

Sample Pension Plan Disclosure Statements for PERA-Affiliated Employers in the Judicial Division Trust Fund

Colorado PERA, working with the Office of the State Auditor, has developed the following sample disclosures to assist PERA-affiliated employers in the preparation of their annual financial statements for the fiscal years ending June 30, 2016 through May 31, 2017. The financial disclosures of the Judicial Division employer are the responsibility of the management of that government and the sample disclosures shown are only presented as an aid.

**<Insert Financial Reporting Entity Name>
Notes to the Financial Statements
for the Year Ended <Insert Employers Year-End>**

Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pensions. <Insert Financial Reporting Entity Name> participates in the Judicial Division Trust Fund (JDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the JDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. Eligible employees of the <Insert Financial Reporting Entity Name> are provided with pensions through the Judicial Division Trust Fund (JDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

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The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) Benefit Structure is the greater of the¹:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the JDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The five year requirement is not applicable to active judges. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions. Eligible employees and <Insert Financial Reporting Entity Name> are required to contribute to the JDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	Rates
Employer Contribution Rate ¹	13.66%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%
Amount Apportioned to the JDTF ¹	12.64%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	2.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	1.50%
Total Employer Contribution Rate to the JDTF ¹	16.34%

¹Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Comment [PERA1]:

Please note, it is possible for employees participating in the JDTF to have earned service credit under the DPS Benefit Structure while working for a previous employer.

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Employer contributions are recognized by the JDTF in the period in which the compensation becomes payable to the member and the <Insert the Financial Reporting Entity Name> is statutorily committed to pay the contributions to the JDTF. Employer contributions recognized by the JDTF from <Insert the Financial Reporting Entity Name> were \$XXX,XXX for the year ended <Insert Employers Year-End>.

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

At <Insert Employers Year-End>, the <Insert Financial Reporting Entity Name> reported a liability of \$XXX,XXX for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The <Insert Financial Reporting Entity Name> proportion of the net pension liability was based on <Insert Financial Reporting Entity Name> contributions to the JDTF for the calendar year 2015 relative to the total contributions of participating employers to the JDTF.

At December 31, 2015, the <Insert Financial Reporting Entity Name> proportion was X.XX percent, which was [an increase] [a decrease] of X.XX from its proportion measured as of December 31, 2014.

For the year ended <Insert Employers Year-End>, the <Insert Financial Reporting Entity Name> recognized pension expense of \$X,XXX. At <Insert Employers Year-End>, the <Insert Financial Reporting Entity Name> 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
Difference between expected and actual experience	XXX	XXX
Changes of assumptions or other inputs	XXX	XXX
Net difference between projected and actual earnings on pension plan investments	XXX	XXX
Changes in proportion and differences between contributions recognized and proportionate share of contributions	XXX	XXX
Contributions subsequent to the measurement date	XXX	N/A
Total	XXX	XXX

Comment [PERA2]:

In the event the PERA-Affiliated employer chose a different method to determine their proportion, the employer should revise this language to disclose how they determined their proportion. See paragraphs 48, 50 and 80(b) of GASB Statement No. 68.

Comment [PERA3]:

The total (aggregate for all pensions, whether provided through cost-sharing, single-employer, or agent pension plans) of the employer's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed if the total amounts are not otherwise identifiable from information presented in the financial statements. See paragraph 74 of GASB Statement No. 68.

Comment [PERA4]:

In the event there is a difference between the PERA-Affiliated employer and the Financial Reporting Entity, the employer may choose to insert additional language describing how the employer proportion was determined.

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\$XXX,XXX reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended <Insert Employers Year-End plus one year>. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended <Insert Employers Year-End>	
20XX (Employers Year-End plus one year)	XXX
20XX (Employers Year-End plus two years)	XXX
20XX (Employers Year-End plus three years)	XXX
20XX (Employers Year-End plus four years)	XXX
20XX (Employers Year-End plus five years)	XXX
Thereafter	XXX

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	4.40 – 5.40 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Municipal bond index rate	
12/31/15	3.57 percent
Beginning period of application	2040
Discount rate	5.73 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

- The following programming changes were made:
 - Valuation of the full survivor benefit without any reduction for possible remarriage.
 - Reflection of the employer match on separation benefits for all eligible years.
 - Reflection of one year of service eligibility for survivor annuity benefit.
 - Refinement of the 18 month annual increase timing.
 - Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.

Comment [PERA5]:

The deferred outflows and deferred inflows referred to in GASB Statement No. 68, paragraphs 80(h)1, 80(h)2, and 80(h)3, are calculated at the collective level for the JDTF by PERA's Actuary. This information is available at the collective level for the JDTF in the Schedule of Collective Pension Amounts and related notes which can be accessed from PERA's secure website by PERA-Affiliated Employers. The PERA-Affiliated employer is required to disclose their proportionate share of the collective deferral amounts to comply with GASB Statement No. 68. Additionally, the PERA-Affiliated employer is responsible for calculating and maintaining the deferred outflows and deferred inflows referenced in GASB Statement No. 68, paragraphs 80(h)4 and 80(h)5.

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- The following methodology changes were made:
 - Recognition of merit salary increases in the first projection year.
 - Elimination of the assumption that 35% of future disabled members elect to receive a refund.
 - Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
 - Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

The JDTF's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were 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 then adding expected inflation.

As of the November 15, 2013 adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 5.73 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

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- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above actuarial cost method and assumptions, the projection test indicates the JDTF's fiduciary net position was projected to be depleted in 2040 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.50 percent on pension plan investments was applied to periods through 2040 and the municipal bond index rate, the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2040 to develop the discount rate. The discount rate used to measure the total pension liability from the prior measurement date was 6.14 percent, a change of (0.41) percent compared to the current measurement date.

Sensitivity of the <Insert Financial Reporting Entity Name> proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 6.14 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.14 percent) or 1-percentage-point higher (7.14 percent) than the current rate:

	1% Decrease (4.73%)	Current Discount Rate (5.73%)	1% Increase (6.73%)
Proportionate share of the net pension liability	XXX,XXX	XXX,XXX	XXX,XXX

Pension plan fiduciary net position. Detailed information about the JDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Payables to the pension plan _____

Comment [PERA6]:
 If the employer reported payables to the JDTF, it should disclose information required by paragraph 122 of GASB Statement No. 68. The information should be included in the notes to the financial statements and should consist of the amount of payables to the division trust fund outstanding at the end of the reporting period, significant terms related to the payables, and a description of what gave rise to the payable.

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Defined Contribution Pension Plan

Voluntary Investment Program

Plan Description - Employees of the <Insert Financial Reporting Entity Name> that are also members of the JDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy - The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. In addition, the <Insert Financial Reporting Entity Name> has agreed to match employee contributions up to XX percent of covered salary as determined by the Internal Revenue Service. Employees are immediately vested in their own contributions, employer contributions and investment earnings. For the year ended <Insert Employers Year End>, program members contributed \$XXX,XXX and <Insert Financial Reporting Entity Name> recognized pension expense and a liability of \$XXX,XXX and \$XXX,XXX, respectively, for the Voluntary Investment Program.

Other Post-Employment Benefits

Health Care Trust Fund

Plan Description - The <Insert Financial Reporting Entity Name> contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy - The <Insert Financial Reporting Entity Name> is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the <Insert Financial Reporting Entity Name> are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending <Insert the Employers Year End and each of the two preceding Year Ends>, the <Insert Financial Reporting Entity Name> contributions to the HCTF were \$XXX,XXX, \$XXX,XXX and \$XXX,XXX, respectively, equal to their required contributions for each year.