EMPLOYER BULLETIN

SUGGESTED FORMAT TO COMPLY WITH PENSION AND ON BEHALF DISCLOSURE REQUIREMENTS OF GASB STATEMENT NUMBERS 24 & 68

April 2018

Please forward a copy of this bulletin to the auditors of your financial statements and to your superintendent.

Overview

General Information

The following information covers your reporting requirements under two statements issued by the Governmental Accounting Standards Board (GASB).

Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, provides reporting requirements for state contributions made on behalf of your TRS-covered employees.

Statement No. 68, Accounting and Financial Reporting for Pensions, provides financial reporting requirements for governments that provide their employees with pension benefits. For pensions within its scope, Statement No. 68 replaced the requirements of Statement Nos. 27 and 50, as amended. TRS is within the scope of Statement No. 68.

The principal objective of Statement No. 68 is to improve the usefulness of information for decisions made by various users of financial reports of governments where employees are provided with pensions. As used in this statement, pensions do not include postemployment healthcare benefits. TRS does not provide postemployment healthcare benefits. The Illinois Department of Central Management Services will post disclosure information for postemployment benefits on the Illinois Office of the Auditor General's website when it is available.

Relevant disclosure information for Statement No. 68 is contained on pages 86 through 98 of the TRS actuarial valuation report for the fiscal year ended June 30, 2017. The report is available on the TRS website at **https://www.trsil.org/sites/default/files/documents/Segal_Final_%20Actuarial_Valution_Report_TRS.pdf**. The actuary's separate report substantiating the GASB Statement No. 68 calculations is available for reference at **https://www.trsil.org/sites/default/files/documents/GASB2017.pdf**.

TRS is a cost-sharing multiple employer retirement plan with a special funding situation. In a special funding-situation, an entity that is not the employer is legally responsible for making pension contributions on behalf of employees. The other entity is the state of Illinois.

This bulletin provides a suggested format for required note disclosure and required supplementary information. When using the suggested format, please substitute your amounts where "$xx,xxx" occurs. The sug-

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gested format is applicable to TRS employers who report using generally accepted accounting principles (GAAP) or accrual basis accounting. Employers who do not report using GAAP are still required to comply with the disclosure requirements of GASB Statement No. 68 but do not recognize their proportionate share of the TRS net pension liability (NPL) on their financial statements.

As noted in other sections of this bulletin, a June 30, 2017 measurement date was used to determine the NPL that TRS employers are reporting and disclosing for the year ended June 30, 2018. Also noted is that only the 0.58 percent and federal funds contributions paid by TRS employers, as well as contributions paid by the state, for the 2016-17 school year were used to allocate the TRS NPL. Therefore, 0.58 percent and federal funds contributions for the 2017-18 school year were paid subsequent to the measurement date and should be deferred.

Employers should be aware that when a TRS employer's status becomes inactive, the employer remains on the GASB 68 reporting list until their share of deferred inflow and outflow amounts under paragraph 54 of Statement No. 68 are fully recognized.

The required supplementary information disclosure includes two schedules: the Schedule of the Employer's Proportionate Share of the Net Pension Liability and the Schedule of Employer Contributions. Employers are responsible for providing the contributions and covered-employee payroll information that is to be disclosed in these schedules. Please note that amounts presented in the Schedule of the Employer's Proportionate Share of the Net Pension Liability are determined as of the prior fiscal-year end. Amounts presented in the Schedule of Employer Contribution are for the fiscal year shown.

Some employers have negative contribution amounts for the years ended June 30 of 2017, 2016, 2015 and/or 2014. This can occur if corrections to an employer's contributions for a prior year were made during fiscal year 2017, 2016, 2015 or 2014. The negative employer contribution amounts cause allocations of the Net Pension Liability that are negative. For the same reason, the state's proportionate share of the Net Pension Liability associated with the employer and the employer's share of the state's pension expense can be negative. Employers should discuss presentation of these figures with their auditors.

If you have questions, please contact the Accounting Department by calling (888) 678-3675, option 2 or via email at **employers@trsil.org**.

Report on Allocation of Pension Amounts

A Report on Allocation of Pension Amounts is available on the TRS website at
https://www.trsil.org/sites/default/files/documents/FY17-TRS-Pension-Allocation-Rpt-Full.pdf.

The document includes a report from the TRS external auditors, a Schedule of Employer Allocations, a Schedule of Pension Amounts by Employer, and note disclosure. The measurement date used for the schedules is June 30, 2017. Assets are not legally restricted for the payment of Tier 1 or Tier 2 benefits; thus, contributions are not segregated by tier.

The report contains information that employers can use in complying with GASB Statement No. 68 reporting requirements. In addition, employers can generate a GASB 68 FY Disclosure Report from the Employer Access area of the TRS website. It contains employer-specific information. To generate the report, after logging in to the secure Employer Access area, from the left navigation bar select "Reports" under Accounting.

The last amount on the GASB 68 FY Disclosure Report is the employer's "on behalf" contribution to TRS from the state. Upon the implementation of Statement No. 68 in 2015, the on behalf amount is no longer determined by multiplying total TRS-covered salaries by the state contribution rate. Rather, the on behalf contribution is equal to the employer's share of the state's pension expense. The state's pension expense is allocated to employers based on their percentage of total 0.58 percent contributions during the measurement year.

In the Report on Allocation of Pension Amounts, the Schedule of Employer Allocations presents the proportionate relationship of each employer to all employers and each employer's allocation percentage of the collective TRS NPL as of June 30, 2017 and 2016. NPL is the difference between the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service (total pension liability) and the TRS fiduciary net position as stated on TRS financial statements. The state of Illinois meets the definition of a nonemployer contributing entity and as such receives an allocation percentage of the collective TRS NPL.

Employer-paid retirement costs [Early Retirement Option (ERO) and excess salary/sick leave costs] are specific liabilities which should be excluded from the allocation. ERO contributions were paid during the year ended June 30, 2017 even though the ERO Program ended on June 30, 2016. As stated previously, the 0.58 percent employer retirement contribution, the employer contribution on federally-funded salaries, and state of Illinois contributions to TRS for the 2016-2017 school year were used to allocate the TRS NPL.

Contributions shown on the Schedule of Employer Allocations are comprised of fiscal year 2017 contributions and may also be impacted by TRS year-end accrual entries and adjustment to earnings that occurred during fiscal year 2017.

In the Report on Allocation of Pension Amounts, the Schedule of Pension Amounts by Employer presents the TRS NPL, total deferred outflows of resources, total deferred inflows of resources, and total pension expense by employer and the collective amount for all participating employers including the nonemployer contributing entity (the state of Illinois) as of June 30, 2017. Employer 0.58 percent retirement contributions and state of Illinois contributions to TRS for the 2016-17 school year were used to determine proportionate shares of pension expense at June 30, 2017.

Under GASB Statement No. 68, there are various components to TRS pension expense that will be reported by employers. Some components are recognized immediately, and others are recognized over time as deferred.

Components of pension expense that are recognized immediately include:

- Changes in service cost (total normal cost including the cost covered by member contributions). This is the cost of benefits earned by members during the year and increases pension expense.
- Interest on the total pension liability. The total pension liability for TRS increased by the 7.00 percent discount rate that was in effect during the year ended June 30, 2017. This amount increases pension expense.
- Projected investment earnings on the fair value of assets. For the year ended June 30, 2017, the expected investment rate of return was 7.00 percent. This component decreases pension expense.
- Actual member contributions. Member contributions offset the cost of member service and decrease pension expense.
- Administrative costs. The administrative expenses of TRS increase pension expense.

- Changes in the NPL caused by plan amendments. No plan changes occurred during the year ended June 30, 2017. Benefit improvements increase pension expense. Likewise, reductions in benefits decrease pension expense.

Components of pension expense that are recognized over a period of time are classified as either "deferred outflows of resources" (using plan assets that are applicable to a future reporting period) or "deferred inflows of resources" (acquiring plan assets that are applicable to a future reporting period). Deferred outflows of resources have a positive effect on the plan's net position, and deferred inflows have a negative effect on the plan's net position.

Components of pension expense that are deferred include:

- Changes in the plan's net position that are due to differences between projected and actual investment earnings. The difference is amortized over a five-year period. The non-deferred portion of the difference, or 1/5 of the investment gain compared to the assumed 7.00 percent return during the year ended June 30, 2017, decreases pension expense.
- Changes in the System's total pension liability that are due to changes in actuarial assumptions and differences between expected actuarial experience and actual experience. Non-investment gains and losses and assumption changes are amortized over the average remaining service life of active and inactive members, which TRS actuaries have determined to be 5.14 years for the year ended June 30, 2017, 5.21 years for the year ended June 30, 2016, 4.93 years for the year ended June 30, 2015 and 5.12 years for the year ended June 30, 2014. For purposes of calculating the total and net pension liabilities as of June 30, 2017, 2016, 2015 and 2014, all actuarial assumptions were assumed to be those in effect on June 30, 2017, 2016, 2015 and 2014, respectively.
- In summary:

	NPL at the beginning of the year
+	pension expense
+	deferred outflows of resources
-	deferred inflows of resources
-	employer contributions
=	NPL at the end of the year

Suggested Format for GASB Statement No. 24 and Statement No. 68 Disclosure

General Information about the Pension Plan

Plan description

The employer participates in the Teachers' Retirement System of the State of Illinois (TRS). TRS is a cost-sharing multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago. TRS members include all active nonannuitants who are employed by a TRS-covered employer to provide services for which teacher licensure is required. The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the Governor's approval. The TRS Board of Trustees is responsible for the System's administration.

TRS issues a publicly available financial report that can be obtained at **https://www.trsil.org/financial/cafrs/fy2017**; by writing to TRS at 2815 W. Washington, PO Box 19253, Springfield, IL 62794; or by calling 888-678-3675, option 2.

Benefits provided

TRS provides retirement, disability, and death benefits. Tier 1 members have TRS or reciprocal system service prior to January 1, 2011. Tier 1 members qualify for retirement benefits at age 62 with five years of service, at age 60 with 10 years, or age 55 with 20 years. The benefit is determined by the average of the four highest years of creditable earnings within the last 10 years of creditable service and the percentage of average salary to which the member is entitled. Most members retire under a formula that provides 2.2 percent of final average salary up to a maximum of 75 percent with 34 years of service. Disability and death benefits are also provided.

Tier 2 members qualify for retirement benefits at age 67 with 10 years of service, or a discounted annuity can be paid at age 62 with 10 years of service. Creditable earnings for retirement purposes are capped and the final average salary is based on the highest consecutive eight years of creditable service rather than the last four. Disability provisions for Tier 2 are identical to those of Tier 1. Death benefits are payable under a formula that is different from Tier 1.

Essentially all Tier 1 retirees receive an annual 3 percent increase in the current retirement benefit beginning January 1 following the attainment of age 61 or on January 1 following the member's first anniversary in retirement, whichever is later. Tier 2 annual increases will be the lesser of three percent of the original benefit or one-half percent of the rate of inflation beginning January 1 following attainment of age 67 or on January 1 following the member's first anniversary in retirement, whichever is later.

Public Act 100-0023, enacted in 2017, creates an optional Tier 3 hybrid retirement plan, but it has not yet gone into effect. The earliest possible implementation date is July 1, 2019.

Contributions

The state of Illinois maintains the primary responsibility for funding TRS. The Illinois Pension Code, as amended by Public Act 88-0593 and subsequent acts, provides that for years 2010 through 2045, the minimum contribution to the System for each fiscal year shall be an amount determined to be sufficient to bring the total assets of the System up to 90 percent of the total actuarial liabilities of the System by the end of fiscal year 2045.

Contributions from active members and TRS contributing employers are also required by the Illinois Pension Code. The contribution rates are specified in the pension code. The active member contribution rate for the year ended June 30, 2017, was 9.0 percent of creditable earnings. The member contribution, which may be paid on behalf of employees by the employer, is submitted to TRS by the employer.

On behalf contributions to TRS. The state of Illinois makes employer pension contributions on behalf of the employer. For the year ended June 30, 2018, state of Illinois contributions recognized by the employer were based on the state's proportionate share of the collective NPL associated with the employer, and the employer recognized revenue and expenditures of $xx,xxx in pension contributions from the state of Illinois.

2.2 formula contributions. Employers contribute 0.58 percent of total creditable earnings for the 2.2 formula change. The contribution rate is specified by statute. Contributions for the year ended June 30, 2018, were $xx,xxx and are deferred because they were paid after the June 30, 2017 measurement date.

Federal and special trust fund contributions. When TRS members are paid from federal and special trust funds administered by the employer, there is a statutory requirement for the employer to pay an employer pension contribution from those funds. Under Public Act 100-0340, the federal and special trust fund contribution rate is the total employer normal cost beginning with the year ended June 30, 2018.

Previously, employer contributions for employees paid from federal and special trust funds were at the same rate as the state contribution rate to TRS and were much higher.

For the year ended June 30, 2018, the employer pension contribution was 10.10 percent of salaries paid from federal and special trust funds. For the year ended June 30, 2018, salaries totaling $xx,xxx were paid from federal and special trust funds that required employer contributions of $xx,xxx. These contributions are deferred because they were paid after the June 30, 2017 measurement date.

Employer retirement cost contributions. Under GASB Statement No. 68, contributions that an employer is required to pay because of a TRS member retiring are categorized as specific liability payments. The employer is required to make a one-time contribution to TRS for members retiring under the ERO. The payments vary depending on the member's age and salary. The maximum employer ERO contribution under the program that ended on June 30, 2016 is 146.5 percent and applies when the member is age 55 at retirement. For the year ended June 30, 2018, the employer paid $xx,xxx to TRS for employer ERO contributions for retirements that occurred before July 1, 2016.

The employer is also required to make a one-time contribution to TRS for members granted salary increases over 6 percent if those salaries are used to calculate a retiree's final average salary. A one-time contribution is also required for members granted sick leave days in excess of the normal annual allotment if those days are used as TRS service credit. For the year ended June 30, 2018, the employer paid $xx,xxx to TRS for employer contributions due on salary increases in excess of 6 percent and $xx,xxx for sick leave days granted in excess of the normal annual allotment.

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

At June 30, 2018, the employer reported a liability for its proportionate share of the net pension liability (first amount shown below) that reflected a reduction for state pension support provided to the employer. The state's support and total are for disclosure purposes only. The amount recognized by the employer as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the employer follows below:

Employer's proportionate share of the net pension liability	$xx,xxx
State's proportionate share of the net pension liability associated with the employer	$xx,xxx
Total	**$xx,xxx**

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2017. The employer's proportion of the net pension liability was based on the employer's share of contributions to TRS for the measurement year ended June 30, 2017, relative to the contributions of all participating TRS employers and the state during that period. At June 30, 2017, the employer's proportion was xx.xx percent, which was an increase (decrease) of xx.xx from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the employer recognized pension expense of $xx,xxx and revenue of $xx,xxx for support provided by the state. At June 30, 2018, the employer 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	$xx,xxx	$xx,xxx
Net difference between projected and actual earnings on pension plan investments	xx,xxx	xx,xxx
Changes of assumptions	xx,xxx	xx,xxx
Changes in proportion and differences between employer contributions and proportionate share of contributions	xx,xxx	xx,xxx
Employer contributions subsequent to the measurement date	xx,xxx	xx,xxx
Total	$xx,xxx	$xx,xxx

$xx,xxx reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the reporting year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows in these reporting years:

Year ended June 30:	
2019	$xx,xxx
2020	$xx,xxx
2021	$xx,xxx
2022	$xx,xxx
2023	$xx,xxx

Actuarial assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	varies by amount of service credit
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 White Collar Table with adjustments as appropriate for TRS experience. The rates are used on a fully-generational basis using projection table MP-2014. The same assumptions were used in the June 30, 2016 actuarial valuation.

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 that were used by the actuary are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. equities large cap	14.4%	6.94%
U.S. equities small/mid cap	3.6	8.09
International equities developed	14.4	7.46
Emerging market equities	3.6	10.15
U.S. bonds core	10.7	2.44
International debt developed	5.3	1.70
Real estate	15.0	5.44
Commodities (real return)	11.0	4.28
Hedge funds (absolute return)	8.0	4.16
Private Equity	14.0	10.63
Total	**100.0%**	

Discount rate

At June 30, 2017, the discount rate used to measure the total pension liability was 7.0 percent, which was a change from the June 30, 2016 rate of 6.83 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions, employer contributions, and state contributions will be made at the current statutorily-required rates.

Based on those assumptions, TRS's fiduciary net position at June 30, 2017 was projected to be available to make all projected future benefit payments to current active and inactive members and all benefit recipients. Tier 1's liability is partially funded by Tier 2 members, as the Tier 2 member contribution is higher than the cost of Tier 2 benefits. Due to this subsidy, contributions from future members in excess of the service cost are also included in the determination of the discount rate. All projected future payments were covered, so the long-term expected rate of return on TRS investments was applied to all periods of projected benefit payments to determine the total pension liability.

At June 30, 2016, the discount rate used to measure the total pension liability was 6.83 percent. The discount rate was lower than the actuarially-assumed rate of return on investments that year because TRS's fiduciary net position and the subsidy provided by Tier 2 were not sufficient to cover all projected benefit payments.

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 calculated using the discount rate of 7.00 percent, 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 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Employer's proportionate share of the net pension liability	$xx,xxx	$xx,xxx	$xx,xxx

TRS fiduciary net position

Detailed information about the TRS's fiduciary net position as of June 30, 2017 is available in the separately issued TRS *Comprehensive Annual Financial Report*.

Payables to TRS

If the employer reported payables to TRS, information required by paragraph 122 of Statement No. 68 should be disclosed.

Required Supplementary Information

SCHEDULE OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Teachers' Retirement System of the State of Illinois
(Dollar amounts in thousands)

	FY17*	FY16*	FY15*	FY14*
Employer's proportion of the net pension liability	x%	x%	x%	x%
Employer's proportionate share of the net pension liability	$xx,xxx	$xx,xxx	$xx,xxx	$xx,xxx
State's proportionate share of the net pension liability associated with the employer	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total	**$xx,xxx**	**$xx,xxx**	**$xx,xxx**	**$xx,xxx**
Employer's covered-employee payroll	$xx,xxx	$xx,xxx	$xx,xxx	$xx,xxx
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	x%	x%	x%	x%
Plan fiduciary net position as a percentage of the total pension liability	39.3%	36.4%	41.5%	43.0%

** The amounts presented were determined as of the prior fiscal-year end.*

SCHEDULE OF EMPLOYER CONTRIBUTIONS
Teachers' Retirement System of the State of Illinois
(Dollar amounts in thousands)

	FY17	FY16	FY15	FY14
Statutorily-required contribution	$xx,xxx	$xx,xxx	$xx,xxx	$xx,xxx
Contributions in relation to the statutorily-required contribution	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Contribution deficiency (excess)	$xx,xxx	$xx,xxx	$xx,xxx	$xx,xxx
Employer's covered-employee payroll	$xx,xxx	$xx,xxx	$xx,xxx	$xx,xxx
Contributions as a percentage of covered-employee payroll	x.xx%	x.xx%	x.xx%	x.xx%

The information in both schedules will accumulate until a full 10-year trend is presented as required by Statement No. 68.

Notes to Required Supplementary Information

Changes of assumptions

For the 2017 and 2016 measurement years, the assumed investment rate of return was of 7.0 percent, including an inflation rate of 2.5 percent and a real return of 4.5 percent. Salary increases were assumed to vary by service credit.

For the 2015 measurement year, the assumed investment rate of return was 7.5 percent, including an inflation rate of 3.0 percent and a real return of 4.5 percent. Salary increases were assumed to vary by service credit. Various other changes in assumptions were adopted based on the experience analysis for the three-year period ending June 30, 2014.

For the 2014 measurement year, the assumed investment rate of return was also 7.5 percent, including an inflation rate of 3.0 percent and a real return of 4.5 percent. However, salary increases were assumed to vary by age.

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