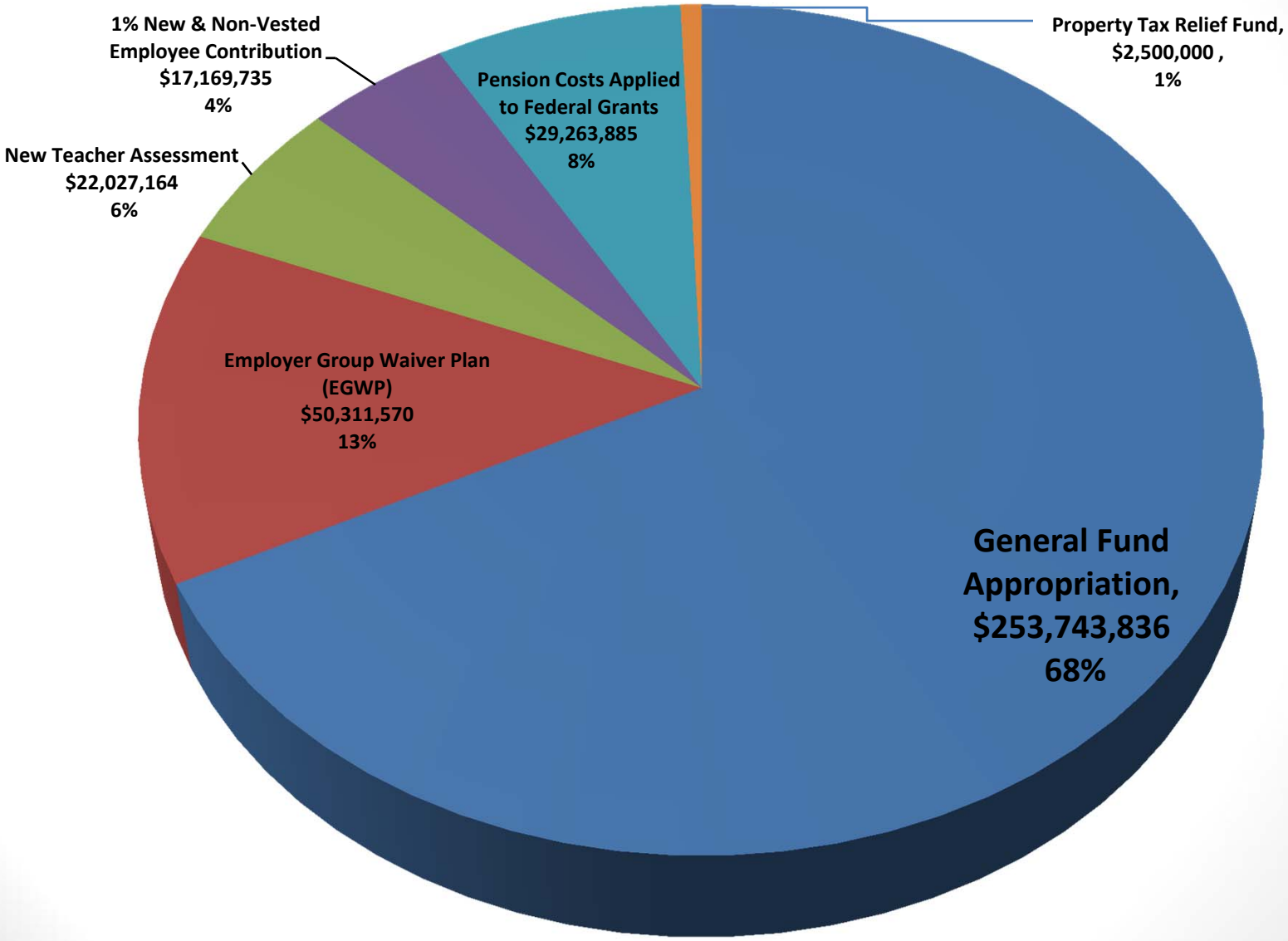
Fiscal Year-End Date	Unfunded Liability Balance	"Select and Ultimate" Discount Rate	Interest on Unfunded Liability	Amortization Increasing at 5.00%
6/30/2012	20,000,000	6.25%	1,250,000	1,150,174
6/30/2013	20,099,826	6.75%	1,356,738	1,207,682
6/30/2014	20,248,882	7.00%	1,417,422	1,268,067
6/30/2015	20,398,237	7.50%	1,529,868	1,331,470
6/30/2016	20,596,635	7.75%	1,596,239	1,398,043
6/30/2017	20,794,831	8.25%	1,715,574	1,467,945
6/30/2018	21,042,459	8.25%	1,736,003	1,541,343
6/30/2019	21,237,120	8.25%	1,752,062	1,618,410
6/30/2020	21,370,772	8.50%	1,816,516	1,699,330
6/30/2021	21,487,957	8.50%	1,826,476	1,784,297
6/30/2022	21,530,137	8.50%	1,830,062	1,873,512
6/30/2023	21,486,686	8.50%	1,826,368	1,967,187
6/30/2024	21,345,867	8.50%	1,814,399	2,065,547
6/30/2025	21,094,719	8.50%	1,793,051	2,168,824
6/30/2026	20,718,947	8.50%	1,761,110	2,277,265
6/30/2027	20,202,792	8.75%	1,767,744	2,391,129
6/30/2028	19,579,408	9.00%	1,762,147	2,510,685
6/30/2029	18,830,869	9.00%	1,694,778	2,636,219
6/30/2030	17,889,428	9.00%	1,610,049	2,768,030
6/30/2031	16,731,447	9.00%	1,505,830	2,906,432
6/30/2032	15,330,845	9.00%	1,379,776	3,051,753
6/30/2033	13,658,868	9.00%	1,229,298	3,204,341
6/30/2034	11,683,825	9.00%	1,051,544	3,364,558
6/30/2035	9,370,812	9.00%	843,373	3,532,786
6/30/2036	6,681,399	9.00%	601,326	3,709,425
6/30/2037	3,573,299	9.00%	321,597	3,894,896
6/30/2038	0	9.00%	0	0

Total Amortization Payments: **58,789,350**

Fundamental Changes to Health Care Funding Effective 7/1/2014

- The State has established and funded a separate trust to account for the assets and liabilities of the retiree medical benefit plan.
- Annual contributions to the Retiree Medical Plan are be separately identified in the State budget and not commingled with Retirement Plan contributions.
- A series of funding sources were put in place, replacing the "retroactive" funding approach.
- Will save $480 million in interest through 2038.

Sources of Funds over Next 10 Years



New and Non-Vested Members of VSTRS

- **E.514.2**
- Supervisory Unions and School Districts employing Group C members of the VSTRS *having less than five years of membership service as of July 01, 2014* must withhold 6%, instead of 5%, of earnable compensation each payroll.

- **This is already implemented by TRE for FY 2015**
  - TRE created data files based on years of service and employer location code for both 5% and 6% contribution rates by employer location. A new report, "Employee Contributions Rate report" was provided for each employer in the employer reporting system.
  - Teachers with less than 5 years service were notified in writing of the increase and any corrections to reporting were made based on verification of data.
  - Contribution rates were uploaded into each member file for LEA reporting purposes.
  - LEA now verifies any new hires, transfers not on either list to determine years of service and correct contribution rate.
  - Will need to reconcile FY 2015 data with June 30, 2015 reporting data provided through retirement employer reporting system.

- We will duplicate this procedure in FY 2016

- This procedure has worked successfully. Please thank your payroll officers on behalf of the Treasurer's Office!

New Teacher Assessment

§ 1944d. EMPLOYER ANNUAL CHARGE FOR TEACHER HEALTH CARE

The employer of teachers who become members of the State Teachers' Retirement System of Vermont on or after July 1, 2015 shall pay an annual assessment for those teachers' health and medical benefits. The assessment shall be the value, as approved annually by the Board of Trustees based on the actuary's recommendation, of the portion of future retired teachers' health and medical benefits attributable to those teachers for each year of service in the State Teachers' Retirement System of Vermont. The equivalent number for the June 30, 2013 valuation is $1,072.00

- Equivalent number from June 30, 2014 valuation is $1,097, to be used in FY 2016 budget.
- This is a per person charge for individuals new to the retirement system.
- If individual is shared by more that one employer, TRE will prorate (likely to nearest .25).
- This is an annual assessment on all members new to VSTRS starting in FY16 that is paid for the duration of their employment.
- TRE will download data from retirement system on new members by employer location code on basis of first quarter employer reporting and calculate any splits between location codes.
- TRE will convert data to invoice for LEA.

Federal Grants

§ 1944c. EMPLOYER CHARGES FOR FEDERAL GRANTS OR REIMBURSEMENTS

(a) Notwithstanding any provision of law to the contrary, effective on July 1, 2015, the employer retirement costs and administrative operating expenses related to the retirement plans applicable to those teachers whose funding is provided from federal grants or through federal reimbursement shall be paid by local school systems or educational entities that participate in the Vermont Teachers' Retirement Fund from those federal monies.

(b) The percentage rates to be applied shall be determined by an actuary approved by the Board of Trustees of the State Teachers' Retirement System of Vermont and shall be applied to the total earnable compensation of members prepared by the actuary in compliance with subsection 1942(r) of this title. The Secretary of Education shall annually provide an accounting of federal grants and federal reimbursements, by school system, upon which payment by the participating schools shall be determined.

(c) The State Treasurer and the Secretary of Education shall establish procedures for the collection and deposit of those monies in the State Teachers' Retirement System of Vermont. The Secretary of Education may delay implementation upon review of the federal grant program to permit timely and accurate claims for reimbursement of retirement expenses under a particular federal program in order to receive funding under that program. The Secretary of Education shall provide an annual report to the House and Senate Committees on Appropriations and on Education regarding progress in implementation of this section.

Federal Grants

- The rate assessed is 12.84% of payroll.
- The assessment is limited only to those personnel covered under the Vermont State Teachers' Retirement System.
- AOE will be collecting data on staff paid for by federal grants and supply in electronic format to the TRE.
- TRE will match AOE provided data to retirement system, reconcile differences.
- TRE will generate invoices on a quarterly basis, after the close of the employer reporting system.
- LEA will have opportunity to adjust invoice based on reimbursement documentation, subject to review.
- LEA will remit to TRE, with a copy of the report to AOE.
- AOE and TRE currently working on detailed procedures.

Thank You!