A Briefing On Employers' Net Pension Liability Reporting

GASB

- Governmental Accounting Standards Board (GASB) 68 now requires Government Pension Plans and their participating employers to disclose in their financial statements their proportionate share of the Net Pension Liability (NPL). The NPL is the difference between the total plan pension liability and the plan fiduciary net position (assets) using the market value of assets.

- Market Value is a snapshot measured on a particular date.

NPL

- The UAAL uses the actuarial value of assets where investment gains and losses above or below 7.5% are smoothed and recognized over a 5 year period.

- The NPL measurement recognizes gains and losses immediately.

- Because the NPL is now based on the market value of assets, rather than the smoothed actuarial value of assets, the NPL is going to be more volatile than the Unfunded Actuarial Accrued Liability (UAAL).

NPL

- Because GASB realized that the NPL and the actuarial calculated pension expense numbers could be volatile, they require a 10- year schedule showing the change in the employer's NPL.

- The following URS schedule shows the detail as to why the Total Pension Liability (TPL) changed as well as the changes in the URS Plan Fiduciary Net Position.

UTAH RETIREMENT SYSTEMS

Schedule of Changes in the Employers' Net Pension Liability — in thousands
Year ended December 31,

Change in the Net Pension Liability		Total Defined Benefit Pension Plans 2015	2014	2013
Total pension liability				
Service Cost	$	567,368	569,382	599,736
Interest		2,219,616	2,121,357	2,056,481
Benefit Changes		-	-	23,718
Difference between actual and expected experience		(233,572)	(269,582)	(276,487)
Assumption Changes		-	(236,578)	-
Benefit Payments		(1,423,763)	(1,325,556)	(1,242,156)
Refunds		(4,772)	(5,129)	(4,949)
Net Change in Total Pension Liability		1,124,877	853,894	1,156,343
Total Pension Liability - Beginning		30,025,458	29,171,564	28,015,221
Total Pension Liability - Ending (a)		31,150,335	30,025,458	29,171,564
Plan Fiduciary Net Position				
Contributions - Member		40,871	38,500	40,167
Contributions - Employer		1,035,724	974,178	889,481
Court Fees and Fire Insurance Tax		18,871	15,640	12,783
Net Investment Income		461,772	1,786,431	3,260,548
Benefit Payments		(1,423,762)	(1,325,556)	(1,242,156)
Refunds		(4,772)	(5,129)	(4,949)
Administrative Expense		(10,988)	(11,012)	(10,401)
Net transfers with affiliated systems		-	-	-
Other		-	-	-
Net Change in Plan Fiduciary Net Position		117,716	1,473,052	2,945,473
Plan Fiduciary Net Position - Beginning		26,569,124	25,096,072	22,150,599
Plan Fiduciary Net Position - Ending (b)		26,686,840	26,569,124	25,096,072
Net Pension Liability (Asset) - Ending (a) - (b)	$	4,463,495	3,456,334	4,075,492
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		85.70%	88.50%	86.00%
Projected Covered Employee Payroll	$	4,714,628	4,678,491	4,669,560
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll		94.70%	73.90%	87.30%

NPL Changes

- Since 2008 the NPL has decreased from $6,775,000,000 (70% funded) to $4,463,000,000 (86% funded) at December 31, 2015.

- The decrease in our NPL is mostly due to URS' investment earnings above the 7.50% assumed earnings since 2008

If URS were 100% funded and earned 7.5% and all of the actuarial assumptions (financial and demographic) were achieved then the TPL and Total Pension Investments would be the same. See hypothetical example the below:

100% funded example	Total Pension Liability (TPL)	Total Pension Investments	Net Pension Liability
Ending Balance 12.31.15	$31,150,335	$31,150,335	$ 0
Assumed Increase (7.50%)	2,336,275	2,336,275	0
Assumed Ending Balance	33,486,610	33,486,610	0

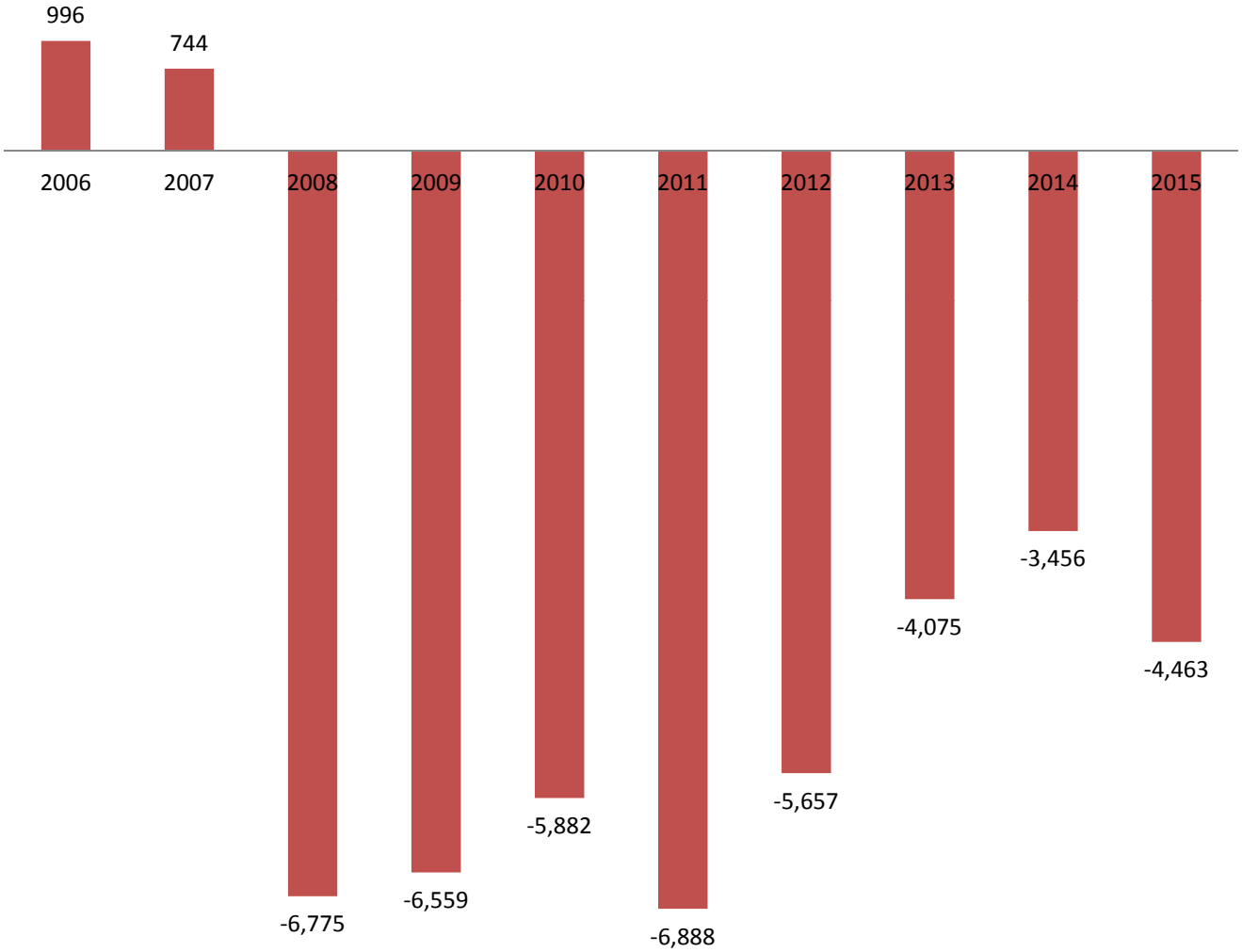
If URS were 100% funded and earned 0.0% and all of the actuarial assumptions (financial and demographic) were achieved then the TPL and NPL would increase by the earnings shortfall. See hypothetical example below:

100% funded example	Total Pension Liability (TPL)	Total Pension Investments	Net Pension Liability
Ending Balance 12.31.15	$31,150,335	$31,150,335	$ 0
Assumed Increase (7.50%)	2,336,275	0 .	2,336,275
Assumed Ending Balance	33,486,610	31,150,335	2,336,275

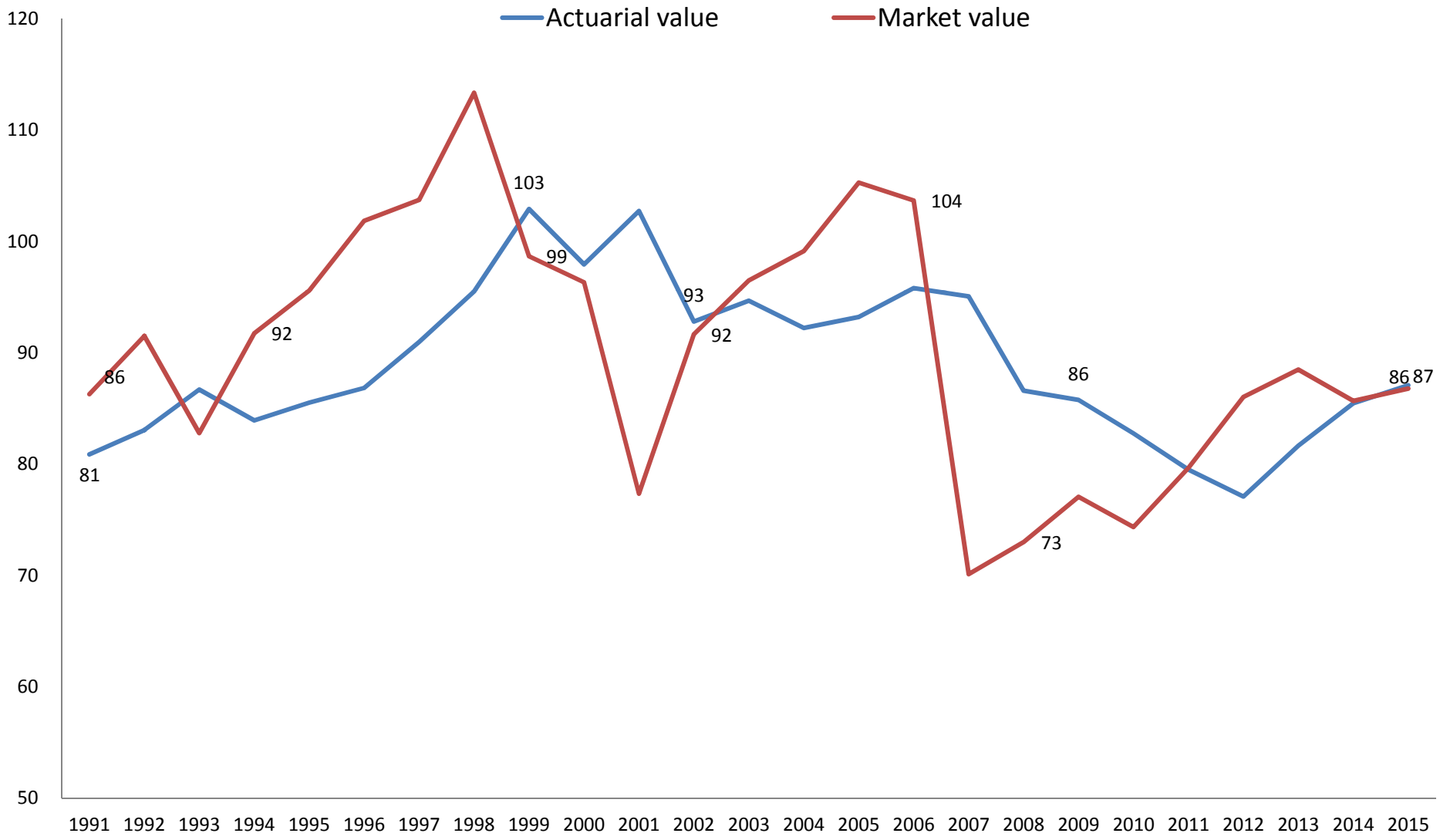
URS INVESTMENT RETURNS

Year	Investment Rate of Return
2006	14.77 %
2007	7.15 %
2008	(22.3) %
2009	12.88 %
2010	13.73 %
2011	(2.89) %
2012	13.10 %
2013	14.89 %
2014	7.52 %
2015	1.92 %

URS' NET PENSION LIABILITY (NPL) in Millions



URS Funded Ratios 1991-2015



- In the last five years, URS has received $8.524 billion from investment earnings which is 64% of total URS income. For the last ten years, URS has received $11.899 billion from investment earnings (including the $4.863 billion 2008 investment losses) which represents 60% of URS additions for the last 10 years (year ending 12-31-15).

- Markets do not have positive investment returns each year. We expect market corrections. That's why we use the actuarial value of assets for funding (contribution rates) purposes; it is designed to smooth out the market fluctuations and helps eliminate volatility in contribution rates and employer budgeting.

- We are long term investors.

- URS rates of return, as of December 31, 2015:

  1.92% 1 year
  7.95% 3 years
  7.89% 5 years
  6.02% 10 years
  7.51% 20 years
  8.51% 25 years