**Notes to the Financial Statements Template**

***Instructions*** – *The**Notes to the Financial Statements template below includes sample language and schedules to be used as a guide by LASERS employers with fiscal years ending July 1, 2015 through June 30, 2016 in the development of their GASB 68 note disclosures. Please be aware of the highlighted and bracketed areas (refer to legend below) of the template where the notes require employer input and/or input from the GASB 68 exhibits on the website.*

*LASERS has provided this template as a courtesy to its employers, but each employer is responsible for its own Notes to the Financial Statements. Employers should review the language and other information contained in the template with their auditors.*

***Note: The GASB 68 employer template example for cost-sharing employers may be found in the*** [***GASB 68 Implementation Guide***](http://gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163026371)***, pages 155-161, Illustration 3a-Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer (No Nonemployer Contributing Entities)***

|  |
| --- |
| **Denotes Employer Input** |
| **Denotes Input from GASB 68 Exhibits** |

**Employer Name (Agency)**

**Notes to the Financial Statements**

**For the Year Ended June 30, 2016\***

**Summary of Significant Accounting Policies**

***Pensions***

For purposes of measuring the Net Pension Liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Louisiana State Employees’ Retirement System (LASERS) and additions to/deductions from LASERS’ fiduciary net position have been determined on the same basis as they are reported by LASERS. 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***

Employees of [the Agency] are provided with pensions through a cost-sharing multiple-employer defined benefit plan administered by the Louisiana State Employees’ Retirement System (LASERS). Section 401 of Title 11 of the Louisiana Revised Statutes (La. R.S. 11:401) grants to LASERS Board of Trustees and the Louisiana Legislature the authority to review administration, benefit terms, investments, and funding of the plan. LASERS issues a publicly available financial report that can be obtained at [www.lasersonline.org](http://www.lasersonline.org).

***Benefits Provided***

The following is a description of the plan and its benefits and is provided for general information purposes only. Participants should refer to the appropriate statutes for more complete information.

\*For fiscal years ending July 1, 2015 through June 30, 2016

1. **Retirement**

The age and years of creditable service required in order for a member to retire with full benefits are established by statute, and vary depending on the member's hire date, employer, and job classification. The majority of LASERS rank and file members may either retire with full benefits at any age upon completing 30 years of creditable service or at age 60 upon completing five to ten years of creditable service depending on their plan. Additionally, members may choose to retire with 20 years of service at any age, with an actuarially reduced benefit. The basic annual retirement benefit for members is equal to 2.5% to 3.5% of average compensation multiplied by the number of years of creditable service.

Average compensation is defined as the member's average annual earned compensation for the highest 36 consecutive months of employment for members employed prior to July 1, 2006. For members hired July 1, 2006 or later, average compensation is based on the member’s average annual earned compensation for the highest 60 consecutive months of employment. The maximum annual retirement benefit cannot exceed the lesser of 100% of average compensation or a certain specified dollar amount of actuarially determined monetary limits, which vary depending upon the member's age at retirement. Judges, court officers, and certain elected officials receive an additional annual retirement benefit equal to 1.0% of average compensation multiplied by the number of years of creditable service in their respective capacity. As an alternative to the basic retirement benefits, a member may elect to receive their retirement throughout their life, with certain benefits being paid to their designated beneficiary after their death.

Act 992 of the 2010 Louisiana Regular Legislative Session, changed the benefit structure for LASERS members hired on or after January 1, 2011. This resulted in three new plans: regular, hazardous duty, and judges. The new regular plan includes regular members and those members who were formerly eligible to participate in specialty plans, excluding hazardous duty and judges. Regular members and judges are eligible to retire at age 60 after five years of creditable service and, may also retire at any age, with a reduced benefit, after 20 years of creditable service. Hazardous duty members are eligible to retire with twelve years of creditable service at age 55, 25 years of creditable service at any age or with a reduced benefit after 20 years of creditable service. Average compensation will be based on the member’s average annual earned compensation for the highest 60 consecutive months of employment for all three new plans. Members in the regular plan will receive a 2.5% accrual rate, hazardous duty plan a 3.33% accrual rate, and judges a 3.5% accrual rate. The extra 1.0% accrual rate for each year of service for court officers, the governor, lieutenant governor, legislators, House clerk, sergeants at arms, or Senate secretary, employed after January 1, 2011, was eliminated by Act 992. Specialty plan and regular members, hired prior to January 1, 2011, who are hazardous duty employees have the option to transition to the new hazardous duty plan.

A member leaving employment before attaining minimum retirement age, but after completing certain minimum service requirements, becomes eligible for a benefit provided the member lives to the minimum service retirement age, and does not withdraw their accumulated contributions. The minimum service requirement for benefits varies depending upon the member's employer and service classification but generally is ten years of service.

1. **Deferred Retirement Benefits**

The State Legislature authorized LASERS to establish a Deferred Retirement Option Plan (DROP). When a member enters DROP, their status changes from active member to retiree even though they continue to work and draw their salary for a period of up to three years. The election is irrevocable once participation begins. During DROP participation, accumulated retirement benefits that would have been paid to each retiree are separately tracked. For members who entered DROP prior to January 1, 2004, interest at a rate of one-half percent less than the System's realized return on its portfolio (not to be less than zero) will be credited to the retiree after participation ends. At that time, the member must choose among available alternatives for the distribution of benefits that have accumulated in the DROP account. Members who enter DROP on or after January 1, 2004, are required to participate in LASERS Self-Directed Plan (SDP) which is administered by a third-party provider. The SDP allows DROP participants to choose from a menu of investment options for the allocation of their DROP balances. Participants may diversify their investments by choosing from an approved list of mutual funds with different holdings, management styles, and risk factors.

Members eligible to retire and who do not choose to participate in DROP may elect to receive at the time of retirement an initial benefit option (IBO) in an amount up to 36 months of benefits, with an actuarial reduction of their future benefits. For members who selected the IBO option prior to January 1, 2004, such amount may be withdrawn or remain in the IBO account earning interest at a rate of one-half percent less than the System’s realized return on its portfolio (not to be less than zero). Those members who select the IBO on or after January 1, 2004, are required to enter the SDP as described above.

1. **Disability Benefits**

All members with ten or more years of credited service who become disabled may receive a maximum disability retirement benefit equivalent to the regular retirement formula without reduction by reason of age.

Upon reaching age 60, the disability retiree may receive a regular retirement benefit by making application to the Board of Trustees.

For injuries sustained in the line of duty, hazardous duty personnel in the Hazardous Duty Services Plan will receive a disability benefit equal to 75% of final average compensation.

1. **Survivor’s Benefits**

Certain eligible surviving dependents receive benefits based on the deceased member's compensation and their relationship to the deceased. The deceased member who was in state service at the time of death must have a minimum of five years of service credit, at least two of which were earned immediately prior to death, or who had a minimum of twenty years of service credit regardless of when earned in order for a benefit to be paid to a minor or handicapped child. Benefits are payable to an unmarried child until age 18, or age 23 if the child remains a full-time student. The aforementioned minimum service credit requirement is ten years for a surviving spouse with no minor children, and benefits are to be paid for life to the spouse or qualified handicapped child.

1. **Permanent Benefit Increases/Cost-of-Living Adjustments**

As fully described in Title 11 of the Louisiana Revised Statutes, the System allows for the payment of permanent benefit increases, also known as cost-of-living adjustments (COLAs), that are funded through investment earnings when recommended by the Board of Trustees and approved by the State Legislature.

***Contributions***

Contribution requirements of active employees are governed by Section 401 of Title 11 of the Louisiana Revised Statutes (La. R.S. 11:401) and may be amended by the Louisiana Legislature. Employee and employer contributions are deducted from a member’s salary and remitted to LASERS by participating employers. The rates in effect during the year ended June 30, 2016 for the various plans follow:



The agency’s contractually required composite contribution rate for the year ended June 30, 2016 was [insert rate]% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any Unfunded Actuarial Accrued Liability. Contributions to the pension plan from the Agency were $[insert amount] for the year ended June 30, 2016.

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

At June 30, 2016, the Employer reported a liability of $[Exhibit 2 Column A] for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Agency’s proportion of the Net Pension Liability was based on a projection of the Agency’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the Agency’s proportion was [Exhibit 2 Column B]%, which was an increase of [Exhibit 2 Column D]% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Agency recognized pension expense of $[Exhibit 2 Column E] plus employer’s amortization of change in proportionate share and differences between employer contributions and proportionate share of contributions and deferred outflows and inflows or resources, $[insert amount from Exhibit 4a, Total (4+5), 2016].

At June 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:



$[insert amount] reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:



***Actuarial Assumptions***

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2015 are as follows:

|  |  |
| --- | --- |
| **Valuation Date** | June 30, 2015 |
| **Actuarial Cost Method** | Entry Age Normal |
| **Actuarial Assumptions:**  **Expected Remaining**  **Service Lives**  **Investment Rate of Return**  **Inflation Rate**  **Mortality** | 3 years.  7.75% per annum.  3.0% per annum.  **Non-disabled members** - Mortality rates based on the RP-2000 Combined Healthy Mortality Table with mortality improvement projected to 2015.  **Disabled members** – Mortality rates based on the RP-2000 Disabled Retiree Mortality Table, with no projection for mortality improvement. |
| **Termination, Disability, and Retirement** | Termination, disability, and retirement assumptions were projected based on a five-year (2009-2013) experience study of the System's members. |
| **Salary Increases** | Salary increases were projected based on a 2009-2013 experience study of the System's members. The salary increase ranges for specific types of members are:   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Member Type** |  | **Lower Range** |  | **Upper Range** | | Regular |  | 4.0% |  | 13.0% | | Judges |  | 3.0% |  | 5.5% | | Corrections  Hazardous Duty  Wildlife |  | 3.6%  3.6%  3.6% |  | 14.5%  14.5%  14.5% | |
| **Cost of Living Adjustments** | The present value of future retirement benefits is based on benefits currently being paid by the System and includes previously granted cost of living increases. The projected benefit payments do not include provisions for potential future increases not yet authorized by the Board of Trustees as they were deemed not to be substantively automatic. |

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 and an adjustment for the effect of rebalancing/diversification. The target allocation and best estimates of geometric real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2015 are summarized in the following table:



**1*For reference only:*** *Target Allocation presented in LASERS 2015 CAFR, page 45, and*

*Long-Term Expected Real Rate of Return, page 28.*

***Discount Rate***

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions from participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive 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 Employer’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the Employer’s proportionate share of the Net Pension Liability using the discount rate of 7.75%, as well as what the Employer’s proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is one percentage-point lower (6.75%) or one percentage-point higher (8.75%) than the current rate:

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan’s fiduciary net position is available in the separately issued LASERS 2015 Comprehensive Annual Financial Report at [www.lasersonline.org](http://www.lasersonline.org).

**Payables to the Pension Plan**

[If the Agency reported payables to LASERS, it should disclose information required by paragraph 122 of GASB 68 – Agency’s responsibility to calculate and complete disclosure].