CALSTRS CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Governmental Accounting and Standards Board Pension Accounting Changes

September 10, 2013

GASB Implementation

- Effective for CalSTRS FY 2013-14
  - Statement 67, Financial Reporting for Pension Plans
- Effective for Employers FY 2014-15
  - Statement 68, Accounting and Reporting for Pensions

Purpose of Changes

- Divorces pension system funding and financial reporting.
- Part of normal review cycle and intended to improve reporting:
  - Transparency
  - Consistency
  - Comparability amongst systems

Reporting Changes

- Adds <u>Net Pension Liability (NPL)</u> –similar to the unfunded liability.

Reporting Changes

- Creates a blended rate that must be used when a plan is projected to deplete assets.
  - The plan uses the assumed rate of return up to the point the plan no longer has assets to pay benefits.
  - The remaining liability must be discounted with a high quality municipal bond rate.

Reporting Changes

- Recasts pension expense to reflect changes in the NPL from year.
- Requires a closed 5-year period to amortize differences between actual and projected investment earnings.

Reporting Changes

- Adds more extensive note disclosures.
- Requires a money weighted rate of return versus time weighted rate of return.

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Actuarial Considerations

- Requires Entry Age Normal for all Financial Reporting Actuarial Valuations.
- Milliman will now need to create multiple valuations annually: one for funding and one for financial reporting.
- Employers or their auditors may have questions for CalSTRS regarding the information provided in our financial reports for their use.

New CalSTRS Disclosures

Net Pension Liability of the Plan's Employers as of 6/30/2012

Total Pension Liability	$ 301,707,000,000
Plan fiduciary net position	(134,835,000,000)
Employer and Non Employer Contributing Entity NPL	$166,872,000,000
Plan fiduciary net position as a percentage of total Pension liability	44.7%

New CalSTRS Disclosures

Sensitivity of NPL to discount rate as of 6/30/2012

1% Decrease	(3.85%)	$214,106
GASB 67 discount rate	(4.85%)	$166,872
1% Increase	(5.85%)	$128,725

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New CalSTRS Disclosures

Employer/ Non Employer	Actual Contributions	Allocation Percentage
State of California	546,800,000	2.017%
State of California	41,600,000	0.02493%
School District 1	26,500,000	0.01590%
School District 2	96,500,000	0.05782%
School District X	423,900,000	0.25402%
Total		**100%**

New CalSTRS Disclosures

• Net Pension Liability	$ 166.9B
• Deferred Inflows of Resources	none
• Deferred Outflows of Resources	8.6B
• Pension Expense	$ 12.9B

Disclosure Appearance

- GASB requirements significantly increase the ***appearance*** of the unfunded liability for accounting purposes only, but ***will not change*** the actual amount of the funding shortfall which is currently approximately $70 billion.

Impact to CalSTRS Funding

- If a funding solution is adopted it would reduce the magnitude of disclosed liabilities for all reporting entities.

Impact to State/Employers

- Could negatively impact ability to issue debt:
  - Credit rating agencies have reduced some local government credit ratings due to perceived pension liabilities.

Ownership of Liability

- GASB requires plan employers and non-employer contributing entities to report a proportionate share of the plan's NPL.
- Not clear whether State or employers would disclose the plan's NPL.

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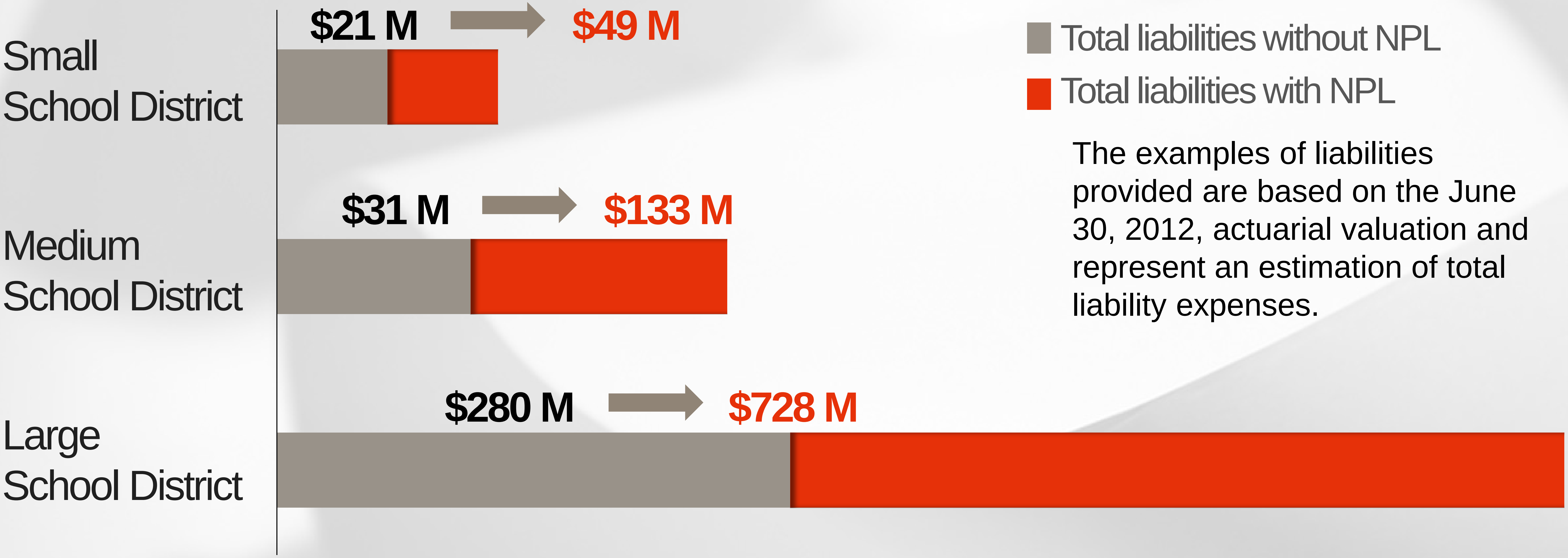
Impact to State

- Entire $166.9 billion NPL will appear on the State’s financial statements.

Impact of NPL Employer

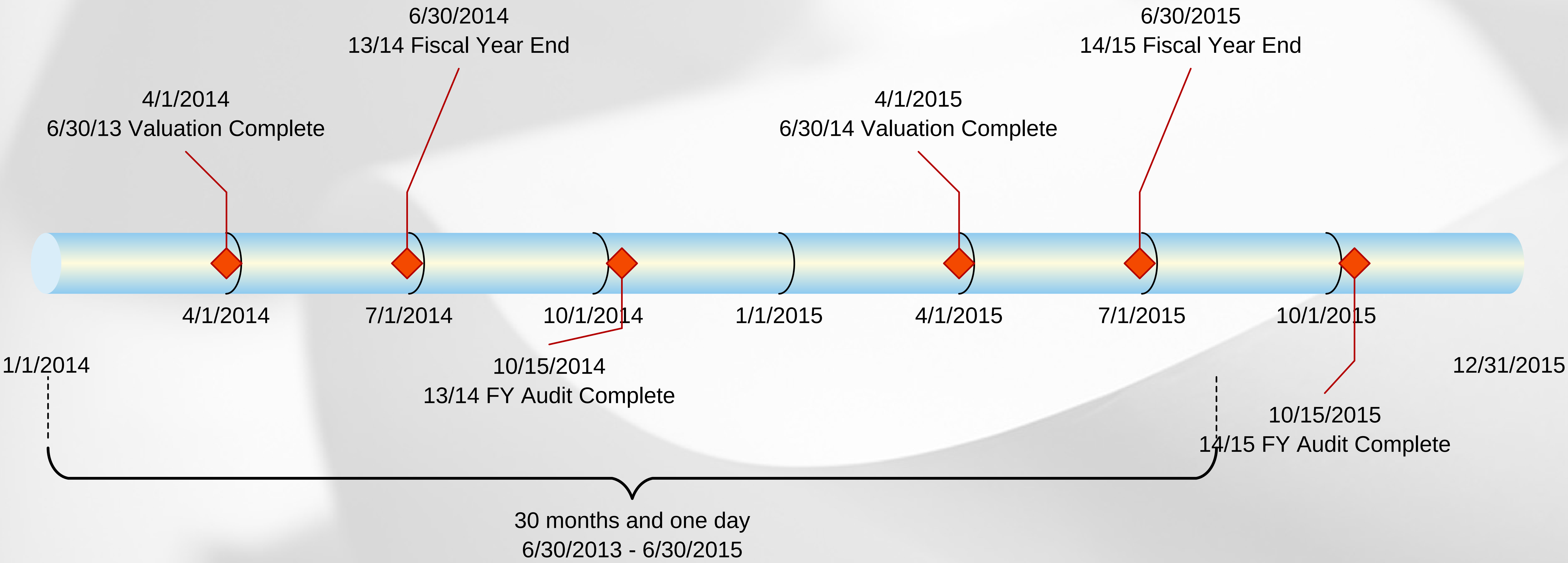


The examples of liabilities provided are based on the June 30, 2012, actuarial valuation and represent an estimation of total liability expenses.

Considerations

- Pass through of expenses incurred by CalSTRS to employers.
- Timing of the financial statement may affect which fiscal year employers choose to use.

Timing of Financial Statements



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Considerations

- Determine if and how to explain the differences reported in the various CAFR sections.
- Estimate the workload associated with answering employer auditors' questions.

Implementation Costs

- Initial implementation and ongoing costs undetermined, but may include:
  - Additional external actuary fees.
  - Additional external audit fees.
  - Additional staff costs in actuarial services and financial services.

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Preparation & Outreach

- CalSTRS will hold meetings with stakeholders and employers.
- Webinars and others materials will be available on our website.

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Key Take Away

- Disclosed liabilities substantially increase if assets are ever insufficient to pay current benefits.
- Enacting funding legislation in 2013 or 2014 would reduce magnitude of disclosed liability.

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