University of California

Governmental Accounting Standards Board (GASB) Statement No. 73,
Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68

Issued: June 2015

Issues Resolution Memo No. 73-1

Evaluation of GASB Statement No. 73 as it relates to UC Reporting Entities

BACKGROUND

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* was adopted by the University beginning July 1, 2015. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees of state and local governmental employers and are not within the scope of Statement 68. The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions that meet the criteria specified in Statement 73, paragraph 4. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information for those pensions. Finally, this Statement clarifies the application of certain provisions of Statements 67 and 68.

DEFINE ISSUES

The University must determine whether GASB Statement No. 73 changes any existing financial reporting and disclosure requirements for any of the University's financial reporting entities.

AUTHORITATIVE GUIDANCE AND APPROACH

GASB Statement No. 73, paragraph 4, "establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees of state and local governmental employers and are not within the scope of Statement 68. Statement 68 establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which the following criteria are met:

a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members."

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GASB Statement No. 73, paragraph 5, states "This Statement also establishes requirements for governments that hold assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts that meet the criteria in paragraph 4 and amends certain provisions for pension plans that are within the scope of Statement 67 and for pensions that are within the scope of Statement 68."

GASB Statement No. 73 also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported

2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions

3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

IMPLEMENTATION

The University identified and examined all assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts against those criteria in GASB Statement No. 73, paragraph 4, in order to determine the applicability of GASB Statement No. 73 to the University.

The Financial Accounting Group including Corporate Accounting and Benefit Plan Accounting at Office of the President conducted a search of assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts and identified as of June 30, 2015 that the 415(m) Restoration Plan should be assessed for applicability of GASB Statement No. 73. No other benefit plans were identified that should be considered.

The 415(m) Restoration Plan (the "Plan") is a governmental excess benefit plan that pays for benefits that exceed the Internal Revenue Code Section 415 limits under the University of California Retirement Plan (UCRP). The Plan was created to restore the annual retirement benefits that otherwise would be earned by and paid to UCRP members but which are limited by the rules of Internal Revenue Code §415(b). UCRP is a tax qualified plan under Internal Revenue Section Code 401(a) and is a governmental plan as defined in Internal Revenue Section Code 414(d). This Plan was effective as of January 1, 2000. As of July 1, 2014, the Plan included 1,097 potential participants that were active members of UCRP with an average covered payroll of $253,512 and 7 potential participants that were inactive members of UCRP. Participation commences on the first date the member receives a UCRP benefit that has been reduced as a result of Internal Revenue Code §415(b) limitations.

As of July 1, 2014, the 415(m) Restoration Plan assets and actuarial liabilities were valued by the actuary (Segal Consulting) at $36.1M and $162.0M, respectively. A valuation report is prepared to determine the recommended yearly assessment amounts. The Plan assets are not segregated nor held in a separate trust and are primarily invested in commingled funds and equity funds.

Below is an analysis of that plans asset against the criteria in GASB Statement No. 73, paragraph 4, which if met changes the existing financial reporting and disclosure requirements for the Plan.

GASB Statement No. 73, paragraph 4 Criteria	**(a)** Contributions and earnings are irrevocable	**(b)** Pension assets are dedicated to providing pensions to plan members in accordance with the benefit terms	**(c)** Assets are legally protected from creditors
415(m) Restoration Plan Fund	As stated in the December 2008 415(m) Restoration Plan, Article 10.1 “Notwithstanding any other provision of this Plan, The Regents have the right to amend this Plan at any time and at any manner for any reason whatsoever. This right to amend includes, but is not limited to, the right to amend the Plan to reduce or eliminate (prospectively and/or retroactively) any or all benefits under the Plan for any or all persons who may be Participants and/or other Recipients or otherwise may be entitled to benefits under the Plan”. As such, criterion (a) is not met.	As stated in the December 2008 415(m) Restoration Plan, Article 1.4 (c) “No assets or income held under or with respect to this Plan shall be held in trust or otherwise held or set aside for the exclusive benefit of Participants and Beneficiaries”. As such, criterion (b) is not met.	As stated in the December 2008 415(m) Restoration Plan, Article 8.1 (a) “The Plan shall be unfunded within the meaning of the federal tax laws. Ownership of any assets, whether cash or other investments which the University might use to pay any amount under the Plan, shall at all times remain solely in the University. Participants and other persons entitled to benefits under this Plan shall not have any property interest, preferred claims, liens or any other beneficial interest whatsoever in any assets of the University, and shall

			have only general creditor status with respect to the University". Further, in Article 8.1 (b) "Benefits due under this Plan shall be paid by the University from its general assets". The Plan's assets are tracked separately for accounting purposes, but are available to the University's creditors. In contrast, UCRP's assets are legally protected from its creditors as noted in Article 8.3: "Except as specifically allowed by governing federal and state law (including but not limited to governing federal and state tax laws), University assets used to provide benefits under this Plan shall not be commingled with the monies of UCRP or any other qualified plans, nor shall this Plan ever receive or use any assets of UCRP. As such, criterion (c) is not met.

As none of the criteria (a), (b), or (c) as defined in paragraph 4 of GASB Statement No. 73 are met, 415(m) Restoration Plan Fund is not subject to GASB Statement No. 73.

Additionally, the University reviewed amendments made to Statements 67 and 68 within GASB Statement No. 73, paragraphs 117 – 122, noting the three issues of clarification do not significantly change the existing financial reporting and disclosures for the University.

Paragraph 118 states that "for purposes of applying GASB Statement 67 or 68, a separately financed specific liability is a specific contractual liability to a defined benefit pension plan for a one-time assessment to an individual employer or nonemployer contributing entity of an amount resulting from, for example, (a) an increase in the total pension liability due to an individual employer joining a pension plan or a change of benefit terms specific to an individual employer or (b) a contractual commitment for a nonemployer contributing entity to make a one-time contribution for purposes of reducing the net pension liability. The term *separately financed* is used to differentiate those payables to the pension plan that originate from the portion(s) of the total pension liability that is pooled by two or more employers (or by a single, agent , or cost-sharing employer and a nonemployer contributing entity in a special funding situation) for financing purposes. Payables to the pension plan for unpaid (legal, contractual, or statutory) financing obligations associated with the pooled portion of the total pension liability are not considered to be separately financed specific liabilities, even if separate payment terms have been established for those payables. In the reporting period in which any payable to the pension plan arises, the full amount of the payable should be recognized as a contribution to the pension plan."

Paragraph 121 also states, "Contributions made by others to a pension plan during the measurement period to separately finance specific liabilities to the pension plan should be recognized as follows:

a. For a cost-sharing employer, the amount of the employer's proportionate share of the total of such contributions (excluding amounts associated with the employer from nonemployer contributing entities not in a special funding situation) determined using the employer's proportion of the collective net pension liability should be recognized as a reduction of the employer's pension expense."

Paragraph 122 also provides guidance on the timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation: "In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, employers should recognize revenue for the support of a nonemployer contributing entity that is not in a special funding situation in the reporting period in which the contribution of the nonemployer contributing entity is reported as a change in the net pension liability or collective net pension liability, as applicable."

The above paragraphs were considered for the University based on the provisions included in the budget framework agreed to with the governor in May 2015 where the University will receive $436.0 million in one-time funds for UCRP, including $96.0 million in 2016, $170.0 million in 2017 and $170.0 million in 2018. This funding was contingent upon The Regents' approval of a cap on pensionable salary at the same rate as the state's Public Employee Pension Reform Act (PEPRA) cap for the defined benefit plan for employees hired on or after July 1, 2016. In March 2016, The Regents approved the new retirement program for UC employees hired on or after July 1, 2016, that will implement the State's PEPRA cap. UCRP received $96.0 million from the State in May 2016. The $96.0 million received from the State in May 2016 (and the subsequent

$170 million each in 2017 and 2018) will be reported as an addition in the University of California's Retirement System's Statement of Changes in Plans' Fiduciary Net Position as a separate line item.

We also considered whether all $436.0 million should be recorded in FYE 2016 as an addition; however, concluded that because there has been precedent in the past where the State may have agreed on a budget framework / discussion but eventually did not include it into the Budget Act, we would not include the remaining $340million as contribution receivables in FYE 2016 as we don't believe these do not meet the 'legal requirements' standard outlined in GASB 67 (paragraph 16) until these amounts are appropriated and specifically written into the Budget Act.

> 16. Pension plan receivables generally are short term and consist of contributions due as of the end of the reporting period from employers, nonemployer contributing entities, and plan members, and interest and dividends on investments. Amounts recognized as receivables for contributions should include only those due pursuant to legal requirements.

The University is unaware of a legal requirement to currently pay those amounts and based on recent happenings in the California Assembly / Legislature, it is not 100% certain that those future amounts will actually get paid. Based on communications with the State Controller's Office, we understand that the State will not record a payable for the remaining amount to be paid in fiscal year in 2017 and 2018 until it is written and appropriated into the Final Budget Act for each fiscal year.

We also consulted with Segal Consulting (University's actuary) who concurs with our conclusion of not including those future State funding amounts as contribution receivables as of June 30, 2016. From an actuarial perspective, those future State funding amounts are treated like payments that will be made in a subsequent year and should be reflected when paid - just as if any employer planned to make a series of UAAL payments, each would be recognized when paid.

The amendments to Statements 67 and 68 included in Statement 73 will be incorporated into the preparation of the financial statements.

CONCLUSION:

Implementation of GASB Statement No. 73 has no material effect on the financial statements for the year ending June 30, 2016. The amendments to Statements 67 and 68 included in Statement 73 are considered clarifications of the existing guidance and will be incorporated into the preparation of the financial statements. The University will continue to assess future impacts to the financial statements by identifying any future benefit pension plans and their applicability to GASB Statement No. 73.