CITY OF STOUGHTON
FINANCE DEPARTMENT
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Date: February 7, 2019

To: Finance Committee

From: Jamin Friedl, CPA
Director of Finance/Comptroller

Subject: GASB No. 75 Implementation

This memo provides a brief summary related to whether or not the City of Stoughton should implement Governmental Accounting Standards Board Statement No 75-Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB No. 75).

The scope of this Statement addresses accounting and financial reporting for other postemployment benefits (OPEBs) that are provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

The City of Stoughton currently has two OPEB plans impacted by GASB No. 75:

- The State of Wisconsin Life Insurance OPEB Multi-Employer Cost-Sharing Plan
- Implicit rate subsidy related to medical benefits offered to retirees and their dependents

As preparations were being made for the year-end financial audit I realized that the financial statement impact of implementing this standard is possibly immaterial to the City of Stoughton's financial statements. Following recognition of this fact I reached out to Baker Tilly to determine whether or not the City of Stoughton can pass on implementing GASB No. 75.

The table below represents the forecasted impact to the City of Stoughton's 2018 financial statements and is followed by a listing of the pros and cons associated with not implementing GASB No. 75.

| | GASB 75 Impact | | | GASB 75 Impact by Fund | | | | |
|---|---|---|---|---|---|---|---|---|
| | Life | Health | Total | City | EMS | Electric | Water | Wastewater |
| Assets (+ Increase / - Decrease) | $ 41,210 | $ - | $ 41,210 | $ 30,530 | $ 600 | $ 6,004 | $ 2,001 | $ 2,074 |
| Liabilities (- Increase / + Decrease) | $ (379,651) | $ (633,238) | $ (1,012,889) | $ (750,388) | $ (14,757) | $ (147,573) | $ (49,191) | $ (50,980) |
| Net Position (- Increase / + Decrease) | $ 338,441 | $ 633,238 | $ 971,679 | $ 719,858 | $ 14,157 | $ 141,569 | $ 47,190 | $ 48,906 |
| Income Statement (+ Expense / - Revenue) | $ 32,969 | $ 55,980 | $ 88,949 | $ 65,897 | $ 1,296 | $ 12,959 | $ 4,320 | $ 4,477 |

## Pros and Cons of Not Implementing GASB No. 75

| Pros | Cons |
|---|---|
| - Possible audit savings up to $4,000<br>- Eliminate approximately 15 pages of disclosures (**Note A**)<br>- Results in Passed Adjusting Journal Entry (PAJE) which provides some disclosure (**Note B**)<br>- Implicit rate subsidy actuarial report required every three years rather than every two years | - Considered less transparent than fully disclosing |

**Note A** – Refer to pages 3-10 of this document representing the 2017 GASB No. 68 disclosure. The disclosure required for GASB No. 75 would contain similar verbiage, but will be approximately twice the length.

**Note B** - PAJEs refer to adjustments recommended by the auditors for our statements to comply with Generally Accepted Accouting Principles (GAAP). These are used as mechanism to correct an account balance that is not recorded in accordance with GAAP, but deemed to more than a trivial amount and less than a material amount.

## NOTE IV - DETAILED NOTES ON ALL FUNDS (cont.)

### *I. Restatement of Fund Balances/Net Position*

Fund balance has been restated to reclassify firemen's pension fund as a nonmajor special revenue fund as a result of implementation of GASB Statement No. 73.

**Nonmajor Fund**

| | | |
|---|---|---|
| Nonmajor Fund balance - December 31, 2016 (as reported) | $ | 2,506,103 |
| Add: Reclassification of Firemen's pension trust fund to nonmajor special revenue fund | | 770,579 |
| Fund Balance - December 31, 2016 (as restated) | $ | 3,276,682 |

Net position has been restated to reclassify firemen's pension fund as a nonmajor special revenue fund as a result of implementation of GASB Statement No. 73.

| | | |
|---|---|---|
| Governmental Activities Net Position - December 31, 2016 (as reported) | $ | 28,047,278 |
| Add: Reclassification of Firemen's pension trust fund to nonmajor special revenue fund | | 770,579 |
| Net Position - December 31, 2016 (as restated) | $ | 28,817,857 |

## NOTE V - OTHER INFORMATION

### *A. Employees' Retirement System*

***Plan description.*** The WRS is a cost-sharing multiple-employer defined benefit pension plan. WRS benefits and other plan provisions are established by Chapter 40 of the Wisconsin Statutes. Benefit terms may only be modified by the legislature. The retirement system is administered by the Wisconsin Department of Employee Trust Funds (ETF). The system provides coverage to all eligible State of Wisconsin, local government and other public employees. All employees, initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS.

ETF issues a standalone Comprehensive Annual Financial Report (CAFR), which can be found at http://etf.wi.gov/publications/cafr.htm.

## NOTE V - OTHER INFORMATION (cont.)

### *A. EMPLOYEES' RETIREMENT SYSTEM* (cont.)

***Vesting.*** For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998, and prior to July 1, 2011, are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011, must have five years of creditable service to be vested.

***Benefits provided.*** Employees who retire at or after age 65 (54 for protective occupation employees, 62 for elected officials and State executive participants) are entitled to receive an unreduced retirement benefit. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor.

Final average earnings is the average of the participant's three highest years' earnings. Creditable service is the creditable current and prior service expressed in years or decimal equivalents of partial years for which a participant receives earnings and makes contributions as required. The formula factor is a standard percentage based on employment category.

Employees may retire at age 55 (50 for protective occupation employees) and receive reduced benefits. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and forfeit all rights to any subsequent benefits.

The WRS also provides death and disability benefits for employees.

## NOTE V - OTHER INFORMATION (cont.)

### *A. EMPLOYEES' RETIREMENT SYSTEM* (cont.)

***Post-retirement adjustments***. The Employee Trust Funds Board may periodically adjust annuity payments from the retirement system based on annual investment performance in accordance with s. 40.27, Wis. Stat. An increase (or decrease) in annuity payments may result when investment gains (losses), together with other actuarial experience factors, create a surplus (shortfall) in the reserves, as determined by the system's consulting actuary. Annuity increases are not based on cost of living or other similar factors. For Core annuities, decreases may be applied only to previously granted increases. By law, Core annuities cannot be reduced to an amount below the original, guaranteed amount (the "floor") set at retirement. The Core and Variable annuity adjustments granted during recent years are as follows:

| Year | Core Fund Adjustment | Variable Fund Adjustment |
|---|---|---|
| 2007 | 3.0% | 10% |
| 2008 | 6.6 | 0 |
| 2009 | (2.1) | (42) |
| 2010 | (1.3) | 22 |
| 2011 | (1.2) | 11 |
| 2012 | (7.0) | (7) |
| 2013 | (9.6) | 9 |
| 2014 | 4.7 | 25 |
| 2015 | 2.9 | 2 |
| 2016 | 0.5 | (5) |

## NOTE V - OTHER INFORMATION (cont.)

### A. *EMPLOYEES' RETIREMENT SYSTEM* (cont.)

***Contributions.*** Required contributions are determined by an annual actuarial valuation in accordance with Chapter 40 of the Wisconsin Statutes. The employee required contribution is one-half of the actuarially determined contribution rate for General category employees and Executives and Elected Officials. Starting on January 1, 2016, the Executives and Elected Officials category merged into the General Employee category. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

During the reporting period, the WRS recognized $456,310 in contributions from the city.

Contribution rates as of December 31, 2017 are:

| Employee Category | Employee | Employer |
|---|---|---|
| General (Executives & Elected Officials) | 6.8% | 6.8% |
| Protective with Social Security | 6.8% | 10.6% |
| Protective without Social Security | 6.8% | 14.9% |

***Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At December 31, 2017, the city reported a liability of $387,807 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to December 31, 2016. No material changes in assumptions or benefit terms occurred between the actuarial valuation date and the measurement date. The city's proportion of the net pension liability was based on the city's share of contributions to the pension plan relative to the contributions of all participating employers. At December 31, 2016, the city's proportion was 0.04705035%, which was an increase of 0.00107361% from its proportion measured as of December 31, 2015.

For the year ended December 31, 2017, the city recognized pension expense of $987,271.

## NOTE V - OTHER INFORMATION (cont.)

### *A. EMPLOYEES' RETIREMENT SYSTEM* (cont.)

At December 31, 2017, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 147,870 | $ 1,219,621 |
| Changes in assumptions | 405,468 | - |
| Net differences between projected and actual earnings on pension plan investments | 1,930,382 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 40,365 |
| Employer contributions subsequent to the measurement date | 511,909 | - |
| Totals | $ 2,995,629 | $ 1,259,986 |

$511,909 reported as deferred outflows related to pension resulting from the WRS Employer's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (asset) in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Year Ended December 31: | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| 2018 | $ 903,643 | $ 401,240 |
| 2019 | 903,643 | 401,240 |
| 2020 | 740,224 | 400,151 |
| 2021 | (64,464) | 57,117 |
| 2022 | 674 | 238 |

## NOTE V - OTHER INFORMATION (cont.)

### *A. EMPLOYEES' RETIREMENT SYSTEM* (cont.)

***Actuarial assumptions.*** The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Actuarial Valuation Date: | December 31, 2015 |
| Measurement Date of Net Pension Liability: | December 31, 2016 |
| Actuarial Cost Method: | Entry Age |
| Asset Valuation Method: | Fair Market Value |
| Long-Term Expected Rate of Return: | 7.2% |
| Discount Rate: | 7.2% |
| Salary Increases: | |
| Inflation | 3.2% |
| Seniority/Merit | 0.2% - 5.6% |
| Mortality: | Wisconsin 2012 Mortality Table |
| Post-retirement Adjustments*: | 2.1% |

** No post-retirement adjustment is guaranteed. Actual adjustments are based on recognized investment return, actuarial experience and other factors. 2.1% is the assumed annual adjustment based on the investment return assumption and the post-retirement discount rate.*

Actuarial assumptions are based upon an experience study conducted in 2015 using experience from 2012 – 2014 The total pension liability for December 31, 2016 is based upon a roll-forward of the liability calculated from the December 31, 2015 actuarial valuation.

## NOTE V - OTHER INFORMATION (cont.)

### A. *EMPLOYEES' RETIREMENT SYSTEM* (cont.)

***Long-term expected return on plan assets.*** The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Core Fund Asset Class | Current Asset Allocation % | Destination Target Asset Allocation % | Long-Term Expected Nominal Rate of Return % | Long-Term Expected Real Rate of Return % |
|---|---|---|---|---|
| Global Equities | 50% | 45% | 8.3% | 5.4% |
| Fixed Income | 24.5 | 37 | 4.2 | 1.4 |
| Inflation Sensitive Assets | 15.5 | 20 | 4.3 | 1.5 |
| Real Estate | 8 | 7 | 6.5 | 3.6 |
| Private Equity/Debt | 8 | 7 | 9.4 | 6.5 |
| Multi-Asset | 4 | 4 | 6.6 | 3.7 |
| Total Core Fund | 110 | 120 | 7.4 | 4.5 |
| Variable Fund Asset Class | | | | |
| U.S Equities | 70 | 70 | 7.6 | 4.7 |
| International Equities | 30 | 30 | 8.5 | 5.6 |
| Total Variable Fund | 100 | 100 | 7.9 | 5.0 |

New England Pension Consultants Long Term US CPI (Inflation) Forecast: 2.75%
Asset Allocations are managed within established ranges, target percentages may differ from actual monthly allocations

## NOTE V - OTHER INFORMATION (cont.)

### *A. EMPLOYEES' RETIREMENT SYSTEM* (cont.)

***Single discount rate.*** A single discount rate of 7.20% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.20% and a long term bond rate of 3.78%. Because of the unique structure of WRS, the 7.20% expected rate of return implies that a dividend of approximately 2.1% will always be paid. For purposes of the single discount rate, it was assumed that the dividend would always be paid. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments (including expected dividends) of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the city's proportionate share of the net pension liability(asset) to changes in the discount rate.*** The following presents the city's proportionate share of the net pension liability(asset) calculated using the discount rate of 7.20 percent, as well as what the city's proportionate share of the net pension liability(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

| | 1% Decrease to Discount Rate (6.20%) | Current Discount Rate (7.20%) | 1% Increase to Discount Rate (8.20%) |
|---|---|---|---|
| City's proportionate share of the net pension liability(asset) | $5,101,853 | $387,807 | $(3,242,221) |

***Pension plan fiduciary net position.*** Detailed information about the pension plan's fiduciary net position is available in separately issued financial statements available at http://etf.wi.gov/publications/cafr.htm.

At December 31, 2017, the city reported a payable to the pension plan which represents contractually required contributions outstanding as of the end of the year.

### *B. RISK MANAGEMENT*

The city is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. The city participates in a public entity risk pool to provide coverage for losses from theft of, damage to, or destruction of assets and workers compensation. However, other risks, such as (torts; theft of, damage to, or destruction of assets; errors and omission; workers compensation; and health care of its employees) are accounted for and financed by the city in the general fund.