

University of California
**Governmental Accounting Standards Board (GASB) Statement No. 78,
*Pensions Provided through Certain Multiple-Employer Defined Benefit
Pension Plans***



Issues Resolution Memo No. 78-1

Evaluation of GASB Statement No. 78 as it Relates to UC Reporting Entities

Issued: December 2015

BACKGROUND

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, was adopted by the University beginning July 1, 2015. During the implementation of Statement No. 68 there was an issue regarding the ability of state and local governmental employers to obtain necessary information related to pensions that are provided through certain multiple-employer defined benefit pension plans. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that have the characteristics described in GASB Statement No. 78, paragraph 2. This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for those pensions.

DEFINE ISSUES

The University must determine whether GASB Statement No. 78 changes any existing financial reporting and disclosure requirements for any of the University's financial reporting entities.

AUTHORITATIVE GUIDANCE AND APPROACH

GASB Statement No. 78, paragraph 2, "This Statement establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that:

1. Is not a state or local governmental pension plan
2. Is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers
3. Has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan)."



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IMPLEMENTATION

The University identified and examined all defined benefit pension plans against those criteria in GASB Statement No. 78, paragraph 2, in order to determine the applicability of GASB Statement No. 78 to the University.

The University of California Retirement System comprises two defined benefit plans and four defined contribution plans. The two defined benefit pension plans are the University of California Retirement Program (UCRP) and the University of California Voluntary Early Retirement Incentive Program (PERS-VERIP). UCRP provides lifetime retirement income, disability protection, death benefits and postretirement and preretirement survivor benefits to eligible employees of the University of California and its affiliate, Hastings College of the Law and their survivors and beneficiaries. PERS-VERIP provides lifetime supplemental retirement income and survivor benefits to PERS-VERIP members who elected early retirement under California Public Employees' Retirement System (CalPERS) for some University employees who became members of CalPERS before UCRP was established and continued to participate in CalPERS during their University employment after UCRP was established.

Since UCRP and PERS-VERIP are both government pension plans, these do not meet the criteria in paragraph 2 of GASB 78 and no further analysis is deemed necessary.

Additional benefits are also available for certain University employees who have also belonged to another public retirement system, such as the following:

- California Public Employees' Retirement System (CalPERS) – Prior to the inception of UCRP in 1961, career non-faculty UC employees were members of the State Employees' Retirement System—which is now CalPERS. Some UC employees opted to remain in CalPERS—not become members of UCRP—yet they were eligible to receive UC employee health and welfare benefits. Some UC employees with a break-in-service and reappointment later became members of UCRP. Thus, UC employees could have only CalPERS service credit, only UCRP service credit, or a combination of both CalPERS *and* UCRP service credit.
- California State Teachers' Retirement System (CalSTRS)-In the past, the University's development included incorporating independent education facilities (e.g., an independent teacher's college now UCSB, a charter school now part of UCSD) whose employees were permitted to retain members of CalSTRS and yet be eligible to receive UC employee health and welfare benefits.
- Sacramento County Employees' Retirement System (SCERS) – In November 1972, the University acquired the Sacramento Medical Center which became the UC Davis Medical Center. Some Sacramento Medical Center employees elected to remain members of SCERS—not become members of UCRP—yet they were eligible to receive UC employee health and welfare benefits.



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- Orange County Employee Retirement System (OCERS) - In October 1974, the University acquired the Orange County Medical Center which became the UC Irvine Medical Center. Some Orange County Medical Center employees elected to remain members of OCERS—not become members of UCRP—yet they were eligible to receive UC employee health and welfare benefits.
 - San Diego County Employees' Retirement Association (SDCERA)
 - Federal Civil Service Retirement System (FCSRS) or Federal Employees Retirement System (FERS) – for employees who have entered the service of the Agricultural Extension Service of the University with dual appointments with the Federal Government and the University of California and who were members of FCSRS at the time of entrance into the service of the University. When hired, some Division of Agriculture and Natural Resources employees that were federal employees and members of FCSRS/FERS were allowed to remain as members of these retirement plans even through employed by the University. While these employees did not become members of UCRP, they were eligible to receive UC employee health and welfare benefits.

Since the above plans are all state or local governmental pension plans, these do not meet the criteria in paragraph 2 of GASB 78 and no further analysis is deemed necessary. FCSRS or FERS is also not subject to GASB.

Children's Hospital and Research Center Oakland (CHRCO) has a noncontributory defined benefit plan subject to the single employer defined benefit under ERISA rules that substantially covers all full-time employees if they work 1,000 hours or more in a twelve-month eligibility period. Since this is a single employer pension plan, these do not meet the criteria in paragraph 2 of GASB 78 and no further analysis is deemed necessary.

Some employees of CHRCO under collective bargaining agreements participate in a multiemployer pension plan managed by the Stationary Engineers Local 39 Pension Trust Fund ("Local 39"). As of January 1, 2016 and June 30, 2015, there were 32 employees and 34 employees, respectively for whom CHRCO made contributions to the plan. Plan provisions include pension but exclude post-retirement benefits.

See the below table for an analysis of that plan against GASB Statement No. 78.



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Local 39 Pension Plan analysis against GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*:

Paragraph	Comments
<p>1. During the implementation of Statement No. 68, Accounting and Financial Reporting for Pensions, an issue arose regarding the ability of state and local governmental employers to obtain necessary information related to pensions that are provided through certain multiple-employer defined benefit pension plans. The objective of this Statement is to address that issue.</p>	
<p>2. This Statement establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that</p> <p>(a) is not a state or local governmental pension plan,</p> <p>(b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and</p> <p>(c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).</p>	<p>This statement is applicable to the Children's Hospital and Research Center Oakland's IUOE Stationary Engineers Local 39 Pension Plan (EIN: 94-6118939)</p>
<p>3. The requirements of this Statement apply to the financial statements of state and local governmental employers whose employees are provided with defined benefit pensions through cost-sharing pension plans that have the characteristics described in paragraph 2. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government.</p>	<p>This statement is applicable to the Children's Hospital and Research Center Oakland's IUOE Stationary Engineers Local 39 Pension Plan</p>
<p>4. This Statement amends Statement No. 38, Certain Financial Statement Note Disclosures, paragraph 13; Statement 68, paragraphs 4, 5, and 13; NCGA Interpretation 6, Notes to the Financial Statements Disclosure, paragraph 4; Technical Bulletin No. 2004-2, Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers, paragraph 1; and Implementation Guide No. 2015-1, Questions 5.116.3, 5.116.4, 5.116.6, and 5.116.9.</p>	<p>Noted</p>
<p>5. Pension expense should be recognized equal to the employer's required contributions to the pension plan for the reporting period, and a payable should be reported for</p>	<p>Pension expense for the Local 39 Plan is based on actual contributions with an accrual due to timing for the most recent</p>

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Paragraph	Comments
<p>unpaid required contributions at the end of the reporting period. Pension expense also should be recognized for separate liabilities to the pension plan that arise in the reporting period (for example, for amounts assessed to an individual employer upon joining a cost-sharing pension plan), and a payable should be reported for unpaid amounts at the end of the reporting period.</p>	<p>months estimated amount outstanding. As of June 30, 2014 and June 30, 2015, contributions expenses were \$481,638 and \$553,640, respectively. As of June 30, 2014, the accrual was \$70,600, comprised of the two most recent month's expense. As of June 30, 2015, the accrual was \$43,459, comprised of the most recent month's expense.</p>
<p>6. Pension expenditures should be recognized equal to the employer's required contributions to the pension plan that are associated with pay periods within the reporting period. In addition, for separate liabilities to the pension plan, pension expenditures should be recognized equal to the total of (a) amounts paid by the employer in relation to the payable and (b) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.</p>	<p>See paragraph 5 comments above.</p>
<p>7. A payable should be recognized to the extent it is normally expected to be liquidated with expendable available financial resources (that is, for (a) the unpaid required contributions that are associated with pay periods within the reporting period and (b) the portion of any separate liabilities to the pension plan that is due and payable pursuant to contractual arrangements or legal requirements).</p>	<p>See paragraph 5 comments above.</p>
<p>8. For each cost-sharing pension plan that has the characteristics described in paragraph 2 through which the employer provides pensions, the following should be disclosed:</p> <ol style="list-style-type: none"> a. Name of the pension plan, identification of the entity that administers the pension plan, and identification of the pension plan as a cost-sharing pension plan that has the characteristics described in paragraph 2 b. Whether the pension plan issues a publicly available financial report and, if so, how to obtain the report c. A brief description of the benefit terms, including: <ol style="list-style-type: none"> (1) The number of the government's employees covered (2) The types of benefits provided (3) The authority under which benefit terms are established or may be amended d. A brief description of contribution requirements, including: 	<p>a) Children's Hospital and Research Center Oakland (CHRCO) participate in IUOE Stationary Engineers Local 39 Pension Plan, a multiemployer pension plan managed by the Stationary Engineers Local 39 Pension Trust Fund.</p> <p>b) The Board of Trustees IUOE Stationary Engineers Local 39 Pension Plan issues a publicly available annual financial report for the plan which is available at the following web address, https://www.efast.dol.gov/. The pension plans annual financial report can be located at that address by searching the plans EIN, 946118939.</p>

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Paragraph	Comments
<p>(1) The basis for determining the employer's contributions to the pension plan (for example, pursuant to a collective-bargaining agreement)</p> <p>(2) Identification of the authority under which contribution requirements of the employer and its employees are established or may be amended</p> <p>(3) The required contribution rates of the employer and its employees for the reporting period</p> <p>(4) The amount, in dollars, of the employer's required contributions for the reporting period</p> <p>(5) The expiration date(s) of the collective-bargaining agreement(s) requiring contributions to the pension plan, if any</p> <p>(6) A description of any minimum contributions required for future periods by the collective-bargaining agreement(s), statutory obligations, or other contractual obligations, if applicable</p> <p>(7) Whether the employer is subject to any provisions regarding withdrawal from the pension plan</p> <p>e. The following information about the employer's payables, if any:</p> <p>(1) If not otherwise identifiable, the balance of payables</p> <p>(2) Significant terms related to the payables</p> <p>(3) A description of what gave rise to the payables (for example, required contributions to the pension plan or a contractual arrangement for contributions to the pension plan related to past service upon entrance into the arrangement).</p>	<p>c) 32 employees at the Children's Hospital and Research Center Oakland (CHRCO) participate in IUOE Stationary Engineers Local 39 Pension Plan. The Trustees of the Pension Fund have the authority to amend or terminate the plan at any time. The plan provisions include pension benefits. Postretirement benefits are not included in the plan.</p> <p>d) The basis for determining CHRCO's current contributions is based on collective bargaining agreements expiring March 31, 2017. The required contribution rates for CHRCO employees for FY2015 were \$8.29/hour, and increased in FY2016 to \$8.64/hour, effective 10/1/15, and \$9.07/hour, effective 4/1/2016. Thereafter, the required contribution rate is to be increased to \$9.32/hour, effective 10/1/2016.</p> <p>Contributions for FYE14 and 15 were \$408,036 and \$580,781, respectively.</p> <p>e) See paragraph 5 comments for payables required information.</p>
<p>9. A schedule of the employer's required contributions for each of the 10 most recent fiscal years should be presented as required supplementary information. The schedule should separately identify amounts associated with each pension plan.</p>	<p>Noted</p>
<p>10. Information about factors that significantly affect trends in the amounts reported (for example, changes in the size of the population covered by the benefit terms or changes in required contribution rates) should be presented in notes to the schedule required by paragraph 9.</p>	<p>Noted</p>
<p>11. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.</p>	<p>Noted</p>
<p>12. Changes adopted to conform to the provisions of this Statement should be applied retroactively by restating</p>	<p>Noted</p>



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financial statements, if practicable, for all prior periods presented. If restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated. In the first period that this Statement is applied, the notes to the financial statements should disclose the nature of the restatement and its effect. Also, the reason for not restating prior periods presented should be disclosed.	
13. Information that is presented in the schedule of required supplementary information required by paragraph 9 should include information for each of the 10 most recent fiscal years, if practicable. If, during the transition period, information is not presented for all 10 fiscal years, the reason for not including all required years should be presented in notes to the schedule.	Noted
The provisions of this Statement need not be applied to immaterial items.	Noted

CONCLUSION:

While Local 39 Pension Trust meets the criteria of GASB Statement No. 78, paragraph 2, the plan is deemed immaterial to the University and the San Francisco Medical Center financial statements of which CHRCO is a blended component unit. As such, the plan is inconsequential, and deemed not required to be reported on the University's annual financial reports or the Medical Center separate financial reports in accordance with GASB Statement No. 78.

As of June 30, 2015 no material defined benefit pension are provided through a cost-sharing multiple-employer plan, and the University has the ability to obtain all material pension plan measurements and other information needed to comply with the requirements of Statement 68. As no material University defined benefit pension plans meet the criteria defined in paragraph 2 of GASB Statement No. 78, none of the University's pension plans are subject to GASB Statement No. 78.

Implementation of GASB Statement No. 78 has no effect on the financial statements for the year ended June 30, 2016. The University will continue to assess future impacts to the financial statements by identifying any future cost-sharing multiple-employer defined benefit pension plans and their applicability to GASB Statement No. 78.