CALSTRS CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

GASB Pension Accounting and Financial Reporting Exposure Drafts

GASB Exposure Drafts

- These proposed amendments will significantly affect CalSTRS and its employers (i.e. school districts)
- Alters CalSTRS financial reporting relationship with employers
- Effective for Fiscal Year 2013-14

Adds a Net Pension Liability

- Impact
  - This new liability may dwarf most numbers on the statement of net position (balance sheet)
  - Increases CalSTRS administrative burden and may significantly increase actuarial costs
  - We are unclear as to what liability will be shown for non-employer contributor (i.e. State of California)
  - Gives the impression of control by the employers
- Our response
  - We will share our field test experience and projected cost of preparing all the information necessary for CalSTRS and employers to follow GASB's proposed requirements
  - We will seek clarification as to what liabilities a non-employer contributor/guarantor will recognize

Allows only a single actuarial method

- Impact
  - No impact to the DB plan since the use of Entry Age Normal is appropriate
  - The use of Entry Age Normal is not appropriate for the DBS and CB plans and if used may mislead readers of the financial statements
- Our response
  - Request that GASB consider including other allowable actuarial methods for cash balance type plans

Redefines Pension Expense

- Impact
  - May result in a larger pension expense amounts
  - Pension expense may fluctuate dramatically from year to year
  - Dictates a single period for smoothing the difference between actual and assumed investment earnings regardless if this is right for a particular entity
  - May create confusion associated with the new deferred amounts
- Our response
  - We will share our concern about the possible confusion and inconsistency between fiscal years, and inquire how these changes will attain GASB's stated goals

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Creates a New Single Discount Rate

- Impact
  - Will significantly lower our expected rate of return for this projection and consequently will result in a large Net Pension Liability for the employers to recognize
  - Potentially could create confusion between the actuarial projection used for funding and this new “accounting” projection
- Our Response
  - Share our concern over the potential confusion that may occur with having two “projections” in the same year end report

Requires New Note Disclosures

- Impact
  - Alters CalSTRS financial reporting relationship with employers
  - Increases CalSTRS administrative burden and may significantly increase actuarial costs
- Our Response
  - We will share our field test experience and projected cost of preparing all the information necessary for CalSTRS and employers to follow GASB's requirements

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Adds a New Rate of Return Disclosure

- Impact
  - May require significant effort and cost by CalSTRS and our custodian to capture, record and present the information
  - May create significant confusion and distract focus from enhancing investment performance
- Our Response
  - We will express our concern over the apparent lack of due process of this disclosure with the pension and investment communities
  - We will express our concern over the potential confusion that this requirement may create

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Adds a New Required Supplementary Information

- Impact
  - Changes CalSTRS financial reporting relationship with employers
  - Increases CalSTRS administrative burden and may significantly increase actuarial costs
  - May create confusion due to the prospective nature of the required information
- Our response
  - We will share our concern over the potential confusion created by these estimates
  - We will share our field test experience and projected cost of preparing all the information necessary for CalSTRS and employers to follow GASB's requirements

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Next Steps:

- Complete our field testing of these proposed standards
- Continue our dialogue with stakeholders
- Prepare our formal response to GASB

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Questions?