



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of
Administration

DIVISION OF RETIREMENT AND BENEFITS

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October 21, 2016

RE: GASB #68 – Allocation of Net Pension Liability
and change in methodology

Dear PERS and TRS employers:

This letter is to document the change the Division of Retirement and Benefits (DRB) made on how the net pension liability (NPL) is being allocated to each employer within the PERS and TRS GASB 68 allocation schedule, and related deferred inflows and outflows, and pension expense.

Due to the \$3 billion contribution that was made in FY 2015 (\$1 billion to the PERS and \$2 billion to the TRS), it was determined after consultation with our external auditors (KPMG) and our actuaries (Buck Consultants) a change to the allocation methodology was necessary. This change in methodology was not optional for DRB to implement. After discussion and analysis with our auditors, it was determined that the State could no longer continue to use the previous methodology, which would very likely result in a qualified audit opinion of the financial statements for the State of Alaska, as well as possibly the financial statements for all other participating employers.

PRIOR METHODOLOGY

The prior methodology used actual contributions for the fiscal year to determine the percentage of allocation of the NPL to each employer. However, due to the large contributions explained above, the actual contribution methodology would not accurately reflect the proper allocation of the liability to the employers. If the percentage share of total contributions made by employers versus the State of Alaska had not significantly changed from year to year, the prior methodology may have continued to be a valid option. However, due to the additional contributions paid by the State of Alaska, as well as the lengthening of the amortization schedule for the liability, the validity of using the actual contribution methodology was called into question as a material misrepresentation of the allocation of the liability.

NEW METHODOLOGY

The new methodology utilizes the actuarial method as the most viable solution, and is the recommended methodology expressed by the AICPA's Governmental audit Quality Center in their SLGEP Pension Whitepaper Series, which is located on our GASB resource page. The actuarial method looks at contributions from FY 2017 to the projected fully funded year of FY 2039, and then present values them. Allocation percentages are then derived from this present value calculation and applied to the NPL (and related other costs) to determine each employer's share. Because the projected future stream of additional state contributions is lower in the future years, the allocation percentage shifts from the additional state contribution to the employers. As a result, employers will see an increase to the amount of NPL allocated to them for FY 2016. However, this does not change the actual contributions by the employers, as those are based on Alaska Statutes.

ISSUANCE OF THE GASB 68 (PENSION) AND FUTURE GASB 75 (OPEB) ALLOCATION REPORTS

The Division sincerely apologizes for the delay in providing these reports. We realize this was most likely the last piece of data you were waiting for in order to finalize your audits and would like to represent to third party auditors that this delay was not in the control of the employers who may have been adversely affected in the production of their financial statements by this delay. The change in methodology did provide a bit of a struggle, and once we worked out all the details with our auditors and actuaries, we believe that the future iterations of this report will be provided on a timelier basis.

The Division is committed to providing the next report, which allocates the PERS and TRS NPL as of June 30, 2016, with a release date during April 2017. We have already begun the process with a timeline that the Division, auditors, and actuaries believe is an attainable deadline. The process for the upcoming report will begin within the next couple of weeks.

Thank you very much for your continued patience as the Division works to implement GASB 68 and the upcoming GASB 75.

Best regards,

A handwritten signature in black ink, appearing to read 'Kevin Worley', is written over a white rectangular box. The signature is fluid and cursive.

Kevin Worley
Chief Financial Officer