GASB Pension Accounting and Financial Reporting 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
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
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
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
Next Steps:

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